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CANADA'S FUTURE IN THE WORLD OF TRADE

In an address on March 11 to the Business Men's Weekend Club of the Panff School of Advanced Management in Banff, Alberta, the Deputy Minister of Trade and Commerce, Mr. James A. Roberts, said that a "notable feature" of Canada's trade in 1960 and for several years previously had been its "growing geographic diversification":

"...This has involved, in particular, a lower concentration of trade with the United States and an increase in the relative importance of our trade with countries such as the United Kingdom, West Germany and Japan. The steadily improving competitive position of overseas industrialized countries has enhanced their importance as sources of supply for the Canadian market. At the same time, strong internal growth rates within these areas has involved sharply expanded markets for Canadian products. Reflecting these broad tendencies, the proportion of our exports going to the United States had declined from 62 per cent in 1959, to 56 per cent in 1960, which means that 44 per cent of our total exports now go to overseas markets.

"The geographic distribution of our imports remained practically unchanged between 1959 and 1960. However, during the last four years, the United States' share of the Canadian import market has declined from 73 per cent to 67 per cent, while the share enjoyed by overseas countries has risen correspondingly.

"In the past few months our export sales have fallen below the levels of a year ago.

Economic activity in the United States has been edging downward for some months and, by January, industrial production was 8 per cent below the level of the preceding year. As usually happens, the adverse effects of this decline in factory output upon the demand for industrial materials has been accentuated by inventory liquidation. In consequence, our sales to the United States (as reflected in trade figures for the last three months) have recently been running 17 per cent below the level of a year ago. In the overall trade figures, lower sales to the United States have, in large part, been offset by increased shipments overseas. However, recent indications of hesitancy in the trend of activity in some overseas countries, particularly the United Kingdom, may foreshadow a temporary interruption to the upward trend in our sales to some of these markets.

COMPLETE INSULATION IMPOSSIBLE

"The Canadian economy, and in particular our level of trade, cannot be fully insulated from the effects of such economic fluctuations in major market areas. Nevertheless, forward-looking action has helped to cushion the adverse affects of these fluctuations. I have already indicated how the recent diversification of our export markets has helped to limit the negative influence of the current downturn in the United States.

"But there are brighter spots in our current trade situation. The careful attention

(Over)

which we have given in recent years to market potentialities in mainland China has now paid off in large new orders for wheat and barley. The development of advanced types of aircraft by the Canadian industry should pay off this year in substantially higher aircraft exports. A new national oil policy calls for more rapid growth in this highly productive industry, and is expected to infuse fresh initiative into the development of export markets. The orderly development of new outlets, has provided the basis for a continuing growth in exports of natural gas. A substantial addition to iron-ore producing capacity brings with it new export outlets, which should help to offset the temporary ill effects of economic adjustments in the United States and overseas....

"There have been growing expressions of anxiety in recent months that Canada is being forced steadily but surely into unwilling isolation from a large and dynamic sector of the world trading community. The rapid progress of the European trading communities and Japan, and the depth to which some of them have penetrated our domestic market, at the expense of Canadian suppliers, have stimulated these fears. Moreover, the development in Africa and South America of alternative sources of supply for raw materials, which will be available at lower prices has prompted uneasiness regarding the future expansion of our exports of these commodities.

NO CAUSE FOR ANXIETY

"I do not share these anxieties. Last year, our export shipments to the EEC countries reached \$436 million, as compared to \$315 million in 1959, a gain of almost 40 per cent. Likewise, in the same period, our exports to the United Kingdom increased by 16 per cent, and to Japan by 27 per cent. It would appear, therefore, that the stimulus to trade and economic activity which the arrangements in Europe have brought about is opening up new and important opportunities for Canadian exports. Moreover, West Germany has just revalued her currency upward by 5 per cent. This will tend to increase her export prices while providing our exports with a greater advantage in the German market.

"As you know, Parliament has just ratified an international agreement confirming our participation in the Organization for Economic Co-operation and Development, in which we will share full membership along with the countries of Western Europe and the United States. We have thus taken an important step toward more active economic partnership with Europe. Nothing could be further from a trend toward economic isolation!

"For some time, wages and prices in Europe and Japan have been rising at a more rapid pace than those in North America. What is more, this trend is likely to continue while these countries enjoy record economic expansion, followed by sharp improvements in living

standards. These factors should progressively improve our competitive position in export markets relative to these overseas competitors. When they are combined with our own spontaneous export trade offensive, our future trading opportunities appear much more optimistic.

"Nor do I foresee any immediate threat to our exports of raw material from lower-cost producers. Recent political unrest in Africa, for example, makes investment in new sources of supply for raw materials in that area appear much less attractive in comparison with the stable and uninterrupted source which we in Canada can offer...."

TO REAP THE REWARDS OF THE FUTURE

Observing that the country's post-war investment programme has provided "a greatly expanded productive base" and that Canada possessed "great wealth in natural resources and a large and growing labour force," Mr. Roberts said that it would be necessary "to harness these forces efficiently if we are to grasp the rewards which the future holds out to us":

"...One promising avenue for increased use of domestic labour and capital lies in the field of international trade. By generating a more complete utilization of our available resources, an expansion of our exports can accelerate our rate of domestic growth. At the same time it will help to reduce our balance of payments deficit. Moreover, by expanding our trade, and particularly our exports, we can regain the impetus to our economy which capital investment provided earlier. Here then, is an outlet for, and a pay-off from, our great post-war capital expansion programme.

"A trend in this direction is already apparent as our exports begin to show greater strength than our imports. From mid-1956 to mid-1957 our merchandise trade deficit was just under \$900 million. In the calendar year 1959 it had fallen to less than \$400 million. Last year it was just over \$100 million. This striking reduction in our trade deficit reflects two situations which are conducive to greater confidence, first, a high rate of world economic activity, and second, the disappearance of the earlier domestic inflationary pressures and unsustainable capital expansion in Canada. The recent downward trend in the value of our dollar to a more realistic level can be expected to support further our exports while containing imports.

ADVANTAGE OF TRADE SURPLUS

"We have every right to expect a continued movement in the direction of a trade surplus, particularly once the current mild recession in the United States has been reversed. Its welcome appearance will help to finance our growing deficit on the non-merchandise items in our balance of payments, which was the condition that generally prevailed in Canada from

1920 to 1950. It is now beginning to reappear in our trade and production patterns.

"A merchandise trade surplus, which is the direct outgrowth of expanded output by efficient and competitive Canadian producers, would stimulate our production and increase employment. It will also help to finance the deficit on invisible account, and permit a further reduction in our imports of capital from abroad...."

OBSTACLES AND FRUSTRATIONS

The speaker warned that, for Canada's new trading policy, all was not "clear sailing":

"...Ranged against us in world markets are powerful competitors just as hungry as we are for a greater share of expanding international demand. Products from the United States, Britain, Germany, Italy, the Benelux countries, and Japan, for example, are competing with ours in every market, and even in Canadian households. Their economies have been rebuilt along modern and efficient lines. Their factories, equipped with the most-up-to-date machinery, and manned by workers whose wages are well below those in Canada, are turning out products of excellent quality and design. In many cases their products are lower than ours in price.

"In the Canadian market, our manufacturers are complaining of a flood of foreign goods, concentrated in such lines as footwear, textiles, electronic components, flatwear, chemicals, machinery and automobiles. We have encountered a most difficult problem in competing with the so-called 'low-cost' imports from Japan, Hong Kong and Singapore for example. These products penetrate deeply into our domestic market, causing genuine distress and dislocation in our industries. It is one of the most agonizing problems to rationalize, because these same countries are highly valued customers for our exports.

"Our engineering, construction and consulting firms, full of experience and highly developed as a result of their participation in our great domestic expansion, are now eager for contracts abroad. But here again, they are met head-on by equally experienced and highly competitive American, European and Japanese rivals.

DISADVANTAGE OF SMALL HOME MARKET

"Our domestic market, although it is a wealthy one, is small in size. This works to the disadvantage of our larger and more efficient manufacturers, many of which are unable to achieve the economies that flow from long production runs. Sometimes, too many manufacturers must share our limited domestic market and, as a consequence, none of them is able to secure sufficient volume for economic production...."

"...The West European nations have formed economic and trading arrangements, which began with the European Payments Union (EPU) and the Coal and Steel Community, aimed at con-

solidating and fortifying the productive and trade capabilities of the whole area. Out of these arrangements grew the Organization for European Economic Co-operation and, more recently, the European Economic Community, The Six and the European Free Trade Association, The Seven....

"We face the prospect that the United Kingdom may associate herself with the countries of the Common Market. Although we are sympathetic to Britain's need for closer association with The Six, the erosion of our Commonwealth preferences, which could be the result of this move, is a matter of serious concern to us.

LATIN AMERICAN TRADE GROUPINGS

"Following the example set by the nations of Western Europe, the Latin American countries have formed similar groups. I speak of the Latin American Common Market and the Latin American Free Trade Association. Although they present a less serious threat at the moment, they are a sign of the times and we must be conscious of their implications...."

UNSEASONABLE UNEMPLOYMENT

"Here at home, in 1961, we face a most baffling paradox. At a time when our national production and income, our exports, our standard of living, our personal incomes and our employment are at or near record levels - in other words, while we are enjoying general prosperity, we have unemployment and distress in a number of our secondary industries. Significant proportions of our manufacturing and natural resource industries are now owned and controlled by foreign interests. More than that, our balance of payments deficit on non-merchandise account, inflated by large sums to service foreign investment in Canada, has been climbing steadily.

"The solutions to these problems and the attainment of our national economic objectives lies in meeting the challenge of the Sixties...."

THE GOVERNMENT'S PROGRAMME

"We must mobilize our productive forces for a new and powerful surge into export trade," Mr. Roberts declared. He described the role of the Department of Trade and Commerce as "standard-bearer in this economic offensive" as follows:

"...One of the first major attacks in our offensive was to organize an Export Trade Promotion Conference last December, in Ottawa. This Conference caught the imagination of Canadian businessmen from coast to coast. Their response was beyond our most optimistic hopes. From their posts in every important market throughout the world, we brought home 110 of our trade commissioners. From all ten provinces, came 1,365 businessmen representing 1,133 Canadian firms to confer with our trade commissioners and senior officials of the Department. In the short span of two weeks,

(Continued on P. 6)

INVESTMENT OUTLOOK, 1961

Mr. George Hees, Minister of Trade and Commerce, recently tabled in the House of Commons the report "Private and Public Investment in Canada Outlook 1961", which summarizes the results of a recent survey of capital spending intentions.

The report outlines capital expenditure plans for all sectors of the economy, involving total outlays in 1961 of \$8,336 million. This proposed expenditure exceeds the total of last year by more than \$100 million, and represents a continuation of the high and relatively stable level of capital spending realized in recent years.

CONSTRUCTION OUTLAY

Expenditures for new construction are estimated at about \$5,689 million, or 4 per cent more than the \$5,487 million spent for this purpose in 1960. Both housebuilding activity and non-residential construction will share in this larger programme. Planned outlays for new machinery and equipment are moderately lower than those of last year, calling for expenditures of \$2,647 million compared with \$2,713 million in 1960.

Outlays for social-capital purposes, including health and educational facilities and all types of government improvements, are expected to be about 11 per cent greater this year. New hospital construction, in particular, will be sharply expanded. Adding to the strength in the non-business sector is the expectation of a somewhat higher rate of housebuilding activity.

Estimates from business firms suggest a moderate reduction in their capital spending in 1961. This reduction is largely concen-

trated in the transportation industry, with requirements for both permanent facilities and equipment being substantially lower. Outlays by commodity-producing industries are approximately the same. Larger expenditures by the natural-gas industry are offset by reductions in certain other industries, notably iron and steel. Commercial construction, for stores and office buildings, is likely to continue at the high rate of 1960.

PROVINCIAL AND MUNICIPAL PLANS

In addition to investment plans for the country as a whole, the report provides information on capital-spending intentions in the provinces and the major metropolitan areas. Most areas of the country are expected to share in the moderately expanded capital programme. However, in a few provinces, where unusually large expansion projects were completed last year, investment spending in 1961 may be somewhat lower.

Mr. Hees said that the anticipated level of capital spending, if realized, will result in some net increase in demands upon the economy. In particular, it will involve greater activity in construction and related industries. On the other hand, the reduction in total outlays for machinery and equipment will affect mainly import items. Demands on domestic equipment producers should remain at about the 1960 level.

Planned capital outlays, considered in relation to total national output, are at a relatively high level. This represents a further significant expansion of Canada's capital facilities.

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FARM NET INCOME

The total net income of farm operators from farming operations in 1960 was placed at \$1,352,200,000, up about 12 per cent from the revised 1959 figure of \$1,206,300,000 and up 6.5 per cent from the five-year (1955-59) average of \$1,270,100,000, according to the annual advance preliminary estimates of the Dominion Bureau of Statistics. Gross farm income, which includes farm cash income, income in kind and inventory changes, totalled \$3,245,200,000 in the year, about 5 per cent above the preceding year's total of \$3,086,100,000. Operating and depreciation charges in the year amounted to \$1,892,980,000, as against \$1,879,771,000 in the preceding year.

Cash income in 1960 from the sale of farm products was only slightly below the 1959 level. On a commodity basis, the more important reductions were recorded for barley, flaxseed and hogs, while the more important gains were registered for potatoes, tobacco,

cattle and calves. There was also a substantial increase in cash advances on farm-stored grains in Western Canada.

Supplementary payments to farmers in Western Canada in 1960 amounted to \$77 million, and included payments made under the provisions of the Prairie Farm Assistance Act, the Western Grain Producers' Acreage Payment Plan and the Federal-Provincial Emergency Unthreshed Grain Assistance Policy. This is in contrast to 1959 when farmers received \$22 million, most of which was received under the provisions of the Prairie Farm Assistance Act.

Increases in farm-held inventories of both grains and livestock in 1960 reflected an increase in grain production over the preceding year and a continued build-up of Canada's cattle population that more than offset smaller hog numbers. Income in kind, which is the value of farm products consumed in the farm home, together with the imputed rental value of the farm home, was also higher in 1960 than in 1959.

IRAN-CANADA VISA PACT

The Secretary of State for External Affairs, Mr. Howard Green, has announced the conclusion of an agreement between Canada and Iran for the issuance of free multi-entry visas. The Ambassador of Iran, His Excellency Mahmoud Esfandiary, acted on behalf of his country and Mr. Green on behalf of Canada at a brief ceremony in the East Block, Ottawa, on March 10.

Under the agreement, Canadian and Iranian citizens seeking temporary entry to Iran to Canada respectively may be issued visas, free of charge, that will be valid for an unlimited number of entries within a 12-month period.

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ALBERTA TELEPHONE EXPANSION

A northward expansion programme by Alberta Government Telephones of the existing microwave network in the province will be undertaken this year. The \$5-million project will increase the facilities of the network to Grande Prairie and provide service to northern points at present lacking telephone communications.

The light-traffic route now in operation from Grande Prairie to Edmonton will be replaced by a heavy-route system. This provides an increase in voice channels from the present 120 maximum to a possible 600. The Alberta government telephone system will then link up with the network to Alaska. Canadian National Telegraphs will construct the portion of the system from Grande Prairie to the Alaska border. Sixty channels of the network have been leased to the United States Army as a part of the Ballistic Missile Early Warning System at present being completed. In addition to increased facilities for voice transmission, the new system will provide for the possibility of television broadcasting to the Peace River area.

MACKENZIE NETWORK

Another major development included in the project is a medium-route microwave network following the Mackenzie Highway to the border of the Northwest Territories. Telephone service will be provided to Yellowknife and Fort Vermilion as well as points along the Highway. The present communication system is operated by the Canadian Army and is restricted to high frequency radio.

The expansion project will necessitate the replacement of eight towers with heavier towers between Edmonton and Grande Prairie. The southern end of the system will require the construction of two new towers in the areas of Milk River and McNabb, south of Lethbridge. The Alberta government telephone network will end at Coutts, where the American Telephone and Telegraph Corporation system commences.

NORTHERN EDUCATIONAL BUILDING

An estimated \$2,236,250 will be spent in 1961-62 to expand the physical "plant" for the educational system operated in the Arctic and Mackenzie Districts by the Department of Northern Affairs and National Resources.

Northern Affairs Minister Walter Dinsdale has announced that the construction is part of the continuing programme to extend education facilities to all residents of the North. Expenditures will provide for the construction or expansion of schools, hostels, residences for staff and other facilities and for the purchase of equipment required in their operation.

Of the estimated figure, some \$1,212,750 is for the Mackenzie District, while \$1,023,500 has been provided for the Arctic District, including schools for Eskimos in Northern Quebec.

HOSTEL PLAN

A feature of the programme in the Arctic is the establishment of family-type hostels in nine Arctic communities. These hostels are designed to provide accommodation for a local couple and for up to eight school children whose homes are too far away from the school for them to live there and attend classes every day.

In addition to the money allocated for the construction of buildings, \$241,630 has been allocated for the acquisition of equipment. This includes furniture and furnishings for staff houses, schoolrooms and hostels, tools and equipment for vocational training workshops, industrial arts and home making, equipment for playgrounds and gymnasias and scientific and special equipment for classrooms.

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FIRST TCA LOSS IN DECADE

For the first time in 10 years, Trans-Canada Air Lines has recorded a financial deficit, it is revealed in the Company's 1960 Annual Report, tabled recently in the House of Commons by Mr. Léon Balcer, Minister of Transport.

The Airline ended 1960 with a financial loss of \$2,607,350, owing principally to a reduction in average return per seat-mile flown and increased expenses, largely associated with the introduction of two new types of aircraft.

Revenue growth started slowly under competitive pressure, but accelerated in the latter half of the year under the stimulus of new equipment and lower Atlantic fares. Total revenues reached an all-time high of \$148,986,526.

TCA made more than three billion seat-miles available to the travelling public in 1960, an increase of 13 per cent over the previous year, while occupied-seat miles rose 12 per cent to a total of two billion. This resulted

in an overall load factor of 66 per cent, compared to 66.5 per cent in 1959.

TCA substantially increased the proportion of economy-class seats available. On its North American services, for example, the amount of economy-class traffic increased from 27 per cent of the total in 1959 to 34 per cent in 1960. As a result, the average return per passenger-mile dropped from 6.31 cents to 6.24 cents.

TCA carried 3,440,303 revenue passengers during the year, an increase of seven per cent over 1959.

The number of employees rose eight per cent in 1960 to a total average for the year of 11,172, while the average salary increased by seven per cent. At the same time, average employee productivity increased five per cent.

Introduction of two new aircraft types placed considerable financial strain on TCA in 1960. Exceptional training costs of \$1,384,000 in excess of the sum charged to 1960 operating accounts and associated with the introduction of the new aircraft will be amortized over four years.

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CANADA'S FUTURE IN THE WORLD OF TRADE (Continued from P. 3)

10,502 personal interviews took place, each designed to uncover new opportunities for Canadian goods in foreign markets....

"...The Department has played a leading role in the creation of entirely new forces for our economic expansion -- the National Productivity Council, financial assistance to small business, and the new export financial arrangements for capital goods, in co-operation with the Canadian chartered banks. Other measures under consideration in Ottawa include vocational training for unskilled labour, management education programmes, development of the most efficient means for industry co-ordination in the export field, and the closest economic liaison with industry, following detailed industry studies....

"We are also mobilizing our forces abroad. ...Three new trade offices have been established in Canberra, Lagos and Moscow, and others are under urgent consideration. We have re-opened our office in Glasgow.

"We have intensified our trade mission programme. Last year the following officially-sponsored trade missions left Canada in search of new export opportunities: a Processed Foods Mission to the United Kingdom; a Timber Trade

Mission to the United Kingdom and Ireland; a Mission of Consulting Engineers to Argentina, Chile, Peru and Colombia; and a mission comprising thirteen senior executives from the chemical, metal and mineral, and pulp and paper fields, to the countries of the European Common Market...."

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POPULAR ENVOY RETURNS

On March 15, His Excellency Livingston T. Merchant presented to the Governor-General his Letter of Crecence as Ambassador of the United States to Canada. He was accompanied during the ceremony by members of the United States Embassy in Ottawa. Mr. Merchant had already served as Ambassador to Canada from 1956-58.

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YUKON DEVELOPMENT ROAD

It was announced recently by Northern Affairs Minister Walter Dinsdale that plans had been made for the construction of a development road in the southeastern part of the Yukon Territory. The road will start from Mile 65 of the Watson Lake-Ross River road now under construction, and will run to the mine-site being developed by Canada Tungsten Limited near the Flat River, just across the Northwest Territories boundary.

"This is yet another important step in implementing the Government's policy to bring the resources of the North into production" Mr. Dinsdale said. "The new road will encourage the assessment and development of an important area, and will also make it possible to bring into production a new mine of economic importance to Canada and of strategic importance to the whole free world".

COST SHARING

The first 80 miles of the road will serve the whole area and will be built by the Federal Government. The remaining 50 miles will be constructed as a mine-access road, with one-third of the cost being carried by the company. This provision for sharing the cost parallels the arrangements for similar access roads being built in the provinces under the "Roads-to-Resources" programme.

It is expected that the first tenders for construction of the Road will be called by April 1, and that the whole route will be in use in 1963. Total cost to the Federal Government is estimated at \$1,947,000.