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CANADA ADJUSTS TO THE RESULTS OF THE KENNEDY ROUND

Statement by the Honourable Robert H. Winters,
Minister of Trade and Commerce, to the House of
Commons Committee on Finance, Trade and Economic
Affairs, Ottawa, January 17, 1968.

...The Minister of Finance, in his statement to you, outlined the Government's basic policy objectives in the Kennedy Round negotiations, with particular reference to the Canadian tariff. I visited Geneva on various occasions for the final and crucial phases of the negotiations and I am convinced that the results achieved will be of far-reaching and lasting benefit to Canada's export trade and to the Canadian economy. It is essential now for all the major trading countries to ensure that the concessions granted are fully and effectively implemented.

I know you will wish me to refer to the current situation in world trade as we move into the period of implementation of the Kennedy Round results. The first point to be emphasized is that temporary problems and difficulties, however critical and important they may be, should not be allowed to interfere with the basic direction of policy and the gains achieved in the Kennedy Round.

The extensive programme announced by the U.S. to deal with its current balance-of-payments situation is of major significance not only to the U.S. but also to Canada and other countries, since the strength and stability of the U.S. dollar is of fundamental importance to the trading world as a whole. In this connection, the U.S. Government has referred to problems created for them by the European border tax system, and to the possibility that the U.S. might need to consider legislative measures of their own. As Mr. Sharp has indicated, we are in close touch with the U.S. Government in this regard. In the event that the U.S. might find it necessary to act in this field for balance-of-payments reasons, it is clearly understood on both sides that Canada would have to adopt offsetting measures designed to maintain Canada's competitive trade position both at home and abroad.

If the U.S. did decide to take such trade measures on balance-of-payments ground -- which I hope they would avoid --, it would be important that this should clearly be seen in perspective, in the context of the current payments situation, and not as representing any basic alteration in overall trade policy objectives and commitments. I know that the U.S. Government are fully conscious of this point.

There is the separate matter of strictly protectionist pressures which have become apparent in various countries and of which we shall doubtless be hearing a great deal throughout this year. The full and effective implementation of the Kennedy Round results implies that such pressures must be resisted, and in this connection I may say that we have received firm and formal assurances from the U.S. Government that they will do all in their power to ensure against passage of protectionist measures in the U.S.

In short, this is a time for cool judgment, firm resolve and continued co-operation on the part of all major trading countries, and we shall be doing our part to be helpful in keeping international trade on course.

It would be unfortunate and paradoxical if, now that we are about to reap the benefits of the biggest and most successful trade negotiations ever concluded, a mood of uncertainty and scepticism were to prevail. The facts lead to a quite different conclusion, and we should not allow temporary problems to obscure the significant long-term improvement which is taking place in the international trading framework.

I should like now to comment briefly on the Kennedy Round as a whole. These negotiations were the sixth round of general trade negotiations held under the aegis of the General Agreement on Tariffs and Trade since its inception in 1947. It was also the largest trade negotiation ever in terms of participants, in terms of world trade coverage, and in terms of scope and depth of tariff reduction. Some \$45 billion of world trade has been affected and major participating countries are making tariff cuts on 70 per cent of their dutiable industrial imports, of which some two-thirds will be by reductions of 50 per cent or more. Following upon the basic principle of the General Agreement, all trade and tariff concessions granted by any country to any other are automatically and unconditionally extended to all other participating countries.

In addition to the tariff bargaining, for the first time a general GATT trade negotiation was extended to include non-tariff obstacles to freer world trade. Major achievements here were the conclusion of an international code on anti-dumping and undertakings by the U.S.A. to seek elimination through the U.S. Congress of a particularly burdensome system of customs valuation on chemicals known as the American Selling Price System.

The negotiations covered all classes of product, both industrial and agricultural, and dealt not only with tariffs but also with certain non-tariff barriers. It was agreed that, to the maximum extent possible and subject to overall reciprocity, the negotiations would proceed on the basis of 50 percent equal linear or cross-the-board cuts in tariffs. The linear approach was adopted by a number of industrial countries, including the United States, Britain, the EEC and Japan.

As indicated by the Minister of Finance at the opening of these hearings, it was recognized from the outset that linear tariff cuts would not be appropriate in Canada's case because of this country's special trade and economic structure. Canada therefore participated on the basis of offering tariff concessions equivalent in terms of their effects on trade to the benefits

it obtained from all the other participating countries.

For our highly competitive resource-based industries (metal and minerals, forestry and fisheries), the further reduction and removal of barriers will strengthen their base of operations and enhance their already demonstrated ability to develop and expand their traditional trade.

However, the most important long-term benefits from the tariff agreements in the Kennedy Round are the linear reductions being made by principal industrialized countries in the manufactured goods sector. Fifty percent reductions are being made over very wide ranges of goods in this category, with the final rates in many areas being 10 per cent or lower. While Canada is currently a relatively minor supplier of manufactured goods in the world market, our exports of such products have been rising rapidly and it is essential that we should further enlarge our share of this, the most rapidly growing sector of world trade. Their continued advance can importantly affect the strength of the whole Canadian economy.

In our major market, the United States, over \$2 billion of our current exports will enjoy significantly reduced tariffs. Maximum concessions obtainable were secured on virtually every product for which Canada was a major supplier to the United States. This includes 50 percent cuts in most tariffs and complete removal of duties in such areas as fisheries and lumber where duties already were law. When the final reductions from the Kennedy Round are made, over 60 per cent of our total current sales to the United States will be free of duty.

As a result of the overall reduction of world trade barriers, many existing margins of preference between Canada and Britain will be reduced. This narrowing of preference in our historic markets in Britain will, however, be more than offset by the general expansion of trade and increased demand in the United Kingdom, as in other countries. In addition, our present duty-free access to the United Kingdom on virtually all our exports is being retained.

Canada's exports to other major overseas markets, such as the European Economic Community, other Western European countries and Japan, have been concentrated traditionally in a relatively narrow range of commodities. Wheat is the main single item and many of our other exports are in the primary commodity field and already duty-free. In the more highly processed and manufactured goods sector, however, our exports to overseas markets have been relatively small having in mind the massive size and rapid rate of growth of those markets. We have obtained tariff cuts on many of our current exports, totalling some \$300 million, but the overall reduction of tariffs in Europe and Japan in the processed and manufactured goods sector creates important new opportunities for our future export trade.

In the agricultural sector, the most important gain was the negotiation of the basic elements of an International Grains Arrangement, which were incorporated into such an arrangement negotiated in Rome later last year. As I informed the House on October 25, when tabling the International Grains Arrangement, it was the intention to place this arrangement before Parliament at the appropriate time for

approval. The agreement is to enter into force on July 1, 1968, and is to be ratified by signatory countries before that date. There are two major provisions of this agreement of particular value -- the new price schedule and the food-aid programme.

The new price schedule provides a price range with minimums and maximums about 21¢ a bushel higher than in the IWA 1962. Previous wheat agreements identified a minimum and maximum for only Manitoba No. 1. The schedule in this agreement identifies the price range for most major grades of wheat from all member exporting countries. This improvement places more equivalent responsibility on all exporting countries to co-operate fully in achieving the objectives of price stability and the observance of minimum and maximum prices. I am determined that everything possible shall be done to ensure that wheat prices will strengthen and that wheat will trade within the range agreed to at Geneva.

We of course regret that there has been a gap between the termination of the operative provisions of the IWA 1962 and the implementation of the new agreement. However, a further extension of the old agreement was opposed by the producer organizations of Western Canada and was not acceptable to the Government. This position was taken by the major exporting countries in the negotiations. We pressed for an earlier effective date for the new agreement, but this was not acceptable to some other countries. Constitutional procedures in other countries and decisions which had to be taken, particularly among EEC member states, made it impossible to obtain agreement for early implementation. The prices which have prevailed over recent months are slightly below the new minimums but have remained well above the minimums of the IWA 1962.

The second major provision is the agreement among the principal exporting and importing countries to share in a 13.5-million ton food-aid programme over a three-year period. This commitment to assist in providing food for the developing countries of the world is unprecedented. Canada's share of the total programme amounts to approximately 1.5 million tons.

In other areas of world agricultural trade, the results fell short of our overall objectives, but an important beginning has been made in grappling with the difficult issues raised in this field. In addition, some valuable new concessions were obtained, particularly in the United States, which will benefit the two-way flow of many agricultural products.

Inevitably, the tremendous scope and opportunity provided by the results of the Kennedy Round will have a deep and continuing impact for the Canadian export community. And because export trade accounts for about 20 per cent of total Canadian production, it will have a profound effect on the entire economy, providing that the Canadian export industry is able to take advantage of the opportunities that will be unfolding over the next four years.

The Economic Council has spotlighted one of our most urgent requirements -- the creation of new jobs for our rapidly expanding labour force. The Kennedy Round will offer part of the solution. The most striking, and most

important, reductions in trade barriers negotiated in the Kennedy Round were those on manufactured products. This is the sector which has the largest scope for export expansion, and it is, not coincidentally, a labour-intensive sector, relative to large areas of our resource industries. The increased specialization and restructuring of Canadian industry which will be necessary to take advantage of this improved access for manufactured products can be assisted by the Adjustment Assistance Programme announced by the Prime Minister at the end of the year.

The tariff agreements in the Kennedy Round provide for the staging of the tariff reductions. Mr. Sharp has already dealt with staging from the Canadian side. The United States, Switzerland, Austria and Australia began on January 1 this year by making a cut of one-fifth of the total reduction on each item, to be followed on January 1 of each of the four succeeding years to complete the process on January 1, 1972. Other major participants, such as the EEC, Japan, Britain, and other EFTA countries, are to make a two-fifths cut on July 1 this year and make three further one-fifth cuts on January 1, 1970, 1971 and 1972. In some instances where tariffs were already low, the United States will be making its total reduction in less than five stages.

We were very conscious of the need to bring the results of the Kennedy Round fully to the attention of the Canadian business community as quickly as possible after the agreements were signed. The most valuable element of our programme in this regard was the series of Kennedy Round seminars which were held across the country this autumn, in co-operation with provincial governments and other federal departments and which were attended by some 3,000 businessmen.

In the Department of Trade and Commerce, we have been planning and reorganizing to give the maximum support to the Canadian business community in its efforts to take full advantage of the Kennedy Round results. Some of the more important changes are:

- (1) As of January 1, the department has been reorganized and streamlined to provide for two major functional groups. All services, whether in Canada or abroad, which have a promotional function are now concentrated under a single Assistant Deputy Minister (Trade Promotion), while all services having to do with intergovernmental negotiations and arrangements bearing on the protection and creation of access for our goods in foreign markets will be concentrated under the other Assistant Deputy Minister (Trade Policy). These changes will provide a more homogeneous grouping of functions, designed to make of Trade and Commerce an even more efficient, forward-looking agency of government, serving our export needs and so the prosperity and growth of Canada.

- (2) During 1967 we have had a number of most valuable discussions with the Export Advisory Council, which I established at the beginning of 1967. The experience

and wealth of knowledge which the members of the Council bring to bear are especially useful to us and I am confident that this relationship will become even closer and more productive in the months ahead.

(3) Over recent months, we have been encouraging all specialized Canadian trade and industry associations to set up export councils, where this has not already been done, to provide new focus on export opportunities within industry groupings. We have had a very good response, and the department will be working closely with these new groups to maximize their efforts.

(4) I announced last September that the Export Credits Insurance Corporation would begin to accept applications as a normal rule for cover on exports to the United States. By December 31, insurance had been written on some \$5 million of Canadian sales to that market.

(5) As part of a comprehensive look at the adequacy of Canadian financial facilities for export, both public and private, the services and capacities of the ECIC are being re-examined. The underlying objective is to ensure that our financial services in support of export are kept fully competitive with those offered by other countries and flexible enough to meet changing and growing requirements. We are also conducting an examination of additional ways and means by which to provide greater support to our exporters.

(6) In support of the work of the National Design Council, a "Design Export" group is being established in the Department to ensure that all promotional activities take account of the role which improved industrial design can play in improving Canadian export performance. Following consultation with the National Design Council, a "Design-for-Export" programme is being initiated, involving displays and promotions through selected trade commissioner offices.

(7) Trade commissioner posts have been recently opened in San Francisco, Nairobi and Belgrade. I expect to officiate at the formal opening of a further trade commissioner office in Dallas, Texas, on Friday.

(8) We shall be further improving our normal export services and tailoring them more clearly to current needs flowing from the Kennedy Round. The toll-free Zenith telephone hook-up will be continued; the orientation of all our activities will be even more closely directed to new export opportunity. I have also asked for a review of the

sharing of costs of trade fairs between the Department and exporters who benefit therefrom, thereby permitting the expansion of this useful function.

The Kennedy Round has been a major step forward in the process of reducing barriers to the flow of international trade. But for a country like Canada, so dependent on a healthy international trading climate for a strong and growing economy, continuing moves towards trade liberalization are necessary. While the first priority must be to the full implementation of the Kennedy Round results, including the International Grains Arrangement, we must also work for measures which will continue the process of freeing world trade.

It was to this end that I participated in the GATT ministerial meeting last November to set out a work programme for the member countries of the General Agreement. In Geneva, I presented Canada's views and suggestions on the future work of the GATT. I was able to propose that we "... reaffirm (our) basic policy commitment to the cause of freer multilateral trade and (our) determination to ensure that the impetus to trade liberalization given by the Kennedy Round is maintained". I put particular emphasis on the desirability of the sector approach in future trade negotiations. While we recognized that no major new negotiations on a comprehensive basis could be expected in the near future, we did agree on the need to investigate those areas where further international negotiations would be beneficial. The complexities of the problems that remain and the uncertainties of the post-Kennedy-Round world require that a great deal of preliminary work be done. And that is what we and our trading partners agreed to begin. The work programme will be focusing on three main areas -- trade in industrial products, agriculture and problems of the less-developed countries.

In the Kennedy Round, we maintained close touch with the Canadian business community, and we intend to maintain the same close contact in this further work programme.

Although the final figures are not yet in, it is clear from the data available that Canadians have met the 1967 export target of \$11.25 billion which I set. This year will be one of great challenge to Canadian exporters, representing as it does the first year of the implementation of the Kennedy Round results. I look to the vigour and ingenuity of Canadian exporters to meet the 1968 export target of \$12.3 billion.

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