



CANADA

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CONTENTS

Highlights of the Canadian Budget.....	1
The Provinces and Treaty-Making Powers	3
New Market for Canadian Cattle	3
Government Aid to CUSO	4

Armed Forces Communications	4
Export Credit Insurance	4
New Prairie Park.....	5
Martin to visit Europe.....	5

HIGHLIGHTS OF THE CANADIAN BUDGET

The following passages are excerpts from the 1965 Budget statement made to Parliament on April 26 by the Minister of Finance, Mr. Walter L. Gordon:

...Unemployment had fallen by last month to 3.9 per cent, on a seasonally-adjusted basis, which is just about half the 7.7 percent rate, seasonally adjusted, reached in the first quarter of 1961....

We have also had a rapid increase in the gross national product. In the two years 1963 and 1964, the value of the nation's output increased by 6.5 per cent and 8.9 per cent, or by a total for the two-year period of about 16 per cent. Incomes have improved materially. The value of construction of all kinds increased by more than 20 per cent from 1962 to 1964....

In our dealings with other countries, we have achieved a considerable improvement in our balance of trade and payments. Our deficit on current account in 1964 was less than one-third what it was at its peak in 1959. This improvement was achieved not by restricting imports and travel by Canadians, but by a vigorous expansion of our exports. Our secondary manufacturing industry has accounted for an important part of this change....

BALANCES OF PAYMENTS

...Last year we achieved a trade surplus of \$700 million. But we used up this surplus and more in servicing past debts, in paying dividends to foreigners, and in making other kinds of current payments. Our current operating deficit was, I am glad to say, lower than it had been for ten years. But it is still sizeable. Furthermore, last year we exported large

quantities of wheat to Russia, and we cannot count on having such large markets for our wheat on a continuing basis.

Our persistent international payments problem is apparent not only in the total size of our current account deficit but also in its structure. Last year our current-account deficit with the United States reached nearly \$1.7 billion. This was largely offset by a surplus of \$1.2 billion on merchandise and non-merchandise trade with the rest of the world, including the large wheat sales to communist countries. These transactions still left us with a current account deficit of \$453 million which we had to finance....

TRADE POLICIES

In the Budget Speech last year I described our preparations for the "Kennedy round" of tariff negotiations in Geneva, and outlined the principles that would govern Canada's participation. The formal opening of the negotiations occurred last November, when the offers of reductions in duties on industrial goods and materials were exchanged. Our delegation is now engaged in a detailed examination, with other delegations, of the scope for tariff reductions of mutual benefit.

The negotiations on agricultural products are only now getting under way. This means that for Canada, with its important export interests in agriculture, the "Kennedy round" is not yet in full swing.

(Over)

Consequently, it would be premature to offer any firm or final judgment as to the probable outcome of this tariff conference. Nevertheless, I believe there are real possibilities for important tariff reductions.... It is in our interests that barriers to trade throughout the world be progressively reduced....

GOVERNMENT REVENUES AND EXPENDITURES

...Revenues exceeded all expectations because of the excellent improvement in the economic situation, a greater improvement than I could properly forecast a year ago. At \$7,136 million, they were \$436 million more than the figure in last year's budget. Expenditures are estimated at \$7,219 million, \$64 million, or less than one per cent, higher than originally forecast. This leaves a budgetary deficit of \$83 million, less than one-fifth the amount originally forecast....

These results - a deficit of \$83 million by our parliamentary public accounts, and a surplus of \$332 million by the national economic accounts - are the best in seven years. In practical terms it seems fair to say that after a long period of troublesome deficits the nation's finances are now under firm control....

CANADA DEVELOPMENT CORPORATION

...Parliament will be asked to approve a measure establishing a Canada Development Corporation.... to share in financing the initial development, or expansion, of large-scale industrial projects in Canada, and to provide financing, including refinancing, for large Canadian enterprises which might otherwise be led to seek funds outside Canada, with a consequent loss of ownership and control to non-residents. The Corporation would be expected to invest in projects and enterprises which are likely to contribute to the sound economic development of Canada and to be profitable in the long run.

The Canada Development Corporation would be authorized to purchase from the Government the equity interest in Crown corporations that have become viable commercial operations. In particular the Government would propose to sell to it Polymer Corporation, which has been a highly successful and profitable government enterprise of which Canadians can well be proud....

The Canada Development Corporation would have an authorized share capital of about one billion dollars. The shares would be of the mutual fund type, the shareholder having the right of redemption at values to be established by the Corporation based on the value of its investments. There would be restrictions on the ownership and voting rights of the shares of the Corporation to ensure that it is essentially Canadian owned.

The Corporation would be mainly financed by the sale of its shares to the public. Individual investors would be given priority in purchasing shares but support would also be sought from a wide variety of Canadian institutions, including insurance companies, banks, trust companies, pension funds, estates and trusts, credit unions, charitable foundations and, I may add, provincial governments and their agencies. No investor other than the Federal Government would be permitted to own more than 3 per cent of the outstanding shares.

The Government would subscribe on its own account for 10 per cent of the issued share capital. In addition, the Government might acquire additional shares from time to time, either as partial compensation for the sale of Polymer Corporation or in connection with underwriting the sale of shares to the public. In order to ensure the independence of the Corporation, any shares taken up by the Government in excess of 10 per cent of the issued capital could be redeemed by the Corporation whenever the Board of Directors wished to replace them with shares sold to the public.

The Government would have authority to purchase debentures of the Corporation or to make loans to it up to a maximum of \$100 million.

PUBLICATIONS

I turn now to a measure of a very different character. The Government has given considerable thought to the best method of dealing with the magazine problem, and to the equally important matter of preserving Canadian ownership and control of Canadian newspapers....

In the resolutions which I am presenting this evening, we propose that the Income Tax Act be amended to disallow, as a business expense of a Canadian advertiser, the cost of advertising primarily directed to a Canadian market in a non-Canadian periodical or non-Canadian newspaper. This measure would become effective next January. Advertising in the so-called "Canadian editions" of non-Canadian periodicals now being published and printed in Canada will not be affected by this provision.... The question of the subsidized postal rates now enjoyed by the Canadian editions of non-Canadian periodicals will be studied as part of a general review being made of postal rates....

I shall also be proposing tonight a resolution to amend the Customs Tariff to prohibit the entry into Canada of non-Canadian periodicals, such as split runs, containing advertising primarily directed to the Canadian market, as well as periodicals in which more than 5 per cent of the advertising contains specific references to sources of availability in Canada or conditions of sale in Canada....

SCIENTIFIC RESEARCH AND DEVELOPMENT

...We propose to bring forward a bill that will provide in 1967 and later years a grant or a credit against tax liabilities equal to 25 per cent of the defined amount of expenditures on scientific research or development carried out by a business, either directly by its own staff or by contract with others in Canada. For 1966, a business will be permitted to elect whether to get the benefits available under the Income Tax Act or the benefits under this new legislation.

It is proposed that the whole amount of capital expenditures for scientific research or development would be eligible to qualify for the bonus, subject to certain safeguards. In regard to current expenditure, it is proposed that the bonus be calculated on the increase in research and development expenditures in any particular year over the average of such expenditures in the three preceding years....

THE PROVINCES AND TREATY-MAKING POWERS

The Secretary of State for External Affairs, Mr. Paul Martin, recently issued the following statement:

The constitutional position in this country on the question of treaty-making is clear. Canada has only one international personality in the community of sovereign states. There is no doubt that only the Government of Canada has the power or authority to enter into treaties with other countries.

It is nevertheless true that, under the Canadian Constitution as it has been interpreted, there is a lack of harmony between treaty-making and treaty-implementing powers. This creates special problems for Canada in respect of treaties concerning subjects of provincial legislative jurisdiction. The problem is not unique. Other federal states have adopted various approaches to the task of harmonizing treaty-making and treaty-implementing powers; but there is no federal state in the world whose constitution allows its members to make treaties freely and independently of the federal authorities. The reason for this is obvious. Independent treaty-making powers are the prerogative of sovereign states. A federal state whose members actually possess such powers would neither be a federal union nor a state. It would be an association of sovereign powers.

The Federal Government has exclusive responsibility for the conduct of external affairs as a matter of national policy affecting all Canadians. The policy of the Federal Government in discharging this responsibility is to seek to promote the interest of the entire country and of all Canadians of the various provinces within the overall framework of our national policy.

SPIRIT OF CO-OPERATIVE FEDERALISM

In respect of matters of specific concern to the provinces of Canada, it is the policy of the Canadian Government, in a spirit of co-operative federalism, to do its utmost to assist the provinces in achieving the particular aspirations and goals which they wish to attain. This was done, for example, in the case of the negotiations relating to the Columbia River.

It is clear that Quebec is the custodian of special cultural values and that this unique heritage cannot be developed in isolation from the French community. The Canadian Government recognizes that it is in the interest of Canada as a whole that this should be done. The pursuit of this objective is not in question.

NEW MARKET FOR CANADIAN CATTLE

Access has been obtained to a new market for Canadian purebred Holstein-Friesian cattle. Until now, France has not permitted Holstein-Friesians to be imported from Canada, but the French Government has just announced conditions allowing these cattle into France.

This development marks a successful conclusion to representations to French authorities by the Government of Canada over the past two years, in

On the contrary, the Federal Government, for its part, is prepared to do all it can to assist Quebec in this regard. It recognizes that Quebec will play a major role in the achievement of these fundamental objectives.

The Canadian Government is ready and anxious to use its powers in the foreign-affairs field, within the framework of our national foreign policy, to assist Quebec and all the other provinces in furthering matters of specific concern to them. The attitude of the Federal Government has recently been illustrated by the "entente" signed by representatives of Quebec and France in the field of education in February 1965. The Quebec and federal authorities co-operated actively in a procedure which enabled the Province of Quebec, within the framework of our constitution and our national policy, to participate in international arrangements in a field of particular interest to that province.

FEDERAL ROLE

Thus, under existing procedures, the position is that, once it is determined that what a province wishes to achieve through agreements in the field of education or in other fields of provincial jurisdiction falls within the framework of Canadian foreign policy, the provinces can discuss detailed arrangements directly with the competent authorities of the country concerned. When a formal international agreement is to be concluded, however, the federal powers relating to the signature of treaties and the conduct of overall foreign policy must necessarily come into operation.

The approach of the Canadian Government to the question of Canadian representation in international organizations of a social, cultural or humanitarian character reflects the same constructive spirit. We recognize the desirability of ensuring that the Canadian representation in such organizations and conferences reflects in a fair and balanced way provincial and other interests in these subjects.

I hope that the course which would commend itself to all Canadians is the course of confidence in our ability in this country to adapt our federal institutions to present needs in a spirit of co-operation and goodwill, so that, drawing maximum strength from our united efforts, we can achieve together our national objectives.

which the Canadian Minister of Agriculture played a personal role during visits to France.

Last May, the Holstein-Friesian Association of Canada and the Department of Trade and Commerce jointly sponsored a visit to Canada of a three-man cattle mission from France. This mission, comprising a representative of the French Ministry of Agriculture and two representatives from the French Friesian Herdbook, spent two weeks in Canada visiting outstanding Holstein-Friesian herds and attending sales.

(C.W.B. April 28, 1965)

GOVERNMENT AID TO CUSO

The Secretary of State for External Affairs recently made the following statement:

The idea of voluntary overseas service in developing countries by young men and women is one of the most imaginative and significant developments of contemporary history.

For the past three years the Canadian University Service Overseas (CUSO), a national, bilingual, non-sectarian organization, has been placing young men and women in positions in the developing countries. At present, there are just over 200 Canadians overseas under this programme.

Last year, for the first time, the Government assisted CUSO by the provision of transportation through the facilities of the Royal Canadian Air Force.

TOWARD AN EXPANDED PROGRAMME

I am pleased to announce that this year the Government intends to provide assistance in the order of half a million dollars from external aid funds, so that CUSO may greatly expand its work. It is my hope that this government support, which will include, among other types of assistance, all the transportation requirements of CUSO, will enable this organization to double its existing programme and to be able to have 400 volunteers at work in the developing countries by this September.

I believe that an active working partnership between CUSO and the Government can be achieved and maintained, a partnership which will preserve the independence and the vitality and the voluntary character of CUSO, while at the same time lending the stability and resources of the Government....

APPEAL TO YOUNG CANADIANS

I know that young Canadians will come forward to offer their services and vigorously support this voluntary programme. Our objective is to make it possible for any qualified person for whom a worthwhile position can be found in the developing countries to serve abroad for a period of two or three years. The qualifications for service do not necessarily include a university degree. Nurses, technicians, accountants, stenographers and a great many other skilled persons are required, although there is a particularly heavy demand for teachers with university training.

I should hope that, within one or two years, we can have as many as 1,000 young Canadians serving abroad in developing countries.

One of the first tasks of the Company of Young Canadians will be to study and assess the many requirements which will be involved in preparing for this great expansion in the numbers of young Canadians serving abroad in programmes of international development such as CUSO.

The Company of Young Canadians will work in the closest possible co-ordination and co-operation with CUSO and I should hope that within a short time there could be some announcement made about further developments in this exciting area, which I am confident, will capture the imagination of all Canadians.

ARMED FORCES COMMUNICATIONS

A milestone in the integration of the Canadian armed forces was marked during April by the creation of the nucleus of the new Canadian Forces Communication System. This is the first armed-forces functional formation to be fully integrated under a single command.

From an initial core of a headquarters in Ottawa and ten centres across Canada, the CFCS will eventually embrace most of the fixed communication facilities of the Royal Canadian Navy, the Canadian Army and the Royal Canadian Air Force, with their overseas links. These include some 180 locations in Canada, manned by about 3,600 service and civilian personnel.

At this stage, it is too early to estimate the manpower savings that will be made once the single system is in operation, but it is expected that they will be significant.

PROCESS OF UNIFICATION

The new communication headquarters has been set up to co-ordinate and manage the three service systems and to integrate them into one. This will be carried out progressively over a period while equipment is relocated and common procedures are adopted. Eventually, a single system will provide fixed communication facilities in Canada to all the armed forces and federal emergency organizations.

CFCS will establish squadrons at major communications centres in Canada, with each squadron providing service to Navy, Army and Air Force units within its area. Squadron detachments will be located at most of the units being served.

It is expected that the adoption of the new system will materially enhance the efficiency of armed forces communications and provide improved service to all users.

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EXPORT CREDIT INSURANCE

In 1964, the Export Credits Insurance Corporation insured a record total of \$346-million worth of consumer and capital goods exports — more than double the value of export sales it insured in 1963. During the year, the Corporation provided financing for Canada's first export sale of a nuclear power plant, to be built in India.

These and other facts and figures of last year's operations have been published in ECIC's annual report for 1964, which was tabled in the House of Commons recently by Mr. Mitchell Sharp, the Minister of Trade and Commerce, through whom the Corporation reports to Parliament.

The Crown-owned Corporation, established in 1945 to promote the expansion of Canada's export trade by offering protection for exporters against non-payment by foreign buyers, today operates in the two complementary fields of export-credits insurance and long-term export financing. Thus, while ECIC continues to insure export-credit sales, it may also provide financing for large export sales of capital goods where long-term credit is required.

VALUE OF SALES FINANCED

In 1964 there were \$68 million in export sales financed under the Government's long-term export-financing facilities, which ECIC administers under Section 21A of the Export Credits Insurance Act. Nine financing agreements were signed for projects in five countries. In the four years since the introduction of Section 21A, 26 long-term export-financing agreements valued at \$212 million were signed to the end of 1964, covering capital goods and related engineering services exported to ten countries. More than 1,000 Canadian companies have received orders to supply equipment and services as a result of these contracts.

ECIC also extended its insurance protection in 1964. The Corporation increased the co-insurance portion of risk it would assume from 85 per cent to 90 per cent, leaving only 10 per cent of the risk to be borne by the exporter. It also shortened the waiting periods required before a claim would become eligible for payment. The longest waiting period is now six months, instead of 12.

In 1963, ECIC entered into a joint venture with the Inter-American Development Bank to provide financing for a sale in Latin America. Increased co-operation with the Bank in 1964 led to a decision to establish a regular working basis for further joint financing of projects in Latin America.

After 20 years of operation, ECIC has insured a total of \$1,700 million in export sales of products ranging from pots and pans to diesel locomotives and aircraft to more than 100 markets abroad.

NEW PRAIRIE PARK

This spring, or early in the summer, a search will begin in Saskatchewan for a site for a new national park. Three areas - Cypress Hills in southwestern Saskatchewan, Val Marie and Last Mountain Lake - will be jointly surveyed by provincial and federal parks experts. If a suitable site is found, satisfactory to both governments, the way will be open for Saskatchewan to turn over the land to the National Parks Administration for development under the National Parks Act.

Saskatchewan already possesses Prince Albert National Park, established in 1927, whose 1,496 square miles of forest and lake are the habitat of a wealth of wildlife.

NATIONAL PICTURE

Canada's 18 national parks are almost as well-known abroad as by Canadians themselves. From Mount Revelstoke's alpine meadows in British Columbia to the coast of Newfoundland, from Point Pelee on Lake Erie as far north as the grazing ranges of Wood Buffalo National Park, most distinctive geographical divisions are represented.

But there are still some notable gaps. There is no national park embracing the Pacific Coast. The two most heavily populated provinces either have no national park or those they have total only a few square miles. The Far North is not represented, nor are the Prairies or the Canadian Shield.

MARTIN TO VISIT EUROPE

The Secretary of State for External Affairs, Mr. Paul Martin, will visit Europe from May 2 to 13. He will visit Cyprus on May 4 and 5 to see the Canadian contingent of the United Nations Force and to call on President Makarios and Vice-President Kuchuk and the Special Representative of the UN Secretary-General. On May 6 he will open the Canadian Consulate General in Marseilles. In Paris, on May 7 and 8, he will meet the French Foreign Minister and confer with heads of Canadian missions in Western Europe. In London Mr. Martin will have talks with the British Foreign Secretary and the Secretary of State for Commonwealth Relations. He will then represent Canada at the NATO ministerial meeting from May 11 to 13.

HIGHLIGHTS OF THE CANADIAN BUDGET (Continued from P. 2)

CUSTOMS ACT

I am proposing several changes in the Customs Act this year. One is being introduced to deal with the case put forward by the British Government that there are some features of our Customs law which bear inequitably or unreasonably on British goods by comparison with goods from other countries.

What is involved is the operation of the value for duty provisions of the Customs Act as they relate to the quantities of goods sold and to the trade level at which they are sold in the country of origin. We have accepted the British contention that there are certain circumstances in which these provisions work a particular hardship on their exporters as compared with exporters in certain other countries. Accordingly I shall be moving an amendment to the Customs Act to provide power to deal with such cases by means of a new Section 37A of that Act. If Parliament approves it, we shall make effective use of this section to remove any discrimination of this nature against British goods.

It is the Government's hope that this proposal will be taken by British exporters as a decisive response to their pleas that Canada give a clear signal that we welcome their goods; we hope, too, they will respond by seeking out and serving the very substantial demand which certainly exists here in Canada for imported goods....

TAX CUT

...Our budgetary position for the last fiscal year came close to a balance in our normal accounting terms, and showed a sizeable surplus in terms of the economic accounts. For this new fiscal year our budgetary accounts will not be quite so close to a balance, because of changes already authorized by Parliament or proposals already placed before you. In terms of our national economic accounts, however, the Federal Budget will be a restraining influence this year unless we make some further changes.

(Over)

Accordingly, after weighing up these considerations and the advice I have received from many quarters (including business men, trade unions, academic circles and the Review of the Economic Council), I believe this Budget should be an expansionary one. To achieve this effect we should reduce moderately the weight of our taxation.

In choosing the nature and form of the reduction, I have been influenced by the fact that we are expecting to make a thorough revision of our tax structure after receiving the report of the Royal Commission and discussing the whole situation with the provinces. While we can count on none of our taxes being unaffected by such a revision, I have concluded that we should leave both the sales tax and the corporation income tax largely as they are pending this review. Consequently we propose to concentrate the reduction in the personal income tax....

We have chosen a form of reduction that will not reduce provincial revenues, nor be too complicated for the typical taxpayer to apply in making out his return. In determining the amount of reduction I have had to consider the condition of the Budget and the economic consequences of the change. There is no precise mathematical formula that can be applied in our present situation. It must be a matter of judgment.

Taking all these factors into account, I propose... that effective from the first of July we make a reduction of our federal tax equal to 10 per cent of the basic tax payable under our personal income tax law, subject to a maximum reduction of \$600 per year. In most provinces this basic tax equals the total income tax payable to the federal and provincial governments combined. After allowing for the abatements from the basic tax in favour of the provinces, the reduction in the federal tax will be about 12.5 per cent, except for the higher incomes....

The direct effect of this tax reduction would be to reduce our revenues by about \$170 million this fiscal year and by about \$265 million in a full year. The amount retained by individuals as personal disposable income - that is, "take-home pay" - will be correspondingly increased. As a result, we can expect the rate of private expenditure to increase by nearly this amount, and there should be secondary effects which ultimately should increase the rate of gross national product by something more than the amount of the tax reduction.

EFFECT OF TAX CHANGES

This major tax cut of \$265 million a year, together with the other changes outlined, will alter our revenues for this new fiscal year directly and also indirectly by reason of their effect on the economy. I would expect the gross national product for 1965 as a whole to increase over 1964 by slightly more than the approximate figure of 7 per cent I mentioned earlier. Taking this and the direct effects of tax changes into account, we estimate that our revenues for this fiscal year should be about \$7,350 million. Our expenditures I have forecast at \$7,650 million. This will leave a deficit in terms of our public accounts of approximately \$300 million.

Taking all our expected non-budgetary receipts and disbursements into account, we would anticipate a total cash requirement, for other than transactions in government securities, or changes in our foreign-exchange reserves, of \$525 million.

In terms of our national economic accounts the Federal Government's revenue and expenditure transactions would show a modest surplus of \$152 million. Given the economic and fiscal prospects for the year ahead, I think this outcome of the budget is about right....