



CANADIAN WEEKLY BULLETIN

Vol. 12 No. 39

TRADE AND ECONOMIC CONFERENCE

A meeting of the Joint United States-Canadian Committee on Trade and Economic Affairs is to be held in Washington on October 7 and 8. Canada will be represented at the meeting by the Secretary of State for External Affairs, and the Ministers of Finance, Trade and Commerce, and Agriculture.

The Committee was established following an exchange of notes on November 12, 1953. The functions of the Committee are:

- (1) To consider matters affecting the harmonious economic relations between the two countries;
- (2) In particular, to exchange information and views on matters which might adversely affect the high level of mutually profitable trade

SUGGESTS TAX PARLAY: Prime Minister John G. Diefenbaker announced last week that he had written to the ten provincial Premiers suggesting that a Dominion-Provincial Conference to review the present pattern of tax sharing arrangements be convened in Ottawa on Monday and Tuesday, November 25 and 26.

The Prime Minister said:

"There has been a good deal of public discussion of these questions in recent months, and during the recent election campaign I undertook to call such a conference at the earliest feasible date.

"In reviewing our time-table commitments it appears to us that the earliest convenient date would be some time toward the end of

INFORMATION DIVISION

DEPARTMENT OF EXTERNAL AFFAIRS

OTTAWA - CANADA

September 25, 1957

which has been built up,
(3) To report to the respective governments on such discussions in order that consideration may be given to measures deemed appropriate and necessary to improve economic relations and to encourage the flow of trade.

Since its establishment in 1953, the Committee has held two meetings, in Washington in March 1954 and in Ottawa in September 1955.

The forthcoming meeting will give the Canadian Ministers an opportunity of establishing working relations with their United States colleagues and of reviewing with them a wide variety of problems affecting trade and economic relations generally between Canada and the United States.

November. I expect that Parliament will still be in session at that time - and no doubt some of the Provincial Legislatures also, but I am confident that we can count on the necessary Parliamentary co-operation in adapting the order of business to make such a meeting possible."

PRIME MINISTER HONOURED: Her Majesty Queen Elizabeth II has approved the appointment of Prime Minister John G. Diefenbaker to the Imperial Privy Council, and has issued an order that permits him to use the title "Right Honourable" immediately although the ceremony of being sworn to the Council has not yet been performed.

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AID TO PAKISTAN: Representing Canada on a team of dairy experts including representatives from Australia, The Netherlands, Denmark and the United States, D.B. Goodwillie, Dairy Products Division, Department of Agriculture, Ottawa, leaves by air for Pakistan this month.

The purpose of the team's visit to Pakistan, arranged under the Food and Agriculture Organization at the request of the Pakistan Government, is to prepare a detailed improvement programme in consultation with the Pakistan authorities, for development of the dairy industry in the cities of Karachi and Lahore.

At the request of the Food and Agriculture Organization the team of dairy experts will provide that body with estimates of the total costs of separate programmes for each of the two cities. These will be divided into local costs, external costs, and technical assistance, and suggest the amount and type of local and external finance needed in each phase of the development programmes. The team is asked to suggest legislative, administrative and educational action that should be taken by the Government of Pakistan and local authorities to ensure an effective and permanent Central Milk Authority and what part international co-operative action and assistance might play in the development of dairy plants that can be operated on a technically and economically sound commercial basis.

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NEW USE OF LIGNIN: Experiments by Canadian Government and private research agencies have shown that lignin - the substance that nature produces to hold wood fibres together - can be used to give longer life to tires, particularly the large-diameter tires used in military vehicles, the National Research Council has announced.

In exhaustive road tests these tires, having synthetic rubber treads reinforced with lignin, showed 15 per cent more resistance to wear than conventional tires.

Under present conditions, the larger the tire, the more natural rubber must be used in its construction because synthetic rubber becomes too hot at high speeds. However, in laboratory tests synthetic rubber reinforced with lignin develops less heat than conventional synthetic rubber, and the success of these experiments suggests that an all-synthetic large-diameter tire may eventually be made through the use of lignin.

The lignin used in these tests is a by-product of alkaline pulp manufacture, and as such, it was noted in the report, "has a production potential in North America of 8,000,000 tons a year".

Since Canada manufactures synthetic rubber as well as paper, this industrial application of lignin is aimed at making Canada, in case of war, virtually independent of outside sources for raw materials in tires.

CD HEAD RETIRES: Canada's "Mr. Civil Defence", Major-General F.F. Worthington, retired September 17 from his post as federal civil defence co-ordinator. The announcement was made by the Hon. J. Waldo Monteith, federal cabinet minister responsible for civil defence, and confirmed by General Worthington. Retirement brought to a close a continuous period of public service in military and civilian fields, totalling forty-three years in all, extending without interruption from the outbreak of World War I in 1914 to the present time.

Among the many major accomplishments conceived and brought into operation during General Worthington's term of office as federal civil defence co-ordinator was the "No Border" agreement worked out with the United States which provided for co-ordination of Canadian and United States civil defence activities during an emergency "as if no border existed". He was also instrumental in obtaining federal financial support for provincial programmes for standardizing fire hose couplings, making it possible for the first time for many communities to interchange and supplement each other's fire-fighting equipment. He successfully advocated the establishment of the federal Civil Defence College at Arnprior, now accepted internationally as one of the finest in the world, which has graduated more than 8,000 trained civil defence workers. By his tireless efforts, he was instrumental in convincing most of the Canadian provinces of the need for an active civil defence programme, as well as formal legislation, on which to base their activities. He planned and carried into operation a programme of federal-provincial compensation agreements under which volunteers are protected in the event of injury during civil defence training or operations.

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NEW RESEARCH LABORATORY: A new research laboratory of the Petawawa Forest Experiment Station was opened to-day by Mr. Alvin Hamilton, Minister of Northern Affairs and National Resources.

The laboratory is considered to be one of the finest research laboratories of its kind in the world. Together with the adjoining administration building and staff house, it provides ample space and facilities for the research, administration, and accommodation needs of the Forest Experiment Station, oldest and largest of the five forest research stations operated by the federal Forestry Branch.

More than 100 representatives of the federal and provincial governments, research organizations, forest industries, forestry trade and professional associations, and university forestry faculties attended the opening ceremony and were taken on a tour of the new laboratory and some of the research projects.

1956. CAPITAL INFLOWS

The Dominion Bureau of Statistics' annual report on the Canadian Balance of Payments in 1956 and International Investment Position shows that there were capital inflows to Canada of unprecedented size in 1956 and these contributed to a sharp increase in Canada's indebtedness abroad. The net capital inflow was \$1,372 million compared with \$698 million in 1955 and for the seven years from 1950 has amounted to more than \$3½ billion.

This high degree of imbalance in Canada's international accounts was, of course, closely related to the exceptional rate of growth in the Canadian economy and to the strong pressures of demand for goods, services, and capital from non-resident sources accompanying the high levels of economic activity. The need for external resources has been particularly evident in the demands arising from investment activity which have contributed directly and indirectly to a rise in imports; this rise outpaced the large expansion in Canada's export capacity which has been underway at the same time. The rapid development of Canada's natural resources, much of it by capital from outside Canada, has been a leading stimulus to the sustained high levels of investment in the Canadian economy.

In 1956 over three-quarters of the increased current account deficit was related to a larger imbalance on merchandise trade, the deficit on which rose to \$734 million from \$211 million in 1955. At the same time the deficit from non-merchandise transactions established a new peak of \$638 million, up from \$487 million, as almost every group of transaction showed a larger deficit, particularly those arising from interest and dividend remittances and travel expenditures.

Almost all of the current deficit in 1956 was financed by inflows of capital in long-term forms. The sharpest rise occurred in net new issues of Canadian securities outside of Canada. This borrowing linked with further enlarged inflows of capital for direct investment by foreign firms and for outstanding Canadian stocks helped to bring about an unprecedented rise in non-resident investment in Canada.

The United States continued to be the major source of long-term external capital for Canada in 1956. Indeed, the net movements in long-term forms were somewhat more than two-thirds from the United States amounting to more than \$900 million. Inflows of capital from the United Kingdom and from other overseas countries also rose sharply, with inflows in long-term forms from these countries amounting to more than \$425 million in 1956, more than double the figure for 1955, and far in excess of any year in recent decades. The principal source of the inflows from overseas was the demand for Canadian portfolio equities

together with some major direct investments in Canada and the placing of some new Canadian issues in European markets.

RISE IN NON-RESIDENT INVESTMENTS

Outstanding features of recent changes in non-resident investments in Canada have been the amount of their rapid sustained rise over an extended period and their concentration in equities in Canadian industry and resource development. In the interval since 1945 the total value has more than doubled. The rate of increase has been unusually high each year since 1949 with a total increase of some 93 per cent in the seven years between then and 1956. The increase in value of some \$7.4 billion since then is much larger than in any earlier corresponding period and the high rate of increase has been sustained for an unusually long period. And by far the largest part of this increase has been in direct investments and other equities in Canadian industry and business, which at the end of 1956 were more than twice as large as in 1949.

In 1956 the rate of increase in indebtedness abroad accelerated to almost 15 per cent with an unprecedentedly large rise of almost \$2 billion in external indebtedness. This brought the total value of non-resident long-term investment in Canada to \$15,400 million compared with \$13,468 million in the preceding year, and a total of \$7,963 million as recently as in 1949. Some three-quarters of this increase was in the rise in direct investments and other equities in Canadian industry. But in 1956 this was accompanied by a considerable increase in Canadian bonded indebtedness abroad as Canadian financial resources were supplemented in this way.

The total of investments owned in the United States rose to \$11,651 million from \$10,289 million - close to twice the value in 1949 - and continued to represent more than three-quarters of all non-resident investment in Canada. This rise in United States investments has also made up more than three-quarters of the increase in this seven-year period. While the main rise has been in United States direct investments, portfolio investments in Canada owned in that country were in 1956 about one-half as high again as in 1949.

British investments in Canada at \$2,675 million in 1956 were at a new post-war peak and not far below the earlier maximum levels which were maintained for several decades following 1914. But these investments now only account for 17 per cent of the total non-resident investment in Canada compared with 36 per cent at the end of 1939 before most of the wartime repatriations. The rise in British investments in Canada from the low point in 1948 has been more than \$1 billion and this rise has been particularly concentrated in

direct investments which have much more than doubled since then. In absolute terms this rise in total British investments in Canada is more than the rise in the investments by all other overseas countries in the same interval, although the rate of increase has been less.

Investments owned in other countries reached a new record total of \$1,075 million for the end of 1956, some three times the corresponding figure in 1949, and at 7 per cent of the total makes up a larger proportion of the total investments than ever before. Most of these investments are owned in Western Europe.

This expansion in non-resident long-term investments in Canada has been the principal factor contributing to the sharp rise in Canada's balance of international indebtedness in the same periods. Net liabilities to other countries rose from \$7.8 billion in 1955 to \$9.5 billion in 1956, and compares with the low point in recent decades of \$3.7 billion in 1949. This is the amount by which gross liabilities of residents of Canada to other countries exceeded gross assets abroad.

Data now available for the first time reflect further increases in 1954 in the percentages of manufacturing and of mining, smelting, and petroleum exploration and development, both owned and controlled by non-residents, although there were again declines in the relative position of foreign capital in the utilities sector. By the end of 1954 the Canadian manufacturing industry was 48 per cent owned by non-residents while the capital subject to foreign control amounted to 54 per cent of the total. These proportions compared with 44 per cent and 48 per cent, respectively as recently as the end of 1951. In the broad field of mining, smelting, and petroleum exploration and development companies, non-resident ownership and control each amounted to 59 per cent at the end of 1954; at the end of 1951 non-resident ownership and control had amounted to 51 per cent and 53 per cent respectively. During 1954 the total book value of investment in the broad industry groups of manufacturing and mining is estimated to have increased by \$0.9 billion; in this same period non-resident ownership increased by about \$0.6 billion and the value of such investments controlled by non-residents rose by some \$0.8 billion.

Resident-owned Canadian capital continued to play a leading role in financing railways, other utilities, and merchandising. Consequently in the total area of investments in Canada the resident-owned portion of the rise in 1954 was not far from two-thirds of the total. Somewhat the same pattern is also shown in the longer period from 1948 to 1954 with the rise in Canadian-owned investment representing a similar ratio of all investments, while in the financing of industry the non-resident source predominates.

In the 1950's to date, Canada's net use of foreign resources amounted to one-fifth and direct foreign financing to one-third of net capital formation, and tentative estimates for 1956 alone suggest that these ratios have risen to about one-third and two-fifths, respectively. The two measures have special meaning. In the period 1950-1956 Canadian sources of savings were sufficiently large to finance about four-fifths of net capital formation but they were not all used for new investment in Canada. Some Canadian savings were, for example, used for investment abroad, while other parts were used for the retirement of debts contracted abroad in earlier periods. As a consequence, Canadian sources of savings directly financed a smaller part of net capital formation in Canada, with non-residents directly financing the balance of one-third.

In the post-war 1940's (and for some years before), Canada was a net exporter of capital. From 1946 to 1949 the net use of foreign resources was negative -- Canada was on balance able to invest abroad -- although direct foreign financing even in that period amounted to about one-fifth of net capital formation. In the short period 1929-1930 foreign capital was relatively even more important than in recent times, and both the net use of foreign resources and direct foreign financing appear to have represented more than one-half of net capital formation.

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CANADIAN FIRST: The first supersonic air-craft to be created by the Canadian aviation industry, the CF-105, Avro Arrow, will roll out from the production bays of Avro Aircraft Limited at Malton, Ontario, on October 4, it is announced by the Company.

The Minister of National Defence, Mr. George R. Pearkes, V.C. will officiate at a ceremony marking the roll-out and first public viewing of the high-speed, delta-winged interceptor. It is expected that some 2,000 representatives of Government, Military, Industry and Labor will be present, in addition to thousands of Avro personnel.

At the conclusion of the unveiling ceremony the aircraft will be removed to Avro's flight Test hangar for its extensive pre-flight test programme.

Development of the 1,000 mph-plus missile-armed CF-105, Avro Arrow has been attracting the keen interest of international military aviation circles, where it is regarded by many as being the most advanced combat aircraft of its type in existence.

A number of Military and Government representatives of NATO countries are expected to attend the ceremony. Representatives of NATO news service and television organizations have also indicated their intention of being present to publicize Canada's new supersonic fighter in their respective countries.

GROSS NATIONAL PRODUCT

Canada's gross national product in the second quarter showed no change from the seasonally adjusted first quarter rate of \$30.7 billion, according to preliminary estimates released by the Dominion Bureau of Statistics. This stability in the value figures was accompanied by a further advance in final product prices, which rose during the period by almost 1 per cent. The levelling-off in output which was noted in the first quarter, has thus been continued into the second quarter and is in contrast to the strong upward trend which has characterized the figures since mid-1954. The recent levelling-off in output was not reflected in aggregative employment measures, which continued to move upward.

At \$30.7 billion, the gross national product in the first half of this year has averaged about 3 per cent above the annual figure for the year 1956 as a whole. This comparison includes an estimate of the value of crop production in Canada for the year 1957, which is substantially below the year 1956. Most recent data suggest that grain output may drop by about \$350 million this year, mainly due to extremely dry weather conditions in the Prairie Provinces. Such a decline would represent about 1 per cent of the total value of the gross national product. Non-farm gross national product, seasonally adjusted, has averaged about 4 per cent over last year's annual total in the first half of 1957.

The relative stability in the value of total production between the first and second quarters of this year was accompanied by mixed and offsetting tendencies in important categories of income, expenditure, and output. Labour income rose further as employment and earnings continued to advance. Investment income was off slightly, reflecting a continuation of the downward trend in profits, and a rise in dividends paid abroad. Other categories of national income showed small declines; farm net income from the sale of livestock products was lower, while unincorporated non-farm income was affected by a decline in retail sales.

On the expenditure side, offsetting tendencies were again present, with gains in non-residential construction and in government expenditures counter-balanced by declines in other demand categories. Personal expenditure on consumer goods and services was virtually the same as a drop in durable goods purchases was almost offset by gains in outlays for non-durables and for services. It may be noted that the advances in the latter two categories in the second quarter were somewhat smaller than in recent quarters. Although housing starts have risen sharply since the Spring, housing outlays showed a further decline in the second quarter, reflecting the fact that

completions were lower. The strong upward movement in outlays for new machinery and equipment came to an end in the first quarter, and in the second quarter gave way to a minor decline. At the same time, imports of goods and services fell slightly, in response to a smaller inflow of iron and its products, marking the first break in a long period of successive quarter-to-quarter gains.

Exports of goods and services, which were level throughout most of 1956, were adversely affected in the second quarter by a further decline in exports of agricultural products, notably grains. These widespread, though individually quite small, declines in the above-noted categories of final demand were accompanied by a fall-off in the rate of inventory accumulation, as both the trade groups and manufacturers added less to their holdings of inventories. The net effect of these divergent movements was to leave total gross national expenditure approximately unchanged at the level of the first quarter of 1957.

REAL OUTPUT

Related indicators suggest varied trends in output in the main industrial groups. Seasonal factors apart, major gains in output continued to occur in the primary industries, forestry, and mining, quarrying and oil wells; output in the construction industry also rose. Output in manufacturing was off 3 per cent, with the major part of that loss concentrated in durable goods industries, which were down 4 per cent in contrast to a 1 per cent decline in non-durables. Losses were for the most part small and fairly widely dispersed among the various manufacturing industries. A sharp fall in output occurred in two industries, non-ferrous metals and transportation equipment; in the first-named the sharpness of the drop is partly attributable to a prolonged work stoppage in a large aluminum plant; in transportation equipment, the decline in output is mainly accounted for by the lower level of production in the automotive industry.

In addition to manufacturing, losses occurred in some other industries; output in transportation was lower, reflecting the drop in rail freight traffic. Likewise output in trade reflected the reduced volume of retail sales.

In spite of declines in output in a number of industries in the second quarter, the level of production in almost all industrial groups in the first half of 1957 was above that of the corresponding period of 1956. The sharpest gains were in mining (10 per cent), electric power and gas utilities (8 per cent) and construction (5 per cent). The increase in manufacturing output (1 per cent) was the lowest of any major industry.

EMPLOYMENT

In spite of the levelling off in production employment continued to rise in the second quarter, with the industrial composite index of employment showing a small gain of 0.6 per cent, apart from seasonal factors. With employment in manufacturing and mining slightly lower, the gains have taken place in construction and some other industries.

The number of persons with jobs in the first six months of this year was nearly 3 per cent higher than in the corresponding period of 1956 and those with jobs in the non-farm sector 4 per cent higher. However, the rise in employment did not keep pace with the unusually rapid growth of the labour force and the number without jobs and seeking work as a percentage of the labour force averaged 4.7 as compared with 4.3 in the same period of 1956.

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B.W.I. - CANADA DISCUSSIONS: Discussions of a preliminary and exploratory nature were held last week in Ottawa between officials of the British West Indies and Canadian Officials. The West Indian officials were Sir Stephen Luke, Comptroller, Development Welfare in the West Indies and Chairman, Standing Federation Committee, and Mr. John Mordecai, Federal Secretary.

The purpose of these discussions was to consider economic matters of common interest to the British West Indies and Canada. In particular, the West Indian officials, who are concerned in making arrangements for the coming into being early next year of the proposed Federation of the West Indies, reviewed West Indian economic development and indicated some ways in which they feel that Canada might help the Federation. Canadian representatives, who will be enabled by these discussions to report on the possibilities of Canadian aid to the new Federation, put before the West Indian officials various considerations which might guide the development of Canadian relations with the Federation.

The Standing Federation Committee is due to meet within the next two weeks and will receive a report on the talks from their officials.

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IMMIGRATION ESTIMATE: Officials of the Department of Citizenship and Immigration have announced that the estimated total of immigrants to Canada from January 1 to August 31 of this year was 225,000 and that it was possible that the year-end total would be approximately 275,000.

Since 1914, when more than 400,000 immigrants entered Canada, yearly arrivals had not exceeded 200,000.

TO ATOMIC CONFERENCE: The Department of External Affairs has announced that Canada will be represented by Mr. M.H. Wershof, Q.C., at the first general conference of the International Atomic Energy Agency opening in Vienna on October 1. Mr. Wershof, Permanent Representative of Canada with the rank of Ambassador at the European office of the United Nations in Geneva, last autumn headed the Canadian Delegation to the conference in New York at which the Statute of the Agency was approved.

Alternatives to Mr. Wershof at the forthcoming conference will be Mr. W.H. Barton and Mr. S. Pollock. Mr. Barton is Counsellor in the Canadian Embassy in Vienna. Mr. Pollock is Director of International Programmes and Contributions in the Department of Finance in Ottawa.

Mr. W. J. Bennett, O.B.E., President of Atomic Energy of Canada Limited and President of Eldorado Mining and Refining Limited, is expected to go to Vienna for part of the conference. However, pressure of other duties in Ottawa will not allow him to remain throughout the period of some three or four weeks that the conference is expected to be in session.

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TRANS-ATLANTIC TALKS: Canada's first venture into trans-Atlantic telecommunication by an all-purpose cable was the main factor contributing to a much improved net profit of over \$400,000 which is revealed in the latest report of the Canadian Overseas Telecommunication Corporation. The Corporation's 7th Annual Report, released by Mr. George H. Hees, Minister of Transport, discloses that the trans-Atlantic telephone cable has given such satisfactory service that, although the new facilities were in use for only six months during the year reported, the telephone volume for the full year increased by 300 per cent. The cable was placed into service in September 1956, a joint Canada-U.K.-U.S.A. project.

In the report, Douglas F. Bowie, President and General Manager, Canadian Overseas Telecommunication Corporation, stated that "the greatly improved quality of service given over this new route proved so satisfactory, results exceeded our expectations". Mr. Bowie also revealed that the capacity available for Canadian purposes on the cable was immediately taken up and continues to be fully occupied, so much so he said, "we are now actively planning a second cable between Canada and the United Kingdom in order to meet anticipated growth". The new cable is expected to be ready for operation during 1961.

A steadily rising demand for overseas telegraph message traffic is another feature of the report with this item showing a 17 per cent increase in traffic receipts resulting largely from new business being attracted to direct radio-telegraph routes established by the Corporation to Germany and France.