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PEACE, JUSTICE AND WELFARE FOR ALL

The following is the text of a year-end message from the Secretary of State for External Affairs, Mr. Paul Martin:

I am glad to have the opportunity provided each year by the International Service of the Canadian Broadcasting Corporation to send a message overseas. My best wishes go to Canadians living abroad and to the many friends of Canada, in official and private life, with whom we have worked in good causes during the year.

Our major concern throughout the year has continued to be that of achieving or maintaining peace in all parts of the world. We have seen some progress, or hope of progress in the broad discussions of peace keeping and disarmament at the United Nations and in the restraint and relative lack of tension in great-power relations, particularly in relations between the United States and the Soviet Union. At the same time, we have been confronted with particular conflicts, or threats of conflict, in different parts of the world which have given us serious concern.

The dispute within the United Nations over the suspension of voting rights of those member nations which had not paid their share of peace-keeping costs was solved, at least temporarily, by decisions on the part of other members not to force the voting issue to a final confrontation at the risk of breaking up the organization. The General Assembly was able therefore to meet and vote in the normal way in the concluding months of the year.

UN PROGRESS ENCOURAGING

One of the major tasks before it was to examine the question of responsibility for peace keeping which

had led to the disagreement over finances and then voting rights. Although the problem has not yet been resolved and the United Nations continues to be faced with serious financial problems in this field, it is of some significance that member nations are actively debating fundamental questions of United Nations action to achieve peace and security in the light of all relevant provisions of the United Nations Charter. It is also a welcome indication of United Nations capacity to surmount these problems that the Security Council was able to act immediately and effectively in calling for a cease-fire in the India-Pakistan conflict.

Similarly, in the field of disarmament, while there were no agreements on projects which we consider should have the highest priority — such as extending the Partial Test-Ban Treaty of 1963 to cover underground tests, and agreeing on the non-proliferation of nuclear weapons — the debates on such subjects and on the proposed World Disarmament Conference did reveal an increasing determination to achieve such agreements. The contribution of the non-aligned nations was significant and indicated a responsible interest in and increased understanding of disarmament problems.

SHADOWS OF CONFLICT

While prospects for progress in these fields were moderately encouraging, conflicts in Vietnam and between India and Pakistan and the menace of racial conflict in Rhodesia have cast dark shadows on international affairs.

The intensification of the conflict in Vietnam has naturally been a matter of deep concern to Canadians.

We have tried, on the basis of our experience as a member of the International Commission, to put before the Canadian Parliament and people the facts of the situation as we see them. We have made it clear that we regard a negotiated solution of the conflict in Vietnam as both practicable and desirable. We see this as the only way of achieving a peaceful settlement in the area and we are doing what we can to that end.

With regard to the conflict between India and Pakistan and the unilateral declaration of independence by the Smith Government in Rhodesia, we took immediate action through the United Nations, in one case, and in company with other Commonwealth nations as well as United Nations members, in the other, to limit risks and work for long-term stability in the areas concerned.

GOOD RELATIONS

I do not want, however, to present 1965 only in terms of these issues of peace or war. Those listening to this message will know some of the many ways in which Canada has been able to extend friendships and develop new relations abroad. In general relations with Commonwealth associates and with NATO allies, in bilateral relations with nations traditionally very close to us such as Britain, France and the United States and in agencies of all types associated with the United Nations, we can point to notable accomplishments.

Perhaps it may serve to balance the necessarily heavy emphasis in this message on matters of immediate political concern if I mentioned one or two other developments of great long-term significance. In 1965 a Commonwealth Secretariat was set up for the first time with a Canadian, Mr. Arnold Smith, as Secretary-General. The first Commonwealth Arts Festival took place in Britain, with very worthy representation from Canada under official sponsorship. In November, the first general cultural agreement between France and Canada provided a framework for co-operation in cultural, scientific, technical and artistic matters.

In these ways old associations of great value to Canadians were strengthened and given new points of focus.

YEAR OF CO-OPERATION

We have been particularly conscious also of the fact that 1965 has been International Co-operation Year. The Canadian Government has continued to extend its programmes of economic co-operation. During the year plans were implemented or decisions were made concerning new projects for aid in Latin America and Asia and programmes for Colombo Plan countries, for French-speaking African countries and for Commonwealth countries in Africa and elsewhere were steadily developed.

My wish for the coming year would be, as it has been in earlier years, that the cumulative effort of millions of people throughout the world on behalf of peace, justice and our common welfare will bear greater results. For my part, I assure you of the unremitting effort of the Canadian Government towards those ends and I send to all of you from Canada our very best wishes for the New Year.

CANADA PROTECTS U.K. INTERESTS

The Secretary of State for External Affairs, Mr. Paul Martin, confirmed recently that Canada had agreed, at the request of the British Government, to assume responsibility as protecting power for British interests in the United Arab Republic following the break in diplomatic relations between Britain and the U.A.R.

Mr. Martin said that, to the fullest extent possible considering the limited number of administrative personnel available, the Canadian Government would try to deal expeditiously with the practical problems that would arise. He said he regretted the rupture in normal diplomatic relations between Britain and the U.A.R., and hoped that Canada's action would help to minimize its effects as well as contribute to the eventual restoration of normal international co-operation between the two countries.

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CANADA-PAKISTAN NUCLEAR-POWER STATION

It was announced on December 24 by Mr. Paul Martin, the Secretary of State for External Affairs, that Mr. S. Osman Ali, Secretary to the Government of Pakistan, and Mr. J.D.M. Weld, Acting Canadian High Commissioner in Karachi had signed an agreement regarding the construction of a nuclear-power station in the Pakistani capital.

The conditions were agreed on in principle by the representatives of the two governments in February 1965 and, during the following months, the Canadian General Electric Company negotiated a "turn-key" contract with the Pakistan Atomic Energy Commission for the construction of a 137,000-kilowatt nuclear-power station based on Canadian designs employing a natural uranium reactor moderated and cooled by heavy water.

FINANCIAL ARRANGEMENTS

Negotiations have also been completed with the Pakistani authorities for supplementary agreements covering the financial arrangements that will be signed in Ottawa shortly on behalf of the External Aid Office and the Export Credits Insurance Corporation. The total cost for Canadian goods and services will amount to \$48.1 million and will be made in approximately equal sums out of funds available to the External Aid Office and the Export Credits Insurance Corporation. The money will be provided as required over the five-year construction period.

PEACEFUL OBJECTIVES

Both Canada and Pakistan are committed to using atomic energy solely for peaceful purposes and have declared their support for the system of safeguards developed by the International Atomic Energy Agency. In the agreement just signed in Karachi, Canada and Pakistan have undertaken to avail themselves of this service and it is anticipated that the Pakistan and Canadian Governments will shortly make arrangements for the Agency to assume the task of applying safeguards to the Karachi reactor.

CANADA'S ECONOMY IN 1965 AND THE OUTLOOK FOR 1966

The following review was made recently by Mr. Mitchell Sharp, Minister of Finance:

The strong upward course of world production and trade in recent years slowed somewhat in 1965. Economic activity in Canada, on the other hand, has continued to advance strongly. In terms of the pace of national economic growth, Canada has maintained a foremost position among the countries of the world.

Canada's gross national product, which measures the value of all goods and services produced, was about 9 percent higher in 1965 than in the preceding year. With price effects excluded, national output in real terms has risen by approximately 6 per cent. This follows real increases of 6.5 per cent in 1964 and 4.5 per cent in 1963. Each of the major regions of Canada has participated in the general advance. The sharpest increases in employment have occurred in British Columbia and Quebec, but increases in other regions are also close to the national average.

Gains in production in 1965 have been widely distributed throughout all major industrial sectors. Goods-producing industries, as a group, have shown stronger advances than services. This year's bumper grain crop is reflected in a new record level of agricultural production. Other resource-based industries showing notable gains include electric power, base metals, pulp and paper and potash.

Perhaps the most remarkable advances, as in 1963 and 1964, have occurred in secondary manufacturing. Motor-vehicle production in 1965 has exceeded the 800,000 mark, a fifth higher than last year and more than double the number produced four years ago. Automotive-parts production also is up sharply. Other industries showing particularly strong growth include primary iron and steel, electrical apparatus and supplies, chemicals and textiles.

STRONGER LABOUR MARKET

This rapid growth in production has been accompanied by further strength in the labour market. New job openings have more than kept pace with the growing influx of new entrants into the labour force. Total employment has been 3.7 percent higher on average this year than last, whereas unemployment has been 14 percent lower. For the year as a whole the number of jobless persons has amounted to scarcely 4 per cent of the labour force and, in recent months, has been significantly below the 4 percent mark.

Expansion has been accompanied by additional pressure on resources in some sectors of activity. The price component of national production has increased on average by about 3 per cent between 1964 and 1965, and the consumer price index is up by 2.5 per cent. At the same time, the growth in personal income has kept well ahead of the rise in prices and *per capita* real income has advanced by more than 5 per cent.

A key feature of Canada's expansion in 1965 has been the further upsurge in spending on capital facilities. Even allowing for some short-fall in spending plans outlined in the mid-year survey of

investment intentions, it is clear that this year's rise in total outlays will at least match the 15 percent advance realized in 1964. Substantial increases have occurred in both private and public sectors of the economy. Within the business community, the largest additions to expansion programmes have occurred in pulp and paper, iron and steel, chemicals, transportation equipment, certain distributive and service trades, electric power and some other utilities. The creation of this new capacity, while adding to current demands on productive resources, also provides the means for increased output and greater productiveness in the future.

In order to reduce the pressure on physical resources in construction and related capital goods industries, the Federal Government announced in August its intention to stretch forward a number of less urgent federal projects.

MODERATE EXPANSION IN EXPORTS

The present forward momentum of the Canadian economy has reflected, to an important extent, the strong performance of Canadian producers in international markets. Exports have expanded remarkably in recent years, although the irregular movement of certain important commodities has contributed to uneven year-to-year growth. Following the spectacular 19 percent advance realized in 1964, total exports have shown a further moderate expansion in 1965. The pace of export growth in the past year has been dampened by less active demand conditions in some overseas markets and, to some extent, by supply limitations in Canada. Sharply increased demands for certain items in Canada have tended to restrict the amount of production available for export. In addition, the smaller movement of wheat following the completion of deliveries under the first major contract with Russia in the summer of 1964 has had a major effect on the overall trend of total exports for most of the current year. Consequently, for the first nine months of 1965 total exports are but slightly above the 1964 level. Commencement of wheat deliveries under the current Russian wheat contract has given new impetus to export growth in the latter part of the year. Export figures for the full calendar year are likely to show an increase of 4 or 5 per cent.

MAJOR COMMODITIES

Among the major commodity categories, external sales of secondary manufactured products have again shown the sharpest rise. Exports of this kind about doubled in the three-year period from 1961 to 1964, and, along with the farm, forest and mineral groups, at present constitute one of the four main categories making up Canada's exports. The growth of sales of manufactured products in 1965 has been made up mainly of various types of machinery and equipment and automotive products. Exports of automotive goods exceeded \$200 million in the first nine months of 1965, and have increased threefold in the last two years. Further substantial growth can be anticipated as rationalization proceeds under the new automotive programme.

Among Canada's forest and mineral exports, items showing major gains include pulp and paper, nickel, aluminum, lead, zinc, potash, oil and natural gas. Iron-ore and lumber exports have about held to the record levels achieved last year. Among agricultural products, returns from the sale of animal products and seeds have increased markedly.

RECIPIENT COUNTRIES

Sales to Canada's principal export markets have followed quite divergent trends in the period from 1964 to 1965. Shipments to the United States have continued the strong upward trend of preceding years and, on the basis of figures so far available, are up 12 per cent last year to this. Exports to three of Canada's principal overseas markets, i.e. Britain, Japan and Germany, are down moderately. In the British market, the import surcharge along with other restrictive measures, designed to reduce demand and correct external imbalance, have significantly dampened purchases from Canada and other suppliers alike. In Japan and Germany, slower industrial growth has had a more than proportionate effect on purchases of materials from Canada. On the other hand, sales in a number of smaller overseas countries have shown sizeable gains. As a result, exports to all non-communist overseas markets are little changed this year compared with last.

SHARP INCREASE IN IMPORTS

Imports into Canada have continued to rise sharply in 1965 in response to strong demand in all major sectors of activity. Figures for the first nine months of the year show imports up 12 per cent from the same period of 1964. Most of this increase consists of machinery and equipment and automotive products, but substantial increases have also occurred over a wide range of consumer goods and in some production materials, particularly iron and steel. For some items the rise in imports has been accentuated by the overflow of demand to foreign sources in circumstances of full utilization of Canadian capacity.

The sharper increase in imports than in exports during the past year has greatly reduced Canada's surplus on merchandise trade. In addition, the deficit of non-merchandise transactions has increased. In consequence, Canada's deficit on current transactions has risen to an annual rate of about \$1 billion, compared to \$433 million in 1964. Financing in both short and long-term forms has been adequate to cover the current account deficit and, in addition, adds moderately to foreign exchange reserves. As announced earlier...in connection with the financial arrangements between Canada and the United States, it is expected that this build-up in reserves will be followed by a moderate reduction in the coming year.

GOOD PROSPECTS FOR 1966

As the new year begins Canada's external market environment is, on the whole, encouraging. Prospects for a sustained advance in the United States economy gives promise of further expansion of sales in that market. Also, the likelihood of renewed growth at closer-to-normal levels in Japan and in certain of the larger economies of Western Europe, will enhance market opportunities in these areas and give stimulus

to world trade at large. The new wheat contracts with Russia and Communist China presage a substantially-increased wheat movement in 1966. In Britain, the position of sterling has been stabilized, but the continuation of special measures to strengthen the external-payments position will limit opportunities for sales expansion for the time being. External market prospects are, perhaps, less encouraging in the raw material and food-producing areas of the world, which comprise most of the less-developed countries. Price weakness in a number of commodity markets has had a fairly widespread adverse effect on foreign-exchange earnings in these countries. How to strengthen their position continues to constitute one of the most difficult problems in the world economic community. Meanwhile, Canada's own expanding aid programme will help to sustain the flow of Canadian trade with the developing areas of the world.

INCREASED CAPITAL OUTLAYS

Within the Canadian economy growth trends remain strong. Nor are there signs of erosion in the underlying forces contributing to expansion. A further major increase in capital spending is indicated for the coming year. A recent survey of 1966 investment plans of large companies indicates anticipated outlays for the group 13 percent above actual outlays in 1965. On this evidence, capital-spending intentions for the business community as a whole are likely to be up 10 to 15 per cent next year. On the other hand, the recent surge in housing activity appears to be moderating to some extent. Institutions and public bodies, while planning larger programmes, are not expected to maintain the high 1965 rate of growth. Thus, the increase in the total programme now taking shape is not likely to match the actual increases realized in the past two years. However, the expansion will no doubt be large enough to exert continuing pressure on productive resources in the construction trades and other capital goods industries.

Domestic demand is further reinforced by the continuing strong advance in consumer spending, especially in the durable goods sector. The steady growth of personal incomes over the past several years has done much to fortify consumer confidence, and the buoyancy of consumer demand seems likely to continue in 1966.

TIGHTER SPECULATION

Against this background of rising demand in both foreign and domestic markets, economic activity in Canada should continue to move steadily forward. However, with less slack presently available in the economy, it would be difficult to maintain 6 to 6.5 percent real output advance of the past two years. To achieve optimum growth on a sustainable basis in present circumstances of fuller utilization of resources, greater attention must be directed toward the more effective use of resources and manpower and to selective measures designed to absorb the remaining pockets of slack. In taking such measures, it is important not to add to demand pressures in the more active sectors of the economy. Speculative excesses must be avoided if we are to sustain continuous economic growth.

PRODUCTION AND SALESMANSHIP

High levels of demand in Canada bring greater pressure toward external imbalance. As already indicated, the deficit on current transactions with other countries has risen sharply in 1965. A sustained tempo of business activity in 1966 is likely to bring a further strong rise in imports. To meet this continuing pressure on our exchange position, we must make the most of opportunities available to us in both foreign and domestic markets. Efforts to increase production and improve competitiveness must go hand-in-hand with all-out sales efforts. In these circumstances the outcome of present negotiations to improve access to foreign markets continues to be of utmost importance.

In the face of the traditional tendency for sustained and high levels of growth in Canada to bring a larger external deficit, it will require intensified efforts to improve export performance and domestic productivity if greater imbalance in our exchange of goods and services with the rest of the world is to be avoided.

In Canada's rapidly expanding economy, reliance on foreign resources is still necessary to take advantage of sound opportunities for expansion and development. At the same time, it is clear that foreign capital is not automatically available in unlimited quantities to meet all needs. Increasingly, Canadians should aim to finance their development from their own savings, and to bring their spending more closely into line with Canada's own productive capabilities. In this way, Canada's reliance on foreign borrowing can be kept within reasonable proportions.

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EMBARGO ON OIL TO RHODESIA

The Prime Minister announced on December 20 the decision of the Canadian Government to place an embargo on the export of oil and oil products from Canada to Rhodesia. This measure is pursuant to resolution of November 20 of the United Nations Security Council recommending the severance of economic ties with Rhodesia and referring specifically to an oil embargo. Canada does not usually export oil and oil products to Rhodesia. The ban is, therefore, primarily designed to prevent any future shipments that might result from oil embargo measures carried out by other countries and, in particular, from the British ban announced on December 17.

EARLIER FORMS OF EMBARGO

The new embargo follows consultations with Prime Minister Wilson on December 19 and other Canadian measures taken against the illegal régime in Salisbury since its unilateral declaration of independence of November 11, 1965, which was not recognized by the Canadian Government. These measures include an arms embargo, the withdrawal of the preferential tariff on Rhodesian imports, an embargo on over 90 per cent of Canada's imports from Rhodesia (on the basis of the 1964 figures) and the withdrawal of export credits and export-credit insurance facilities from Canadian exports to Rhodesia. These steps are

the result of the Canadian Government's strong support for economic measures recommended by the Security Council, and are designed to bring the illegal situation in Rhodesia to an early end. In the view of the Canadian Government, the present Rhodesian crisis is adversely affecting the Commonwealth, race relations and stability in Africa and Western relations with Africa. The Government considers that this situation should, in the interest of the people of Rhodesia, be swiftly brought to an end by economic means.

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CANADA-U.S. TARIFFS

An agreement was signed in Washington on December 17 regarding United States tariff concessions on Canadian goods under the revised U.S. tariff schedules that became effective August 31, 1963. The agreement provides for the rebinding of U.S. concessions previously negotiated with Canada under the General Agreement on Tariffs and Trade and also for reductions in U.S. tariffs on a range of products that accounted for Canadian exports worth approximately \$32 million to the United States in 1964.

EXPORTS AFFECTED

On items covering over \$20-million worth of Canadian exports in 1964, the agreement provides for reductions of up to 50 per cent in the present rates of the U.S. tariff. These reductions are to be implemented over a four-year period beginning January 1, 1966. Canadian exports to the U.S. in 1964 of the main items benefiting from these cuts were aircraft and parts, \$3.2 million (non-military); building boards, \$2.7 million; vehicles such as house trailers and utility trailers, \$2.5 million; metal structures e.g. buildings and transmission towers, \$1.8 million; air conditioners and parts, \$1.7 million; certain machinery parts e.g. pulleys, blocks, clutches, universal joints, chain sprockets, \$1.5 million; tape, cocks, valves, \$0.9 million; radio, television and phonograph combinations, \$0.9 million; game machines e.g. hockey games, \$0.8 million. Further concessions of interest to Canada may result from similar negotiations between the United States and other GATT countries.

MACHINERY AND VEHICLE PARTS

The agreement also covers reductions in the U.S. tariff on a further estimated \$12-million worth of Canadian exports. These concessions have already been implemented as a result of U.S. legislation enacted in October 1965. These include the restoration of free entry for a number of agricultural machinery parts and of the 8.5 per cent rate for certain motor vehicle replacement parts. Original motor vehicle equipment already enters duty free under the automotive programme. Most of the reductions resulting from this legislation were made retroactive to August 31, 1963. Refund claims must be filed with the U.S. collector of customs before February 5, 1966.

It was indicated in the announcement of this agreement that these concessions should significantly ease the difficulties created for Canadian export

sales to the U.S. market as a result of the U.S. tariff revision. The "Kennedy round" of tariff negotiations going forward in Geneva should provide further opportunities to open up the U.S. market for Canadian exports, particularly in the manufacturing sector.

BALANCE OF PAYMENTS

Larger increases in imports than in exports of Canadian merchandise have been the leading factor influencing the enlargement in Canada's current international deficit in goods and services during 1965, which, in nine months, amounted to \$754 million, compared to \$272 million in the same period of 1964. Allowing for seasonal factors, this is equivalent to an annual rate of about \$1 billion. This annual rate persisted even in the third quarter when international current receipts and payments were largely in balance because the usual concentration of receipts from the summer tourist trade.

Increases in imports are a reflection of strong Canadian demand associated with record levels of incomes and expenditures, including the large investments in machinery and equipment and some accumulation of inventories. Exports to the United States and some overseas destinations have continued to rise above those for last year, and in the third quarter a new factor in exports overseas for this year was the first delivery in the sales of wheat to the U.S.S.R.

CANADIAN AID TO PALESTINE REFUGEES

The following statement was made in the Ad Hoc Committee of the United Nations General Assembly by the Canadian Permanent Representative, Mr. Paul Tremblay, on December 20, 1965:

...My Delegation is pleased to announce that, subject to approval by Parliament, Canada will make a contribution for 1966 of a total value of \$1,200,000 (Canadian) to the United Nations Relief and Works Agency for Palestine Refugees. This contribution will consist of \$500,000 in cash and a \$700,000 commodity portion in wheat flour.

This contribution is another concrete proof of the strong support which the Government and the people of Canada continue to give to the United Nations and to its social, economic and humanitarian activities, and their appreciation of the invaluable efforts which the Agency does to help relieve the plight of refugees.

TRADE OFFICE IN KUALA LUMPUR

The Department of Trade and Commerce has opened a new trade commissioner's office in Kuala Lumpur to provide a more direct trade link with Malaysia, Burma and Brunei. Hitherto the Department's post in Singapore has been responsible for the three countries. It will now cover Singapore and Thailand only.

Mr. Philip Stuchen, who has been a member of the Department of Trade and Commerce since 1949, will be in charge of the office with the title of Commercial Counsellor.

The Kuala Lumpur office brings the number of Trade and Commerce posts abroad to 67.

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