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A WORLD-WIDE APPROACH TO FREER TRADE

The following is a partial text of a recent address by Mr. Mitchell Sharp, the Minister of Finance, in Vancouver, British Columbia:

...We stand on the threshold of great developments and great opportunities in world trade, and it is of the utmost importance that we make the right moves in the interests of Canada, and of Canadians.

I begin, then, with this simple point. Many of the fastest-growing markets for our products are overseas. For example, much of the future growth of demand for pulp and paper will be in Europe and Japan, not in North America. If one looks at our economic potential, product by product, I think one is bound to reach the conclusion that a North American club is both a bit too exclusive for our taste and very much a second best in economic terms — that is, second best to freeing trade on a transatlantic and transpacific basis....

TRADE RELATIONS WITH JAPAN

Canada was one of the first Western countries to extend most-favoured-nation tariff treatment to Japan. This was in 1954. Since then, our exports to Japan have consisted almost entirely of food and unprocessed raw materials. Because Japan is not rich in natural resources, and because Canada is a very low-cost producer of grains, minerals and wood products, the Japanese have naturally turned to Canada for supplies of these and other low-cost primary products. Japan is now a highly efficient producer of manufactured goods, and requires low-cost supplies of raw materials in order to remain competitive in the international market place. While this trade has been very valuable to Canada, it could be even more valuable, both to Canada and Japan, if these primary products were processed in Canada to a greater extent. More smelting, refining and milling

of metal and petroleum products, and further manufacturing of lumber and wood pulp could add millions of dollars to our national income, particularly in this province.

One reason why Canada has not developed exports of manufactured products to Japan is that Japan's trade policy favours the imports of raw materials in their cruder forms, and imposes much higher barriers against manufactured products. Japan's manufacturing industries have developed since 1945 behind these protective barriers, and many of them are now highly efficient and competitive in international markets. The market in Japan for manufactured products is very large and it is doubtful whether Japanese producers any longer need to shelter behind highly protective barriers to trade....

FREE-TRADE AREAS ADVOCATED

It is trite, but true, that we live in a shrinking world; interdependence is no longer a slogan but a fact of life. Unprecedented prosperity in some areas co-exists with abject misery in others. We must give urgent attention to the interests of the less-developed countries. This is not only a moral imperative — it is also a recognition of our own interests. Poverty is a shaky foundation for peace. It is a precarious basis for the continuing prosperity of the more fortunate nations. These considerations lend urgency to the needs of these countries for aid and also for better access to the markets of the industrial countries.

These are some of the reasons why I question whether a limited free trade area is ambitious enough — or liberal enough — for Canada. I believe there are better ways of achieving our objectives.

Before I try to describe those better ways, let me remind you of what has been achieved in the past 20 years. In a series of multilateral tariff conferences

organized under the General Agreement on Tariffs and Trade since the end of the war, the industrial world has made remarkable progress in tariff reduction. However, the traditional GATT technique, of bargaining one tariff concession for another, item by item, had pretty well run its course when President Kennedy sought and obtained in 1962 unprecedented powers to reduce the United States tariff. These enabled the United States to propose a new and dramatic approach to the current tariff negotiations which have come to be known as the "Kennedy round". The item-by-item bargaining was replaced by across-the-board cuts.

These negotiations are reaching the crucial stage. I hope they will result in a very substantial liberalization of world trade. Certainly the Canadian Government is doing its part to achieve this.

The "Kennedy round" is not confined to tariff negotiations; other barriers to trade are also at issue. A serious attempt is being made, for example, to try to negotiate an international convention governing the application of anti-dumping duties. This is obviously a matter of great importance to Canada, and of course to our trading partners. Accordingly, we are taking an increasingly active part in this, as indeed, we are in all the other issues under negotiation....

AFTER THE "KENNEDY ROUND"

What will the trading world look like after the "Kennedy round"? I think we will be faced with three basic questions of major importance. First, how to accommodate ourselves to the regional groups such as the European Economic Community and the European Free Trade Area and to the prospect that Britain and other EFTA members may join the European Economic Community. A successful "Kennedy round" will, of course, ease the effects on us and other countries of British entry. Much of the recent discussion of freer trade has been an attempt to come to grips with this problem.

Second, how to meet the increasingly urgent needs of the less-developed countries for increased export earnings. In the United Nations Conference on Trade and Development, and in the GATT, these countries have pressed for special tariff preferences in our markets. They believe these new preferences would help them sell their manufactured products in greater volume and at higher prices. They have also pressed for international agreements to increase and stabilize their earnings from primary products. On the basis of Canadian experience, I am inclined to doubt that new tariff preferences would be of much assistance to developing countries. On the other hand, I doubt that if all of us scrapped our protective tariffs on goods imported from developing countries, there would be many very serious problems of adjustment for our own industries. The real difficulty facing most of the developing countries is that their industries, by and large, are simply not efficient enough....

TRADING WITH STATE-TRADERS

Third, there is the question of how we are going to trade with state-trading countries where the tariff is

largely irrelevant. We have had some experience, as Canadians, in trading with these countries, and the importance of this trade is growing from year to year. Negotiations with these countries, of course, are carried on in a rather different way from what they are with countries that have conventional barriers to trade, such as tariffs. And the fault does not lie altogether on our side for failure to work out arrangements that promote trade. Many of these state-trading countries, as you know, believe much more in bilateral balancing than even some of the countries of the Western world. And their purchase decisions are not based solely on market considerations. However, it is becoming clear that in some of these countries progress is being made towards more of a market-type economy, and therefore the problems that have hitherto existed in trying to work out trade arrangements as between state-trading countries and countries with a market economy are being reduced. There is every reason for us to explore the possibilities - and not only for governments to do so, but also for businessmen and financial institutions - to use more initiative and more positive thinking in their dealings with these countries than hitherto....

NEW LOOK NEEDED

So I come to the nub of the matter - a new and radically different approach to the reduction of trade barriers. I think we and the other industrial countries should begin to look at complete sectors of industry where tariffs can be removed completely, or very substantially lowered. The competitive weakness of many Canadian industries is due not to bad management, outdated techniques or inadequate equipment. Where weakness exists it can most often be traced to an inadequate scale of production. Other countries' tariffs tend to confine many of our firms to the relatively small Canadian market, where, in turn, they can carry on because of the Canadian tariff....

But I should not want to leave the impression that when I think of industrial sectors in which the major countries should move toward free trade I am referring only to those in which Canada appears to have a clear competitive advantage over other countries. The gains from trade accrue to the buyer as well as to the seller, and I look upon the interests of the consumer as being just as important as the interests of the producer. Moreover, in many of the sectors where we appear to be uncompetitive today, our position could be transformed if we had easy access to foreign markets, including the United States. We should, however, need to have carefully planned transitional arrangements and effective methods of easing the adjustments which would be so much greater for many of our industries than for those of the larger countries. In both these respects, we have been gaining valuable experience from the automotive programme.

To be in favour of a world-wide approach to freer trade is to be in favour of a reduction of trade barriers between Canada and the United States. For Canada, the United States market will remain the most valuable and the most accessible. In the "Kennedy round" of tariff negotiations the principal test of success from Canada's point of view will be

BRITISH PM VISITS

Prime Minister L.B. Pearson has announced the acceptance by Prime Minister Harold Wilson of Britain of an invitation to visit Canada during the centennial year. Mr. and Mrs. Wilson are expected to arrive in Ottawa on May 30. Mr. Wilson will attend Britain's National Day at Expo '67 on June 1.

GOOD WISHES FOR CENTENNIAL

The following message, marking the beginning of Canada's centennial, has been received by Mr. Pearson from Mr. Wilson:

"I want to send you my warmest greetings and good wishes at the start of your centennial year.

"1867 was a famous year for Canada, for Britain and for the future Commonwealth. I hope that we can be allowed to share the celebration of your achievement of self-government as a Confederation. Canada opened up the road to constitutional independence that 24 other Commonwealth nations have trodden since. In the century since then Canada has become a great and prosperous nation. She has, by her wisdom and idealism, won a special place in the Councils of the Commonwealth and of the world. Wherever there is a search for peace on this troubled globe Canadians are in the vanguard.

"In the future, as in the past, we shall be proud to work with you in the intimate partnership that stems from our close historical association and not least from a victorious comradeship in arms in two terrible wars. I believe we shall continue to draw strength, not only from our joint heritage in the past, but also from the benefits of the great flow of trade between our two countries. All these elements are cemented by the deep and enduring friendship between the Canadian and the British peoples.

"I speak for all my compatriots in sending our best wishes for the good fortune and happiness of Canada and Canadians in their second century."

DAIRY COMMISSION NAMED

The Minister of Agriculture, Mr. J.J. Greene, announced recently appointments to the Canadian Dairy Commission and to the Consultative Committee to the Commission.

The three members of the Commission are S.C. Barry, Jules Thibaudeau, and L.A. Atkinson. Appointments to the Consultative Committee are P. Pariseault, J.L. Dewar, Leopold Harvey, Ulysse Bernier, G.R. McLaughlin, Ellard Powers, W.T. Murchie, J.S. Turnbull, and J.L. Bailey.

The act establishing the Canadian Dairy Commission was passed by Parliament at its last Session, and proclaimed on October 31, 1966. The Minister said that, under the act, the Commission would be responsible for stabilizing the price of manufacturing milk and cream, in order to provide efficient producers with a fair return and ensure consumers of an adequate supply of dairy products. It will administer Federal Government support funds and determine a basis of payments for the benefit of

milk and cream producers. With its authority over interprovincial and export trade, it will work in close co-ordination with provincial agencies to ensure orderly marketing of dairy products.

"The establishment of the Canadian Dairy Commission", said Mr. Greene, "is a significant historic event for Canadian agriculture. Apart from the Canadian Wheat Board, it marks the first entry of the Federal Government into a national marketing agency for agricultural products."

Mr. Barry, who has been federal Deputy Minister of Agriculture since 1960, is resigning that post to accept the Commission chairmanship. He has been in the employ of the Federal Department of Agriculture in successively senior positions since 1925.

OECD AT EXPO '67

The Organization for Economic Co-operation and Development, comprising 18 European countries and Canada, Japan and the United States, will participate in Canada's world exhibition at Montreal this year.

The OECD's representation in Expo '67 is at the invitation of the Canadian Government. Canada was one of the founding members of the Paris Organization.

Housed in a pavilion of modern design, the OECD exhibit will employ visual materials, literature, and periodic seminars and conferences, to illustrate the main tasks jointly undertaken by its 21 member countries. The theme for the exhibit is "International Co-operation and Economic Growth".

DEVELOPMENT AID TO DAR-ES-SALAAM

Canadian town-planning experts have been given the job of replanning the ancient East African port of Dar-es-Salaam, the capital and industrial centre of Tanzania.

Mr. Paul Martin, the Secretary of State for External Affairs, announced recently that Project Planning Associates, of Toronto, would prepare a master plan for Dar-es-Salaam. The Canadian contribution, estimated at \$450,000, will be provided under the External Aid development-loan assistance programme. The loan will be interest-free and will be repaid over 50 years, with a grace period of ten years. The agreements covering the loan were signed in December in Dar-es-Salaam by the Canadian High Commissioner, Mr. A.S. McGill and Tanzania's Minister of Finance, Mr. A.H. Jamal.

In 1965, Canada was requested to assist Tanzania with the preparation of a plan that would guide the city's development until 1980. Project Planning Associates were selected to carry out the initial study at Canadian expense and to prepare adequate data on which to base the master plan. Dar-es-Salaam, a city of 180,000 people, has grown rapidly and is expected to have a population of 600,000 by the end of the century. The plan will determine the basic

community structure and future land use with auxiliary plans providing for anticipated traffic, water and utility needs and services.

BALANCE OF PAYMENTS

High levels of exports in the third quarter contributed to an unusually large surplus from merchandise transactions. Although the deficit from non-merchandise was also larger, the current-account surplus in the quarter, usually a period of strength, rose to \$128 million compared to \$36 million a year earlier. Non-merchandise payments included greatly enlarged contributions of official aid, which also influenced the level of exports.

After adjustment for seasonal factors which are unfavourable in the second quarter but favourable in the third, the current-account deficit widened from \$233 million to \$256 million at quarterly rates. Capital movements in long-term forms produced a sizable surplus, though recurring elements tended to be smaller than usual. There were large outflows of capital in short-term forms, and official monetary assets fell. Disputes in the transportation industry in Canada and elsewhere, both in the third and preceding quarters, influenced many of these items in a variety of ways.

At \$616 million, Canada's deficit for the first three quarters of 1966 on transactions in current goods and services with other countries was \$103 million, or roughly 14 percent lower than the total of \$719 million for the same period in 1965. The nine-month total for 1966 was considerably higher than the deficits of \$278 million and \$409 million for the first three quarters of 1964 and 1963, respectively, but lower than in the years immediately preceding. The narrowing in the current-account deficit in 1966 was wholly attributable to the expansion in the merchandise trade surplus, as the deficit on non-merchandise transactions widened. The favourable development resulted from an improvement in Canada's current surplus with other countries, which was over twice the magnitude of the combined deterioration in the balances with the United States and Britain.

MERCHANDISE TRADE

The surplus on merchandise trade for the first three quarters of 1966 of \$336 million was about 3 1/2 times as large as \$95 million for the same period in 1965. Merchandise exports (adjusted for balance-of-payments use) gained \$1,203 million, or 19 per cent, from \$6,280 million to \$7,483 million. The expansion in merchandise imports was smaller: \$962 million, or 15.5 per cent, from \$6,185 million to \$7,147 million in the nine months of 1966.

Of the rise in merchandise exports of \$1,203 million, about \$215 million, or 18 per cent, was

attributable to shipments of wheat. Increases in excess of \$150 million arose from the Russian account; and shipments to Mainland China and to India (under the bilateral food-aid programme) were larger, respectively, by roughly \$64 million and \$48 million. Decreases in wheat exports to certain other Eastern European countries exceeded \$30 million.

An increase of a further \$350 million, approximately, originated in exports of motor vehicles and parts. Substantial gains of roughly \$200 million took place in shipments of non-ferrous metals (notably copper) and non-metallic minerals including crude petroleum and asbestos. Exports of pulp, newsprint and paper products were about \$100-million larger in the nine months of 1966, with newsprint accounting for almost three-quarters of this gain. Shipments, on the other hand, of iron ores, uranium, softwood lumber and aircraft were down in varying degrees.

On the basis of incomplete detailed tabulation of commodity details, in the neighbourhood of 70 per cent of the rise of \$962 million in the imports was ascribable to manufactured commodities. Of this increase, transportation and communication equipment accounted for well over \$300 million, with motor vehicles and parts accounting for a preponderant share of this rise. Imports of machinery increased well over \$150 million. The balance of the addition was distributed over a wide range of commodities; but decreases were recorded in imports of iron ores and scrap, fabricated steel materials, and crude petroleum.

The average price of commodity imports was about 1.5 percent higher in the three quarters of 1966, but the average export prices were well over 3.5 percent higher. Increases were larger in each of the quarters, with the rise exceeding 4 per cent in the September quarter.

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the degree to which our manufactures gain improved access to that market.

I have no doubt either that one of the main gains from the new approach that I have suggested will be reduction in trade barriers between North American countries and particularly between Canada and the United States.

I prefer the wider approach rather than an exclusive North American arrangement because I believe it is more compatible with Canada's continued political independence, and because I believe that in dollars-and-cents terms the results could be better...
