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SOME ASPECTS OF CANADA'S INTERNATIONAL TRADE IN FARM PRODUCTS

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THIS paper was written at a time when another crisis in our international trading position was being made known to the public. Sir Stafford Cripps had announced that the dollar reserves of the sterling pool had dropped to $1·6 billion and that non-contract imports from the dollar area were being suspended until mid-September. Soon after Mr. Abbot's departure for London to discuss this pressing sterling-dollar problem with the British Chancellor of the Exchequer and the United States Secretary of the Treasury our Minister of Trade and Commerce, Mr. Howe, pointing out that Canadian reserves of U.S. dollars had declined below the billion-dollar mark, indicated that Canadian imports from the United States would again be curtailed. Up to this point, Canadian policy had been to relax gradually the import restrictions imposed back in November of 1947 upon imports from the United States.

These two incidents did not occur in isolation; they are part and parcel of the position between the United Kingdom and the United States in which Canada finds herself. In spite of a consistent favourable balance in overall trade we have a dollar problem which, while not nearly as acute as that of other Commonwealth and European countries, threatens to become shortly a good deal more troublesome.

In the pre-war years Canada almost invariably had a substantial net balance on current account with the United Kingdom and a net deficit with the United States. So long as our net sterling earnings from merchandise trade with the United Kingdom were convertible into United States dollars there was no need for Canada to seek a bilateral trade balance with each of these two countries. A sustained British demand for Canadian wheat and flour, apples, bacon, cheese, furs, lumber, pulp, paper, and non-ferrous metals enabled us to pay for British imports, to service and gradually retire our debt to British investors.

The Trade Agreements of 1935 and 1938 between Canada and the United States did much to restore the flow of trade which had been reduced by successive additions to the American tariff structure.

Upwards of 70 per cent. of our total imports are from the United States. Canada depends upon the United States for many materials basic to an industrial economy—coal, oil, steel, machine tools, cotton, tractors, and automobile parts. In addition we like a great many of the consumer goods which the Americans produce. The lower prices at which many consumer goods such as washing machines, refrigerators, bicycles, cotton textiles, films, and so on sell in the United States is a continual source of irritation to many Canadians. This price differential is, of course, entirely of our own doing—a subsidy to Canadian industry in the form of a tariff on these commodities and, more recently, in the form of import restrictions.

Part of our imports from the United States we pay for with exports of pulp and paper, services to tourists—although our net earnings on the tourist trade are greatly reduced by heavier *per capita* expenditures by Canadians for travel in the United States—non-ferrous metals, lumber, and newly mined gold which the Americans are soft-hearted enough to buy at $35 an ounce. Apart from small movements of capital we have traditionally made up the net deficit in our merchandise trade with the United States by sales of convertible sterling derived from our surplus on current account with the United Kingdom. We, obviously, have a substantial stake in multilateral trading and the free convertibility of the currencies of those countries with whom we trade.

As Canada mobilized for war our imports of industrial materials from the United States expanded sharply, though imports of consumer goods were restricted by the War Exchange Conservation Act of 1940. Nevertheless, our deficits on current account with the United States were very moderate right up to 1946; we even achieved a small surplus in 1944 and 1945 for the first time during the period for which official statistics are available. The so-called Hyde Park Agreement of 1941 which permitted us to receive U.S. dollars for our sales of war equipment, our restrictions on consumer expenditures in the United States and large sales of accumulated feed grains in 1943 and 1944 made possible this unique balance of sales with purchases.

The cessation of munition and grain sales to the United States in 1946 and 1947, together with a tremendous domestic investment programme, a relaxation of the controls on consumer purchases, and rapidly rising prices in the United States following price decontrol, caused our U.S. dollar deficit to skyrocket. It exceeded a billion dollars in 1947 and our U.S. dollar and gold reserves were reduced from 1·5 billion to 0·5 billion. In November of 1947 Canadians were treated to simultaneous announcements of the slash in tariffs by the General

Agreement on Tariffs and Trade and of new austerity restrictions on travel in, and imports from, the United States. At the same time the decision was taken to continue to maintain an official parity between the dollars of the two countries. Whatever the disadvantages of this method of achieving a bilateral balance of payments, and they may not be ignored, these two devices, together with renewed and heavy exports of beef cattle to the United States, did serve, by the end of 1948, to boost our gold and U.S. dollar reserves back to the billion-dollar level.

Those who support the maintenance of the Canadian dollar at par with that of the United States argue that the supplies of those goods which Canada exports to this market could not be expanded in response to a higher price, and that, unless the Canadian dollar fell to \$·70 or \$·75 U.S., our purchases there would not decline appreciably.

Many of those who favoured devaluation believed that a cheapening of the Canadian dollar would encourage additional capital imports from the United States. They argue that we should not attempt to finance the phenomenal investment boom which depends largely on the import of American capital goods, and of current earnings but should, rather, encourage the inflow of American capital. Their contention that devaluation would encourage capital imports is strengthened by the heavy sales of Canadian bonds and other securities to American investors prior to the restoration of the Canadian dollar to parity in July of 1946. Actually our capital exports in the form of redemption of Canadian securities held in the United States was, in this latter year, almost large enough to offset new American investment in Canada. After 1946 net inflows of capital from the United States were sharply reduced.[1]

The supporters of both sides of this issue would agree that restrictions on Canadian purchases and travel in the United States are highly undesirable. Our economy has become very closely integrated with that of the United States. Our southern neighbour can supply us with many producer- and consumer-goods at a lower price than we can buy them elsewhere. If restrictions are placed on the entry of these goods we must turn either to higher priced domestic or foreign-made substitutes, or do without.

Import restrictions in the absence of price controls also provide existing domestic producers of the restricted commodity, or close substitutes therefore, with windfall gains at the consumer's expense.

[1] See the *Canadian Balance of International Payments 1926–48*, Dominion Bureau of Statistics, Ottawa, 1949, p. 70.

We shall need both to expand our exports to the United States and, contemplating devaluation or the relaxation of exchange controls, again to appraise the reciprocal elasticities of supply and demand for products traded between the two countries.

During the war our net balance on current account with the United Kingdom jumped to over a billion dollars a year as compared with about 135 million in the late thirties. This favourable balance on our current account with the United Kingdom was bridged by a variety of measures: outright gifts, mutual aid, export credits, loans, official and private repatriations of securities, and finally sales of gold and U.S. dollars to Canada.[1] In the post-war period the current deficit of the Sterling Area has continued at about three-quarters of a billion dollars a year. Our post-war loan to the U.K. of \$1¼ billion compared favourably in the light of our population and resources with the \$3¾ billion loan by the United States. In an effort to protect our U.S. dollar reserves in 1947 we restricted drawings on this loan and Britain largely financed its deficit with Canada in 1948 by the sale of U.S. dollars. This loan is now being drawn upon at the rate of about \$10 million per month.

Although the import restriction programme cut our trade deficit with the United States in 1948 the one factor which averted, or perhaps only staved off, a crisis was the European Recovery Programme. In effect E.C.A. substituted sales of Canadian goods on credit to European countries in favour of sales to those countries for U.S. dollars. At the end of June 1949 E.C.A. authorizations for expenditure in Canada had mounted to \$763 million. The principal products for which expenditures have been authorized include: bread grains, non-ferrous metals, wood products, animal products, machinery, fish, and chemical products. Although not a direct beneficiary of E.C.A. Canada has certainly been an indirect one and on a substantial scale.

Although the Canadian economy as a whole, caught as it is between the British pound and the American dollar, is in a vulnerable position the Canadian agricultural industry is even more vulnerable. Our annual exports of farm products have come to exceed a billion dollars in value and constitute more than a quarter of our total agricultural production. This average, however, tends to hide the extreme dependence of certain areas upon an export market for their product. The outstanding examples are wheat from the Prairie Provinces and apples from the Annapolis Valley in Nova Scotia. Roughly two-thirds of our wheat is exported and, until recently,

[1] See ibid. p. 38.

one-half of our apples. The impairment of our market for apples in the United Kingdom has necessitated federal assistance to apple-growers in the Annapolis Valley each year since 1939.

The traditional market for many of our staple agricultural products is in Europe, and especially Britain. Yet Britain is attempting to expand her own output of foodstuffs and to seek non-dollar sources of food imports. Our own balance of international payments dictates that we sell more to the United States and yet many of our farm products are competitive with, rather than complementary to, the agricultural products of that country.

Canadian policy with respect to international trade in farm products during the years following the War has been a continuation of that pursued during the War. We have persisted in pinning a great deal of faith to our export contracts with the United Kingdom. Although the beef contract was never too popular with the cattlemen and, despite some dissatisfaction over the contract price for wheat, these agreements have generally received the wholehearted support of Canadian farmers.[1] The continuation of these contracts is contingent upon the willingness and ability of the United Kingdom to sell United States dollars to Canada since it is hardly conceivable that she can expand sufficiently her earnings of Canadian dollars to effect a bilateral balance in merchandise trade. Britain's shortage of American dollars may well mean the end or substantial reduction of some of these contracts even prior to the end of the Marshall Plan. In the light of this situation it behooves us Canadians to survey much more carefully the United States market for Canadian farm products.

Although the timely advent of E.C.A. purchases pulled Canada's irons out of the fire in 1948 we may find that this very generous programme will not support the umbrella over us until its termination. The remarkable productive capacity of the United States is now enabling that country to supply much of the food which is being purchased with dollars by those countries receiving E.C.A. funds. The United States Government has accordingly prohibited the use of E.C.A. moneys for the purchase of pork, dairy, and poultry products, coarse grains, pulses, flax-seed, and tobacco. Although wheat has not formally been declared a 'surplus commodity' some sort of informal agreement is in effect whereby E.C.A. recipients do not request allocations for its purchase. I am not critical of this provision. The American contribution to the recovery of western Europe under the E.C.A. programme is an exceedingly generous one. The United States may not be censured for insisting that their

[1] Contracts are now in effect for wheat, bacon, cheese, and eggs.

surplus commodities should have first chance at the market which a gift of their own dollars has created.

The recent 25 per cent. cut in dollar purchases which the sterling area has put into effect on some seven commodities[1] will not affect our contract sales of food, although it will likely curtail shipments of Canadian tobacco, along with timber, non-ferrous metals, paper, and wood-pulp. The essentiality of most of these imports to the economy of the United Kingdom, together with a lack of adequate alternative sources of supply, favours our retention of the British markets.

By 1952–3 Britain may be able to find other sources of supply for most of the staple foodstuffs, except wheat and flour, which Canada is now supplying. The United Kingdom has negotiated long-term contracts with Australia, New Zealand, Argentina, Denmark, the Netherlands, Eire, Poland, and the U.S.S.R., for butter, cheese, meat, eggs, and bread, and coarse grains. If these contracts are fulfilled they may cover the entire import requirements of the United Kingdom for butter, meat, and coarse grains and satisfy, perhaps, one-half of her import requirements for cheese and eggs.

Assuming that the United Kingdom has a favourable balance of trade with the other sterling countries of Western Europe she may well have first call on Denmark's and the Netherlands' rather substantial exportable surplus of cheese and eggs. These estimates would tend to confirm the impression that, so long as the dollar problem persists, Canada should not count too heavily on selling livestock and poultry products in the United Kingdom. Nevertheless, if we can continue to sell our wheat and flour to Britain, our agricultural industry may find alternative markets for a modest volume of livestock products in the United States.

The demand and price for grain exerts a marked influence upon the supply of Canadian livestock products. Although the level of output of hogs in eastern Canada is fairly stable this is not true of western Canada. The volume of our bacon exports varies, rather directly therefore, with the level of hog production in the Prairie Provinces. Although a favourable hog-feed ratio is a necessary condition for a high output of pork it is not a sufficient condition. Hog prices are now very high—in fact live hogs are worth $2 to $3 per cwt. more in Toronto than in Chicago—and the hog-feed ratio is favourable,[2] yet, during the first seven months of the year

[1] These include tobacco, timber, raw cotton, non-ferrous metals, sugar, paper, and wood-pulp.

[2] The hog-barley ratio at Winnipeg for June, 1949 was 21·7 as compared with a long-term average of 17·4.

we had been able to ship only 25 million lb. of bacon to the United Kingdom. The current contract calls for 160 million lb.; in 1944 we shipped more than 700 million lb.

The second important variable determining the output of hogs is the level of farm income which, in turn, is closely dependent upon the price of grain. When farm incomes are fairly buoyant Prairie farmers are likely to consider that the increment to their receipts to be had from feeding hogs is not worth the effort involved. Grain is then marketed through the elevator rather than the hog.

The high contract price for our small exportable surplus serves to keep the price to the Canadian consumer at a high level and yet does not bring out the hogs. Meat-packing firms also find their average costs of processing pork products relatively high as a result of excess plant capacity.

As grain prices decline hog production may well increase. Since the Dominion Government now directly controls the marketing of our standard feed grains, oats and barley, as well as wheat, much will depend upon the level at which floor prices to the farmer are fixed as well as upon the selling price to the feeder. Less than 15 per cent. of our feed grains are exported; seven of the ten provinces are deficit feed areas and the Government has, since 1941, been paying the freight on feed grains from the Prairie Provinces to these deficit feed areas. It is, therefore, in the interests of both the western grain-grower and the eastern feeder that we find a market for our surplus meat, poultry, and dairy products which are produced from this feed grain.

There is little or no prospect of selling grain to the United States despite her large imports of feed grains from this country from 1942 to 1944. With wheat crops in excess of a billion bushels and corn crops nearing the 3·5-billion-bushel level the United States will be a competitor for existing markets rather than a customer.

The Canadian farm products best able to compete in the American market will continue to be beef and beef-cattle. We shipped the equivalent of some 600,000 head of cattle and beef to this market in 1948 as compared with pre-war exports of about 200,000 head. We cannot compete with Argentina in the United Kingdom market even if sterling were freely convertible. The United States tariff on beef favours this trade and, unlike some other processed commodities, beef enters at a rate of duty comparable to that on live cattle.[1]

[1] The tariff is 1½ cents per lb. on live cattle and 3 cents on beef. There is an annual import quota of 400,000 head of beef cattle weighing more than 700 lb. The equivalent tariff on beef and cattle may be contrasted with that on canned and fresh salmon. The

Although excluded from the American market during the War to meet the twin objectives of channelling meat to Europe and of controlling the domestic price of beef, the British contract was suspended in 1948 and our cattle readmitted to the United States.

Although Britain has been the traditional market for our bacon, this product appears to be good enough to sell in the United States in competition with American bacon. The tariff is moderate on both live hogs and bacon.[1] One very real shortcoming of this market is that we may run foul of the United States price-support programme, as happened with potatoes last year. We are now ourselves excluding pork products from the United States and maintaining a high price to domestic consumers in an unsuccessful effort to fill a small contract (160 million lb.) with the United Kingdom. If we are to get our bacon into the United States market we will likely have to refrain from negotiating further contracts with the United Kingdom, lift our export embargo on shipments to the United States and permit the prices of hogs and pork products to find their own level. The equilibrium price is almost certain to be lower than the present contract price for Wiltshire sides.

One important question to which we have yet to find an answer is as to whether, if we are to sell to the United Kingdom, we must sell on an all-or-none basis. If the bacon contract is discontinued will the British Ministry of Food be prepared to buy on the market in Canada as supplies are available, or if we are to sell any bacon elsewhere must we sell it all elsewhere? The apparent preference of the Government of the United Kingdom for state trading and long-term contracts suggests that they will buy only within the framework of a formal contract.

We might also find a market for some dairy products in the United States. Boston and New York City draw fluid milk and cream from the mid-western states. The Eastern Townships of Quebec might supply a part of this demand—at least to fill the quotas which are available at moderate rates of duty—although the duty on fluid milk in excess of the 3-million gallon quota is not prohibitive at present prices.[2] Canada can only export fluid milk with the co-opera-

tariff on the fresh salmon is ½ cent per lb. as compared with a 25 per cent. *ad valorem* tariff on canned salmon which, at present prices, is equivalent to about 8 cents per lb. This discrimination against the processed product has resulted in the Canadian Government protecting the domestic processor by placing an embargo on exports of the better species of fresh salmon during a major part of the fishing season.

[1] The rate is 1 cent per lb. on live hogs and 2 cents per lb. on bacon.

[2] The tariff on quota imports is 2 cents per gallon; on over-quota imports 6½ cents per gallon.

tion of local fluid milk authorities in the United States since sanitary inspection is required and this latter requirement could be used to exclude foreign milk. It would also need to be a fairly stable market if exports are to be available during the winter months. We might be able to market some of our better-quality Cheddar cheese in the United States, although a 17½ per cent. *ad valorem* tariff approaches the threshold of prohibition.

Although Canada has herself excluded, until very recently, the export of these dairy products to the United States, our farmers have been permitted to export pure bred dairy cattle free of duty. This export has been expanded and has, to some degree, permitted us to take advantage of the higher prices for milk products across the line.

Canada has a vital interest in a system of multilateral trading so that she may continue to pay for a wide variety of imports from all over the world by the export of a relatively few staple commodities. It is to be hoped that such a system of trading will permit those countries which can produce more cheaply to supply those commodities in which they have a comparative advantage. The present rigid control over rates of exchange and the inconvertibility of currencies tends to prevent costs from exerting their full effect upon supplies. The price mechanism has lost much of its effectiveness as a means of determining who shall produce what goods.

Canadian agriculturalists have recently been warned by Mr. F. R. Scott, the Vice-President of the National Farmers' Union of England and Wales that 'dumping of commodities at prices below the cost of production . . . will be resisted vigorously'.[1] At the same time we observe that the guaranteed prices to British farmers for grains and hogs are substantially in excess of Canadian prices.[2] While admitting that there may be non-economic motives behind this policy a Canadian might be pardoned for quoting Professor D. H. Robertson's comment—'the fact that a country *could* make or do such and such is too easily taken as proof that it *ought* to be making or doing it. Is England's agricultural programme perhaps extended not merely up to but beyond the limits of reason?'[3]

We will perhaps find that in the not too distant future fewer of our

[1] F. R. Scott, 'International Farm Problems', *Agricultural Institute Review*, July 1949, p. 313.

[2] Comparable prices to farmers in the United Kingdom and Canada as of July 1949 were as follows: wheat $2·51 per bushel plus $12·09 per acre for first 10 acres; $1·75 plus participation payment: oats $1·27 and $·79: barley $2·01 and $1·30: hogs $43·05 and $31 per cwt., deadweight.

[3] D. H. Robertson, 'Britain and European Recovery', *Lloyds Bank Review*, July 1949, p. 1.

farm products will be sold under the aegis of bilateral contracts with the United Kingdom. There is some room for hope that the United States will adopt techniques of price support which, while maintaining a floor price to the farmer, will permit the prices of farm products to reach an equilibrium level on the open market and thus facilitate the export and import of such products. It is also to be hoped that Canada will not be strait-jacketed by institutional arrangements into selling all of our exports of a given commodity to *either* the United Kingdom or the United States.

The trend of agricultural policy in Canada may best be described as 'mixed'. Although war-time price control has virtually been completed we are now extending governmental controls over the pricing and marketing of farm products. The impetus behind this trend is organized agriculture's desire to secure stability and to escape from cyclical fluctuations in price. Canadian agriculture is still a staunch supporter of 'the World Food Board' approach to expanded trade and more stable markets.

This attitude reflects a realization of the very close dependence of our agricultural industry, and indeed of the Canadian economy as a whole, upon a high level of exports. Time and competence preclude my examining the outlook for an expanded market in Canada for the manufactured goods of western Europe. I am, however, extremely doubtful that Canada will, even after 1952, be prepared to import from these countries as much as she would like to export to them. We are likely to continue to prefer American manufactured products. Our balance of payments as against the United States may well improve with the development of our iron ore and petroleum deposits. Should our neighbour find that, after 1952, export markets for American surplus farm products are not to be had, her farmers may well go after their own domestic market for such products as Canada might hope to supply.

G. L. Burton (*continued in reply to a question*)

Dr. Norton asks me if it is necessary to have a great expansion of direct exports from Europe to North America in order that Europe may be able to buy the food and other products from North America that it needs.

I suspect Dr. Norton is seeking an alternative means of achieving a balance of payments as between Europe and North America. In other words, must Europe find a direct export market for a sufficiently large volume of her products in North America as to pay for her imports from this area, or may she not achieve a surplus in her

accounts with other countries and apply this surplus to her North American deficit? This second alternative pre-supposes a greater degree of currency convertibility than now exists and the necessary pre-requisite to such convertibility would seem to lie in a revaluation of a number of the 'soft' currencies as against the dollar. Given such convertibility, I should think that Europe might earn a limited amount of dollars by trade with a third group of countries but that her main approach must still lie in an expansion of direct exports to North America. Any return to pre-war triangular trade patterns is now more difficult by virtue of the fact that few non-dollar countries have any substantial surplus of dollars with which to pay for their excess of imports from Europe.

S. Sinclair, *University of Manitoba, Winnipeg, Man., Canada*

In the papers we heard this morning we obtained a fair picture of the position of food and agriculture, and the suggestion that the Western Hemisphere, particularly with the aid of E.C.A., will be able to produce the necessary food. The papers also emphasized very strongly the factor of trade. It is an age-old and elementary principle that to get the food from one place to another it must be paid for, and this can be done best through trade. I should also point out the suggestion implied by Professor Burton that as far as Canada is concerned, and I think the same can be said of other countries, purchases of industrial products will be made where they can be bought cheapest. At present that is mainly in the United States.

It would have been interesting to learn from Dr. Thibodeaux in what fields of industrial production he thinks European countries have a competitive advantage against the United States and Canada so as to enable them to make up the balance of payments necessary to enable Europe to import required agricultural products.

B. H. Thibodeaux

The answer, subject to wide variation in its details, is that the United States possesses tremendous advantages in the mass production of industrial goods. It is in those items that require a large amount of hand labour, whether industrial or other, that western Europe can find her best opportunities for a further development of exports to the United States. My answer is a generalization, but it may be of interest to note that the E.C.A., in co-operation with the U.S. Department of Commerce, is now making a survey in Europe to ascertain how European exports to the United States may be increased.