

WASHINGTON • THROUGH CANADIAN EYES

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Dear Sir:

You don't have a vote but you do have a stake in the American election next Tuesday, Nov. 4.

The kind of men Americans send to Congress are vitally important to us because they hold a large share of the well-being of our exports to United States. A protectionist Congress means trouble; a liberal trade Congress could mean more money to our exporters. As you've read, the Democrats appear to be a shoo-in to win overwhelming control of Congress.

The question is, what does it mean to you? Well, if the Democrats do win, you won't find too much protectionist activity reaching the critical stage in Washington. Undoubtedly there will be individuals trying to keep out our lead and zinc, or aluminum, oil, potatoes, cattle, fish and so on. But chances are the leadership in Congress won't let them get too far. We're talking here about 1959. 1960 is a different story. That's the year to watch out, no matter what kind of a Congress is elected now. 1960 is a Presidential election year and protectionism rides high in such years.

On foreign policy, which affects every Canadian, a Democratic Congress might inhibit Mr. Dulles from playing the more adventuresome variety of brinkmanship. Ottawa always has been happier with the Democratic philosophy on foreign policy. For one thing, because of the usually much closer consultation on everything from international politics to trade. Every senior member of the Senate Foreign Relations Committee on the Democratic side is unhappy about Mr. Dulles and this will act as a restraining influence on the Secretary of State.

On farm policy, we'd probably be better off with the Republican (or Ezra Taft Benson) philosophy rather than the Democrats. We could get into trouble on this if the Democrats try to force through any major upward revision of farm price supports. The Secretary of Agriculture has been gradually forcing them down, despite Democratic pressure. He reasons logically that the U. S. has priced itself out of the world market. The only way to get back in on a commercial basis is lower price guarantees. So far as Canadian farmers are concerned, high price supports have meant mountains of surpluses in the U. S. which, in turn, have meant a far-reaching surplus dumping program in the world market. Some of our actual and potential wheat market have been lost to American bargain-basement selling as a result.

Wrapping it up and assuming a Democratic victory, you as a Canadian, will gain on questions of trade and foreign policy and lose on farm policy.

* * As this is written the White House has not yet announced the name of the new American Ambassador to Canada. Although not official, word has it that Congressman Richard B. Wigglesworth, a Boston-born, Harvard-educated lawyer who is retiring from politics this year, will be the new U. S. Ambassador to Canada. The present Ambassador, Livingstone Merchant, will take a high post in the State Department, presumably that of Assistant Secretary of State. Merchant has done one of the best jobs in history of the Ottawa post; rode out the storm of anti-Americanism in Canada; and stimulated Congress into doing more thinking about Canada.

The new man--Wigglesworth--is a life-long Republican politician, representing Massachusetts in the House of Representatives since 1928 and a member for the last 20 years of the highly influential House Appropriations Committee. While not official yet, Washington reports have it that the 67 year old Wigglesworth will be in Ottawa before Christmas.

* * With this shift in U. S. Ambassadors in Ottawa, people are wondering when Ottawa is going to appoint the new Canadian Ambassador to Washington. It's almost a month that we have been unrepresented by an Ambassador in the American capital. Who it will be is anybody's guess. Those who have been mentioned in wide-ranging speculation include: Henry Borden of Brazilian Traction; Gratton O'Leary of the Ottawa Journal; John Bassett of the Toronto Telegram; and even Sidney Smith, External Affairs Minister.

* * If you sell anything to United States, you had better keep your eyes on the Sixth Circuit, U. S. Court of Appeals in Cincinnati.

That's where the U. S. Internal Revenue Service is trying to collect \$4.6 million in claimed back taxes from Cyrus Eaton and his associates and his Canadian corporation, Premium Iron Ores, sales agent for Steep Rock. The Tax Court threw out the Government claims, but now Washington is appealing. The case against Premium centers on what exactly is a "permanent establishment" as per the Canada-U.S. Tax Treaty? If you have one, you must pay U. S. taxes. The Eaton lawyers claim the Government is trying to broaden the interpretation of the phrase "permanent establishment". If the Government wins, it might make liable for U. S. taxes any Canadian company that has agents or salesmen drumming up business in the United States even if they don't have authority to execute orders.

Premium thought originally of having an American office, but later changed its mind. Even so, says the Government, because Premium made some arrangements to have that office (ie. printing stationery, getting a license to have a business, etc.) it must pay taxes.

If the U. S. Government wins the case, you can expect Ottawa to ask for a rewriting of the Canada-U.S. Tax Treaty. With the original unanimous Tax Court decision backing them, however, the Eaton lawyers are confident the Appeals Court in Cincinnati will turn down the claims of the U.S. tax hawks. The decision, though, will not come until December at the earliest.

* * It was in the Spring of 1956, you may remember, that C.D. Howe was anticipating an early decision by the U.S. Federal Power Commission on allowing

Canadian gas to be imported into the U.S. by Tennessee-Midwestern. Two and a half years later, we now are about to get that "early decision."

Nov. 1 is the day to watch. Tennessee-Midwestern asked for a final Commission decision by that date, and the Commission has indicated it will try.

You will recall Tennessee-Midwestern wants to import 204,000 MCF a day from the Trans-Canada pipeline. At one time this export plan was the economic heart of the Trans-Canada project. But after tramping through Washington's legalistic, red tape jungle for three years, things are anything but rosy for the scheme. The FPC Commissioners are paying close attention to the statement by the FPC Staff Counsel who recommended throwing out the whole program. He also recommended throwing out two other schemes to bring gas into the U. S. Midwest area. This is the key statement by the FPC Staff Counsel: "The Midwestern project...is deficient in almost every basic element of proof. It has no gas supply. Its markets are not assured. It cannot be financed on its present basis and its economic feasibility has not been shown."

Trans-Canada and Tennessee-Midwestern did little at the final oral arguments before the Commission to refute charges that it had no gas reserves to supply the American market. They suggested at one point, that a "conditional certificate" be granted to Tennessee-Midwestern dependent upon a "firming up" of the Trans-Canada gas reserves.

There is no question that the communities of the U.S. Midwest are desperate for gas, whether it comes from Canada or anywhere else. The Commissioners must decide whether this need takes precedence over the uneasy economics of the projects.

* * There is not much chance Canadian factories will make any of the Bomarc anti-aircraft missiles designed for defense of Canada and the U.S. Prime Minister Diefenbaker, in announcing two Bomarc ground-to-air missile bases will be set up in Canada at a \$164 million cost, had hoped some production work would be done by Canadian industry. The Bomarcs are made in the U. S. by Boeing Airplane Co. of Seattle, Wash. Probably there is no stronger lobby in Washington than the American air industry lobby. The industry lives on Government contracts and the likelihood of it letting any major slice of such a Government contract go to Canada is decidedly tiny.

There is a chance, though, that Canadian electronic companies may get some of the business in making new electronic equipment for the air defense system in Canada's northland.

* * Mark down Nov. 6 and Nov. 10 on your calendar. On those days, there will be discussions about a new international commodity agreement for lead and zinc. A London conference in September ended with no decision but with desire to get more information. Following this, the U. S. slapped on its import quotas and has since indicated the quotas might be removed if an international agreement can be worked out to reduce exports.

Actually, there was a lot of politics involved in the quotas. With the election campaign going badly for the Republicans, the Administration felt lead and zinc quotas might woo a few mining state votes. The quota also helped

to repay some Congressional help in the Reciprocal Trade Agreements successful battle this year.

The apparent Washington desire for speed in reaching an international agreement on lead and zinc appears somewhat ludicrous in view of the Administration's past feelings about commodity agreements. This Administration has repeatedly opposed the philosophy behind such agreements. Even the International Wheat Agreement is only tolerated not really supported. In addition, you don't work out such an agreement in one meeting, or two or ten or twenty. It took two decades to get the Wheat Agreement and years for the sugar and tin agreements. Canada has taken the position and presumably will continue to take the position that we have to go slow, analyze all implications and make sure any agreement, if one is reached, is flexible to move with market conditions. In addition, if there are going to be restrictions on production of Canadian lead and zinc mines, there should be similar restrictions on American mines.

* * Prime Minister Diefenbaker has been getting strong support from the American press for his World Food Bank proposal. Made at the Commonwealth Economic Conference in Montreal last month, the American press has been mulling it over and come up with almost unanimous endorsement. Official Washington, however, is completely cool to the idea, figuring Uncle Sam would have to foot most of the bill and, despite the expedient support of international trade arrangements on lead and zinc as per above, is philosophically opposed to such international trade cooperation. The American newspapers are saying Mr. Diefenbaker's World Food Bank deserves a chance and is a likely proposal. It is doubtful, though, their pressure will alter Washington opposition.

* * Good news for Canadian lumber operations. House construction in United States which uses plenty of Canadian lumber, is zipping ahead. The rate this year will be somewhere around 1.2 million starts. The forecast for next year is about the same. Overall new building construction in 1959 in United States, however, is expected to top \$50 billion, the highest in history.

* * While still facing stiff Russian competition, there is good news from United States for Canada's aluminum companies. Signs are that the aluminum sales slump in the U. S. is ending and the future is rosy. At least five major American aluminum smelters are increasing production. Starting up or reactivating potlines is expensive in the aluminum business and is done only when companies foresee real and present demand, not hoped-for sales. For the future, aluminum men look to autos, bridges and houses to open up vast new markets.

Sincerely,

