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Dear Sir:

Washington now is getting ready for the 1959 Session of Congress. With the election out of the way, serious thought can be given to what happens next here in the American capital.

For you, the Democratic control of Congress means little change from the kind of laws you have seen out of Washington in the last four years. There will be big spending, budget deficits with inflation a continuing threat. You're better off on trade with the Democrats running things on Capitol Hill and Canada-U.S. relations will continue to improve. There will be, however and unhappily, a big drive for high price supports. This means trouble for Canadian farmers because high price supports produce big surpluses.

* * But take a look at some of the individual races. The most important, of course, was the election of Nelson Rockefeller as New York Governor. You can expect Tom Dewey's old machine will get behind Rockefeller to boom him for the Republican Presidential nomination instead of Richard Nixon for 1960.

* * Probably the saddest bit of election news for you is the defeat of Rep. Brooks Hays. You may remember, he, along with Maine Rep. Frank Coffin, authorized that highly valuable report on Canada-U.S. relations early this year. He also was working with Coffin on legislative proposals for bettering Canada-U.S. relations to be presented at the 1959 session of Congress. Hays was beaten by a write-in candidate who was a strong segregationist and ardently supported by Gov. Faubus. We'll sorely miss Brooks Hays on Capitol Hill.

* * The Democratic tide in the Upper Midwest--sending Proxmire of Wisconsin and Eugene McCarthy of Minnesota to the Senate--is good news for Canada's oil industry. Both men can be expected to join Sen. Hubert Humphrey, Democrat of Minnesota, in strongly arguing against the American import quotas on Canadian oil. With these Upper Midwesterners on our side, plus the powerful voice of the Maine Congressional delegation, there will be real internal pressure on Washington to remove the quotas.

* * Perhaps the happiest bit of election news we can give you is to record the defeat of long-talking, sour, dour, Nevada Republican Senator "Molly" Malone. He was beaten in an upset Democratic victory. More than anyone else, Malone was the enfant terrible in Congress for the Canadian mineral industry. He played a strong role in getting American import quotas on lead and zinc;

he demanded restrictions against Canadian copper, uranium, iron ore, and many other minerals. Washington will be a happier place so far as Canada is concerned, with Malone's protectionist voice at last silenced.

* * Don't get too excited just yet, but the Washington door may be creaking open a shade on more defense contracts for Canadian plants. Our electronic firms may have a chance to get a fair slice of some of the Bomarc contracts. The electronics lobby in Washington is highly powerful, but there have been a couple of signs lately reversing earlier gloom about contracts for Canada. For one, it is understood the U.S. is ready to permit European companies to make the "Hawk", an anti-aircraft missile which can carry a nuclear warhead. If European factories can turn out the "Hawk", why can't Canadian firms be given a chance at "Bomarc"?

A second sign is a comment from Commander F.H. Cunnare, head of the Electronics Production Division of the U.S. Defense Department. He told your editors there are many Canadian plants which can build missile electronic equipment just as well as any U.S. firms. "Canada is well qualified," he says.

Commander Cunnare is just back at the Pentagon after taking a look at a number of electronic plants around Toronto. He's going to Montreal in a month or so to look at plants there. He says he has no contracts in his pocket, but his interest in Canadian plants reflects that Washington door which may be creaking open on more defense contracts for Canadian plants.

The U.S. Pentagon official has a good word of advice for Canada's electronics industry: if you want to get a good share of the contracts for building Bomarc or any other missiles, you've got to do some healthy lobbying. He suggests the Canadian electronics industry get better organized, pour intensive pressure on Prime Minister Diefenbaker and get him to pass the pressure on to Washington. And we might add that it would be a good idea for the Canadian industry to pay some attention to Washington on its own, perhaps getting better acquainted with the U.S. electronics lobby operation, the Electronic Industries Association.

* * Here we go again! Ottawa complained bitterly that in the farm surplus give-away program of Uncle Sam, the barter provision was the most damaging to actual and potential Canadian markets. The President personally assured Canada Washington would not reactivate this provision. But now, it looks like barter is sneaking back into play. For example, India is about to supply 150,000 tons of manganese and 75,000 tons of ferro-manganese in exchange for 400,000 tons of U.S. wheat. There also are reports that the U.S. Department of Agriculture is relaxing last year's restrictions against deals which conflict with cash sales.

Part of the pressure which seems to be making Washington head back into barter deals, comes from Latin America. While Washington sharply cut down on barter deals to please Canada, it may be bringing them back to please Latin American nations producing lead and zinc. Canadian lead and zinc mines also benefit from the barter program as much of the minerals find their way into the U.S. stockpiles. So, once again, Canadian wheat growers may suffer because of returning U.S. barter deals, but at the same time, Canadian lead and zinc mines may reap some benefit.

* * And Canadian wheat growers may be facing trouble from another direction---Moscow. We have suffered particularly in an aluminum trade war with

Russia in the current Soviet economic offensive. Now, there is a chance our wheat may face the Russian bear. This year, Russian farmers are bringing in one of their biggest harvests in history--maybe as big as two billion bushels. There has been some concern in Washington that Russia might use this huge harvest to invade and disturb world markets. The Soviet Union has been an off-and-on exporter in recent years, but American observers fear Russian wheat dumping in the coming season. So far, Russian prices have remained steady, but, as one Agriculture Department official told Washington through Canadian Eyes, "Whatever exports they make, they'll be for political purposes."

And in the State Department, experts also are watching closely the Soviet mountain of wheat. They think it could join aluminum, tin and textile products in the Communist economic offensive.

* * There is good news out of the most unlikely place--The American Tariff League. J. Roy Price, newly appointed Assistant Director of the Office of Civil and Defense Mobilization is the bearer of the good tidings for Canada. He told the Tariff League that the protectionist section written into the U.S. trade law this year by Congress is exceedingly narrow. He said it is "no substitute for the escape clause", as had been feared by many Canadian exporters. Price made it clear American businessmen will have a hard time getting protection out of this protectionist section in the trade law. "They," he said, "should not make foreign trade the whipping boy when imports are a minor factor in their troubles."

* * Incidentally, an anti-dumping case brought against Canadian canned pink salmon has been dropped by Washington. Changes in pricing were made which cleared up the situation and the British Columbia salmon again has clear sailing in the U.S. market.

* * There is a complicated court case on tariffs which is important to you soon to be fought in Washington. A U.S. Customs Court in New York says the President has no right to change Tariff Commission recommendations. He can only accept or reject them, says the Court. The Government is appealing this decision and the case will be heard by the U.S. Court of Customs and Patents Appeals in Washington. It's important to you because if the New York Court ruling were upheld it would mean many Eisenhower decisions which have eased Canadian exports out of potential tariff trouble, might become invalid. Eisenhower's lead and zinc decision would be a case in point. Instead of the flat quotas, Ike would have to either take much higher tariffs and quotas or nothing at all and chances are he would have to take the recommendation for protection much stiffer than his quota decision announced last September.

Incidentally, you can figure the American restrictions against lead and zinc will be around for a couple of years anyway. Unless some kind of international agreement is reached at the current Geneva meetings, the restrictions almost certainly will stay on for 1959. Nineteen sixty is an election year and the protection won't be removed then. That means 1961 at the earliest.

* * Canadian iron ore will come under the Tariff Commission gun in early January. Jan. 6 is the date for the Commission hearing on iron ore imports. Anybody who wants to be heard should notify the Secretary, U.S. Tariff Commission, Washington 25, D. C. at least three days before the hearing. This investigation of iron ore imports was ordered by the Senate Finance Committee last summer, and pushed along by Sen. Hubert Humphrey who blames imports for slackening Minnesota iron ore mining.

* * The Canadian Metal Mining Association will be in Washington for that iron ore hearing at the Tariff Commission. Also in Washington about the same time will be a committee from the Canadian Houses of Parliament which will confer with the Senate Foreign Affairs Subcommittee on Canada. The Canadians will be in Washington sometime between the opening of Congress and the opening of Parliament about a week later.

* * While marking dates in your calendar, put down March 1, 1959. That's the day you can expect a key report on the future development of the Columbia River. The International Columbia River Engineering Board says it will have its recommendations ready by that date. Power development of the Columbia has been a sorepoint between Ottawa and Washington for some time. The report won't settle the problem, but may start the ball rolling for some kind of joint development--that is, unless Gen. MacNaughton's thoughts of diversion don't dominate Ottawa.

* * American subsidiaries in Canada are rapidly becoming Canadianized. So says the Empire Trust Co. of New York which made a survey of 166 U.S. corporations with big subsidiary operations in Canada.

The Empire Trust found that the percentage of American ownership in the subsidiaries was higher in the case of small subsidiaries than for the larger ones. And the survey showed that in 1955, a total of 47% of the presidents of subsidiaries were Canadian citizens and of the four senior executives of the subsidiaries, 57% were Canadians. By 1958, those percentages had risen respectively to 50% and 61%.

* * Canada and United States are going to extend the continental defense system farther north. That's the word we have from the Pentagon. Chances are it means we are arranging with the Americans to move parts of the DEW Line further up into the Arctic so we can more easily pick up missiles on the long-range radar.

Sincerely,



P.S. The appointment of 67-year old retiring Republican Congressman Richard Wigglesworth as U.S. Ambassador to Canada is the final, bitter blow for Sherman Adams, late of the White House. Adams always had dreamed of becoming Ambassador to Canada when he left the White House. He talked of this with Canadian officials here. But when the post in Ottawa did open up, and Adams was leaving the White House, he was in such political hot water, the Administration did not even consider him as Ambassador to Canada, although he deeply admires Canadians and knows Canadian history and politics.

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