

WASHINGTON • THROUGH CANADIAN EYES

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Dear Sir:

You may not think \$1.7 million sounds like much to consummate the "marriage" of Canadian and American defense industries. But, as somebody once said, it's not the money, it's the principle of the thing.

The figure is the value of the first significant production contract handed a Canadian company under the new arrangement. It goes to Canadair for wings and ailerons for the BOMARC missile, as you may know. But what you may not realize is the significance of the award.

The contract (actually a subcontract handed out by Boeing) is for equipment to be used generally in the North American defense system, not specifically in Canada. This is important. It means we've started off on the right foot. It means that at least in the beginning, Canadian industry will not be restricted to making things only for use in Canada, but can handle anything to be used for the whole of North American defense.

This is a foot in the door and we need to keep our fingers crossed that Congress does not tramp on our foot. There's not much chance of anybody on Capitol Hill getting excited about a \$1.7 million contract. But when the big ones come along, then watch out! That's the time for Congressional howling which the Administration and Canadian officials so fear. If it gets too intense the Administration may cave in and meet the objections to letting Canada get some contracts by meeting the Congressmen half way. This might mean, for example, a decision to let Canadian industry only work on contracts for military hardware to be actually used in Canada. This is what we're trying to avoid, and the Administration is trying to soft pedal the whole thing. Interestingly enough, incidentally, the statement released by the Pentagon on the defense industry "marriage" was made on a holiday in Washington and not a word saw the light of print in any major American newspaper. And that won't bother those working on the production sharing.

* * Half a dozen survey teams from American prime contractors in the defense field have been scurrying across Canada, looking at our plants. They want to see if we're good enough to handle sub-contracting work on defense jobs they are handling. Companies indicating a willingness to farm out contracts to Canadian firms include: Boeing, Burroughs, I.B.M., Westinghouse and R.C.A.

For the next couple of years, about the only thing Canadian plants will be getting will be sub contract jobs. There is a chance - just a slim one-that after that we may get some prime contracts.

But all this depends on how loud the howl is from Capitol Hill and of course, the American defense industry lobbies who are extremely powerful.

* * Bad news for our minerals industry. The Bureau of Mines gave us some figures the other day which show Canadian minerals exports to United States during 1958 fell below their recent averages.

Take a look at some of these figures: Canadian aluminum exports to United States averaged 84% of all U.S. imports from 1953-57, but in 1958 fell to 77%. For nickel, the average was 79%, but last year it dropped to 67%. Asbestos fell, too, from a 94% average of all imports over the five years, to 91%. Lead dropped from a 15% average to 11%. Copper was off from 18% to 16%. Iron ore dropped from 36% to 32%.

There is not much of a drop on any single one of these Canadian exports to the U.S., but taken as a whole, it is a discouraging trend, indicating Uncle Sam is switching his importing, to other suppliers.

There were two bright spots last year on minerals, though. Our share of gold imports by the U.S. rose to 63% from a 60% average, and, of course our share of the uranium import figure rose considerably. The precise figure, is secret.

* * And there's another bit of gloomy news to note: a detailed expert study on Canada-U.S. wheat competition indicates things are going to get worse. The report says cut-rate U.S. exports have taken markets away from Canadian wheat in the United Kingdom, Brazil, Cuba, Colombia, Bolivia and Venezuela. It was prepared by an American and a Canadian, and makes special note of the extent to which the U.S. Treasury is under-writing the American farmer, while the Canadian farmer is producing for the market.

The study says that with farmers growing more wheat than ever before, the surplus situation getting worse, and customers growing more of their own wheat, competition between Canada and United States in future years will continue to be very tough indeed.

You can get a copy of this report from the National Planning Association, 1606 New Hampshire Ave., N.W., Washington, D.C.

* * By the time you read this, President Eisenhower will have (or should have) announced what he's going to do about U.S. oil import quotas. Whatever his decision, it won't slow down the mounting drive in Congress for even tougher restrictions.

The tough import quota champions are uniting behind a bill introduced in the Senate by Wyoming's Senator Joe O'Mahoney, Democrat, who wants to cut back imports to a mandatory 10% of all domestic petroleum demand. This one will be pushed hard, no matter what the President decides.

* * And speaking of quotas, you will be interested (but probably displeased) to hear that Interior Secretary Seaton thinks the import quotas on lead and zinc are just fine, have resulted in firmer prices and higher U.S. production of both minerals. He told us he has no intention whatever of relaxing the quotas for quite a while to come.

Seaton says zinc production has gone up from about 30,000 tons a month before the quotas to approximately 32,000 a month after their imposition. And lead output has risen from 20,000 tons to 22,000.

And one further lead and zinc note: Mr. Seaton said flatly he would NOT agree to remove the U.S. import quotas if an international agreement were reached which cut back production in foreign countries and restricted their exports. The Interior Secretary obviously wants to eat his cake and have it too.

* * Our overall mineral exports to United States are going to continue running into trouble at least for the next five years or so. There's a fast rising feeling of protectionism in Washington and especially in the U.S. domestic industry. In the next few years you will be hearing proportionately more howls for protection against imports than have been voiced in recent years.

Over at the U.S. Bureau of Mines, though, there is a recognition that in the long run United States will be desperately in need of the Canadian minerals. There even is some concern that U.S. protectionism might spawn similar feelings in Canada, resulting in more processing above the 49th parallel and hence in the distant future Canadian supplies of raw materials might be sharply limited in their availability for American factories.

* * Old Dan Reed died the other day. He was the ranking Republican on the House Ways and Means Committee, the committee that originates U.S. trade legislation. Reed was a fire-and-brimstone protectionist but had lost steam with advancing age. Now, the smart Pennsylvania lawmaker Richard M. Simpson takes over as ranking Republican and the man who would be Chairman of the committee if Republicans won control of Congress.

Simpson is a protectionist, knows GATT inside out and believes the Havana Charter was one of the most indecent things ever attempted to be forced on an innocent mankind. Simpson was largely instrumental in defeating the proposed Organization for Trade Cooperation, which was to have been an administrative arm of GATT. And if he gets his way, he'll raise tariffs on most everything and slap on import quotas, too. He won't get his way, though, at least not in the next couple of years. But he will be influential in watering down any liberal trade legislation that comes before the Ways and Means Committee.

* * You will be interested to know that one very highly-placed individual in Washington thinks the United States may have to start state trading in order to combat Russia's trade war, if things get too hot. The time is not yet ripe, the authority hastens to add, but he says it definitely is a possibility.

There are a couple of bills in Congress to set up state trading organizations in United States. These measures won't do anything this Session except possibly create an atmosphere for more serious consideration next year. If any "United States Trading Corporation" were set up as suggested in the bills, it could mean quite a squeeze on Canada. It would see the two giants of our world constantly undercutting each other in the race for markets, both political and economic. And we would be right in the middle watching our wheat, aluminum, etc. customers snatched away from us.

* * It'll take a mighty strong and continuing protest from Canada before the Congress will agree to stop the so-called "Chicago water steal". The first hearings on Capitol Hill have ended and all signs indicate the measure will certainly get Committee approval and most likely approval in both the House and Senate. If, however, Canada yells loud enough and long enough, we may just give sufficient ammunition to the Great Lakes States which are fighting the proposed diversion of an extra one thousand cubic feet per second out of Lake Michigan and into the Illinois Waterway. If our ammunition is sufficiently hot, the "Chicago water steal" might be stopped this year from going through. The stop, however, would only be a delay for it is bound to come up again next year.

So far as the Congress thinks, we would not mind at all seeing the diversion, the resulting lowering of Great Lakes levels, the loss of power, the higher shipping costs, the property damage. A letter introduced in the record a few days ago from the State Department says Canada has no objections. But another letter is coming, this time saying we do object. Our friends in Congress are glad to hear that the Canadian objection will be a powerful one. But they hope we will continue to pepper Washington with reminders of Canada's objections.

* * The State Department says it's willing to make a deal and give up its cherished three mile limit on territorial waters. Loftus Becker, the State Department legal chief, says a compromise now is being worked out in hopes of reaching agreement for the next Law of the Sea conference to be held next year. Canada still wants the "three plus nine" formula which would be three mile limit on territorial water plus another nine miles of jurisdiction for fishing. Becker indicates the U.S. would go along with this, and maybe do more. At the last Law of the Sea conference, the U.S. when pushed into a corner, agreed to a "six plus six" formula. Something similar may come up again. At least the next meeting will see the U.S. starting out with a "something plus something" formula instead of the flat three mile limit line with which it started the last meeting.

* * And a couple of happier economic notes on which to end this final issue of our first publishing year. A survey of U.S. industry indicates the market for our lumber exports will be very healthy for the next six months. Construction is figured to hit a new high during the whole year of \$52.3 billion, but the healthiest part of the year will be the first half. And Canadian nickel producers can expect a rising demand in the American market this year. The Commerce Department figures U.S. consumption might hit the 200 million pound mark, a substantial boost over 1958. The one big IF here, though, is that this record figure will be hit IF there is no steel strike next July.

Sincerely,

The Editors

P.S. In these days of inflation, the next time your doctor tells you you're "sound as a dollar", he could mean you're half dead. na