

# WASHINGTON • THROUGH CANADIAN EYES

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Dear Sir:

And a Happy St. Patrick's Day to you!

\* \* Those new and tougher U.S. oil import restrictions are going to stay in effect for at least a couple of years. You can bet they won't be lifted this year and they certainly won't be removed during the 1960 Presidential election year. These mandatory oil import quotas, like the lead and zinc quotas, add to the increasing smell of protectionism in the air around Washington these days.

The President made rather vague rationalizations all over the lot in justifying the mandatory and tougher controls on oil imports. He noted how important oil was to the economy of the free world . . . important to the security of all of us . . . the necessity to avoid disrupting international trade . . . and wound up saying that he was sorry to do it but the controls were necessary for the security of the United States.

The one mystery in Mr. Eisenhower's comments was his reference to talks with Canada to reach some kind of understanding on oil in this hemisphere. No one seems to know just what he's talking about. There have been no talks along these lines and there are none now. Here's what he said: "The United States recognizes, of course, that within the larger sphere of free world security, we, in common with Canada and with the other American Republics, have a joint interest in hemisphere defense. Informal conversations with Canada and Venezuela looking toward a coordinated approach to the problem of oil as it relates to this matter of common concern have already begun. The United States is hopeful that in the course of future conversations agreement can be reached which will take fully into account the interests of all oil producing states."

It sounds nice, but what does he mean?

\* \* There's a chance Canadian industry may get some orders on the La-crosse missile. Our military will be using this missile which is being produced in United States by the Martin Company of Orlando, Florida. W. H. Huck, Canada's Assistant Deputy Minister of Defence Production has been down to Orlando to try to drum up business. He'd like to have the Martin Company pass on some sub-contracts to Canadian industry, just as Boeing has done for its Bomarc missile. Chances are, Martin will send at least a little business north of the border. Martin got a contract the other day from the Pentagon for slightly more than

\$12 million for Lacrosse production. Altogether Lacrosse contracts worth \$270 million will have been handed over by the end of fiscal 1960. Since Canada is doing a lot of Lacrosse missile buying, Ottawa figures Canadian industry ought to get a slice of that \$270 million.

\* \* You can expect an announcement one of these days that the U.S. military is going to entirely waive the Buy American Act insofar as Canada is concerned. This should be a big help in giving our industry more orders from the Pentagon. And it will be the first really solid accomplishment in the new defense production sharing arrangement between the two countries.

A decision already has been reached to do this waiving on the lower levels and by the time you read this it may have been given the stamp of approval at the top. Ignoring the Buy American Act can be done administratively in the Defense Department if a determination is made that doing so is "in the national interest".

In the past, the U.S. Air Force has pretty much waived the Act. The Army has sometimes, but it always has tacked onto Canadian bids the normal duty rates. Even though the duty was not paid it was added to the Canadian costs for comparison with the U.S. bids. The Navy rarely waived the Act and always added in the duty. Now, it looks like the three services are going to have the same policy. For material supplied by Canada to be used in the defense of North America, both the Buy American Act and the duty will be waived. For other equipment the Buy American Act will be waived, but the duty added to the cost sheet.

The Pentagon won't make any formal announcement on this waiving when it comes, although something may be said in Ottawa. The Pentagon doesn't want to stir up a hornets nest on Capitol Hill. Already there have been a couple of enquiries asking what this defense production sharing "marriage" is all about. One enquiry comes from Senate Majority Leader Lyndon Johnson. Canadian and American officials in Washington have been walking gently on this matter because they know the explosions that could occur on Capitol Hill if there were too much publicity in United States on U.S. defense contracts going up to Canada. There is a running battle between the East and West coasts of the United States when one region gets more contracts than the other, but both would unite if much business went out of the country altogether.

For this reason, chances are we'll never get a major prime contract all our own. Canadian industry is going to get the subcontracting crumbs from Washington for a while. Our best bet for getting fatter contracts lies in Canadian companies joining production pool arrangements with American concerns . . . something like Canadair has done with the Convair group bidding on the radar picket planes.

\* \* And Canadian companies have got to learn to prowl corridors in Washington. Once they've been okayed by the Defense Production Department in Ottawa, Canadian firms interested in getting business from Washington should have experts come down and talk to the purchasing people in the Pentagon. You're welcome here, the Pentagon people say. American companies have scores of officials prowling the Pentagon corridors. It pays off because the U.S. officials get to know the company capabilities, sometimes get advice from the company representatives, and the representatives collect their own information and get to know well the officers who prepare the specifications. As a result many a U.S.

company knows two or three months ahead of time when bids will be requested for a particular project. That's a big head start on preparing bids, especially when the Pentagon will give only 15 or 20 days in which to have bids in on a complicated project.

\* \* Looks like the "Chicago water steal" is going to go marching through Congress again this year. The House Public Works Committee heard the strong Canadian objections to the proposed 1,000 cubic feet per second diversion from Lake Michigan one day, and the very next day approved the project.

Canada's case was not helped much by some confusion over where we stood. At first, a State Department letter was introduced into the record of the Committee hearing saying Canada had no objections whatsoever. Then later the State Department reported we did, in fact, object, and object strenuously. But the effectiveness of this second note was diluted by the first one.

As you know, the "Chicago water steal" would lower the levels of the Great Lakes. That means more cost for shippers, loss of power, etc. It's been estimated for every inch the Lakes are lowered, it would cost shippers \$2.5 million a year.

In their presentation to the House, the State Department noted that the diversion bill (H.R. 1) does not provide for any damages to be paid Canada as a result of the diversion. There seemed to be the suggestion that if provision were made to pay Canada for any injury, the State Department might not object so much.

The big battle on the diversion probably will come in the Senate in a few months.

\* \* Speaking of the Great Lakes, Senators from that region are demanding that the Administration loosen its purse strings and spend money faster to improve the connecting channels of the Great Lakes. The Administration wants to spend \$23 million in fiscal 1960 for deepening and widening the channels. The Senators are requesting at least \$29 million be spent. There is little chance, though, that the extra money will be forthcoming. If the President is cutting the strength of the Army and Marine Corps to save money, even in face of the Berlin crisis, you can't expect him to spend more for the channels.

\* \* Another man keenly familiar with Canada and our problems has been given a top job in the State Department. We're getting a nice little group of pro-Canadians in the higher ranks of the State Department. As you know, former Ambassador to Canada Livingstone Merchant is the Assistant Secretary of State for European Affairs and the key man in the current Berlin crisis. He's the best friend we've got in the Department. Now, Ivan White, ex-U.S. Consul General in Toronto has become the Deputy Assistant Secretary of State. He, too, is a good friend of ours. Sitting on the Canadian Desk at the State Department is still another strong Canadian friend--Kenneth Byrns, former U.S. Consul in St. John's, Newfoundland.

So you can expect plenty of sympathy for Canadian viewpoints in the State Department. But of course, as we've said before, our real problem in Washington is with the Congress, not the Department of State.

\* \* Speaking of protectionism in Washington, as we were some paragraphs back, the end of this month is a date to mark in your calendar. That's about the time the Administration will make up its mind on a key trade issue involving

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heavy electrical equipment. The industry in United States wants to keep out as much foreign turbines, etc. as possible. The Office of Civilian and Defense Mobilization has been making a study to see if the imports are threatening national security and that study should be finished by the end of this month. The word is that the study will suggest at least some restrictions. Then it will be up to the President to decide whether to push his trade policy down the protectionist road or not. You remember the English Electric company lost out on a turbine job recently when the national security trade gimmick sent the order to a Philadelphia company even though English Electric was about 19% under the U.S. low bid.

Some parts of the Administration feel the American industry does not need this protection against imports, but there is a feeling in the Commerce Department in favor of at least a little protectionism.

\* \* The U.S. Tariff Commission has come up with what must be the most obvious study in years. It says American steelmakers are becoming increasingly dependent upon Canadian and other foreign iron ore. You may remember at one time there was some fear that Congress might start action for tariff restrictions on iron ore and the study was requested with this in mind . . . at least in the minds of Minnesota Congressmen. At the hearing, though, nobody asked for the restrictions. As a result, there won't be any, at least not now. In its report, the Tariff Commission says World War II and the immediate postwar demands hastened the depletion of the high-grade U.S. deposits in Minnesota.

You can get a copy of this 106 page Iron ore report by writing to: The U. S. Tariff Commission, Washington 25, D.C., U.S.A.

\* \* And while we're on the subject of minerals, keep your eyes on a bill going through Congress to aid the fluorspar industry. It's a trial run and if it works, Canada will be in trouble. The bill proposes the setting aside of a large share of the U.S. consumption of fluorspar for the domestic industry. What's left over can go to foreign-supplied fluorspar. The mining state Congressmen are uniting behind this bill. If it gets approval, you can expect similar bills to be dumped into the Congressional hopper for aluminum, lead, zinc, tungsten and oil. What it means is that we'll wind up with as few crumbs as possible from the American minerals market. The key question is what is the Administration attitude? With the White House moving toward a kind of modern Smoot-Hawley approach, this could lend support to the mineral state drive against imports.

\* \* Incidentally, you may have been reading about the current great debate in Washington over whether the U.S. is sufficiently prepared for war as a result of the Berlin crisis and the arguments pro and con for a so-called "air alert". Right now the Strategic Air Command, the West's major retaliatory force, is on a 15 minute ground alert. That is about one third of the bombers are gassed up, bombed up and ready to go on 15 minutes notice. An "air alert" would put them in the air. And in all likelihood, the hundreds of bombers based in the U.S. would be buzzing back and forth above Canada, going up to the Arctic, waiting around for a few hours, and then coming back to their bases to be replaced by other bombers on the "air alert". Obviously there would have to be Canadian permission before the U.S. could go on an "air alert".

Sincerely,

