THE NEW TRADE AGREEMENT BETWEEN THE UNITED STATES AND CANADA SIGNED - NOVEMBER 17, 1938.

by

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The Reciprocal-Trade-Agreements Program of the United States, is conceivably the cardinal experiment in an endeavor to revive international trade by a policy of removing and reducing excessive commerce barriers. The cooperation between the United States and Canada in this pursuit, affords an excellent opportunity to analyse the results of this stratagem.

Divided into 7 chapters, this study devotes the first 2 sections to a brief history of Canadian-American trade policy; and an appraisal of the foremost methods of conducting commerce, with particular emphasis on "most-favored-nation" proposals.

Chapters 3, 4, and 5, present a detailed exposition of the actual tariff revisions entailed in the 1938 agreement, as compared with previous rate schedules.

The concluding portion is a statistical summary of trade value fluctuations of certain selected commodities, followed by an evaluation of the role of tariff manipulation in evolving these changes.

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CHAPTER 1.

HISTORICAL BACKGROUND OF CANADIAN-AMERICAN TRADE POLICY.

"Geographically the United States and Canada form a single unit; politically and to some extent socially they are divided and unique. The international boundary, cutting laterally through the continent, has in physiographic terms no logical or rational explanation; it is a thoroughly human product. Invisible and illogical as that boundary is, however, it has in certain ways acted as a barrier more effective than a mountain range; marked divisions more radical than an ocean need produce."[1]

These "invisible and illogical" boundaries to which Keenleyside refers, are the "man made" obstructions to a free and normal intercourse, in trade and commerce. It is to the study of these artifical barricades, that our attention has been attracted, and, as a means of providing a substantial background for this research, it is imperative that some consideration be given to what has occurred in the past. After a brief but thorough study of conditions in years gone by, we are better able to appraise present day methods of removing or circumventing "national boundaries", and to proceed still further with hopes for the future. Therefore, in the evaluation of the "New Trade Agreement between Canada and the United States", we must first consider the commercial relations between these two countries, since the first major reciprocity treaty in 1854, and then proceed to the present

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1. Keenleyside, "Canada and the United States".

proposal.

Prior, however, to a discussion of the reciprocal trade agreements, it is quite essential to enumerate certain basic considerations which Keenleyside [2] has described and which he feels are of prime importance in the understanding of the attitudes of the Canadians and the Americans toward one another, in respect to commercial cooperation.

"First, the desire of American industrial and manufacturing interests to gain control of the vast storehouse of raw materials known as the Canadian Dominion. Second, the attempts of these interests to break down the Canadian tariff against manufactured articles, to the end that American goods may capture the Canadian market. Third, the bitter opposition of the western and southern states to any lowering of the American duties on raw materials, - an event that would bring Canadian grain, minerals, dairy products and fish into serious competition with the commodities of the American farmer, miner and fisherman. Fourth, the desire of the Canadian farmer to gain unrestricted access to the American market, and to purchase his supplies at the lowest figure regardless of the place of manufacture. Fifth, the fear of the Canadian industrial interests that any lowering of the tariff on finished products will result in their extermination by the more powerful and highly developed manufacturing organizations of the United States."[3] In addition, there is a sixth factor not mentioned by the author, the American investors in Canada and branch American

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2. Ibid.
3. Ibid.

plants in Canada who would suffer from the competition of American products which could compete favorably under lower tariffs.

An appreciation of these six factors is essential, if an attempt is to be made in the understanding of the trade policy as it has occurred, and with these points in mind, we turn now to the first of the reciprocal agreements, the Treaty of 1854.

The Treaty of 1854 may be said to have been occasioned by Canada's loss of preferential treatment in the British markets. The abolition of the Navigation Laws, which had given Canada definite advantages in British Empire Trade, marks the beginning of attempts on the part of the Dominion to seek a reciprocity treaty with the United States. With foreign trade at a minimum, and further retarded by the depression of 1849, it is little wonder that the only apparent alternatives for the Canadians were annexation or reciprocity. The Canadians preferred the latter, for sentimental and political reasons, the United States was of a similar opinion, due to the pressure of the Southern States, who wished to prevent the admission of new territory into the Union, new territory which would be opposed to the institution of slavery.

Hopes that perhaps England would increase tariffs towards the United States, and thereby at least partially compensate for the disadvantage of Canada, were soon shattered. England, finding the freer trade with the United States wholly beneficial, refused to penalize the Americans, even as a concession to her colonies.

The first formal step in the direction of reciprocity was taken on May, 12, 1846. An address to the Queen was adopted, suggesting the possibility of Canadian-American negotiation, which might to a large extent alleviate the stagnation in Canadian trade. A favorable reply was received in June, and the British Minister to the United States, Mr. Pakenham, placed the proposal before the Secretary of the Treasury, Robert J. Walker.

However, the negotiations were still in their infancy, and numerous dissenting factions arose, to impede the progress of the plan. Southern opposition to the treaty was due to a large extent to economic considerations. "It was unfair, contended the Senators from Maryland and Virginia, to admit free of duty into the Northern States from Canada, goods which the South would import from other countries at a duty."[4] In addition to this argument, there was another factor of perhaps even greater importance to the Southern interests. "In the struggle over slavery between two evenly balanced parties any accession of strength to the one was of vital concern to the other. The conviction that reciprocity would merely hasten annexation was a compelling reason for hostility from the Southerners."[5]

Another obstacle in the way of reciprocity was the general attitude in the United States of indifference toward trade with Canada. "This indifference was partly due to the

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4. Masters, "The Reciprocity Treaty of 1854".
5. Ibid.

engrossing nature of the domestic situation and, partly, no doubt, to the manufacturer's fear of competition from Great Britain through Canada."[6] The third deterrent was the "protectionist" attitude of the Whig Administration from 1849 to 1852.

Little progress was made during the period from March, 1849 to May, 1852. The Central American crisis, the protectionist attitude, the slavery question and the Compromise of 1850, all combined to concentrate the attention of the Americans on domestic problems, and trade negotiations came to a standstill.

The Fishery Controversy in May, 1852, provided a new impetus in the direction of reciprocity. At that date the Derby Government announced its intention of protecting the North American fisheries. The chief significance of the controversy rested on the fact that the fear of a collision between British and American interests supplied the stimulus for a beginning and achievement of negotiations. A further result of the proposal was to bring more forcibly to the attention of the American people the whole problem of reciprocity between the United States and Canada. The possibility of war with Great Britain awakened the American public from its lethargy in regard to reciprocity. The Fillmore Administration was extremely desirous of settling this question and, in their anxiety, even consented to include reciprocity in their discussion. Again, objections were raised that a

6. Series F.O.5, vol. 500, Crampton to Palmerston, July 9, 1849, enclosures. United States Tariff Commission, "Reciprocity and Commercial Treaties".

"reciprocity treaty should not be negotiated at the cannon's mouth."[7] The Administration was convinced, in February, 1853, that the negotiation of a treaty would be impossible in the short time which they had to remain in office, and that whatever settlement should result, the reciprocity problem would have to be divorced from the Fishery Controversy.

So again, we witness a "dodging" by the administration, of the real issue, through various and sundry means. Congress demonstrated in the early part of 1853 that a settlement was unlikely, even for the fishery dispute, unless through Executive action. It seemed quite evident from the divergence in the opinions of the representatives from different parts of the country, that little could be accomplished by Congress. It was hoped that Executive decree could best cope with the situation.

Shortly before the close of Congress in 1853, a resolution requesting the President to "arrange by treaty the questions connected with the fisheries on the coasts of British North America, the free navigation of the St. Lawrence and St. John, the export duty on American lumber in the province of New Brunswick, and reciprocal trade with the British North American colonies on the principles of liberal commercial intercourse."[8] Lord Elgin, then Governor General of Canada, come to Washington for the purpose of negotiating a treaty with the United States on these matters. Despite an apparently discouraging outlook, Lord Elgin went to work conciliating

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7. Masters, "The Reciprocity Treaty of 1854".
8. Haynes, "Reciprocity Treaty of 1854".

the hostile factions, and finally succeeded in preparing the document which was signed on June 6, 1854, and received the President's approval on the 5th of August.

"The Reciprocity Treaty of 1854 was a skillfully drafted compromise, calculated to rally support in its favor and to appease, by compensating privileges, interests which were opposed to some of its provisions."9

Free reciprocal access to coastal fisheries was provided. Fishermen of either nation could land on the shores of the other to dry nets and cure fish. Two commissioners were to be appointed to represent the countries in the case of a dispute, or to name a third person as an umpire in the case of a difference of opinion. Consideration was made in so far as possible, to give each of the different local interest various concessions, for others which they were forced to surrender. A list of free articles was also incorporated in the treaty and again there was evidence of compromise. Canadian demands were satisfied by the inclusion of grain, animals, butter, eggs, etc. Nova Scotia was granted the inclusion of coal on the free list. The interests of New Brunswick were considered in the unconditional inclusion of "timber and lumber of all kinds, round, hewed, and sawed, unmanufactured in whole or in part."

American vessels were permitted to navigate the St. Lawrence and the Canadian canals, on terms similar to those of British ships. In return, British ships were granted the right to freely navigate Lake Michigan, as long as the afore-

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9. Masters, "The Reciprocity Treaty of 1854"

mentioned clause was in effect.

The treaty was to remain in force for a period of ten years and further until twelve months after either High Contracting Party had given notice of its intention to terminate the arrangement.

The result of this treaty was an immense stimulus to trade in both Canada and the United States.[10] The economic life of the two countries became closely interrelated. Canadian products found ready markets in the thickly populated eastern states, raw materials were available to American manufacturers. "In 1854 the total value of Canadian-United States trade was $3,480,000, while in 1856, the first complete year after the signing of the treaty, this total was raised to $57,000,000."[11]

Early hopes for the continued success of the treaty proved unjustified, for, a few years after its birth, circumstances arose which were to bring about the termination of the treaty on March 17, 1866, by the United States. "In 1864 the cumulative effect of anger at British and Canadian sympathy with the South; rising protectionist sentiment, pressure of internal taxation, aggrieved sectional interests, and the absence from Congress of the low tariff southerners led the United States to give notice of the abrogation of the Treaty of 1854."[12] Charles Francis declared that the abrogation of this treaty was, "the result rather of a strong political

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10. Canadian Annual Review for 1911. Harvey, "The Reciprocity Treaty of 1854-Its Advantages to the United States and Canada".
11. Haynes, "Reciprocity Treaty of 1854"
12. Skelton, "General Economic History, 1867-1912".

feeling than of any commercial consideration." Perhaps the most popular defense of the "termination" was the argument that the Canadians were violating their pledge and that they were raising their tariffs on manufactured goods. In part this criticism was true, because the "infant industries" in Canada were afraid that competition from well established American plants would hinder their growth. However, similar incidents had also occurred in the United States. "Indeed, during this same war period the American tariff rates had also undergone a process of elevation."[13] Two more facts which evoked criticism of Canada's policy were, firstly, Canada's action in making American vessels pay tolls on Canadian canals,[14] and, secondly, the desire, frequently expressed in the United States, to force Canada, by depriving her of all trading privileges, to agree to annexation.[15]

"The termination of the reciprocity treaty dealt a heavy blow to American-Canadian trade which fell from $56,500,000 in 1865 to $50,200,000 in 1867 and $48,900,000 in 1868; and this in spite of the tremendous economic expansion then going on throughout the continent."[16]

In the years following the abrogation of the Treaty of 1854, negotiations were continued. In 1869, Sir John Rose proposed a treaty which would have practically unified the two countries and which embodied discrimination against England itself. In 1874 another attempt to enact a mutually beneficial

13. Taussig, "Tariff History of the United States".
14. Congressional Globe, 36th Cong., 1st Sess., pt. 2, p. 1357
15. Howe, "The Reciprocity Treaty".
16. Keenleyside, "Canada and the United States".

agreement was made, but again the United States Senate, "controlled by industrial and commercial interests which felt that the concessions made by Canada were not sufficient, at first postponed a decision, and finally refused to act favorably."[17]

The period between the termination of the Elgin-Marcy Treaty of 1854 and the Taft-Fielding Agreement of 1911, may be characterized as a transition, on the part of the United States, from a feeling of superiority and indifference toward Canada, to an appreciation of a progressive nation to which they must look for markets and imports. The Canadian industries had flourished during the latter years of this period, to such an extent moreover, that American interests were moving into the "grown-up" nation. Expansion into the West and the discovery of new resources tended to lessen Canada's dependence on the United States. "The Dominion ceased its practice of organizing political pilgrimages to Washington."[18]

On the American side, certain factors arose which made the desire for cooperation with Canada a salient ambition. The American frontier had disappeared, waste of raw materials had made them scarce and proportionately expensive. Perhaps of prime importance was the fact that due to the unusual industrial development in the United States, there had resulted a large supply of capital. Naturally, American investors saw untold possibilities in the development of the Canadian resources, for which the Canadians themselves had little capital. And, furthermore, along this line of thought, the manufacturing

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17. Keenleyside, "Canada and the United States".
18. Ibid.

interests had increased their control over the government. It is then self-evident that these industrial leaders of the country should strongly advocate a reciprocity agreement with Canada, "on the basis of American manufactures for Canadian raw materials."[19]

The time had come for the United States to seek freer trade relations with Canada. Canada, however, was buoyant over its new strength and economic progress and was to a lesser extent interested in such negotiations than she had been in 1867.

The Payne-Aldrich Tariff, for the first time in the history of tariffs, incorporated in its articles the concept of maximum and minimum rates, the latter to represent the general and permanent duties, the former, a 25% addition to the value of the commodity, which could be added to bring about favorable concessions. The President could use the maximum rates on nations which discriminated against the United States, and such action was advocated if Canada did not offer the United States terms as favorable as those she had granted France in the treaty in 1910. Canada refused to comply with these demands and continued tariff trouble seemed inevitable. However, as a result of the election of numerous "reciprocity minded" Democrats in the American elections, the Administration revised its demands and offered Canada minimum rate treatment.

President Taft proposed a further discussion of reciprocity with Hon. W. S. Fielding, Canadian Minister of Finance,

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19. Ibid.

and agreed to enter negotiations for a general consideration of this problem.[20]

As a result of the conference, an agreement was formulated on January 26, 1911. The free list included such items as farm, dairy, sawmill, mine and fishery products. Reductions were made in the tariffs on meat, flour, coal, agricultural implements, and many manufactured products.[21] The agreement was to be made effective by concurrent legislation, not by treaty.[22]

The opponents of this measure were many. Western farmers protested against the free admission of agricultural products, American fisheries feared Canadian competition, and the lumbermen fought the entrance of non-dutiable forest products. However, a split in the Republican party, coupled with the low tariff Democratic ideals aided the ambitions of the Eastern manufacturers of finding a new market for their products. The combination of these forces led to a victory for this latter group in the passage of the bill on July 22, 1911.

Apparently the stage was set for a new agreement, but for the startling results of the Canadian election in 1911 in which the "anti-reciprocity" Conservatives won 133 seats to 88 for the Liberals.[23]

This radical change in the Canadian attitude toward reciprocity was occasioned by two things; firstly, the opposition of Ontario and Quebec industrial interests, and secondly, the anti-American sentiment which had sprung up in

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20. Skelton, "General Economic History"
21. Congressional Record, January 26, 1911.
22. Ibid.
23. Keenleyside, "Canada and the United States."

Canada, and without which the first of these factors would have been ineffective. It was very definitely this prejudice toward the States which was the cause of the defeat of the Taft-Fielding agreement in 1911.

The Americans were much less interested in the action which was taken by the Dominion. It was, after all, only one country and although it would have meant profitable trading, the failure of the negotiations could not be considered as serious. Perhaps the real significance of a discussion of this defeat, lies in the disclosure of the fact that here at last, was a definite turning point in the attitude of Canadian dependence on the United States. The Dominion no longer needed the aid of American markets and was at last in a position to bargain for every concession it was to give.

The reversal, experienced by the Taft-Fielding proposal, must not, in its practical effect, be thought of as a force tending to lessen, or act as a hinderance to, the ever expanding trade as Table 1 will indicate. Exports and imports were ever increasing despite the delay in the movement toward "tariff-reduction."

"The Underwood Tariff of 1913 marked the first definitely downward movement in American customs dues made since the Civil War."[24] Concessions were granted the Canadians in the reduction of tariffs on agricultural products and implements, placing them on the "free list". Further reductions were made in the treatment of paper, pulpwood, animals, wheat

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24. Ibid.

and potatoes. As a result, trade was greatly improved and, what is of great importance, trade relations between the two countries were improved. The Underwood Tariff tended to bring the American Tariff level nearer to that maintained by Canada.[25]

The World War era may be characterized as one of abnormal conditions. European demands were in most cases greatly increased, products which formerly had been supplied by the European countries were manufactured on this "side" and were exchanged between Canada and the United States.

The years following the war continued to be abnormal. People were none the wiser than before the war as to the effects of a tariff. As a consequence, when the election of 1920 brought the Republicans back into power, it was certain that the tariff program would be revised.

Certain positive factors were present which had not affected any of the previous revisions. Two of these had great influence. The feeling for national self-sufficiency was intensified by the war, and the representatives of the agricultural West supported high protection with a vehemence never shown before.[26]

The first of the motives was, of course, due largely to the new feeling of nationalism after the war and the desire of each nation for economic self-sufficiency in the event of another conflict.

The second factor was occasioned by the decline in

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25. Ibid.
26. Taussig, "<u>Tariff History of the United States.</u>"

prices suffered by the farmers in 1920-21. "The farmers were as helplessly ignorant concerning the cause of the decline as they had been concerning the previous rise."[27] Consequently, their "vote hungry" political representatives, no better informed than their constituents, turned to the tariff.

"In the spring of 1921, an 'Emergency' tariff act (May 27th), imposed high duties upon wheat, corn, meat, wool and sugar."[28] Designed primarily as a relief measure to last for only six months, it was re-enacted step by step until it was finally passed in 1922 as the Fordney-McCumber Tariff.

As to the results of the tariff, the prices of the products, supposedly protected, continued to drop. "Hardly a better proof could be found of the failure of tariff duties to serve as a remedy of immediate efficacy."[29]

A more serious aftermath of the act of 1922 was the fact that the agricultural states had committed themselves to a policy of high and ruthless tariff protection. "The outcome was a tariff with rates higher than any in the long series of protective measures of the whole period."[30]

This increase in the rates had the additional effect of greatly hindering international commerce. Canadians were encouraged to buy within the Empire.[31] The percentage of Canadian imports received from the United States and from Great Britain are compared in the following table:

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27. Ibid.
28. Ibid.
29. Ibid.
30. Ibid.
31. Keenleyside, "Canada and the United States."

TABLE A

CANADIAN IMPORTS FROM GREAT BRITAIN AND THE UNITED STATES

Year	From United States	From Great Britain
1918	82.3	8.4
1919	81.6	8.0
1920	75.3	11.9
1921	69.0	17.3
1922	69.0	15.7
1923	67.4	17.6
1924	67.3	17.2
1925	64.0	19.0

[32]

The above table represents not only the effects of the Fordney-McCumber Bill, but also of similar legislation, such as the Jones Shipping Bill, and the Panama Tolls Bill. These latter measures are further indications of the post-war protectionist attitude.

Of great significance at this time is the recognition that, for the first time, a Tariff Commission was lending its aid to Congress. Originally established by an act in 1916, the Commission was intended to deal with the tariff problem with more intelligence or discrimination than had been characteristic of the tariff program up to that time. Perhaps the reason why the Tariff Commission was not more successful in its attempt on this occasion was largely due to the restrictions which Congress placed upon them. The Commission was consulted as an advisory body, but the actual rate making

32. Canada Year Book, 1926.

was still in the hands of Congress.

The Hawley-Smoot Tariff of 1930, the next step in the development of a trade policy by the United States, was passed under conditions quite different from those which had resulted in previous revisions.[33] Each of the former regulations had been necessitated by a particular event or circumstance, but not so with the tariff of 1930. Neither political nor economic pressue was in evidence. The tariff question played no part in the presidential election of 1928, nor did the crisis of 1929 occur until the character of the revision had been determined. The only justification offered on the part of industrial distress, that some settlement of the tariff would help the recovery, was made during the last month or two of debate.

Therefore, other means of explanation must be sought for the tariff of 1930.

A special session had been called in June, 1929, by President Hoover to discuss the agricultural problem. His only suggestion was that duties on foreign agricultural products should be raised by way of helping the farmers, and that any manufacturing industries that were suffering should likewise be given aid. The program came to nothing at that time and the tariff act was not enacted until June, 1930.

The result, when it finally appeared, was not an answer to a definite need or plan but rather the product of intensive "log-rolling" which culminated in the highly protective

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33. Taussig, "Tariff History of the United States."

"Hawley-Smoot" Tariff and its disastrous effects on Canadian-American trade. The tariff was practically prohibitive as regards farm products.[34] On all items the rates were raised excessively and the volume of trade suffered severely. Canadian exports to the United States fell from 515 millions in 1930 to 143 millions in 1934.[35] In dealing with figures and statistics relating to this period it must be noted that the "depression" had a very marked effect in decreasing trade.

The period which followed the passage of the tariff act of 1930 may then be described as one of marked trade stagnation, and, both in the United States and in Canada, interest was again awakened in negotiations which might relieve the situation.

The main purpose of these negotiations was to "increase foreign markets for products of the United States. This purpose was sought through the reciprocal adjustment of excessive trade barriers."[36] It was deemed expedient that this attempt should be realized, owing to the fact that normally the United States can and does produce more than it can consume of certain farm and nonfarm products. These surpluses must either (1) be sold abroad, (2) remain in this country as carry-overs, or (3) be dumped on the market at ruinously low prices. The reduction of exports, then, forces down prices, reduces employment and the income of American producers.[37]

Trade had sharply declined after 1929, mainly because nations, including the United States, had set up excessive

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34. Canada Year Book, 1936.
35. Ibid.
36. Trade Agreement Program of the United States. Department of State. Publication 1265.
37. Ibid.

and almost prohibitive import barriers. By refusing to permit prople in the United States to purchase goods from other countries, we handicapped the inhabitants of foreign lands in the buying of products from the United States.

World trade was now at a minimum, unemployment and low incomes followed and brought world-wide economic depression.[38] Trade revival was an absolute necessity and the method which the Trade Agreements Act authorized for bringing about this trade recovery was by a program of removing or reducing excessive barriers to foreign trade, through direct and separate negotiations with other countries.

"In 1934 the United States officially abandoned its traditional single autonomous tariff system."[39] Bilateralism, the basis of recent international commercial relations, was adopted in its stead. The success or failure of this program may be expected to exert a decisive influence upon the course of international economic relations.[40]

In the light of the aforementioned necessity, a comprehensive Trade Agreement was signed at Washington on November 15, 1935. Under the Act, the United States concluded agreements with nineteen foreign countries, including Canada. Included among the concessions granted to Canada were those pertaining to agricultural products, fisheries products, forest products, minerals and manufactures. Canada received reduced duties for some sixty commodities representative of the main industries in the land.

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38. Ibid.
39. Tasca, "Reciprocal Trade Policy of the United States."
40. Ibid.

Tariff concessions made by Canada to the United States included the extension to the United States of the intermediate tariff in its entirety. Specific reductions below existing favored-nation rates were made in respect to eighty-eight tariff items, - this revision of Canadian duties being especially designed to aid the Canadian user of machinery and other implements of production.[41]

Under Article I of the Agreement, Canada and the United States each agree to accord to the commerce of the other, unconditional most-favored-nation treatment as respects customs duties and related matters. This means that if either country reduces any customs duty, either autonomously or in connection with a trade agreement with a third country, the like article of the other country will immediately get the benefit of the reduced rate.[42] If any country which is a member in an unconditional most-favored-nations agreement reduces rates to one country further by direct bargaining or as a consequence of a treaty, all other countries with whom she has previously entered into agreement receive the benefit of the new rates.

This agreement was to remain in force, subject to certain contingencies provided for in Articles VII, X, and XIV, until December 31, 1938, and thereafter, until terminated by either government upon six months notice.

Theoretically, the proposal was designed to lower the costs of living in the importing country which in turn would increase the purchasing power of its people. The effect

41. Trade Agreements Program of the United States.
42. Ibid.

desired is to increase demands in the home markets for the products of other native industries with consequent increased employment. Improvements brought about in the primary industries would quite logically be felt throughout the economic system and therefore the benefits would be widely disseminated in all lines of production.

In 1936 and 1937 marked expansions in trade between the two countries were witnessed. The most significant measure of the operation of the Canadian American agreement of 1936 is afforded by a comparison of the experience of the two pre-agreement years with that of the two post-agreement years. Canadian imports rose from an annual average value of $303,000,000 during 1934 and 1935, to $430,000,000 in 1936 and 1937, or an increase of 42% over the pre-agreement period.[43]

Likewise, United States imports from Canada rose from an average of $257,000,000 during 1934 and 1935, to $386,000,000 in 1936 and 1937, an increase of 50% over the previous two-year period.[44] However, the greatest increases were in those items in which substantial reductions had been made in the 1936 arrangement. An increase of nearly 87% in the value of imports from Canada was noticed on articles on which the duties had been reduced. Similarly, imports from the United States to Canada increased in volume.

The experience of the two countries has been considered by both to have been extremely successful. It was not hard to

43. The New Trade Agreement with Canada, Department of State. Publication 1253.
44. Ibid.

understand then, why, at the end of the period as indicated in the provisions of the proposal, both Canada and the United States were more than anxious to continue their mutually beneficial agreement. As a tribute to the merits of the treaty, further negotiations have been made along the same lines as those of the 1936 plan which will encompass still broader fields and effect more extensive duty reductions.

With this somewhat sketchy background of the major steps in the development of Canadian-American Trade Agreements, we are now in a position to examine and appraise the New Trade Agreement between the United States and Canada, which is the present-day development of the treaty of 1935.

CHAPTER II.

GENERAL THEORY OF TRADE AGREEMENTS.

Having completed a brief discussion of Canadian-American trade relations in the past, it is, I think, advisable, before attempting a comprehensive analysis of the present agreement, to investigate the underlying theories and principles which form the foundation and structure of our present day policy. To attain this end, it will be necessary to explain certain basic concepts inherent to the individual plans of international co-operation and to compare them as to purposes, aims and practicability. With this motive in mind, we now proceed to a discussion of current ideals and proposals for stimulating world trade.

The first school of trade policy which we are to discuss, is that group of economists who feel that we should enter into two-sided preferential trade agreements. Under this proposal, the tariff takes on the aspect of a bargaining measure. If the desire to sell goods to country B is felt by country A, and B's tariff barriers are extremely high, A will reduce its own tariff rates on B's exports in hopes of a reciprocal reduction which will facilitate the exchange of goods. It is quite evident from this conception, that such a "rate barter" procedure, although perhaps in theory quite workable, has, in practical experience, certain very real defects.

The outstanding error in the reasoning of adherents to this school, is the violation of one of the fundamental laws of foreign trade, namely, "all trade is essentially an exchange of goods and services, goods are given (sold) as a means of getting (buying) other goods."[1] If we accept the above premises, it is easy to see, that the policy under examination may be misinterpreted in its effect. If trade is to be an exchange transaction, smaller nations with less bargaining power will, of course, become secondary forces in world trade. Countries must benefit mutually from trade and, over a period of time, exports and imports must approach a balance. Under such conditions smaller nations again, because of their lack of "exchange volume", would be handicapped. The United States and Brazil, if they were trading exclusively, would soon reach the point where exports from the United States so greatly exceeded imports from Brazil that trade would come to a stand-still.

As a further thought along the same line, there is the realization that foreign trade should be conducted so as to permit the full and unhampered operation of the governing principle of international trade, "a country tends to export those products in the production of which it has the greatest advantage or the least disadvantage compared with other countries, and it tends to import those products in which it has the least advantage or the greatest disadvantage."[2] When restrictions are made so as to direct the exchange of goods along definite man-made channels, rather than through this principle of "comparative costs", the bargaining nations are depriving themselves of the inherent advantages of the principle, and are in addition affecting the operation of the theory for the remainder of the w orld.

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1. Griffin, "Principles of Foreign Trade".
2. Ibid.

Strict adherence to the two-sided preferential trade agreements doctrine will also have the ultimate consequence of making for higher protection in an only hope of deriving benefits from bilateral cooperation. That is, over the world in general, a network of similar agreements will appear, each suffering from the defects of the system as a basis of operation, and in addition acting as a deterrent to cooperation on an international scale.

Most products which are objects of international trade are placed on the market in competition with similar goods produced in other lands. It is of primary importance then, to the exporters that their product should not be subject to any import discrimination as compared to like products from foreign competitors. The ideal situation would be one in which they received a special concession for their commodity, but in lieu of this benefit it is necessary that they at least attain equality of treatment. The former objective would be sought under the two-sided preferential system; the latter is the motive of the "most-favored-nation" agreement.[3] Under this type of cooperation, two countries agree to extend each to the other the benefits of any concessions made to any other countries.[4] It would be a fair statement to say that as a result of such agreements on the part of the leading trading countries, the possibility of any one country's gaining special concessions would be minimized, and, rather than searching for further particular benefits, the quest would be for further reductions in import rates and an expansion of trade.

3. Ibid.
4. Ibid.

This situation is predominantly the one which is today in operation among the important commercial countries of the world, with few exceptions. Special treaties are as yet in evidence, but, as a consequence of the most-favored-nation clause, the benefits of these pacts are disseminated throughout the trading world and a freer operation of the "comparative cost" principle has resulted. However, the possibility of receiving special concessions had not been exhausted, due to the two interpretations which have been given to the clause. The one is, that, "a concession given, shall freely and automatically be extended to others with whom the most-favored-nation agreement exists. The other is that the country with whom the agreement exists shall have the right to avail itself of the concession upon terms identical with or similar to those given to the original country."[6] As an example, let us say, that the United States makes a concession to Canada in return for some valuable privileges granted by Canada. The United States may grant concessions to Brazil and Chile, with whom most-favored-nation agreements exist, only if Brazil and Chile are willing to grant in return, the concession granted by Canada. The former of these two interpretations is called the "unconditional form", and it tends to equalize, at once, all concessions among the countries with which such agreements exist. To call this concept a "most-favored-nation" principle is paradoxical, since under this form, no nation is shown more consideration than any other. The second form of the clause is the "conditional" interpretation. It results

6. Ibid.

in numerous different rates, being applied to the various countries as a result of the special bargains which have been negotiated.

There has always been that element which has felt that the unconditional approach to this problem will prove to be the key to the whole international trade problem. As has been suggested however, as a consequence of the war, nationalistic tendencies were increased and the exponents of trade freedom felt that, as a practical matter, more could be attained from a "conditional" interpretation with direct bargaining between certain countries. To the real "free-trade" economist this suffers from the serious defect of causing, as in the case of direct two-sided preferential agreements, a segregation of countries having common interest to the exclusion of certain others thereby again causing a definite discrimination. It would still be an improvement on the conventional highly protective attitude though, and as such it would represent a step in the "right" direction.

Possibilities for obtaining favorable concessions in evasion of the most favored nation clause, as expounded in the "unconditional" approach, has lead many countries to change from a single tariff system, under which all imports are applied to one schedule of rates, irrespective of their origin, to one of multiple tariffs. "The general and conventional systems include, first, a general tariff enacted by the legislature of that country to apply to all goods without reference to their source and, second, certain rates which have been set by conventions or treaties with other countries."[7] In the cases where concessions have been granted

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7. Ibid.

to certain countries, these special rates apply, and supersede the general treaty rates for that particular country.

Maximum and minimum rates are another type of multiple rate system, under which the country has two distinct rate schedules. The higher rates are those normally in force and through the operations of treaties and bargains certain products may have their rates reduced to approach the minimum. The third type of theory, namely one of "preference" whereby a third and distinct schedule is prepared in respect to a particular country, have, I think, been appraised in the early stages of this chapter, since in effect they are based essentially on the two-power trade and the remainder of their commerce is secondary.

Upon an investigation of the tariff agreements of the United States at the present date, certain basic principles are immediately in evidence. The first is the most-favored-nation principle.[8] The implication tendered here under this clause is, "when we grant one country a reduction in duty, we grant that reduction to all countries."[9] It is hoped that by following this procedure, it will make the lower rates extended to certain countries, applicable to all those nations who operate under this principle and ultimately there will be in evidence a lowering of trade restrictions throughout the world. The lowering of the rates to a particular country would divert trade into that channel, new and different from its "normal" one, rather than, in general, widening the channels of the world trade by the removal of ob-

8. Upgren, "Reciprocal Trade Agreements".
9. Ibid.

structions in each of the lands.[10] Prior to the Trades Agreement Act of 1934, the United States was the only important country which fixed its tariff without bargaining with other countries. As a result, we were losing the opportunity of obtaining special concessions from prospective customers who were, at the same time, anxious to increase the sale of their products in the United States.[11]

The present policy of the United States has already operated in our favor as is exemplified in our experience with France. Recently France negotiated with several nations to the end that considerable reductions were granted. Immediately, as a consequence of our most-favored-nation agreement with France, we were likewise benefitted by this move and received similar treatment.

Perhaps the fundamental postulate which forms the ultimate reason for the adherence of the United States and the countries of the world as a whole to the notion of most-favored-nation policy, is the "triangularity" of trade. Due to the differences in size and natural resources in the different nations, it would be absurd to imagine that exports from the smaller nations could be built up to balance the imports from the larger countries on a purely bi-lateral arrangement. "If we attempted to balance trade evenly or bi-laterally with each country, we (the United States) would be following a suicidal policy for our trade, inasmuch as we would probably be unable to sell as much as we do to Western Europe and we could hardly replace the lost European trade with greater sales to Asia to pay for our heavy purchases there. It is this triangularity in our trade that is the basis of our desire to enlarge all

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10. Ibid.
11. "Readjustments Required for Recovery", Public Affairs Pamphlet No. 11.

world trade. And we make no mistake in urging this policy on every other country, since the very purpose of international trade is to enable countries possessing unusual advantages for the production of certain commodities to specialize in those commodities."[12]

A lowering of tariffs in an agreement with one country may have the effect of holding certain other countries back from entering into negotiations with us. The reason for this is that they will receive the benefits of concessions made in any agreements and therefore do not need to make any direct concessions, but will be the recipients of the first country's liberality. This situation has been met by a second policy. The first country grants concession for concession on trade items which they import in "major amount from the specific country with which the agreement has been made. This is known as the principle of "chief supplier."

To illustrate this idea, take the case of Canada and the United States, where there is a wide diversity in the products traded. The supply which Canada imports from the States is about 75 to 95% of their total imports. It is certainly worth her while to make concessions upon these items in return for a reduction of tariff on goods which she supplies to the United States in a major amount. "But observe that, while on the surface this policy appears to result in a preferential agreement between Canada and the United States, (the principle has been generally accepted everywhere), once we have in this way made the rounds with all countries, we find that all tariffs have been reduced."[13]

It would seem to follow then, that if all of the nations of the world could be educated to the extent that they could appre-

12. Upgren, "Reciprocal Trade Agreements."
13. Ibid.

ciate the advantages and possibilities of a most-favored-nation policy, the results would be mutually beneficial, both economically and politically. A policy of this type is somewhat of an attempt to approach a condition of Utopian free competition. International trade would, under this type of system, be released from unnatural channels through which it has been diverted for political or "non-economically" sound reasons, and permitted to flow along those lines in which the maximum world-wide benefits would result. Competition would be stimulated, and this competition, rather than being entirely based on special concessions or treaties, would be founded on natural advantage and quality of produce.

Specialization has, in numerous cases, been shown to be the most economical and satisfactory method of production. Would it not be feasible then to disseminate to the whole world the benefits of specialization through the large scale development of those commodities in each of the various sections of the world in which it has the greatest natural advantage? This extensive project could then be brought into operation by a removal of all trade barriers which would hamper the natural flow of goods to one locale in exchange for those produced at that point. In this way it would be possible to satisfy the wants of a larger number at lower costs, coupled with the concept that no section would be forced to direct some portion of its energy into the production of certain commodities which it needed and yet in which it produced at a great disadvantage. Certainly this entire idea or "dream" as it might well be termed, is entirely impractical and impossible in the world in which we live. It is very much like the classical economists' idea of a "static society" or an "equilibrium condition". Strong nationalistic tendencies which include such exchange hindrances as military alliances, secret trade agreements, and inherent hatreds of certain other lands, all contribute to forcing the nations of the world into the more impractical methods of production, until now, to even imagine international trade cooperation, is sheer folly.

Since it is apparent that under the prevailing circumstances, it is impossible to hope for world-wide economic coordination, some attempt should at least be made to approximate this end, based on the conditions which at present surround us. As we have seen earlier in this chapter, two-sided preferential agreements, although they do, to a certain extent, permit the operation of "comparative costs", suffer from the defect that the two countries involved become too interdependent with the result that there arises the difficulty of trade balances and also the serious problem of what complications might arise as a consequence of war.

Special concessions given to a certain country would certainly be most advantageous to that country, but if these benefits were extended to all lands, no country would be in a better position than prior to the beginning of this program. Moreover the granting of concessions again leads to interdependence and extensive bargaining, whether based on sound economic reasons or not.

Maximum and minimum rates are but another form of the bargaining policy so inherent in present international policy, and although they cover a larger group of items, they still are offered to a certain few nations at best, and there remains the sacrifice of comparative cost competition for a "favor for favor" program.

The final consideration then, is the one which has been incorporated by the United States into the 1936 and 1938 trade agreements, the most-favored-nation policy under which two countries agree to extend to each other the benefits of any concession made to any other nation. This type of cooperation has two interpretations which must be considered separately, namely the "conditional" and the "unconditional" forms.

The "conditional" concept of most-favored-nation implies that the country with whom the agreement exists shall have the right to avail itself of the concession upon terms identical with or similar to those given to the original country. The effect of this interpretation is to create a number of different rates, applicable to different countries, as a consequence of special bargains which have been made.

The "unconditional most-favored-nation" idea is one which holds that a concession given, shall freely and automatically be extended to others with whom the most-favored-nation agreement exists. This would result, it is believed, in the creation of an equality of treatment in tariff rates and other commercial matters. This latter view is the one held by the majority of the "free traders" because, by applying this principle, any concessions given, wherever they may be, are extended to all. At least this scheme tends to result in an equality of tariff treatment which is a necessary foundation for free trade movement. Once the "man-made" barriers are removed, more stress will be placed on lower costs, more efficiency, and better products; rather than to a large extent having inefficiency, over-production and inferior quality protected from legitimate foreign competition. It may be, and it has been argued that high tariffs are set up to protect "infant industries", but in the majority of cases, it has been further shown that these products of protection continue to be weak and inefficient as long as their domestic market is exempt from foreign competition. It is thus a burden to domestic consumers, because they must pay higher prices for inferior commodities; it is unjust to domestic producers of other items, because due to the high protective tariffs their produce is kept off of foreign markets; and finally it is unfair to the economic system of the world, because tariffs will rise in other lands as an attempted rebuttal of such action and wherever this is the story, the exchange of goods will be minimized with the result that imports from foreign lands will have to be sacrificed, or high-priced substitutes will be inefficiently produced domestically.

It is difficult to decide which of the previously mentioned systems of international trade control would bring us most closely to our Utopian goal. It has been impossible to make an accurate measurement of the efficiency of any one of these methods, both because of the self-evident difficulty which would arise in the allocation of those results which could be attributed to a certain tariff scheme, and also because no country has strictly adhered to any one of these suggestions for a sufficient length of time to make a valid estimate or appraisal of the effectiveness of the plan, either for protection or for trade stimulation.

Moreover, the "workability" of a trade program will, to a large extent, be dependent upon the action taken by other countries. If the majority of the nations do not cooperate, a plan such as the most-favored-nation idea is a futile attempt as a trade stimulus. The appraisal must then be made upon the basis of practicability, ease of administration, effectiveness and the extent of international cooperation, and quite obviously, this is as yet, and may be for some time, an insurmountable task.

This present work is then, not an attempt to attack or defend the attitude taken by the United States in her trade agreement program. The reciprocal trade agreements program which is based upon the Trades Agreements Act approved June 12, 1934, is that ideal which is being at present employed as a foundation for American trade policy, and as such it will be treated as a valid attempt to increase world-wide exchanges of goods. Whether or not this will prove to be the case is a matter for more distant observation, since the whole concept is as yet too young for an actual test. In addition, certain developments of the past decade would indicate the folly of attempting to characterize this period as a normal one. Many of the figures which, superficially, appear to indicate certain trends, may be the result of less obvious causes, many of which have not as yet been properly evaluated. Countless other factors must be weighed along with these aforementioned ones, and even then our results will not be infallible.

The purpose of the following chapters will be, then, an attempt to show in a somewhat detailed manner, how the United

States and Canada, through the unconditional interpretation of the most-favored-nation provision of the 1938 agreement, have revised the 1935 and 1936 tariff schedules in an attempt, (rightly or wrongly) to alleviate the existing condition of trade stagnation.

Chapter III deals with the more general interpretation of the new schedule I, while chapters IV and V develop in greater detail the discussion of the concessions granted by Canada and the United States to one another as a means of attaining better trade conditions between the two nations.

CHAPTER III

THE NEW TRADE AGREEMENT BETWEEN THE UNITED STATES AND CANADA. SIGNED NOVEMBER 17, 1938.

The United States and Canada signed at Washington on November 17, 1938, a trade agreement superseding the agreement signed November 15, 1935. The former went into effect January 1, 1936, and is hereafter called the 1936 agreement.[1]

The concessions granted under this agreement would be applied to both countries and would become effective January 1, 1939. The initial term of the agreement was three years from the day following its proclamation by the President, and it would continue in force until six months after a notice of termination had been submitted by either country.

It is a significant point that this is the first instance under the Trade Agreements Act of 1934, of a renewal of the agreement with the same country. The excellent results of this first treaty has been noted in both countries and its wide scope has resulted in a marked increase in the trade between the two nations. The latest negotiations have resulted in a program still wider in its coverage and effects, and should still further enhance, "the benefits which came to the agriculture, industry, and commerce from the first agreement."[2]

The commodities covered by the new agreement comprise those items which make up the bulk of the United States-Canada trade in either direction. "The trade outranks the trade between any other two countries of the world. Canada, in recent years, has

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1. The New Trade Agreement with Canada, Department of State, No. 1253.
2. Ibid.

closely followed the United Kingdom as the best customer for our exports, taking about one-seventh of the total; Canada is much the largest source of our imports. The United States, in all but one of the last ten years, has been the largest customer for Canada's exports and has supplied in the neighborhood of three-fifths of Canada's imports."[3]

The new rate schedule not only continued many of the numerous concessions of the 1936 agreement, but in addition, it lowered the tariffs on certain of these items and added to the list, a number of new products which had not been covered under the original agreement. "A major concession to the United States results from the provision that hereafter the Canadian special import tax of three percent will be removed from all items, dutiable or free, specifically listed under schedule I which names concessions to Canada."[4]

The term "concessions" shall mean in this discussion not only such revisions in the schedules as will improve the tariff status of any commodity, such as duty reductions, but in addition, those which insure the existing tariff treatment from an unfavorable change. In a period of increasing trade restrictions, these assurances have the same effect as a reduction in the tariff schedule.

Crude or semi-manufactured forest and mine products have in the past comprised approximately three-fifths of Canada's exports to the United States. These items have entered the country duty-free and under the new agreement, as under the old,

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3. Ibid.
4. Ibid.

they are "protected" from any increase or imposition of duty or import tax. United States exports to Canada consist in the bulk of dutiable commodities; as a result, the products on which Canada has reduced her duties comprise a greater value of trade than do the items on which the United States has made reductions.

"Experience under the first agreement shows that the agriculture and industry of the United States have been left with adequate protection in the domestic market, even though the reduced duties opened to Canadian producers the opportunity to add to their sales in the United States."[5] However, each group of American producers will receive certain benefits as a consequence of increased exports in other lines, and in many cases, those who have encountered an increase in Canadian competition in the domestic market, have or will obtain advantages for their products in various foreign markets.

As has been noted, the mutually satisfactory results of the agreement of 1936 lead Canada and the United States to continuation and amplification of the concessions granted under that arrangement. The effects of a reduction in restrictions, after the highly protective attitudes of Canada and the United States, especially in the early "thirties", were definite indications that a suitable plan of procedure had been discovered and the present day agreement is the more developed and refined product of this earlier experiment. "Higher barriers, combined with the general business depression, brought the imports from Canada into the United States down from $503,000,000 in 1929 to $232,000,000 in 1934, a decline of 54 percent. Canadian imports from this country had fallen even

5. Ibid.

more, from $894,000,000 to $294,000,000, a drop of 67 percent. These 1934 figures had already shown appreciable recovery over 1932 and 1933. In 1935, before the first agreement, improved business conditions in this country, (the United States), together with the drought of 1934 which necessitated larger purchases of certain agricultural products, raised imports from Canada materially, although they still remained 31 percent lower in 1935 than in 1929. Imports from the United States into Canada also increased somewhat in 1935.

"The years 1936 and 1937 witnessed a marked expansion in the trade. Further business recovery in both countries contributed to this increase, and drought conditions in the United States also influenced imports from Canada well into 1937. The duty reductions which went into effect at the beginning of 1936 were, however, a major factor in trade revival."[6]

The special factors, business recovery and the drought, influenced the figures for trade between the nations during this period, and perhaps the best analysis of the effects of the 1936 agreement can be garnered from a comparison of the experience of the two full years following the program with the two years immediately prior to it. "Canadian imports from the United States increased from an annual average value of $303,000,000 during 1934 and 1935, to $430,000,000 during 1936 and 1937, an average increase of $128,000,000 a year, or 42 percent over the pre-agreement period. The rate of increase in our exports (the United States) to Canada was well above that of the increase in our ex-

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6. Ibid.

ports to the world as a whole."[7] Similar, though of course not identical, results were experienced in United States imports from Canada, so that the trade expansion rose simultaneously during this latter of the two periods, in each of the countries.

Of prime importance is the fact that in both directions, the substantial rises in trade following the agreement, were, in general, most noticeable in those products in which the greatest reductions had been made. "Canada's imports of such goods from the United States rose from about $120,000,000 in 1935 to about $215,000,000 in 1937, an increase of 80 percent."[8] Moreover, this increase was decidedly greater than that experienced in products which had received no rate reductions, or those which had, prior to the agreement, been on the free list.

"Between 1935 and 1937 there was an increase of nearly 87 percent in the value of the imports of articles on which the duties had been reduced, as compared with an increase of 34 percent for dutiable articles not specified in the agreement and of 35 percent for goods free of duty."[9] The true significance of these figures can, however, only be appreciated in light of effects of the drought on imports to the United States, and the general business recovery in both nations.

<u>Concessions Made by Canada.</u>

The new agreement, as analyzed by the Department of Commerce, shows that, both through concessions on specific products and the extension of the most-favored-nation treatment, it has

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7. Ibid.
8. Ibid.
9. Ibid.

resulted in a lowering of duties, "on an amount of approximately $241,000,000 worth of United States exports to Canada in 1937. This figure, necessarily based in part on estimates, is 74 percent of the total imports into Canada from the United States in 1937, which were dutiable in 1935 (some dutiable in 1935 were free in 1937 as a result of the agreement of 1936 or of subsequent Canadian legislation). The amount mentioned is in addition to commodities, the 1935 rates of duty on which are bound against increase or which are bound duty-free, but from which the 3 percent tax is removed."[10]

Approximately one third of the aforementioned sum was made up of commodities on which the rates, although reduced in the 1936 agreement, had been lowered still further, or items which had not been included in the 1936 schedule and which were having duty reductions for the first time. "The imports of these items from the United States into Canada in 1937 were valued at $80,000,000."[11] The remaining two-thirds comprise those items on which, either through special commitments or most-favored-nation treatment in the 1936 agreement, retained their advantage and remained as such in the new agreement.

The variety of products in which the two countries traded is so diversified in its nature that concessions, especially those effecting Canada's imports, were spread throughout all groups of the Canadian tariff. The most important groups in which favorable tariff arrangements were made, were agricultural products (fruits and vegetables), various manufactures of woods, paper

10. Ibid.
11. Ibid.

products, fishery products, two large 'basket' groups of chemicals, a variety of heavy iron and steel products including tinplate, a large 'basket' group of machinery, aircraft and engines, numerous important textiles, including cloths, yarns and certain finished products such as wearing apparel; in addition to manufactures of rayon, cotton, and silk.[12] The duty on automobiles, one of the major imports of Canada from the States, had been reduced in the 1936 agreement, but was subject to increase by the Canadian legislature. Under the new Act, the rates as in effect were bound against an increase.

The tariff reductions on American exports into Canada as compared to the pre-agreement schedule in 1935, are a consequence of the lowering of rates on certain specific commodities as indicated in schedule I of the agreement, many of which were continuations of the 1936 negotiations; and the remainder resulted from the inauguration of the most-favored-nation treatment first proposed in the 1936 agreement and continued in the new schedules. In effect, many of the tariff reductions were a narrowing of the "margins of preference" which, prior to the agreement, had been granted to imports from other British Empire countries.

"The new agreement also brings advantage to many American producers and exporters by binding against increase the rates of duty already in effect in 1935 on articles covering $48,000,000 of Canadian imports from the United States in 1937. Continued free entry has been assured for articles with a trade value in 1937 of $69,000,000. Although these bindings do not alter the position

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12. Ibid.

of American goods as regards duties proper, they carry with them a reduction of the actual charges to which the imports are subject. This results from the provision of the agreement that the special import tax applicable to imports from the United States and other non-British countries will be removed from all commodities, dutiable or free, specified in schedule I of the agreement. This tax is 3 percent ad valorem, and for dutiable goods it is computed on the basis of duty-paid value, thus averaging about $3\frac{1}{2}$ percent on the dutiable value."[13]

In total then, the concessions made by Canada, comprising duty reductions (included in schedule I and most-favored-nation provision), as compared with the 1935 rates, bindings of continued free entry, and bindings against increases in existing rates, "cover articles which Canada imported from the United States in 1937 to a value of some $358,000,000 or 73 percent of the imports from the United States."[14] From these figures, it is possible to realize the magnitude and possibilities of trade expansion as a consequence of the cumulative coverage of the 1936 and the 1938 agreements.

Concessions Made by the United States.

The concessions granted by the United States under the 1938 provisions, like those extended by Canada, were far-reaching in scope and in effect. Approximately two-fifths of the American imports from Canada are dutiable, and yet, the rate reductions as compared to those in effect prior to 1936, "cover

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13. Ibid.
14. Ibid.

commodities which this country (the United States) imported in 1937 to a value of $121,000,000. This total is 77 percent of the value of all dutiable imports from Canada and 31 percent of the combined free and dutiable imports."[15]

Further reductions or new reductions were made on articles, which in 1937 had amounted in "value to about $73,000,000,"[16] in many instances the quotas were increased to permit the importation of larger quantities from Canada. "On dutiable trade valued at $47,000,000 the concessions in the new agreement are the same as in that of 1936."[17]

The most important revisions of the rate schedules of the United States in respect to improving the tariff position, as compared to that immediately prior to the new agreement, are the following, "those on live cattle, hogs and pork products, cheese, eggs, grains other than wheat, grain by-products, maple sugar, potatoes, various fishery products, acetic acid, certain black pigments, brick, nickel, aluminum, zinc, cadmium, certain cast-iron products, book paper, the cheaper grades of tissue and crepe paper, silver fox furs, and Christmas trees."[18] Whisky, the imports of which from Canada in 1937 amounted to $21,000,000,[19] was the most important single commodity which received the same concession in 1938 as under the 1936 agreement. Other items of importance which received treatment similar to that which they obtained under the 1936 agreement included ferromanganese, live and dressed poultry, several classes of fish, various grass and clover seeds, turnips and pulpboard.[20]

15. Ibid.
16. Ibid.
17. Ibid.
18. Ibid.
19. Ibid.
20. Ibid.

Seven items which are subject to quota received rate reductions, that is, these reductions are extended only to limited quantities of these goods. "The value of the imports of these seven items from Canada in 1937 was $14,000,000."[21] It was deemed necessary to retain these quota restrictions so as to "protect" certain American producers, but, it was felt that the imposition of this type of restriction would not exclude Canadian products from the American market and would give them very substantial benefits. Quota restrictions on the quantity of Douglas firs and western hemlock lumber which could enter at reduced rates, were entirely removed.

The new agreement bound against increases in the schedule of 1936, articles from Canada which in 1937 had a value of trade of $3,000,000.[22]

"The agreement binds continued free entry into the United States of many articles, which together accounted for $203,000,000 of imports from Canada in 1937. This total constitutes 85 percent of the free imports from Canada in that year and 51 percent of the aggregate free and dutiable imports. Together, duty reductions and guarantees of the continuance of previous customs treatments thus affect items which made up 83 percent of all our imports from Canada in 1937."[23]

Of the sum total of commodities on which the United States either reduced the tariff schedule or bound the existing rates as set forth in the 1935 rates, 37 percent of the reductions as measured by value of imports from Canada in 1937, were on agri-

21. Ibid.
22. Ibid.
23. Ibid.

cultural items, and 63 percent were on non-agricultural products.[24]

It is well worth noting at this point that a large percentage of the items which were not included in the schedule of the agreement, were products of a noncommercial nature, or commodities of which the other country was not the principal source of imports.

General Nature of the Agreement.

The basic provisions of the new agreement, were with few exceptions, duplicates of those set forth in the 1936 agreement. "The United States and Canada will grant each other unconditional and unrestricted most-favored-nation treatment in all matters concerning customs duties and subsidiary charges of every kind."[25] This provisions implies that each of the countries will extend to the other, immediately and without compensation, the most favorable treatment, including the lowest rates on customs duties, which it grants to any other nation, either in the form of trade agreements or otherwise, subject however to special trade advantages between the United States and Cuba, and Canada and the British Empire. The policy of most-favored-nation treatment is to apply not only as respects to customs duties, but also on such matters as restrictions and prohibitions on imports and exports, the allocation of import quotas, foreign purchases by Government controlled monopolies, and either countries awarding of public works contracts and in purchasing supplies from abroad.[26]

Each country states that quantitative restrictions or pro-

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24. Ibid.

25. Trade Agreement Between the United States and Canada. Dept. of State No. 1255.

26. Ibid.

hibitions upon imports from the other nation will not be imposed unless in conjunction with govermental measures or measures under governmental authority, "(a) operating to regulate or control the production, market supply, quality or price of the like article of domestic growth, production or manufacture; or (b) operating to increase the labor costs of production of the like article of domestic growth, production or manufacture."[27] Should either Government propose to alter the existing agreement by such a proposal, that Government must submit a notice to that effect to the other, and shall, if so required, enter into consultation about the matter; if no solution is reached, should the action be undertaken, the Government to whose products the regulations are directed shall have the right to terminate the agreement in its entirety.

In respect to articles imported into the United States or Canada, on which ad valorem rates of duty, or duties based upon, or regulated in any manner by value, are or may be assessed, "the general principles on which dutiable value is determined in each of the importing countries on the day of the signature of this agreement shall not be altered so as to impair the value of any of the concessions provided for in this agreement."[28]

The agreement further contains the provision that either Government shall be permitted to enforce such measures as it sees fit under the following circumstances, (a) in relation to the import or export of gold or silver, (b) the import or export of military supplies, (c) to maintain neutrality or public safety, or, (d) if that country is engaged in war or hostilities; furthermore, there is to be no discrimination by either country against

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27. Ibid.
28. Ibid.

articles the growth, production or manufacture of the other country, except with respect to discriminations or restrictions, (a) imposed for moral or humanitarian reasons, (b) proposed to protect human, animal or plant life or health, (c) relating to prison made goods; or (d) relating to the enforcement of police or revenue laws.[29]

In the event of wide variations in the rates of exchange between the two countries, so as to substantially prejudice its industries and commerce, that country may propose a modification in the agreement so as to alleviate the situation, or in lieu of a successful settlement, to terminate this agreement on thirty days' written notice.

Each country has the right to withdraw or modify any of the concessions it has granted, if, as the consequence of this concession, a third country proves to be the beneficiary, and as a result imports of the article concerned increase to such an extent as to seriously threaten domestic producers. Should the government propose to take such modifying or annulling action, notice must be given the other Government as to its proposed action, and the other Government shall have the opportunity within thirty days of the receipt of the notice, to confer with it in respect to the proposed change.[30]

General Analysis of the Concessions Made by Canada.

The effects of the wide scope of the concessions made to the United States by Canada will result in benefits to every

29. Ibid.
30. Ibid.

section of that former country. These concessions, including those which resulted from the 1936 agreement may be divided into the following groups:

"(1) Duty reductions specifically listed in schedule I.

(2) Duty reductions resulting from the provision that all United States goods shall enjoy the lowest rates now or hereafter paid by any non-British country.

(3) The guaranty ("binding") of continued freedom from duty of numerous items named, and of the continuance of the 1935 duties in the case of certain items.

(4) Removal of the 3 percent special import tax on all items specifically listed in schedule I, including items free of regular duties.

(5) Relief with respect to the Canadian system of arbitrary valuations.

(6) Exemption from duty up to the amount of $100 on purchases made by returning residents of Canada.

(7) Certain advantages to commercial travelers, and to Canadian transit trade passing through the United States as the result of the most-favored-nation provision."[31]

Approximately one-half of the duty reductions listed in schedule I, in terms of 1937 imports from the United States, represent new or increased concessions. There were comparatively few new bindings of free entry. Most of the negotiations pertaining to arbitrary valuations had been obtained under the 1936 agreement.

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31. The New Trade Agreement with Canada, Department of State, No. 1253.

The concessions with respect to groups 6 and 7, are not changes in their previous situation. Therefore, it is quite evident that only part of the concessions listed above, are exclusively results of the new agreement.[32]

Canadian Reductions in Duty Under Schedule I.

Schedule I of the 1936 agreement embodies those dutiable items, on which Canadian tariff rates of imports from the United States were reduced, "to a value of $95,000,000 in Canadian imports from the United States in 1937."[33] Under the new agreement this schedule became more comprehensive. In addition to the advantage gained by the removal of the 3 percent import tax for a great volume of duty-free commodities, "the reductions in duties themselves, under schedule I of the 1938 agreement, as compared with 1935 rates, cover trade valued in 1937 at nearly $163,000,000."[34]

As a further clarification of theexpansion in the scope of schedule I, it is well to realize that in the case of many of the new items in schedule I, the rates had been lowered as a result of most-favored-nation treatment after the 1936 agreement, others received definite cuts in their rates; and in numerous other cases the rates remained unchanged. However, even this latter group may be considered to have gained from the new agreement. As has been noted, the 3 percent tax had been removed and, in addition, the rates were bound against an increase. "The total 1937 value of the imports into Canada from the United

32. Ibid.
33. Ibid.
34. Ibid.

States of articles listed in schedule I on which the duties had been reduced by the most-favored-nation clause of the 1936 agreement, the same rates now being bound against increase, was over $36,000,000."[35] The most important single item receiving such treatment is automobiles. Under the 1935 status the rates had ranged from 20 to 40 percent; under the most-favored-nation provision the rates were reduced to a uniform rate of $17\frac{1}{2}$ percent, and under the new agreement this was bound against an increase.

Another factor in the widening of the scope of the new agreement was made possible by the modification in 1937 of the obligations of Canada with respect to tariff preferences for British products.[36] The Ottawa agreement with the United Kingdom placed certain restrictions on Canada as to tariff preferences she might extend to non-British nations. A revision in the agreement in 1937 removed the trade preferences in over half of the items and Canada could extend to the United States terms as advantageous as those she extended to the United Kingdom. Many of these "bound margins of preference" still exist; however, in many cases the United Kingdom has relinquished a portion of the margin, permitting Canada to reduce duties which she formerly was unable to do.

This narrowing of the "preference margin" as a result of the reductions in the rates of duty as described in schedule I, greatly strengthens the position of American producers and exporters in competition with the United Kingdom in the Canadian market.

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35. Ibid.
36. Ibid.

Not only has the new schedule I widened the scope of the 1936 agreement, but, in addition, it provides for still further reductions of certain rates which had previously been lowered as a result of the first agreement of most-favored-nation treatment. The further rate reductions effect commodities which the United States supplied to Canada in 1937 to a value of $63,500,000.[37] The entirely new reductions, on products not incorporated in the 1936 agreement had accounted for a trade in that year of $16,500,000.[38] These two groups represented a trade valued at $80,000,000 in 1937. That group of commodities which retained the benefits which they had received in the 1936 agreement, with no further reductions, represented a trade value of $82,000,000 in 1937.[39]

The remaining group of commodities, those which received new or further reductions on imports from the United States were numerous and distributed throughout the Canadian tariff. A few of the most important may be mentioned in passing..

Further or New Tariff Reductions on Agricultural Products.[40]

The basic rate on fresh fruits which had been reduced from 20 to 15 percent, was further cut to 10 percent. Fresh vegetables, previously benefiting by a reduction from 30 to 15 percent under the 1936 agreement, likewise received a cut to 10 percent. These two groups were subject to increases in the actual charges during the competitive season by "arbitbrary valuaations or dumping duties;" by the 1936 agreement these had become less burdensome, and under the new agreement further simpli-

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37. Ibid.
38. Ibid.
39. Ibid.
40. Note. All figures mentioned in this section, unless otherwise indicated, are taken from the Canadian Government Publication showing a Tabular Statement of Tariff Changes. No. 71153-1.

fications are made.

The 1936 agreement had provided free entry for oranges during the 4 months January to April; the new agreement added the month of December, and Canada reserved the right to extend free entry during May, June and July. [41]

Canned fruits, previously having had their rates reduced from five to four cents, received an additional one cent reduction. Rates on fruit juices, an important item, were reduced from 25 percent to 15 percent, dried fruits similarly received new concessions. The duty on corn, not otherwise provided for, formerly cut from 25 to 20 cents per bushel, now is set at 10 cents. Grains and seeds received new or substantial reductions, as did flowers and foliage. Potatoes are granted free entry into Canada except for a six-weeks period, (June 15 to July 31 inclusive), when the rates are reduced from 75 cents to 37½ cents per 100 pounds. Meat products have benefitted by lower duties, or have maintained their benefits over the pre-1936 agreement period. Reductions were made in the rates on sea food items, especially canned shrimp, which had received a 40 to 27½ percent cut and now gained a 15 percent rate. Eggs received a duty reduction of from 10 cents to 5 cents. Cereals, honey, candy, cigarettes, whiskey and barley malt are the remaining large items which benefitted by direct cuts in rates, or were recipients of new tariff concessions.

Further or New Tariff Reductions on Non-Agricultural Products.

Books and printed matter in most classes, were given re-

41. Ibid.

ductions in excess of those obtained under the 1936 agreement. Paper and paper manufactures were likewise given added concessions. Wood pulp under the new agreement was bound free of duty.

On the large group of chemicals, not produced in Canada, the rate was cut from 25 percent to $17\frac{1}{2}$ percent; the group of chemicals made in Canada, previously benefitting from a 25 to a $22\frac{1}{2}$ percent reduction, were now given a 20 percent duty rate. Biological products retained their free status, as of the 1936 agreement. Medical preparations, soaps and perfumes, and surgical dressings, obtained new lower rates of duty.

Cellulose and plastic products continued to have free entry or, as in the case of manufactures of pyroxylin plastics, became subject to a cut from a $32\frac{1}{2}$ to a $27\frac{1}{2}$ percent rate.

Paints, inks, and their ingredients obtained increased concessions, a very important item, paints and colours, ground in spirits, had a duty reduction of from $1.25 to 85 cents per gallon.

Clay, glass, stone, and cement products showed decreases in their duty schedule, particularly in building brick and paving brick, drain pipes, sewer pipes, and earthenware fittings, chemical stoneware,hand forms of porcelain, baths, bathtubs, manufactures of glass, high thermal shock resisting glassware, and bottles, flasks, phials, jars and balls.

Turning to the field of metallic products, new or increased concessions were experienced with respect to zinc manufactures, zinc slugs or discs, wire, single or several, aluminum and manufactures thereof, and products made of Britannia metal, nickel silver, gold or silver, or items which were to be used in clock manufacture.

With respect to the heavy products, iron and steel, again there were numerous concessions granted. Particularly in the classes of tinplate, bars and rods, rolled plates, sheets, coated with tin or other metals, hoop, band or strip steel, terneplate, iron and steel castings, forged golf club heads, steel tires, axles and axle bars, fittings and couplings, rust or acid resisting steel wire, woven or welded steel wire fencing, woven netting and chains were the reductions most noticeable.

Prior to the 1936 agreement, a large group of miscellaneous machinery of a kind manufactured in Canada had a rate of 35%. As a consequence of this treaty, the rate was lowered to 25% and is maintained under the present schedule. Under the new agreement, machinery of a kind not manufactured in Canada, has a rate of 10 percent, showing a 10 percent cut from the previous agreement. This latter group accounts for a trade of, roughly, $10,000,000 annually.[42]

Office equipment, including typewriters and parts, dictating, transcribing and cylinder shaving machines, bookkeeping, calculating, and invoicing machines, are beneficiaries under the new schedule, the latter group having a reduction to almost one-half of the 1936 rate.

Refrigerators, clothes wringers, and certain other household appliances had their rates lowered from 30 to 25 percent. Diesel engines (part of which enter free for use in vessels) obtained a similar rate revision.

Important reductions and new concessions were made in the various items of electrical equipment, particularly electric light

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42. The New Trade Agreement with Canada, Department of State, No. 1253.

fixtures and appliances, electric head, side and tail lights, electric dynamos and generators, electric motors, and electrical apparatus and precision instruments.

Transportation equipment was included in the new concessions, as may be witnessed in the case of aircraft. Prior to 1936 they bore a $27\frac{1}{2}$ percent charge, then under the 1936 act this was lowered to $22\frac{1}{2}$ percent, now the rate is 20, $17\frac{1}{2}$ and 15 percent. Motorcycles, locomotives and motor cars for railroads, were likewise recipients of further concessions.

Rough lumber continues to enter the country duty free, but finished lumber, formerly being charged 25 percent, then reduced to 20 percent, is now 10 percent. Hardwood flooring and plywood obtained cuts of $2\frac{1}{2}$ and $7\frac{1}{2}$ percent respectively in their import schedules. The rate for shingles was lowered from 20 percent, to make the item one of the many on the free list.

Textile products had benefitted slightly from the most-favored-nation treatment under the 1936 agreement, but, as a further stimulation to trade in these items, still further reductions in schedule I were made. These were most evident in cotton yarns, cotton thread, cotton woven fabrics, cotton bags, colored cotton goods, handkerchiefs, clothing and wearing apparel, coated or impregnated fabrics, felt, splints, socks and stockings, silk and artificial silk clothing, Oriental and imitation Oriental rugs and carpets, linoleum, floor oilcloth and cork mattings.

Many duty reductions were made on the different classes of leather goods, which had not been affected by the 1936 agreement. These supplementary reductions were made on belting leather and sheepskin or lambskin leather (further finished than tanned), sole leather, genuine pig leathers, boots, shoes, slippers, leather garments, harness and saddlery, and other manufactures of leather.

Rubber goods, including tires, hose, clothing, and packings obtained attractive considerations.

Scientific, musical, and technical instruments, encompassing cameras, dental instruments, phonographs, records, brass band instruments, and numerous other products may be added to the list of recipients of concessions under schedule I.

The final miscellaneous group of imports which will find their positions improved over that under the 1936 agreement includes trunks, valises, jewellery, buttons, cases, motion picture films, fertilizers, crayons of chalk, and other items.

A major concession granted is stated in paragraph 711, the "catch all" clause of the Canadian tariff, imports under which from the United States in 1937 were valued at nearly $4,500,000. The duty had already been reduced from 25 to 22½ percent and now to 20 percent on the general item, with a 10 percent rate on several commodities excerpted from it. This paragraph, includes a considerable group of chemicals and in addition covers many other products.[43]

Renewed Duty Reductions of the 1936 Agreement.

A large group of important individual items retained the rates which they had received under the 1936 agreement, either under schedule I or as a result of the most-favored-nation treatment.

43. Ibid.

Of particular importance are those major articles such as agricultural machinery, automobiles, miscellaneous machinery of a class or kind not manufactured in Canada, miscellaneous manufactures of iron and steel, copper or brass, electrical apparatus not otherwise provided for, paper not otherwise provided for, miscellaneous wood manufactures, apparatus designed for cooking, or heating buildings (all types of fuel), and machinists', mechanics', engineers', precision instruments, to mention only a few.

As stated in the Trade Agreements Act, the United States cannot reduce any duty through a trade agreement by more than 50 percent; however, there is no such restriction on the Canadian Government, and, in certain instances the rates under schedule I show rates having reductions in excess of 50 percent of the 1935 rates. On the whole, however, it would be safe to say that the percentages by which Canada reduced her tariffs were, roughly, equivalent to the reductions made by the United States on her tariff schedule.

Most-Favored-Nation Provision to be Continued.

As has been previously mentioned, in addition to direct reductions in the rate schedule, the 1936 agreement provided for numerous rate cuts as a consequence of most-favored-nation treatment on a very large number of American products. The provision provided that American exports should pay duty rates no higher than the lowest rates paid by any other country not in the British Empire.

Before the 1936 agreement, Canada had a set of rate schedules which it extended to nations of different classes.

American products were given the highest charge, a lower intermediate rate was granted to most non-British countries, and the lowest rate was applied to British Empire commodities. In addition, through special agreements, certain non-British countries merited lower rates than those of the intermediate schedule. The 1936 agreement gave to the United States the benefits of the intermediate schedule and also any sub-intermediate rates made by Canada through special arrangements with non-British nations. The new agreement continues the functioning of the most-favored-nation clause and the United States will continue to receive any reductions of rate by Canada, exclusive of British preferential rates.

"As a result of the most-favored-nation provision of the 1936 agreement, the United States obtained, at the outset, lower duties on products representing a trade in 1937 of about $114,000,000."[44] Since these concessions, not being included in schedule I of the 1936 agreement, were not bound against increases, a few of them have been raised. The effect has been, in general, to reduce the rates on a large volume of Canadian imports from the United States.

Not only did this most-favored-nation treatment result in the removal of a very definite discrimination against American products in favor of other non-British countries, but of greater importance was the fact that the position of American producers was improved in competition with Canadian manufacturers of like products. Thus a definite step in the direction of anti-protectionism was taken by the Canadian Government.

The continuation of most-favored-nation treatment under the 1938 agreement could not, of course, result in reductions equal to those under the 1936 agreement. The new schedule I included many items which had received benefits from most-favored - nation treatment under the 1936 agreement. There remain however, hundreds of items in the Canadian duty schedule with respect to which the United States benefits directly by the most-favored-nation clause,--items on which the rates now being paid are lower than before 1936 solely by virtue of this provision. "The imports of this group from the United States in 1937 amounted to $79,000,000, in addition to the imports at reduced rates specified in schedule I."[45]

The majority of the concessions received as a result of the most-favored-nation provision of the 1936 agreement and which are now in effect are, generally speaking, of minor importance in the immense volume of trade between the two countries. Certain individual commodities,however, are of major magnitude and include the following: advertising and printed matter; certain classes of gums; crude petroleum, certain major products of petroleum; bulbs for the manufacture of electric lamps; certain classes of steel sheets; miscellaneous forgings of iron and steel; tin cans; a widely varied list of parts for motor vehicles (by far the largest one item); radio apparatus; dressed furs; explosives; and parts of cash registers for further manufacture.[46]

<u>1938 Bindings of 1936 Duty Treatment.</u>

Free Items. -- Many imports from the United States which had, prior to the 1936 agreement, been on the Canadian free list, were bound against increase by that treaty, and were again insured

45. Ibid.
46. Ibid.

under the new agreement against advanced duties. All of these duty free items included under schedule I however, are relieved of the 3 percent import tax, which had formerly been placed on all free items.

The most important products which had been bound under the first agreement and which are now rebound include, raw cotton; hides, furs, and skins; magazines, newspapers; rough lumber; tractors; biological products, and recovered rubber.

The new bindings of free entry into Canada in the 1938 agreement include commodities representing a trade in 1937 of $12,000,000.[47] The major items included in this group are, pyroxylin plastics, petroleum, coke, sulphur, and bone pitch and resin.

The total number of items bound free, including those which were rebound, accounts for an import trade into Canada from the United States in 1937 of $69,000,000.[48] Not included in this figure are certain items which had become free as the result of the 1936 agreement, and are now bound free in the new agreement.

The free entry bindings into Canada quite naturally cover a smaller volume of trade than do similar bindings on products imported from Canada by the United States, since by nature of the products involved, these free items are less important in Canada's imports.

Dutiable Items. -- With reference to 21 tariff items, of which only 2 had been covered in the 1936 agreement, the Canadian duty rates existing in 1935, in most cases moderate, are bound

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47. Ibid.
48. Ibid.

against an increase under the new agreement. Imports of these commodities into Canada from the United States in 1937 totaled about $48,000,000.[49]

Of maximum importance among these bindings of rates of duty as they had existed in 1935, were those pertaining to coal and coke, the imports of which from the United States into Canada in 1937 were valued at over $30,000,000.[50] Other bound items of great importance are the iron and steel group; structural steel, sheet steel, wide steel plates and skelp for pipe manufacture. The listing of these items in schedule I carries with it the exemption of the product from the 3 percent excise tax, which, on items of low duty proper, would constitute a major portion of the charges for importation into Canada. As, for example, the case of anthracite coal, the duty on which, bound by the agreement against an increase, is 50 cents per ton (about 10 per cent in ad valorem equivalent), the tax equals about 17 cents per ton.[51]

Three Percent Special Excise Tax Removed From Imports.

The 1938 agreement provides that the three percent special excise tax will be removed on all imports into Canada under schedule I, whether dutiable or free. Schedule I covers 57 percent of the total 1937 imports of Canada from the United States; thus, a provision of this kind represents a drastic reduction in the tariffs previously collected.[52]

This special excise tax had been designed primarily for

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49. Ibid.
50. Ibid.
51. Ibid.
52. Ibid.

revenue purposes rather than as a protectionist measure and was applied to imports from British as well as non-British countries. In April 1934, the rate on British goods was reduced to $1\frac{1}{2}$ percent, and in March 1935, it was removed entirely. Such action increased the preference margin which the British countries enjoyed over United States and other non-British lands.

"In the case of dutiable articles, the excise tax is computed not on the dutiable value but on the duty-paid value. For example, if the rate of duty is 20 percent, the 3 percent tax amounts to 3.6 on the dutiable value, making a total charge of 23.6 percent."[53] The combination of a reduction in duty plus the exemption from the special excise tax has substantial benefits. "For example, if a 20 percent ad valorem duty is reduced to 15 percent, the actual effect is to lessen the charges not by one-fourth but by well over one-third (from 23.6 percent to 15 percent.)."[54] On goods which were on the free list, the exemption from this special tax, which had formerly represented a real trade barrier, should prove to be a stimulant to trade in those items.

Interpretation of Arbitrary Valuations.

Prior to the 1936 agreement, a large proportion of the Canadian imports from the United States were subject to a system of "arbitrary valuations". Not only was the ad valorem rate of duty calculated on a higher basis, but the difference between the arbitrary value and the invoice value was added to the import charges, and termed, "dumping duty."[55]

53. Ibid.
54. Ibid.
55. Ibid.

Included in the terms of the 1936 agreement were certain provisions which to a large extent alleviated the abuses under the then existent conditions. The arbitrary valuations and the dumping duties on a great number of commodities were entirely removed, and, on the important group of vegetables and fruits, they were reduced.

The new agreement provided further reductions with respect to arbitrary valuations on vegetables and fruits, resulting in rates lower than those prior to, or expressed in the 1936 agreement. Special mention is made of the amount by which the value for duty can exceed the invoice value, the period for which such valuations shall be effective, and the alternative that Canada may, after consultation with the United States, substitute a system of specific duties for the present arrangement.[56]

Additional Retentions from the 1936 Agreement.

It has in the past been customary for the United States to permit its residents who travel in foreign countries, to bring back to the States, free of duty, articles for their personal use up to the value of $100. Canadians traveling the United States or other countries had no such privilege, prior to 1936. As a result of the 1936 agreement, Canadian legislators introduced a practice essentially similar to that in effect in the United States, with the result that American merchants have gained an increased amount of trade which in 1937 exceeded $6,000,000.[57]

Another interesting result of the most-favored-nation status resulting from the 1936 agreement was that American com-

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56. New Trade Agreement between Canada and the United States. Dept. of State. No. 1255.

57. The New Trade Agreement with Canada, Dept. of State. No. 1253.

mercial travelers were permitted to take samples into Canada under bond or deposit, assuring their return to the United States, whereas they had formerly been subject to full duty charges without a refund. In addition, the products of any non-British nation shipped to Canada in transit through American ports have, as a result of this agreement, received as favorable treatment by the Canadian customs as if they had been landed directly at a Canadian port, a change of advantage to American transportation agencies.[58] These additional advantages will continue under the most-favored-nation clause of the 1938 agreement.

General Analysis of Concessions Made by the United States.

The concessions granted to Canada by the United States under the new agreement, in return for the advantages secured for American agriculture and industry from Canada, may be divided into four classes, the latter two meaning no change in the American tariff schedule;

"(1) Reductions in duties limited by quota provisions.
(2) Reductions in duties not limited by quota provisions.
(3) Bindings of certain existing duties against increase.
(4) Bindings of existing free entry of certain imports."[59]

Duties Limited by Quota Provisions.

As expressed in the 1936 agreement, the duty reductions on certain products, mostly agricultural, were protected to a large measure by the use of import tariff quotas, the reduced rates applying only to definitely designated quantities; the im-

58. Ibid.
59. Ibid.

ports in excess of this limit being subject to full rate charges. It was deemed necessary to apply such qualifications to aid domestic producers. The new agreement continues to retain the quota restrictions, but with some modifications.

Among the items subjected to quotas under the 1936 agreement, were cattle weighing 700 pounds or more each, calves, cream and certified seed potatoes. More liberal concessions have been granted these articles under the present treaty. On cattle, the duty was further reduced to $1\frac{1}{2}$ cents per pound; in addition, the quota was raised from about 156,000 head to 225,000, with a limitation on the number which may be imported in any one quarter. Calves retained the same duty as under the former agreement, but, the quota was increased from 52,000 to 100,000 head. On cream, the quota, having never been filled, was unchanged, the rate, however, was reduced. In reference to certified seed potatoes, the quota was increased from 750,000 to 1,500,000 bushels, coupled with a further decrease in the duty rate.[60]

In addition to these quota revisions, the 1938 agreement provides for reductions in duty, subject to quota limitations, on three articles not previously covered in the 1936 agreement. Table potatoe rates were cut to the maximum permitted by the statute and the agreement with Cuba, but these reduced rates apply only to a quota of 1,000,000 bushels, except in the event of a crop shortage in the United States, in which case the quota is increased by the amount of the shortage. A 50 percent per gallon reduction was made in the case of milk, with the quota limit set

60. Ibid.

at 3,000,000 gallons. The most important of the new quota-protected concessions is with reference to fillets of cod, haddock and related species of fish. A 25 percent reduction is evidenced, but this applies only to a quantity of fish not exceeding 15,000,000 pounds, or 15 percent of the United States' consumption if the consumption exceeds 100,000,000 pounds.[61]

In certain instances, the quota limitations, as set forth in the 1936 agreement, were abandoned; among the items receiving such treatment were dairy cattle, Douglas fir and Western hemlock. Such action was probably due to the fact that the imports in these commodities had never approached the quota limits. These important benefits which American lumber producers had obtained in certain markets of the United Kingdom and British colonies were, of course, additional stimuli for the increased concessions in the lumber group.

United States imports from Canada in 1937 of dutiable articles subject to quota limitations under the terms of the new agreement, were valued at about $14,000,000 or 9 percent of the total dutiable imports from Canada.[62]

The 1936 agreement had bound the continued free entry of red cedar shingles, subject to an import limit over which figure these products were prohibited. The new agreement increased the basic quota and additionally permits the importation of shingles in excess of this limitation, subject to import charges. Nepheline syenite, a substitute for feldspar, receives similar treatment.

61. Ibid.
62. Ibid.

A total of nine tariff quotas are fixed in the new agreement, including free and dutiable items. The limitation on six of these items is at a figure representing a small fraction of United States imports. The quotas for shingles, filleted fish, and nepheline syenite are a good deal higher, but still are not high enough to effect domestic producers, even if the tariff quota is filled. All nine of the import restrictions have been sufficiently reduced so as to grant Canadian producers added advantages in the American market.

In addition to the more specific regulations of the new agreement, there is the general clause, Article X, Section 2 (a) and (b) which would permit further restrictions on the volume of imports, should either country be desirous of undertaking to regulate production, supply, quality or price of a domestic article, or of adopting measures operating to increase the labor costs of a domestic article.

Reductions in Duty without Quota Provision.

On articles not subject to quota restriction, the new agreement, in keeping with its general policy, exhibits a further widening of its scope in duty reductions. As was witnessed in the paragraphs preceeding the present ones, the majority of United States imports from Canada, whether subject to quota restriction or not, will receive lower rates than those in 1935.

The duty reductions in that group of itmes which are not subject to quota limitations, may be segregated into four distinct groups which are shown below with their value of imports to the United States from Canada in 1937:

"Rates already reduced by the 1936 agreement repeated without change in the new agreement (imports, $47,000,000). This group includes two items, dairy cows and certain lumber (value of imports, $3,000,000), the concessions on which have been liberalized by dropping the former quota limitations.

"Rates reduced by the 1936 agreement and further reduced in the new agreement (imports, $8,000,000).

"Rates on certain feedstuffs which were bound against increase by the 1936 agreement and which are now reduced (imports, $7,000,000).

"Rate reductions on articles not covered in the previous agreement (imports, $44,000,000)."[63]

The latter three groups represent concessions in excess of those of the 1936 agreement. From their total we witness a figure of $59,000,000 as the value of this group. Adding to this the value of about $47,000,000 for renewed concessions without rate changes, and approximately $14,000,000 for items having quota restrictions but receiving rate reductions, we arrive at a grand total of $121,000,000.[64] This final figure represents the aggregate value of all imports entering the United States from Canada, which were recipients of more favorable rate treatment than in 1935.

A study of the tariff changes resulting from the new agreement as compared with those of 1935, results in the observation

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63. Ibid.
64. Ibid.

that the range of duty reductions varies between 10 percent up to the maximum of 50 percent as dictated in the terms of the Trade Agreements Act. The 50 percent reductions are seen in a large number of articles, motorboats, cast iron andirons, birch and maple veneers, etc., but these are mainly products in which the import volume is comparatively small. A large number of items, including agricultural, sea and mine products which are of major importance, received concessions of from 16 2/3 to 25 percent of their 1935 import charges.[65]

New or Increased Concessions.

With the exception of those commodities which are subject to quota treatment and which we have already mentioned, the following show further duty reductions resulting from concessions in excess to those granted by the 1936 agreement, or rate reductions on products not considered in previous agreements.

Agricultural Products.

The rate for maple sugar, formerly reduced from 6 to 4 cents per pound, is now 3 cents per pound. Maple syrup is now subject to a 2 cent rate as compared with the former 4 cent charge. Swine receive a 50 percent concession in their tariff treatment. Cattle in the different weight classes benefit by continued low rates or, in the n.s.p. class, they merit a tariff cut. Bacons, hams, animal livers, kidneys, tongues, etc., receive, in addition, beneficial treatment under the new agreement. Whole milk obtained a 50 percent reduction, as did dried butter-

65. Note. All figures mentioned in this section, unless otherwise indicated, are taken from the same source as indicated in footnotes 40 and 41.

milk. Fresh or sour cream and Cheddar cheese in like fashion received large concessions in their rate schedules. Chicken eggs represent a new concession and the rate has been reduced from 10 to 5 cents per dozen. Horses in both valuation classes obtained increased benefits by the 1938 agreement. Further cuts may be seen in the rates on barley, buckwheat, oats, oatmeal, rye, ryemalt, wheat, bran, hulls of grain, mixed feeds, cereals, berries, cider, cut flowers, some classes of grass seeds, beets, certain types of potatoes, carrots, radishes, hay and straw. Many of the reductions in this latter group were as great as 50 percent of the former charges and the remainder closely approached this figure.

Fishery Products.

On items pertaining to the fishing industry and its products, again there are numerous evidences of favorable revisions in the tariff schedules. The class of fish (fresh or frozen, whole, beheaded or eviscerated or both, but not further advanced) included rate cuts of 33 1/3 percent on salmon, 50 percent on fresh mackerel, 25 percent on fresh water fish (added in new agreement), 50 percent on shad and sturgeon, and 25 percent on cod, haddock, hake, pollock and cusk (without fins removed). On the fish group which are dressed in a more advanced stage, a sizeable rate reduction is granted in addition to provisions under which the quota limits may be increased. Fish, pickled or salted, received tariff charge cuts on every item with the exception of mackerel, which retained its former status. The remaining group of fishery products, fish, smoked or kippered, obtained the most noticeable concessions on salmon; cod, haddock, hake, pollock, and cusk (in both stages of preparation); and this latter group in the n.s.p. classification.

Metal Products.

The most important of the new reductions were on zinc in blocks, pigs, or slabs (from 1 3/4 to 1 2/5 cents per pound,) nickel and its alloys (from 3 to 2½ cents per pound), cadmium (from 15 to 7½ cents per pound), aluminum (from 4 to 3 cents per pound), and zinc ores (from 1½ to 1 1/5 cents per pound of zinc content). Other appreciable benefits were granted in items of ferrosilicon, boron carbide, hollow bars and hollow drill steel, woven wire cloth, axles and parts thereof, cast-iron andirons, plates, etc.; iron or steel chains, electrical washing machines and parts n.s.p., electrical cooking stoves and parts n.s.p., and motor boats.

Wood Products.

Wood and wood products received only minor new concessions, the largest reductions being made on those items in which there was the least value in trade. Most of the major items retained the rates which they had been granted in the 1935 agreement.

Chemical Products.

Under the new chemical schedule, new concessions were made with respect to acetic acid (both classes by weight), fir or Canada balsam, crude calcium acetate, shark oil and shark liver oil, tax, black pigments (all types) and salt (various types of packing). Similar concessions were made on items such as fire brick n.s.p., brick n.s.p., lime n.s.p., hydrated lime, cement n.s.p., bentonite (wrought or unwrought), crude feldspar, phlogopite mica, talc, steatite or soapstone, ground feldspar, ground nepheline syenite, stone n.s.p. and dead burned refractory material with a 15 percent or more lime content.

Paper Products.

Uncoated book or printing paper received a reduction from 1/4 cent per pound plus 10 percent to 1/5 cent per pound plus 5 percent. Tissue paper, of lighter and heavier type, obtained concessions of from 6 cents per pound plus 20 percent to 3 cents per pound and 10 percent, and 5 cents per pound plus 15 percent to $2\frac{1}{2}$ cents per pound and $7\frac{1}{2}$ percent, respectively. Crepe paper, valued at not more than $12\frac{1}{2}$ cents per pound also benefitted by a 50 percent rate reduction. Hanging paper, not printed, had its rate lowered from 10 percent to $7\frac{1}{2}$ percent. Tourist literature of all types, including drawings, engravings, etchings, timetables, historical or geographical information, etc., had their rates marked down from 25 to $12\frac{1}{2}$ percent or from 15 to $7\frac{1}{2}$ percent.

Miscellaneous Products.

The most important individual concession among the miscellaneous items is that on silver or black fox furs, n.s.p., in which the rate was lowered from 50 to $37\frac{1}{2}$ percent ad valorem. Other important reductions include, patent leather (from 10 percent to $7\frac{1}{2}$ percent), leather skating boots and shoes (from 30 to 15 percent), leather gloves (from 25 to 15 percent), special rubber hose or tubing (from 25 to $12\frac{1}{2}$ percent), waste n.s.p. (from 10 to $7\frac{1}{2}$ percent), and Evergreen Christmas trees (from 10 to 5 percent).

Renewal of Duty Reductions as Provided For in the 1936 Agreement.

Of prime importance among the items included under the above heading is whiskey (imports from Canada in 1937 over $21,000,000).[66] The rate of $2.50 per proof gallon as set by the 1936 agreement was retained, but this rate itself was a 50 percent reduction from the charge which existed prior to that arrangement. Among the other items which continued at their former rates and which are not subject to quota regulations are the following: chemicals (vinyl acetate, synthetic resins, cobalt oxide, crude sperm oil, cedar leaf oil, crude limestone), metal products -- (spiegeleisen, ferromanganese containing not less than 4 percent carbon, ferrochrome containing 3 percent or more carbon, ferrotitanium, ferrovanadium, ferrouranium and cast iron fittings for cast iron pipe), wooden products -- (Douglas fir and Western hemlock, Northern pine, Norway pine, Western white spruce, certain species of hard and soft woods n.s.p., and maple flooring), agricultural products -- (certain classes of cattle, skimmed milk, buttermilk, live birds, dead birds, barley malt, hulled oats, green or ripe apples, strawberries, cherries, certain grass seeds and other forage crop seeds, green peas, turnips and rutabagas), fishery products -- (certain classes of fish in various stages of preparation for marketing, and razor clams), paper products --(pulpboard in rolls for wallboard, processed or not processed), miscellaneous products -- (lacrosse sticks, ice skates and parts and harness or saddlery leather, bovine).

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66. The New Trade Agreement with Canada, Department of State, No. 1253.

Binding Against Increase of Duties As They Existed Prior to the 1936 Agreement.

Schedule II of the 1938 agreement binds against increases certain duties as they existed prior to the 1936 schedules. Included in this list are the items of spiegeleisen containing more than 1 percent carbon, skimmed milk, barley malt, pickled or salted mackerel, (and cod, haddock, hake, pollock, or cusk) with fins removed. The rates on spiegeleisen and pickled and salted mackerel was already quite low. Canada is not the principal source of malt imports by the United States, the binding having been related to a reduction of the Canadian rate on malt to the same level.[67]

Binding of Free Entry into the United States.

In addition to all of the aforementioned concessions, the United States pledged continued free entry on most of the major free articles, of which Canada is the chief source of supply. Noticeable by their absence from the 1936 agreement were three kinds of wood pulp, of which Canada was an important, though not the sole supplier, which had already been bound free in 1935 by the agreement with Sweden. The 1938 agreement, besides continuing all of the "free bindings" of the 1936 agreement, grants Canada free entry of all kinds of wood pulp, and adds numerous new concessions on certain other less important commodities.

Among the most important of these items may be mentioned, firstly, those articles bound on the free list in the agreement effective January 1, 1936, which are continued bound in the new agreement. This list includes, sulphuric acid, agricultural

67. Ibid.

implements, unmanufactured asbestos, lime nitrogen, cobalt and cobalt ore, sodium cyanide, crude artificial abrasives, undressed furs, wood pulp, nickel ore, plaster rock, sea herring or smelts, shingles of wood, lobsters, clams, oysters, crabs, scallops, standard newsprint, pulpwood, posts, ties, pickets, palings, hoops and staves of wood.

A second group contains articles bound on the free list, not previously bound to Canada. Included in this group are certain classes of agricultural implements not mentioned in the preceding paragraph, livestock imported for breeding purposes, all drugs of animal origin, undressed furs of skunk, otter, lynx and fisher, cattle-body or horse-body hair, wood pulp (the classes with duty-free status bound in the Swedish agreement, effective August 5, 1935), certain minerals and gases, radium and radium salts, selenium and selenium salts, and sand and stone. The imports from Canada in 1937 of all articles bound free by the new agreement, amounted to $203,000,000, or 85 percent of all free imports of the United States from that country.[68] That the continuation of this most liberal policy is of considerable value to Canada has been evidenced by the reciprocally generous treatment given to the United States in Schedule I of the agreement.

Effects of the Concessions on the Trade with Other Countries.

Canada was the principal source of products on which the United States reduced tariff duties in the 1936 agreement, with the exception of a single item, and therefore it was to be expected that Canada would be the predominant benefactor from that and the

68. Ibid.

new agreement. Similarly, the United States was the major producer of the commodities on which the Canadian Government granted concessions in the same agreements and it should likewise be the outstanding recipient of trade benefits. The exception to this statement was in the case of whiskey, in which it was felt that the United Kingdom would share the American market with Canada. A trade agreement has now been concluded with the United Kingdom, which provides a direct concession to that country on whiskey, a concession which played an important part in securing valuable concessions for a number of American products.[69] Under the new agreement, the articles on which tariffs are set lower than were in existance in 1935, had a value in 1937 of $99,000,000 (exclusive of whiskey). The imports on these articles from other countries in that year amounted to $23,000,000. For whiskey the corresponding values of trade were $21,000,000 and $54,000,000.[70]

The effects of the liberal attitude taken by Canada in constructing her tariff schedule with respect to the United States, will be reflected in all lines of endeavor in that country, whether agricultural or industrial, and the whole economic system of the United States will be benefitted.

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69. Ibid.
70. Ibid.

CHAPTER IV

ANALYSIS OF THE PRINCIPAL CONCESSIONS RECEIVED BY THE UNITED STATES[1]

Trade benefits were extended under the new agreement to many of the most important farm products of the United States, including cotton; fruits and vegetables, meats, and grains and grain products. Numerous industrial articles, which are important American manufactures, received the advantages of increased markets as a result of this arrangement. In addition, almost all types of machinery, chemicals, textiles, paper and printed matter, mineral products, and metal products, either maintained their former status or were further aided in the Canadian market by new duty reductions.

An attempt will be made in this section to analyze more specifically the concessions gained by the United States under the 1938 agreement and the possible effects of these concessions on the producers of these various articles. The concessions are grouped according to the type of product, and also according to the type of concessions themselves. Schedule I of the agreement encompasses all of these considerations and the discussion is based upon material as stated in that section of the text.

Agricultural Products

The new agreement grants concessions, including bindings and reductions of former rates, by Canada, on agricultural products from the United States which were imported from that country in 1937

1.Note - All figures on trade values shown in this section are taken from "The New Trade Agreement with Canada", Department of State No. 1253., and the tariff rates are taken from "Tabular Statement of Tariff Changes resulting from the Canada-United States Trade Agreement Signed at Washington on the 17th of November, 1938", Canadian Government Publication, No. 71153-1.

to a value of $47,000,000. This is approximately 9/10 of all of Canada's imports of agricultural products from the United States. The concessions took the form of products which had received most-favored-nation treatment under the 1936 agreement, and which were to continue their advantage gained from this clause, and also products specified in the new schedule I. With few exceptions this schedule shows a lowering of the rates in effect in 1935, and in other cases a lowering of the rates in effect in 1938.

The agricultural concessions covered in Schedule I had an import value in 1937 of $43,000,000. About 42percent of that figure represents concessions more favorable than those in effect in 1935. 56 percent of the dutiable imports entering Canada from the United States are affected by this treatment.

Products on the free list of Canada under Schedule I had a trade value in 1937 of about $21,000,000, and included such items as lemons and raw cotton. Articles which had their duties bound against an increase had an import value in 1937 of $4,000,000. The removal of the 3 percent special excise tax is an added concession on both of these types of imports.

The Canadian agricultural imports from the United States in 1935 had an approximate value of $32,000,000. When the 1937 figures for the same items are compared with those of 1935, a gain of almost 50 percent can be seen which indicates the effectiveness of tariff reduction.

Raw cotton is the largest single agricultural item produced by the United States, which is imported by Canada, and it is the largest item in the list of agricultural concessions given by

Canada. Canada imports nearly all of her cotton from the United States and Canada ranks high as a market for American cotton. The free list binding and the removal of the special 3 percent tax, represents a major concession on this commodity.

With reference to dutiable products, vegetables and fresh fruits as a group comprise the chief recipients of concessions under Schedule I of the new agreement. The tariff schedule has been favorably modified on these articles, and on meats and poultry, eggs, grains and grain products, seeds, flowers, nut trees, canned or prepared vegetables, dried fruits, canned fruits, nuts and honey.

A large number of American agricultural products benefit favorably by the continuation of the most-favored-nation rates secured under the 1936 agreement. As a result of this type of treatment, rates lower than those prevailing in 1935 were assured on products having an import value in 1937 of approximately $4,000,000. Among the most important of these commodities, with their 1937 import values, are wheat ($1,293,000), hay ($267,000), wheat flour ($215,000); corn flour and hominy ($219,000), shelled almonds and walnuts ($182,000); dried peas ($142,000).

<u>Fresh Fruits and Vegetables</u>.

Canadian imports of fresh fruits and vegetables from the United States had a value, in 1937, of $17,000,000. New reductions were made in the 1938 agreement which reduced the rates on $14,500,000 worth of that trade, or approximately 80 percent of the total value of all agricultural items on which duty reductions were made under the new agreement. The Canadian concessions with reference to fresh fruits and vegetables may be divided into four primary.

groups - (1) duty rate reductions; (2) reductions in the amounts of the advanced valuations for calculating regular and special duties, in most cases applicable only in the seasons when Canadian fruits and vegetables are on the market or are coming on to it; (3) limiting or reducing the period during which advanced valuations may be applied; and (4) the removal of the 3 percent special excise tax.

Reductions of In-Season Import Charges. - Reductions of the in-season import charges represents the major concession on this group of commodities. The total charged is the rate in cents per pound resulting from an application of the levies listed under (1), (2), and (4) above. These charges as set forth in the new agreement, indicate large and varied reductions below the rates as stipulated in the 1936 agreement.

The most important of the items which is subject to advanced valuation is pears, the 1937 Canadian imports having a value of nearly $500,000. The new agreement provides for an in-season charge of 1.4 cents per pound as contrasted with the 2.2 cent rate in 1935. Strawberries, valued in imports at over $400,000 in 1937, have a new charge of 2.4 cents as compared with the former 3.9. On apples, with an import value of $250,000, the rate is lowered from 1.8 to 1.3 cents. With reference to this particular item, although the actual rate lowering was small, the Canadian agreement which will lower the margin of duty preference of Canadian apples on the British market is of substantial benefit to American growers and shippers. Newtotal charges on various other fruits, followed by their 1935 rates in parentheses are:

apricots, 2 cents per pound (3.4); cherries, 4 cents (7.8); peaches, 1.8 cents (2.7); fresh prunes and plums, 1.2 (1.8); raspberries and loganberries, 2.9 cents (5.5); cantaloupes, 1.6 cents (4.9).

Lettuce and celery imports which were valued in 1937 at $920,000 and $544,000, respectively, both have a total seasonal charge under the new agreement of 1.1 cents per pound as against 1.9 in 1935. Cabbage ($382,000) and carrots ($375,000) had their charges lowered from 3 and 3.2 cents, to 0.9 and 1 cent respectively. New in-season rates on other vegetables, with the 1935 charges in parentheses, are as follows: onions, except sets and green onions, 0.9 cents per pound (1.4); mushrooms, 4.7 cents (15.2); asparagus, 5 cents (9.4); green beans, 1.9 cents (4.4); brussels sprouts, 0.2 cents (2.0); beets, 1.2 cents (2.7); cauliflower, 1.8 cents (4.8); cucumbers, 2.4 cents (4.9); green peas, 2.6 cents (4.7); rhubarb, 1.2 cents (2.7); spinach, 0.2 cents (2.2).

Under the new agreement, a basic duty of 10 percent was adopted for nearly all fresh fruits and vegetables now subject to ad valorem duty treatment. Most of these items bore a 15 percent charge in 1936. Before this date, the fruit items which now have a 10 percent rate were charged 20 percent, while vegetables were charged 30 percent. The basic factor in the computation of in-season total charges is the ad valorem duty. Therefore, on the higher-priced items, the new rates represent valuable concessions. Moreover, since the 3 percent special excise tax has been removed, the duty is the actual charge on imports in the non-competitive seasons.

Apricots, peaches, pears, and plums or fresh prunes, have the new 10 percent rate applied for from 7 to 9 months of each year, with the former 15 percent charge being in effect the remainder of the time. The "low-rate" periods cover almost all of the American exports to Canada in these lines and therefore the partial increase cannot be thought of as restrictive. Applies retain the same 15 percent duty which they had in 1936, as compared with the 20 percent rate prior to that date.

In the class of fruits not subject to advanced valuation, grapes are the item which received the major concession. The 1937 import value on this commodity was almost $1,000,000. As provided by the new agreement, for the period from July to January, the 1936 rate of 1.5 cents per pound is reduced to 1 cent per pound. The rate prior to 1936 had been 2 cents. It is estimated that in the July-January period, 75 percent of the annual imports of grapes by Canada from the United States are made. On honeydews and similar melons, the 1937 import value of which was about $148,000, the new agreement rate is 2 cents, the 1936 rate having been 2.5 cents and the 1935 rate, 3 cents.

Of the 1937 Canadian imports of fresh fruits, which had a total value of approximately $13,000,000, $9,000,000 of this figure represents commodities of the citrus fruit class. The new agreement binds the present seasonal charges on oranges ($6,800,000) at 35 cents per cubic foot, the year around rate on grapefruit ($1,300,000) at 0.5 cents per pound; and in addition binds lemons ($1,000,000) on the free list. The period for the free entry of oranges has been extended to cover the months of December to April, Canada reserving the right to substitute January to July as the free period when certain relations with other British nations permit such action. The 1936 agreement permitted free entry of oranges from January to April, prior to this agreement there was no free period. Again the removal of the 3 percent special excise tax looms as a significant concession on these freelist products.

Tomatoes, which were second only to lettuce on the list of Canadian vegetable imports from the United States, received under the new agreement, a new 10 percent duty in addition to an all year specific rate of not less than 1½ cents per pound. The 1936 agreement had a 15 percent charge with a 2 cent minimum, and the 1935 rate was 30 percent with a 2 cent minimum. Onions (other than onion sets or shallots) are the other important exception to the new 10 percent duty charge for fresh vegetables; this commodity still maintains the 30 percent rate which it had prior to the 1936 agreement. Bindings on the free list by the new agreement, include such items as whitloof or endive, eggplant, artichokes, horseradish, and okra.

Seasonal Advanced Valuations. - The second important concession granted by Canada on fresh fruits and vegetables, was the reduction in rates of seasonal advanced valuations, in per pound charges. Advanced valuation is the method employed by the Canadian government to provide seasonal protection for Canadian producers of 10 fruit, and 16 vegetable products, especially during the summer season. Seasonal advanced valuation is the basic consideration in the seasonal total charge to which we have referred before. A general reduction of 20 percent in advanced valuations on commodities which had an import value in 1937 of $4,000,000 was effected by the 1936 agreement. Unilateral agreements made subsequent to this agreement accounted for the additional reductions.

The advanced valuations on apricots and cherries were reduced from 1.6 and 4 cents per pound as under the 1936 agreement, to 1.5 and 3 cents per pound respectively. Cantaloupes pay 1¼ cents per pound as compared with the 1936 rate of 3.2 cents. Pears, plums, and prunes continue at the 1 cent rate per pound, the rate shown in the 1936 schedule, but this charge is a 20 percent reduction from the 1935 duty. Peaches, strawberries, and apples retain the same advanced valuations which were set forth in the 1936 agreement, of 1.4, 1.6, and 0.8 cents per pound respectively.

In the line of vegetables, advanced valuations on green onions and spinach, which were formerly 3.2 and 1 cent respectively, were eliminated from the schedule by the new agreement. Similar treatment was given to brussels-sprouts and tomatoes. Five items including watercress, whitloof or endive, green peppers, radishes, artichokes and in addition the important vegetables n. o. p. - class, continue to be bound against advanced valuations as they were in the 1936 agreement. Some of the new advanced valuations on other vegetable items are as follows (the 1936 rates already representing 20 percent reductions from 1935 charges are in parentheses); onions, except sets and shallots, 0.5 cents per pound (0.6); fresh mushrooms, 2 cents (4); asparagus, 4 cents (4.4); green beans, 1.5 cents (2); cabbage, 0.8 cents (1); carrots, 0.8 cents (1.5); beets, 1 cent (1); cauliflower, 1.5 (2); celery, 0.8 cents (0.8); cucumbers, 2 cents (2.8); lettuce, 0.8 cents (0.8); green peas, 2 cents (2); rhubarb, 1 cent (1.6).

Reduced Periods for Seasonal Duties - The third portion of the Canadian concessions granted under the new agreement comprised those items for which there was a shortening in the season for the application of the seasonal advanced valuations. The seasonal periods had existed since 1933, and a definite trend had been shown towards a reduction in their length. However, the idea of setting a period of time in advance or subject to certain limitations was an entirely novel feature embodied in the new agreement. These periods as set forth in Schedule I, are for a specific period of time, each year, for any portion of Canada to which they may be directed. Canada has the power to designate the actual dates on which the restrictions will apply, with reference to the seasonal produce developments. With respect to two fruit items (apples and apricots) and three vegetables (onions, mushrooms, and rhubarb), Canada also reserves the right of unlimited application during the entire year. All other items are benefitted by extensions in the time during which the only import charge on fruits and vegetables of this class is the new 10 percent duty.

On fruit items, the list of valuation periods, in number of weeks, is as follows: (the numbers in parentheses represent the average number of weeks each valuation was in effect during the period 1933-1937); cherries, 7 (8); peaches, 9 (10); pears, 15 (22); plums, 10 (11); prunes, fresh, 8 (9); strawberries, raspberries, and loganberries, 6 (8); cantaloupes, 8 (9).

For vegetable products, on three items (cabbage, carrots, and beets) a maximum advanced-valuation period of 26 weeks has been established. Prior to the new agreement, that is during the 1933-1937 period, the average valuation periods for these products were, cabbage, 35 weeks; and 33 weeks for both carrots and beets. Because of the brevity of the period which is now in effect, Canada reserves the right to divide the application period for any of these three items into two parts, the sum of these parts not to be in excess of 26 weeks. Asparagus now has a 10 week valuation period as compared with the previous average 8 week season. Other new valuation periods, with the 1933-1937 average periods in parentheses are: green beans, 14 (16); cauliflower, 20 (23); celery, 26 (31); cucumbers, 20 (21); lettuce, 18 (22); green peas, 12 (17).

The seasonable nature of the competition between Canada and the United States in perishable fresh fruits and vegetables makes the development of a satisfactory tariff schedule most difficult. However, even in the light of the practical difficulties of this system, it is believed to be the most workable and plausible method of providing seasonal protection for certain products. Provisions have been made to protect American interests, should Canada decide to amend their present policy of valuation.

Potatoes.

The concessions granted by Canada on white potatoes are of definite value to American potato producers, especially those who have early crops Canada now permits the free entry of all types of United States potatoes throughout the year, except for the period from June 15 to July 31 inclusive, when the duty will be 37.5 cents per 100 pounds. Under the 1936 agreement the import rate on potatoes going into Canada had been as high as that set by the United

States on similar products, or more precisely 75 cents per 100 pounds. Formerly, when rates were lower, Canadian imports of potatoes from the United States were valued at up to $1,000,000 annually. The 1937 figure was $202,000. Sweet potatoes continue to be on the list of free entry, the 1937 import value for this item being $144,000.

Dried and Canned Fruits and Vegetables.

Important concessions were granted in the group of dried and canned fruits and vegetables, including juices. The 1937 trade value of these products was valued at $2,100,000 against $1,500,000 in 1935. The 1929 figure when low tariffs and preferences existed, coupled with smaller quantities of fruits and vegetables being raised in Canada, was $7,000,000. It is hoped that action such as is exemplified in the 1938 agreement will result in a trade recovery which will someday again approach that figure.

Concessions granted on dried fruits and vegetables affect imports to Canada, which were valued in 1937 at $1,300,000. $1,200,000 of this figure is represented by the bindings of the present rate of 1 cent per pound on prunes and of 22½ percent on apricots, nectarines, pears and peaches. Increases in the volume of trade had been evidenced at the conclusion of the first agreement with Canada; the new agreements binding of these rates should continue this favorable consequence. Dried vegetables now have a charge of 22½ percent, as compared with the 30 percent rate in 1935.

Canned fruit duty reductions will influence commodities, the import value of which in 1937 was $123,000. The present rate on several of these products, with the 1935 rate in parentheses, are:

Peaches, $3\frac{1}{2}$ cents per pound (5); apricots and pears, 3 cents (5); pineapples, 3 cents (5); fruit n. o. p., 3 cents (5). In canned fruits, as in dried fruits, certain commitments to other British Empire Countries prevent still further reductions on these items.

Concessions have also been secured on a large volume of trade in canned vegetables, Canadian imports from the United States in this trade being valued, in 1937, at $80,000. A new rate of $1\frac{1}{2}$ cents per pound replaces the 3 cent charge of 1935, on canned baked beans, corn and peas. Similarly, a new rate of 20 percent for canned vegetables n. o. p. takes the place of the $27\frac{1}{2}$ percent charge of the 1936 agreement.

Livestock and Livestock Products.

Import charges lower than those in effect in 1935 were made on products of this group, which in 1937 had a total value of $336,000. The rates on a large number of these items had been lowered by the 1936 agreement, but for the most part, these concessions were not, at that time, bound against increases. Some of the new additions to the new concession group obtained similar rate revisions in the United States tariff schedule.

Hogs and Pork Products. - The Canadian rate on live hogs is now 1 cent per pound, whereas, the 1935 rate was 3 cents. The charge on fresh pork has been lowered from 5 cents per pound to $2\frac{1}{2}$ cents, and it is now $1\frac{1}{4}$ cents. Bacon, hams, shoulders, and other pork, which were all subject to a 5 cent per pound duty in 1935, have all been recipients of a new bound rate of 1-3/4 cents. In 1929, when the United States supply of pork was at a peak, and when Canadian duties were comparatively low, imports of cured pork products by Canada were valued at over $2,500,000 and of fresh pork at approximately $159,000.

Poultry and Eggs. - The new Canadian rate on live or dressed poultry and game, n. o. p. is 15 percent ad valorem, compared with the 1935 figure of 20 percent and the 1936 figure of 17½ percent. Eggs in the shell received a 50 percent cut in their duty charge, with the new rate being 5 cents per dozen. In normal times, the trend has been for Canada to send live chickens to the United States, however, the new rates may have a definite effect in turning the balance in the other direction. As to shell eggs, the United States have in the past been shipping large supplies of this item to Canada, and the further incentive of lower rates should increase this figure still more.

Grain and Cereals.

Canadian reductions on grains and cereals were granted on products which, in 1937, were valued at about $2,200,000. Almost all of the products in this particular group had rates lower than those which were in effect in 1935, when the import trade was valued at only $243,000. The largest benefits were granted to oats, barley and indian corn, especially the latter two.

Indian corn, which in 1935 had a rate of 25 cents per bushel, had its duty lowered by the 1936 agreement to 20 cents, and now under the new agreement, a 50 percent reduction was granted bringing the new charge to only 10 cents per bushel. Corn is not one of the large imports of Canada from the United States, but it is a fairly steady amount.

The reductions on oats and barley were less drastic, but the effect should be similarly stimulating to Canadian imports of these items. The rates on oats were cut from 16 cents per bushel, to 9 cents and now to 8 cents. Likewise, the barley rates were lowered from 25 cents per bushel to 22½ cents and now the new rate is 15 cents.

Canadian imports from the United States of cleaned rice, in 1937, were valued at $136,000 as compared with $83,000 in 1935. The new rate is 2 cents per hundred pounds lower than the duty as set by the 1936 agreement, and 30 cents below the charge prior to that agreement. The increased production of this commodity in the Southern states, should make this concession of particular interest to producers in those localities.

Prepared cereal foods, n.o.p. have had their rate lowered from 17½ percent to 15 percent; dried lima beans from 1½ cents to 1 cent per pound; and milk foods, n.o.p. and prepared cereal foods from 27½ percent to 25 percent. Oatmeal and rolled oats retained their 50 cent per one hundred pounds charge, and soya beans remained on the free list.

Seeds.

Field and garden seeds, Canadian imports of which from the United States were valued in 1937 at $156,000, received increased reductions in their new tariff schedules, in excess of those duty lowerings which might have been occasioned by the previous most-favored-nation treatment of these items.

The major beneficiaries in this group were vegetable seeds, especially when they are marketed in large quantities; lesser reductions being granted on quantities of less than one pound per package.

The rates as set forth by the new agreement, followed by the 1935 rates in parentheses, are as follows; parsley and parsnip, 2 cents per pound (5); beet, not including sugar beet, 3 cents per pound (5); mangel and turnip, 4 cents per pound (5); radish, leek, lettuce, carrot, borecole, or kale, 3 cents per pound (10); cabbage and cucumber, 5 cents per pound (10); tomato and pepper, 10 cents per pound (25); cauliflower, 15 cents per pound (25); onions, 20 cents per pound (25); timothy, 1 cent per pound (2); root, garden and other seeds, n.o.p., 5 cents per pound (10); and field, root, garden and other seeds, when in packages of one pound or less, 25 percent (35). The free entry of broom-corn seed is bound, whereas the 1935 rate had been 15 percent.

Miscellaneous Agricultural Products.

Numerous concessions were also granted on certain items which are not included in any of the aforementioned groups. The new rate on cut flowers is 25 percent as compared with the 1935 rate of 40 percent. Salt, in bulk, n.o.p. now has a rate of 4 cents per one hundred pounds, whereas the 1935 charge was 5 cents. Canada lowered the import charges on fruit and vegetable juices, sauces and syrups, and honey (a reciprocal concession), existing rate bindings were made on nut trees (free), avocados or alligator pears (free); olives, ripe, in brine (10 percent); unshelled nuts (1 cent per pound); and shelled nuts (2 cents per pound), exclusive of almonds, peanuts and walnuts. On these items, which are dutiable, the rate has previously been cut as a consequence of the 1936 agreement.

Nonagricultural Products.

The exports of the United States have always been, for the most part, nonagricultural rather than agricultural, therefore it is not surprising that the concessions pertaining to this former group should occupy such a large portion of the new schedule I. The total Canadian imports from the United States in 1937 had a value of $491,000,000; of this figure, $237,000,000 represented imports in nonagricultural commodities. This represents the cumulative picture, as measured by the inadequate basis of imports in the past, of Canadian enterprises in both the 1936 and the new agreement. Of this figure, the products on which duty reductions have been made as compared with the 1935 Canadian import duty charges, account for $144,000,000; the items on which rates are bound in the new agreement at the rates effective in 1935 account for $45,000,000 and these commodities which were duty free in 1935 and are guaranteed continued free-entry under the new agreement, account for $48,000,000.

Not included in these figures are $74,000,000 of imports into Canada from the United States, of nonagricultural products which are not embodied in Schedule I of the new agreement, but which received Canadian import duty reductions as a result of most-favored nation treatment as provided for in the 1936 agreement, and continued under the new agreement.

Included among the principal nonagricultural items on which further concessions were evidenced, are the general groups of magazines and periodical publications; paper products; drugs and chemicals, machinery, primary iron and steel products; hardware; tools, miscellaneous manufactures of iron and steel and non-ferrous metals; automobiles and other motor vehicles; airplanes; tractors;

coke, anthracite and bituminous coal. In addition to the more specific concession extended to these various commodities, there is always the removal of the 3 percent special excise tax, which acts as a further benefit of the 1938 agreement.

The concessions which have been granted for nonagricultural products under Schedule I of this new agreement are discussed in the following sections under various general groups. The discussion procedure under each of the various types of products is developed as follows: First, reductions in duties provided in Schedule I as compared with the rates of 1935 (including those rates which were lowered in the 1936 agreement and which are now retained); secondly, Schedule I bindings of 1935 rates; thirdly, Schedule I bindings of items duty-free in 1935; and, fourthly, reductions in the rate schedules below 1935 rates, which resulted from most-favored-nation treatment.

For most of the commodities to be discussed in this portion of the treaty, the United States is the principal provider of Canadian imports; in most all items, it is the principal supplier outside of the United Kingdom. In many cases the United States is, practically speaking, the sole source of the import. In the following paragraphs, unless otherwise indicated, the import figures shown represent the value of Canadian imports from the United States in that particular commodity in 1937.

Paper Products, Pulp, and Printed Matter.

Schedule I of the new agreement grants concessions on products of paper, pulp and printed matter, which in 1937, had an import value of $14,500,000.

Duty Reductions by Schedule I.-Magazines and periodical publications which had obtained a major concession in the 1936 agreement, were again extended the same advantages as they had previously enjoyed. Prior to 1936 the rates on this type of printed matter were prohibitive and the circulation of many of the American publications was seriously reduced. The 1936 agreement granted this item free entry, but the 3 percent excise tax was still applicable. The new agreement goes still further and removes the 3 percent excise tax in addition to retaining the item on the duty-free list. In the period from 1935 to 1937, the imports on periodicals increased from $2,600,000 to $5,900,000, the gains being noticed particularly in those classes of periodicals from which the duties had been removed.

In 1935 the duty on advertising and printed matter of all types was 15 cents per pound, but not less than 35 percent. The 1936 agreement, modified this to 12½ cents per pound, but not less than 27½ percent. The new Schedule I, although it does not cover this classification as a whole, places advertising and printing matter, when the individual package is valued at not more than $1.00 each, on the free entry list. This removal of the duty on the smaller items of advertising matter should aid Canada greatly, because tourist information can be sent duty free, with its consequent stimulation to tourist travel in Canada. Tourist literature issued by governments or authorized associations, bound on the free list by virtue of the 1936 agreement, is again bound on the free list by the 1938 agreement.

Labels, tags, tickets, commercial forms, and printed matter

n. o. p., which had a rate of 35 percent in 1935, received a partial reduction in the 1936 agreement, but this was still further reduced, and the new charge is 27½ percent on these items. The 1937 import value of this group was $530,000. Photographs, paintings, drawings, engravings, blueprints, maps, etc., having an import value in 1937 of $455,000, had their 1935 rate of 22½ percent altered slightly in 1936 and now enjoy a still lower rate of 20 percent. Pictorial post-cards, greeting cards and similar cards (imports - $462,000) now have a 30 percent charge, as compared with the 1935 rate of 35 percent plus 5 cents per pound.

Photographic films and papers have a new rate of 20 percent, the 1936 rate having been 25 percent, and the rate prior to that being 30 percent. The effect of this duty reduction can be best illustrated when we compare the 1935 import figures of $561,000 with the 1937 figures of $829,000.

The rate on paper board which had its import charge reduced from 35 percent in 1935 to 22½ percent under the new agreement, similarly experienced import increases from $432,000 in 1935, to $811,000 in 1937. Paper hanging or wallpaper which in 1935 had a compound rate of 35 percent and 2 cents per pound, had this charge lowered in 1936 to 32½ percent, the present duty is still lower, at 30 percent. On wrapping paper, the reductions were from 35 percent to 30 percent, and now the rate is 25 percent.

Paper of all kinds, n.o.p., which in 1935 had a rate of 25 percent, had this rate charge reduced in 1936 to 22½ percent. Under the

1938 agreement, the same rate is maintained, but the removal of the 3 percent excise tax, offers somewhat of a concession. Electric cable insulating paper, which formerly came under the n.o.p. class, has now been segregated into a new classification and has a rate of 10 percent. The import value on the item as a whole, increased from $767,000 in 1935, to $1,431,000 in 1937.

Ruled and border and coated papers, boxed papers, paper pads, etc., (imports in 1937, $705,000), have a rate of 27½ percent, whereas in 1935 the charge had been 35 percent. Papeteries, envelopes, paper manufactures, n.o.p., likewise now enjoy an import duty of 27½ percent as compared with the 35 percent rate in 1935. Import increases were from $897,000 in 1935 to $1,155,000 in 1937. Fiberboard or paperboard containers, formerly had an import charge of 1½ cents per pound with a minimum of 35 percent ad valorem. As a result of the 1936 agreement this fee was lowered to 1¼ cents with a minimum of 30 percent. The new rate is 1 cent per pound with a minimum of 25 percent. In view of the fact that after the first reduction in the tariff charges, the import value of this item increased by nearly 100 percent, this further downward revision of the schedule should enhance these figures to an even greater extent.

Canadian imports of wood pulp ($713,000 in 1937), were dutiable in 1935 at 25 percent. As a result of most-favored-nation provisions in the 1936 agreement, this charge was reduced to 22½ percent. Under the terms of the new agreement, the item of wood pulp is placed on the free-entry list, which is the treatment given to the same item, when imported by the United States from Canada, under Schedule II of the 1938 agreement.

Certain other miscellaneous paper products may be listed, on which duty reductions were made in the new agreement, and these include: books and magazines in languages other than English, juvenile and toy books, tarred paper, sandpaper, emery paper, emery cloth, glass or flint paper, electrical insulating pressboard, and waxed stencil paper.

Bindings of Items Duty-Free in 1935.-The most important item which falls into this category is, of course, newspapers on which the free status had been bound by the 1936 agreement and which has now been rebound. Other paper products which have had similar duty treatment, include: milliners' and mantle-makers' fashion plates; and tourist literature issued by national or state governments or departments thereof.

Duty Reductions under Most-Favored-Nation Policy.-The most-favored-nation provision of the 1936 agreement resulted in a large number of important concessions on certain commodities in the paper products group, many of which are not indicated in the new Schedule I. Among the more notable of these items are sheet music and player piano rolls, having a rate reduction of from 10 to 7½ percent (imports $179,000); certain types of pulpboard for wrapping newsprint, having the same rates (imports $70,000); paper bags from 35 to 30 percent (imports $79,000); and a specific type of advertising matter (of a class other than that which receives free entry under the new agreement) which was reduced from 15 cents per pound, but not less than 35 percent, to 12½ cents per pound, but not less than 27½ percent; total imports in 1937 (part of which will now enter Canada duty-free under the new agreement) were valued at approximately $1,449,000.

Chemicals, Drugs, Oils and Paints.

Items of the Canadian tariff schedule which may be included under this heading, and which had a trade value in 1937 of $16,000,000, received duty reductions, or bindings of 1935 tariff treatment of either duty rates or free-entry, under the terms of the 1938 agreement. Not included in this figure are those chemicals which are dutiable under the "basket" paragraph 711, or fertilizers and certain other products which are assigned to the miscellaneous items section of the schedule.

Duty Reductions by Schedule I. -- Chemicals and drugs, not specially provided for, fall into one of two classifications. If the product is of a kind not produced in Canada, they are included under classification 208 (t). However, if they are of a type which is produced in Canada, they are part of the general "basket" item 711 of the new schedule. Both of these rate groups were benefitted by more favorable treatment under the new agreement. The rate on chemicals of a type not produced in Canada, (item 208 (t)), is now 17½ percent, under the 1936 agreement and prior to that, the import charge had been 25 percent. For item 711 (which includes a large number of articles besides chemicals), the new duty is 20 percent, in 1935 the fee had been 25 percent and under the most-favored-nation provision of the 1936 agreement this rate had been lowered to 22½ percent.

There are two exceptions to this aforementioned statement with regard to item 208 (t). The rate for bicarbonate of soda has been reduced to 12½ percent; secondly, in the case of methyl ethyl ketone, isopropyl acetate, and butyl alcohol, the former 25 percent rate is now bound against an increase.

Canadian statistics of chemical imports do not segregate the chemicals which are dutiable under item 711 from those dutiable under paragraph 208 (t). The total import value for these groups, including certain acids n.o.p., amounted to $2,800,000 in 1937. Estimates have been made to show that almost half of this value consisted of chemicals of the group not made in Canada.

Acids, n.o.p., have merited the same treatment which has been given to other chemicals of the n.o.p. classification, except for the kinds of acids not produced in Canada on which the reduction is only to 20 percent.

On item 210, certain specified soda compounds, the 1935 rate of 20 percent, became 15 percent plus the 3 percent excise tax in 1936. The new agreement granted a lower rate of 12½ percent to bichromate, sulphite and chlorate of soda (imports - $162,000); while on the remainder of the item the 15 percent charge is repeated minus the 3 percent excise tax (imports - $164,000).

The import charge on nonalcoholic disinfectants, when in packages not exceeding three pounds each, has been lowered from 25 percent to 22½ percent, (imports in 1937 - $47,000); the rate for the same item when the package exceeds three pounds in weight, has been revised downwardly from 15 percent to 7½ percent, (estimated value of imports not shown separately - $225,000). The rates on neither of these items had been changed by the 1936 agreement. All medicinal, chemical and pharmaceutical preparations, compounded of more than one substance, when in dry form, now bear a rate of 20 percent. This charge had been 25 percent in 1935 and 22½ percent under the 1936 agreement (imports in 1937 - $905,000). The similar item, when sold in liquid form (containing not more than 2½ percent of alcohol) had a 40 percent duty charge in 1935, this was lowered to 32 percent in 1936, and the new schedule I rate is 27½ percent (imports - $208,000).

The import charge on nonalcoholic perfumery and toilet preparations, which received no alteration by the 1936 agreement, had its 1935 rate of 40 percent lowered to 30 percent (imports - $209,000). As a result of most-favored-nation treatment under the 1936 agreement, refined petroleum jellies and medicinal oils had their duty revised from 25 percent to 22½ percent in 1936. The new rate is now 20 percent (imports - $177,000).

Cellulose nitrate or pyroxylin plastics manufactures, were formerly dutiable at 40 percent, then, in 1936, this rate was lowered to 32½ percent and the present charge is 27½ percent (imports - $363,000).

Paints and pigments were provided with important concessions as a consequence of the 1938 trade agreement. The 1935 rate on miscellaneous oxides, fireproofs, rough stuff, fillers and colors, (imports - $559,000), of 22½ percent was modified to 20 percent in 1936 and this figure has been bound in the new agreement. On liquid fillers, ground and liquid paints (imports - $259,000) the import charges came down from 30 to 27½, and are now 25 percent under schedule I. The duty on paints and colors, ground in spirits, has been lowered from $1.25 to 85 cents per imperial gallon. The rate reductions on varnishes, lacquers, etc., as they were effected from 1935 to the present, are; 20 cents per imperial gallon plus 30 percent ad valorem; 20 cents plus 25 percent; and 15 cents plus 20 percent.

Shoe blacking, harness and leather dressing and polishing compositions (imports - $292,000), which in 1935 were given a charge of 27½ percent, now retain under the new agreement the 22½ percent rate which they obtained as a consequence of the most-favored-nation provision of the 1936 arrangement. Printing ink (imports - $151,000) likewise continued its 1936 import duty of 17½ percent which represents a marked downward revision from the former 25 percent charge.

Some other miscellaneous items in the chemical field on which there have been duty reductions in the 1938 agreement include sulphuric ether; chloroform, and other anaesthetics; soap powders, mineral soap, not including toilet soap; surgical dressings, trusses, abdominal supports; dextrose solutions for therapeutic treatments; and certain chemicals for the manufacture of synthetic resins.

Binding of Rates Existing in 1935. - Certain articles of the chemical group are bound by the new agreement at the rate of duty existant in 1935. Methyl ethyl ketone, isopropyl acetate, and butyl alcohol still have a 25 percent charge. Alum cake and alum in bulk (imports - $644,000), retain their 15 percent import fee, as do dry red lead, lithopone, and certain other specific pigments (imports - $1,030,000).

Bindings of Items Free in 1935. - Several commodities of the chemical class have had their duty-free status re-bound under the 1938 agreement, and the removal of the 3 percent excise tax has made this concession even more valuable. Included in this list are biological products, animal and vegetable (imports - $275,000); sulphur and brimstone; xanthates and sulpho-thio-phosphoric compounds for use in concentrating ores, metals and minerals (imports - $587,000); cubic nitre, for fertilizer or certain other uses ($660,000); certain chemicals for use in manufacturing synthetic resins; synthetic resins in a semi-manufactured state ($391,000); semi-manufactured cellulose nitrate or pyroxylin plastics ($724,000); lamp black, carbon black, ivory black and bone black ($769,000); spirits of turpentine ($488,000); and petroleum coke ($850,000).

Duty Reductions under Most-Favored-Nation Policy. - In addition to the concessions on chemicals, drugs, oils, and paints, enumerated in schedule I of the new agreement, certain other benefits will continue to be extended to the United States in the form of reduced rates (not bound against increase by Canadian legislation), as the result of the most-favored-nation provision of the 1936 agreement. The major items receiving such treatment include calcium molybdate for the manufacture of steel, from 5 percent to free (imports - $70,000); vegetable and mineral wax, from 10 to 7½ percent ($289,000); licorice paste, from 17½ to 12½ percent ($120,000); regenerated cellulose and cellulose acetate, from 35 to 30 percent ($167,000); specified gums, from 15 to 10 percent ($421,000); compounds of tetraethyl lead, from 10 to 5 percent ($2,015,000); and cod-liver oil, from 22½ to 20 percent ($84,000).

Included in the Canadian tariff group of chemicals are numerous petroleum products which Canada imports from the United States in large quantities. Some of the duty reductions on petroleum products which resulted from the most-favored-nation provision are as follows: crude petroleum lighter than .8155 specific gravity, from various rates to one-half cent per gallon, (always the imperial gallon), (imports - \$363,000); petroleum products lighter than .8236 gravity, from 2½ cents to 1 cent per gallon (\$2,779,000); heavy engine distillate oil, from 2½ cents to one-half cent (\$106,000); lubricating oils valued at less than 25 cents per gallon, from 2½ to 2¼ cents (\$1,663,000); other lubricating oils, from 20 to 17½ percent ad valorem (\$1,702,000); petroleum and other greases for lubricating, from 20 to 17½ percent (\$332,000); and paraffin wax, from 25 to 22½ percent (\$95,000).

Nonmetallic Minerals.

The new agreement, through duty reductions, or bindings of the 1935 tariff status as regards duty rates or duty-free entry, granted concessions on nonmetallic mineral products which were imported from the United States in 1937 to the value of approximately \$7,000,000. Still other important benefits resulted from the most-favored-nation provision of the 1936 agreement.

Duty Reductions by Schedule I. -- Specified types of firebrick enter Canada duty-free as a continued binding of the 1935 status. Firebrick of a kind not made in Canada, for use in furnaces, kilns, etc., exclusive of those types which enter duty-free (imports in 1937 - \$421,000), obtained a reduction in duty from 15 to 12½ percent under schedule I of the 1936 agreement, this import charge is now continued. The rate for miscellaneous firebrick, formerly 22½ percent, became 20 percent in 1936, due to the most-favored-nation provision of the 1936 agreement, and this rate is bound in the new schedule I (imports - $816,000). Schedule I of the 1936 agreement reduced the duty charge on building and paving brick from $1 per ton plus 22½ percent to 20 percent, the new rate is 15 percent (imports - $32,000). Miscellaneous manufactures of clay and cement, which in 1935 had a rate of 22½ percent, had this reduced to 20 percent by most-favored-nation action in 1936, and this fee is still continued (imports - $174,000). Bathtubs, basins, lavatories, etc., (imports - $66,000) and acid-resisting chemical stoneware ($11,000) maintained their 1935 charge of 35 percent until the present trade agreement. The new duties are 27½ percent and 20 percent respectively.

The rate on rough flagstone, sandstone, building stone, and rough marble and granite (imports in 1937 - $71,000) was reduced from 20 to 12½ percent, and that on semi-finished building stone and stone paving blocks (imports - $42,000), from 35 to 20 percent, as the result of schedule I of the 1936 agreement and both of these rates have been retained by the new trade treaty.

Asbestos in any form other than crude, and all manufactures thereof, now enjoy a rate of 20 percent as compared with the former charges of 25, and then 22½ percent.

Canadian duties were reduced on a large group of American glass manufactures in which the latter country was exporting to the former in large quantities. Plate glass, not beveled, in sheets not exceeding seven square feet each, keep the 20 percent rate which they obtained in 1936 as a result of the most-favored-nation provisions. The charge on this item had formerly been 25 percent (imports - $512,000).

Bottles and related products, together with tableware and similar glassware, had an import rate of $32\frac{1}{2}$ percent in 1935. Most-favored-nation treatment by the 1936 agreement altered this to 30 percent on bottles and related products, and either 27 percent or 30 percent on the other types of glassware. The present charges on these groups, respectively, are $27\frac{1}{2}$ percent and 25 percent. The combined imports increased in value from $1,115,000 in 1935 to $1,638,000 in 1937.

Miscellaneous manufactures of glass, the rate of which was lowered in 1936 from $22\frac{1}{2}$ percent to 18 percent, now has a still lower rate bound at $17\frac{1}{2}$ percent (imports - $599,000). High thermal shock resisting glassware, similarly, had its duty reduced from $32\frac{1}{2}$ percent to 25 percent, and this charge is now fixed at 15 percent (imports - $185,000). Articles of glass, not plate or sheet, to be further manufactured by Canadian industry, dutiable at $22\frac{1}{2}$ percent in 1935 became dutiable at either 10 percent or 9 percent in the 1936 agreement; these items are now included on the free-entry list (imports - $115,000).

Other duty reductions on allied products under the new schedule I, include such items as drain pipes, sewer pipes, and earthenware fittings therefor; hand forms of porcelain to be used in glove manufacture; magnesium carbonate to be used in rubber products manufacture; and feldspar, ground, but not further manufactured.

Bindings of Items Free in 1935. - Specific types of firebrick to be used exclusively in furnaces and kilns, were on the free-entry list into Canada in 1935. The 1936 agreement bound the continued free status of this product, and the present agreement rebinds this action (imports - $1,424,000). Carbons and carbon electrodes for use in the manufacture of dry cells (imports - $440,000), were on the duty-free list in 1936 and this treatment has been repeated and bound in 1938.

Duty Reductions under Most-Favored-Nation Policy. - Certain rate reductions which resulted from the most-favored-nation provision of the 1936 agreement are not included in schedule I of the new agreement; however, these rates will not be increased unless it is deemed necessary by theCanadian government. Of major importance among these items are; magnesite and magnesium carbonate, reduced from 30 to 27½ percent, (imports - $48,000); grindstones, 36 inches and over, from 15 to 12½ percent ($148,000); plumbago, ground, and manufactures thereof, from 25 to 22½ percent ($97,000); lamp bulbs and glass tubing for the manufacture of electric lamps, etc., from 10 to 6 3/4 percent ($530,000); plate glass, 7 to 25 square feet, from 25 to 20 percent ($40,000); silvered glass, from 35 to 30 percent ($81,000); glass shapes for the manufacture of electric light fixtures, from 32½ to 15 percent, a rate made by Canadian legislation after January 1, 1936 (imports - $182,000).

Primary Metal Products.

This group of products includes manufactures of a less highly elaborated nature, of iron, steel and of the nonferrous metals, such as bars, rods, plates, sheets, castings, and forgings.

Schedule I of the 1936 agreement included only four of these items, the import of which in 1937 had a value of $2,919,000. The new schedule I grants concessions on some 40 odd items, the imports of which in 1937 amounted to approximately $23,000,000. Although Canada itself manufactures a large number of the items included on this list, the duty reductions will give the American manufacturer a still more improved position in competition with Canadian manufacturers.

Duty Reductions by Schedule I. - The import charge on blooms, cogged ingots, slabs, billets, sheet bars, etc., of iron or steel has been lowered from $4.50 to $4.00 per ton (imports in 1937 - $301,000). The Canadian term "ton" means 2000 pounds.

Bars and rods of iron or steel and billets weighing less than 60 pounds per lineal yard, if cold rolled, had a rate of 30 percent in 1935; in 1936, after the most-favored-nation provision, this charge was diminished to 25 percent, and at present the figure is 20 percent (imports - $324,000). For the similar products, when hot rolled and with a value of not less than 4 cents per pound (imports - $652,000), the duty was revised downwardly from 15 to 12½ percent by the most-favored-nation provision of the 1936 agreement, and at present the new agreement binds this against further increase.

Sheets of iron and steel, more than .080 inch in thickness, hot or cold rolled, which had a rate reduction from $7 to $6 per ton as a result of the most-favored-nation provision of the 1936 agreement, has been awarded this same rate again. The imports on this particular item increased from $565,000 in 1935 to $1,749,000 in 1937.

The 1936 agreement made no alterations on the duty charges on hoop, band, or strip iron or steel. On the hot rolled material .080 inch in thickness or less, the new reduction is from 15 percent to 12½ percent. The heavier material which exceeds .080 in thickness is also the recipient of a new concession with that rate being lowered from $8 to $7 per ton (imports on the two items combined, $605,000).

The United States formerly supplied Canada with the largest portion of her tinplate imports, but with the increased duties and preferences given to the same product coming from the United Kingdom, a large part of this trade was lost. Tinplate of a kind not made in Canada was given a 15 percent rate in 1935 and this charge continued until 1936 when it was bound against an increase, and in 1938 the same status was re-bound. Tinplate of a kind manufactured in Canada, (imports - $2,716,000), received no lowering of the 20 percent rate then existant through the 1936 schedule I. However, the new agreement has favorably revised this duty and the present rate is 17½ percent. The action taken on these two items should greatly increase Canadian imports of these products and American manufacturers will therefore benefit from this liberal concession given by the Canadian tariff authorities. Galvanized sheets (imports - $539,000) were granted a concession identical with that on the latter class of tinplate. Sheets coated with metals other than tin or zinc, especially terneplate, had their rates reduced from 15 to 12½ percent as a result of most-favored-nation treatment by the 1936 agreement and the new agreement lowers this to 10 percent (imports - $519,000).

Castings of iron or steel (items 390, 390a, 390b) were formerly subject, in 1935, to a duty of 27½ percent, which duty was lowered through the most-favored-nation provision of the 1936 agreement to 25 percent, and today the rate has been still further lessened by the most recent agreement to 22½ percent (imports - $538,000). Fittings and couplings of iron or steel, for iron or steel pipes, as a result of schedule I of the 1936 agreement had a rate reduction of from 30 to 27½ percent and now the new rate is 25 percent (imports - $482,000). The duty on wrought iron or steel pipes, formerly 30 percent and reduced to 27½ percent by the 1936 agreement, now has a division of this classification in the new agreement. The rate on these pipes if not more than 10½ inches in diameter, is 25 percent; if the diameter exceeds this limit, the charge is 20 percent (combined imports - $301,000).

The major concession included among the nonferrous metal group is that on aluminum in its cruder form, on which the rate was lowered from 30 to 27½ percent (imports - $187,000). Other items in this group and their 1935, 1936 and 1938 rates are as follows: Britannia metal, nickel silver, 40, 29 3/4 and 25 percent; and articles of partial or wholly sterling or silverware, 45, 33 3/4 and 32½ percent.

Bindings of Rates Existing in 1935. - The $7 per ton rate on bars and rods of iron or steel, weighing less than 60 pounds, hot rolled (imports - $1,273,000) which was first set in 1935, has been rebound in the 1938 agreement, and in addition the 3 percent tax has been removed. The rates of $8 per ton on plates not wider than 66 inches (imports - $417,000) and $6 per ton on the wider plates ($1,099,000) are bound, as is the rate of 20 percent on iron or steel sheets, 0.080 inch or less in thickness (imports - $3,297,000).

Skelp of iron or steel, when used for pipe manufacture (imports - $3,861,000), has its ad valorem rate of 5 percent bound against an increase by the new agreement. Heavy structural steel (imports - $2,127,000), now has a $3 per ton import charge which represents a rebinding of the 1936 duty.

Bindings of Items Free in 1935. - The new schedule I grants free entry to certain iron or steel manufactures under regulations prescribed by the Minister. Sheets, bands, hoops, or strips, of iron or steel for use in the production of agricultural implements (imports - $264,000), has been guaranteed this treatment.. Another important group of nonferrous metallic products which receives similar free-entry binding includes zinc dust, strip and sheets; zinc plates for marine boilers; sal ammoniac skimmings and seamless drawn tubing of zinc (imports - $517,000).

Duty Reductions under Most-Favored-Nation Policy. - As a result of the most-favored-nation provision of the 1936 agreement, certain iron and steel, and nonferrous products will receive concessions of rates lower than those in effect in 1935. A large number of these items are not mentioned specifically in the new agreement, however. Among these reductions are ingots for the manufacture of steel, from 5 percent to free (imports - $121,000); sheets coated with paint, etc., from 15 to 12½ percent ($178,000); sheet for manufacture of hollow ware from 12½ to 10 percent ($431,000); railway rails, from $7 to $6 per ton ($105,000); railway ties, from $8 to $7 per ton ($95,000); forgings, from 30 to 27½ percent ($265,000); certain pipes and tubes, from 20 to 15 percent ($143,000); certain steel wire for manufacturing wire rope, from 7½ to 5 percent ($294,000); phosphor tin and bronze, in blocks, etc., from 10 to 7½ percent ($100,000); brass bars, strips, etc., from 15 to 10 percent ($74,000).

Iron, Steel, and Non-Ferrous Metals in Advanced Stages of Manufacture.

As a supplementary concession to the products which have just been considered, important benefits were granted to the United States on the more advanced metal manufactures. These manufactures may be grouped for the convenience of discussion, into three distinct classes; (a) advanced manufactures of iron and steel exclusive of machinery or vehicles (imports - $14,000,000); (b) advanced manufactures of non-ferrous metals other than electrical apparatus (imports - $4,500,000); and (c) miscellaneous manufactures of metal not distinguished as to the nature of the basic metal used (imports - $4,000,000). The figures shown for these classifications represent the 1937 import value on those portions of these groups which are affected by duty reductions under the new schedule I. The total figure for the entire three groups is approximately $22,000,000.

Duty Reductions by Schedule I. - "Basket" item 446 (a) covering manufactures of iron or steel not provided for elsewhere, is one of the foremost concessions of the new schedule I. For many years the rate on this item had been 30 percent, in 1931 this was increased to 35 percent. Schedule I of the 1936 agreement lowered this charge to 25 percent; the 1938 agreement repeats this 25 percent duty but grants as an additional concession the removal of the 3 percent excise tax. Furthermore, certain of the products formerly included in this group are now taken out of item 446 (a) and benefit from still lower rates; some of these are: miscellaneous tools, for use in machines, of a type not manufactured in Canada; stainless steel welding rods; and metal shells and hinges for the manufacture of jewelry boxes. Steel frames and castings for railway rolling stock, which were included in 1936 in item 446 (a) at a 20 percent rate, now are charged 7½ percent (imports - $789,000).

The import value of "basket" item 446 (a) in the fiscal year 1929-1930 was over $20,000,000. In 1933-34 this figure dropped to less than $4,000,000, and then, with the upward trend of business and the 1936 schedule I reductions, the value rose in 1937 to $10,000,000.

Other import duty reductions on miscellaneous iron or steel manufactures include the following items;

On nuts and bolts with or without threads, washers, rivets, and nut and bolt blanks (imports - $318,000), the rate prior to 1936 was 75 cents plus 25 percent per 100 pounds; now, under the new agreement this charge has been reduced to 50 cents plus 17½ percent.

On adzes, anvils, vises, cleavers, etc., (imports - $878,000) the rate was not lowered in the 1936 agreement, but now the former 35 percent ad valorem charge has been revised to 27½ percent.

On certain types of precision tools, items 431 (c) and (d) (imports - $236,000), the rate was 30, 35 or 45 percent in 1935. Most-favored-nation treatment after the 1936 agreement brought this duty down to 10 percent, and the new agreement binds this rate against an increase.

On hollow-ware, coated or not, (imports - $106,000), the 1935 rate of 30 percent was changed to 27½ percent in 1936, and now this figure becomes 25 percent. Vitreous-coated ware (imports - $123,000), had its rate lowered from 35 to 30 percent by the 1936 schedule I, and this rate is now bound by the 1938 agreement.

On miscellaneous tin and tinplate manufactures (imports - $767,000), the rate was lowered from 30 percent to 27½ percent by the 1936 agreement. The new agreement rate for this item is 25 percent. Item 443, which is the large group of products designed for cooking, or heating buildings, had its 1935 rate of 30 percent reduced to 25 percent by schedule I of the 1936 agreement; under the terms of the 1938 agreement this 1936 rate is bound against an increase.

The major concession in the field of nonferrous metals is that in reference to miscellaneous manufactures of copper and brass. The import charge prior to 1936 had been 30 percent, when as a result of the most-favored-nation provision of that agreement this rate was downwardly revised to 24 3/4 percent. The import figures for Canada increased from $1,941,000 in 1935 to $3,020,000 in 1937. The 1938 agreement states that if the Canadian concession to France is terminated, the rate with reference to the United States cannot be raised above 25 percent.

Miscellaneous zinc manufactures (imports - $236,000), now have an import duty of 20 percent as compared with the 1935 and 1936 charges of 25 and 22½ percent. Wire of all metals and kinds (imports - $221,000), received a reduction in duty from 35 to 30 percent under schedule I of the 1936 agreement, and now this reduction has been bound as of 1938. The rate on covered wire, including cable, was reduced under the 1936 agreement to 27½ percent, and this charge likewise has been bound against increase (imports - $139,000). The 1935 tariff had been 30 percent.

Aluminum, aluminum alloys and manufactures, which did not receive duty reductions under the 1936 schedule I, now have this former 30 percent fee lowered to 27½ percent (imports - $818,000). Britannia metal, German silver, and nickel silver manufactures (imports - $124,000), subject in 1935 to a 40 percent rate, had this decreased to 29 3/4 percent by the most-favored-nation provision of the 1936 agreement and now this charge is bound at 25 percent.

The most important concession in the group of miscellaneous manufactures of unspecified metals, is that on nickel-plated, gilt or electro-plated ware. The 1935 charge on this item was 45 percent, a downward revision in 1936 brought the duty to 30 percent, where it is now bound by the 1938 agreement. The import value of these products increased from $721,000 in 1935 to $1,727,000 in 1937.

The duty on optical and mathematical instruments, etc. (imports, including cameras, $650,000), was reduced from 30 to 22½ percent by the most-favored-nation treatment under the 1936 agreement. The new schedule I charge is 17½ percent except for cameras and parts where it is 20 percent. The 1936 agreement duty on motion picture projectors and equipment, which was 15 percent as compared with the former 35 percent charge, has been bound in 1938.

Other miscellaneous metal manufactures which received duty reduction under the 1938 schedule I, include articles of silver or gold; watch cases and parts thereof; hand fire extinguishers; safety razor blades; sportsmen's fishing tackle; buckles, clasps and fasteners; and steel belt pulleys. The gross value of these imports in 1937 amounted to over $800,000.

Duty Reductions under Most-Favored-Nation Policy. - As a supplement to the 1938 schedule I concessions on iron, steel or nonferrous metal manufactures, certain other benefits were retained which had resulted from the most-favored-nation provision of the 1936 agreement. (These rates are not bound against an increase by Canadian legislation). The more important of these products are steel containers for gas; safes; scales, etc.; signs; guns, rifles, and revolvers; printing plates, stereotypes, electrotypes, etc.

Machinery.

The United States is by far the chief supplier to Canada of large imports of machinery (imports - $50,000,000, this does not include motor vehicles, aircraft, or electrical apparatus). A large number of these machinery items received concessions in the form of reductions in duty under the new schedule I, especially when compared to the 1935 import charges. Of this large import value on machinery, the most important items were

427 and 427 (a), the miscellaneous machinery groups which accounted for \$20,000,000 worth of this figure. The rates depend on whether a similar product is manufactured in Canada or not.

Duty Reductions by Schedule I on Agricultural Implements and Farm Machinery. - Prior to the 1936 agreement, the general rate for products included in the above heading was 25 percent, with the exception of tractors. Schedule I of the 1936 agreement lowered this charge to 12½ percent, and later on in the same year, the Canadian Parliament further reduced this to 7½ percent. The 1938 arrangement binds that rate, and, as an added concession, it removes the 3 percent excise tax (imports - \$2,491,000).

Added to this concession on agricultural machinery is the closely allied reduction on articles which enter into the manufacture of these machines; this took the form of downwardly revising the 6 percent-plus-tax duty to a net rate of 5 percent. The imports on these items had a value in 1937 of \$2,234,000. Pig iron to be used in the manufacture of certain specified agricultural machinery had a duty reduction from \$1.25 to \$1.00 per ton, and bars and rods for the same purposes had their rate lowered from \$3.50 to \$2.75 per ton (imports - \$156,000). The 10 percent charge on malleable sprocket chains and link belting for use on these machines is also cut to 5 percent (imports - \$136,000).

Prior to the 1936 agreement, tractors, if not valued at more than \$1400 each, were included on the free entry list, others being subject to a 25 percent duty. The terms of the 1936 agree-continued the free entry of the previously free group and in addition granted the same status to all other tractors; the new agreement binds the provisions of the 1936 schedule I. Canada imported more than one-forth of the total exports of tractors from the United States in 1937, these imports having a value of $13,159,000.

Two other concessions in this group which are less important, are the reduction in the duty on cream separators from 25 to 12½ percent, and on spraying and dusting machines from 25 to 5 percent.

Duty Reductions on Office and Household Machines. - The new schedule I provides significant benefits to nearly all items included in the office and household machines group.

Adding, bookkeeping, calculating and invoicing machines which formerly bore a rate of 25 percent, became dutiable at 20 percent under the 1936 agreement. The 1938 schedule I rebinds the rate on adding machines to 20 percent, while the remainder of the items now enter at a 12½ percent fee. Imports in 1935 were $834,000 as compared to the 1937 figure of $1,238,000.

The United States is practically the sole supplier to Canada of this type of machinery.

The 25 percent charge on typewriters and parts thereof was not altered by the 1936 agreement, but now this fee has been reduced to 20 percent. The 1937 import value of typewriters from the United States was $220,000, while that for typewriter parts was $994,000. This can be explained by the fact that Canada manufactures a large number of typewriters herself, mostly in branch plants of American firms. The bulk of the trade will be in typewriter parts then, rather than in the finished product. Dictating, transcribing and cylinder shaving machines have been the recipients of duty treatment identical with that given to bookkeeping machines, etc., in the same agreements.

In 1935 the duty on time recorders, clocks, clock movements, etc., was 35 percent with a minimum charge of 50 cents each. The most-favored-nation provision of the 1936 agreement lowered this duty to 30 percent and a 50 cent minimum. The new agreement binds the ad valorem fee and further reduced the specific minimum duty to 40 cents (imports - $270,000).

Electric vacuum cleaners and attachments therefore, dutiable in 1935 at 25 percent, obtained a 5 percent reduction from this charge through the provisions of the 1936 agreement, and this 20 percent rate is still maintained at the present date.

On refrigerators, the new schedule I provides for important reductions in their rates. The most-favored-nation provision of the 1936 agreement lowered the 40 percent rate on electric refrigerators to 30 percent, and the 30 percent rate on nonelectric refrigerators was changed to 27½ percent. Both classes are now dutiable at a still lower charge of 25 percent. Canadian imports of these latter two items increased from 1935 to 1937; on electric refrigerators the increase was from $184,000 to $893,000; and on nonelectric refrigerators the increase was from $72,000 to $420,000.

Washing machines, with or without motive power incorporated therein, likewise had a 1935 rate of 35 percent reduced in 1936 to 25 percent and now this rate is bound against an increase (imports - $726,000). The import duty on clothes wringers and parts thereof, was progressively altered from 35 to 30 to 25 percent.

Through the most-favored-nation provision of the 1936 agreement, the schedule I charge on sewing machines and parts was revised from 25 to 15 percent, and at present this rate has been retained and bound. Imports on this item increased from $417,000 in 1935 to $754,000 in 1937.

The low cost of hydroelectric power in Canada should greatly increase the volume of imports of these labor saving devices for households and offices.

Duty Reductions on Miscellaneous Machinery. - The largest groups of machinery on which the Canadian tariff has provided new concessions are those included in items 427 or 427 (a), the "basket" items. The value of this trade in 1937 was $20,500,000, making it the third ranking Canadian import from the United States in that year.

The Canadian import rate on miscellaneous machinery in 1935 was 35 percent plus the 3 percent excise tax. Schedule I of the 1936 agreement divided this grouping into two sections, differentiating between machinery of a type made in Canada and the type not made in the Dominion. For the former of these types the rate became 25 percent whereas for the latter it was 20 percent. The 1938 agreement continues the 25 percent charge on machinery of a type made in Canada, but this fee is enhanced by the removal of the 3 percent excise tax. The duty on machinery of a type not made in Canada has been cut to a mere 10 percent. The effect of the 1936 reductions of the import rate may be appreciated by the comparison of the import value of these products in 1935 when they were worth $7,403,000 and in 1937 when this figure increased to $20,429,000.

Duty Reductions on Specific Types of Machinery. - The 1938 schedule I grants numerous concessions of reduced duty rates on machinery to be used for specific purposes, including manufacture of textiles, mining and metal working, printing, road-building and construction, logging, and others of secondary importance. On the whole, the rates on these machines are considerably lower than those for the aforementioned miscellaneous machinery included in the "basket" tariff item. The following are the major duty reductions in the special machinery group.

Textile machinery of a kind not manufactured in Canada, dutiable in 1935 at 10 percent, received a 50 percent reduction in that rate by the 1936 schedule I, and this 5 percent duty is bound at that level by the new agreement (imports - $3,489,000).

Machinery for use in mining and metal working (imports - $1,416,000) now has a 17½ percent import duty as compared with the former charges of 25 and then 20 percent.

Logging machinery (imports - $821,000), which in 1935 had a rate 20 percent, had this charge lowered by 5 percent in the 1936 schedule I and this 15 percent rate is now bound against an increase by the 1938 treaty.

The rates on items 412(b) and 412(d), various types of printing machinery, was formerly 15 percent. The new agreement binds the 10 percent rate of the 1936 schedule I (imports - $1,017,000). Item 412(a) which also deals with printing machinery (imports - $1,041,000), received a duty reduction from 10 to 5 percent under schedule I of the 1936 agreement and subsequent Canadian legislation placed it on the free-entry list. The 1938 schedule I continues this free-entry concession.

Roadbuilding and construction machinery of a kind not made in Canada, dutiable in 1935 at a rate of 12½ percent had its import charge reduced by the terms of the 1936 schedule I to 10 percent. The 1936 agreement also included certain machinery which had formerly been dutiable at 30 to 35 percent. The new agreement still further broadens the item and binds the 10 percent charge (imports - $356,000, not including additional equipment which was formerly dutiable at higher rates and which is now included in the 1938 item).

Other types of machinery which are used for special operations and on which the 1938 schedule I granted duty charges lower than those in effect in 1935 are: Cellophane converting machinery (from 35 to 5 percent); veneer drying machines, from 35 to 5 percent (imports - $77,000); wire stitchers and staplers (from 35 to 5 percent); machinery for dairying purposes, from 35 to 15 percent (imports - $104,000); and machines for making and packaging cigars and cigarettes (from 35 to 10 percent).

Two other important concessions related to machinery items, which were not included in the "basket" machinery tariff item or in the special machinery groups, are made on roller and ball bearings and Diesel engines. The 1935 rate on ball and roller bearings which was 35 percent, was lowered in schedule I of the 1936 agreement and the new rate is 17½ percent. The import value of this item rose from $343,000 in 1935 to $709,000 in 1937. It is estimated that the United States supply Canada with approximately two-thirds of her imports of this item.

Schedule I of the 1936 agreement showed Diesel engines to be dutiable at 25 percent as compared with the 1935 import charge of 30 percent. If the Diesel engines were of a class not manufactured in Canada, and were to be used in the construction or equipment of ships, they were given free entry. All Diesel engines imported from the United Kingdom were to have free entry, and a 25 percent preference margin for that country was guaranteed. The 1938 agreement continues to extend free entry to Diesel engines of a kind not made in Canada for use on ships. The new duty for dutiable Diesel engines is now 20 percent. This latter concession necessitated the partial relinquishment by the United Kingdom of their former preference margin. The import figures on this item are not subdivided into free, dutiable or parts values. The total import value of Diesel engines for the year ending March 1937 was $543,000, dutiable Diesels and parts thereof were valued at $136,000 and the remainder, $407,000 was given duty-free entry.

Bindings of 1935 Tariff Status. - Certain classes of farm tractors which were free of duty in 1935, were granted continued free entry by the 1938 agreement. Typecasting and typesetting machines also retained their 1935 free-list status (imports - $430,000). As previously mentioned, Diesel engines of a type not manufactured in Canada for use exclusively in ships had been duty-exempt in 1935 and are now the third recipient of continued free-entry binding under the new Schedule I.

Duty Reductions under Most-Favored-Nation Policy. - Not specified in the new schedule I are a number of important concessions on special purpose machinery which resulted from the most-favored-nation provision of the 1936 agreement. These lower rates are continued at the present date, but they are not bound against increases. The major items effected are pasteurizers for dairy purposes, from 25 percent in 1935 to 15 percent ($76,000); special loading machinery for mining, from 12½ to 10 percent ($141,000); machinery for the production of coke and related purposes, (from 12½ to 10 percent ($98,000); machinery for the separation and concentration of ores and metals, from 20 to 17½ percent ($102,000); leather tanning equipment, from 10 to 7½ percent ($128,000); railway locomotives, from 35 to 30 percent ($378,000); and railway cars and parts, from 30 to 27½ percent ($948,000).

Motor Powered Vehicles and Aircraft.

Duty Reductions under Schedule I. - Whereas Canada had at one time been one of the leading markets for American exports of motor vehicles, increased duties greatly hampered this trade and, as a consequence, important American manufacturers set up branch plants in Canada to circumvent the high import charges and to meet United Kingdom competition in Canadian and British Empire markets.

When rate concessions did begin to occur in 1936, they were the result of most-favored-nation provisions rather than of schedule I revisions. The rate on trucks and passenger cars, valued at not more than $1,200 each, was reduced from 20 to 17½ percent, that on passenger cars valued from $1,200 to $2,100, from 30 to 22½ percent; and that on higher priced passenger cars and buses, from 40 to 30 percent. In that same year the Canadian Parliament promulgated a $17\frac{1}{2}$ percent rate on all motor vehicles imported from most-favored-nations. Imports from the United States increased from $2,535,000 in 1935 to $15,218,000 in 1937 which gives some indication as to the results of this action. The present agreement binds the $17\frac{1}{2}$ percent rate against an increase and also removes the 3 percent special excise tax.

Motorcycles, sidecars, and parts were dutiable in 1935 at 30 percent. Schedule I of the 1936 agreement brought this duty down to 20 percent and this is now further reduced to $17\frac{1}{2}$ percent. The latter reduction required the consent of the United Kingdom, which had been guaranteed a bound preference of 20 percent. Imports from the United States increased from $106,000 in 1935 to $211,000 in 1937.

Aircraft and parts, including engines and parts, bore a rate of $27\frac{1}{2}$ percent in 1935. In 1936, the new trade agreement cut this figure to $22\frac{1}{2}$ percent. The terms of the 1938 schedule I are even more liberal, the rate on completed aircraft being 20 percent, that for aircraft engines and parts becoming $17\frac{1}{2}$ percent, and that on other parts being 15 percent. This latter rate required the relinquishment by the United Kingdom of its $17\frac{1}{2}$ percent bound preference margin. Imports increased from $360,000 in 1935 to $1,703,000 in 1937.

Duty Reductions under Most-Favored-Nation Policy.- Due to the most-favored-nation provision of the 1936 agreement, lower rates were granted on a group of products which had an import value in 1937 of $450,000. Included in this group are bicycles and tricycles; cars not otherwise provided for; wheelbarrows; buggies and carriages; and children's carriages and sleds, etc.

Schedule I of the 1938 agreement, as of the 1936 agreement, does not list a large number of Canadian motor vehicle industry imports of parts, especially from parent concerns in the United States. Certain of these items obtained a more favorable tariff position as a result of the most-favored-nation provisions of the latter agreement, some became duty-free. The import value of these commodities which received duty reductions was approximately $40,000,000 in 1937.

Electrical Appliances and Machinery.

Duty Reductions by Schedule I. - Schedule I of the 1938 agreement reduces the duties on an important group of items of the electrical group, the imports of which in 1937 had a value of nearly $7,000,000. Five of the important items which make up the bulk of the total imports, had a uniform rate of 25 percent established. Two of these, electrical telegraph apparatus and electrical telephone apparatus, were dutiable in 1935 at 30 percent and under schedule I of the 1936 agreement this charge became 25 percent. Electrical apparatus and parts not otherwise provided for, a major item, similarly bore a 30 percent charge in 1935 and in 1936 received the 25 percent rate which is now bound against an increase. The last two items, electric dynamos, transformers, generators, etc., and electric motors had a rate of 37½ percent in 1935; schedule I of the 1936 agreement downwardly revised this to 30 percent and the new agreement further cuts it to 25 percent. The imports of these five products, taken as a unit, increased from $4,334,000 in 1935, to $7,425,000 in 1937.

Two other major electrical items - electric-light fixtures and appliances, and electric head, side and tail lights and flash lights, received no favorable tariff revision in Schedule I of the 1936 agreement, however, their 30 percent rate has now been lowered to 27½ percent (imports - $1,131,000).

The reductions granted to household appliances which are electrically operated have already been discussed under the section dealing with household machinery. The 1937 import value on this group of products was $458,000.

Duty Reductions under Most-Favored-Nation Policy. - Many classes of electrical apparatus dutiable under tariff items not included in Schedule I of the 1938 agreement, retained the duty reductions which they had obtained under the most-favored-nation provisions of the 1936 agreement. The most important of these imports is wireless and radio apparatus, the reduction being from 30 to 25 percent. These imports in 1937 had a value of $2,923,000 (this figure does not include the radios brought into Canada free of duty under the $100 exemption privilege).

Some of the other duty reductions which resulted from this provision of the 1936 agreement are as follows: electric batteries, electric insulators, and electric irons (from 27½ to 25 percent); electric shaving machines and parts (from 10 percent to free); electric steam-turbo generator sets (from 25 to 20 percent). The combined import value of all of these items which received tariff revisions as a result of the most-favored-nation provision was $1,119,000 in 1937.

Wood and Wood Products.

Schedule I of the new agreement continued free entry or gave rate reductions, on wood and wood products which had an import value in 1937 of more than $8,000,000.

Duty Reductions by Schedule I. - Dressed lumber, exclusive of hardwood flooring, was dutiable in 1935 at 25 percent. The most-favored-nation provision of the 1936 agreement lowered this to 20 percent and the present charge is 10 percent. The import duty on hardwood flooring is now 17½ percent, a reduction from 25 and then 20 percent under previous arrangements. Single-ply veneers had their 20 percent rate bound against an increase, the charge on two or more layer plywoods was cut from 35 to 30 percent and now the new agreement fixes the rate at 22½ percent. Import values in 1937 for these products were: dressed lumber, $50,000; hardwood flooring, $35,000; veneers of wood, $318,000; and plywood, $144,000.

Item 506, manufactures of wood, n.o.p., was dutiable at 25 percent prior to the 1936 agreement, which amended this charge to be 20 percent. This rate is retained under the terms of the present program, but the removal of the 3 percent special excise enhances this concession (imports - $1,154,000).

Vulcanized fibre, kartavert, indurated fibre and products thereof, (imports - $229,000), have a bound rate of 17½ percent as compared with previous charges of 25 and then 22½ percent. Fishing rods have been recipients of favorable tariff treatment, having their rate revised from 35 to 30 and now to 25 percent (imports - $53,000). Similarly the rate on game tables or boards has been cut from 35 percent in 1935 to 30 percent under the 1936 agreement. The 1938 schedule I charge is 27½ percent (imports - $283,000).

The most important single concession granted by schedule I on wood products concerned furniture, including metal furniture. The rate on this item was almost 50 percent in 1935. Under the most-favored-nation provision of the 1936 agreement, large reductions were made on this charge but the Canadian Parliament raised this duty to 33 3/4 percent in 1937. Due to the favorable tariff treatment in 1936, domestic production supplied about 95 percent of the Canadian demands. The United States exports to Canada were important, because they supplied special types of furniture for which the limited demand did not justify Canadian domestic production. The 1938 agreement divides the item into two classes. That group which includes wood furniture now bears a rate of 32½ percent; furniture other than wood, including metal furniture, has a charge of 27½ percent.

Bindings of Items Free in 1935. - Continued free entry was granted to two major groups of wood products which had been previously placed on the free-list in 1936. Included in these groups are logs and round unmanufactured timber, ties, shingles, spokes, blocks, etc.; and lumber dressed on one side only, including clapboards, laths, pickets, etc; and planks, boards and other lumber (imports - $5,850,000).

Reductions in Duty under Most-Favored-Nation Policy. - The most-favored-nation provisions of the 1936 agreement which have been renewed by the present program, granted to a large number of wood products duties lower than those applicable in 1935. Although these rates are not bound against an increase, no increases have been effected since the 1936 agreement. The major items so benefitted are: Cork manufactures, duty lowered from 20 to 15 3/4 percent (imports - $269,000); golf clubs, canes, racquets, etc., from 35 to 30 percent ($64,000); picture frames, from 30 to 27½ percent ($113,000); coffins and caskets, from 25 to 22½ percent ($73,000); wire doors, cash registers, and mattresses (all of these being grouped under wood products), from 30 to 27½ percent ($116,000).

Textiles and Textile Manufactures.

Schedule I of the 1936 agreement gave but few concessions to textiles and textile manufactures, the major ones being the binding of the existing free-list status of raw cotton and related manufactures, and duty reductions on oilcloth and linoleum; and regalia, badges, and belts of all kinds. Numerous favorable revisions of the tariff schedule have, however, resulted from the most-favored-nation provision of that agreement and consequently imports of the items affected have increased. The full benefits of such a concession could not be realized because these reductions were accompanied by the lowering by Canada of the British preferential rates on the same items. The revision of the Ottawa agreement of 1932 which took place in 1937 brought about a relaxation of the Canadian obligations to the United Kingdom on most of the textile manufactures and the new agreement provides substantial rate reductions on these items.

Duty Reductions by Schedule I. - The value in 1937 of the textile items which received duty reductions under schedule I amounted to approximately $6,000,000. In 1929, when duty charges were lower, and prior to the expansion of Canadian textile production, this figure was considerably larger. This rise of domestic manufacture would lead one to expect that even if import rates continue to be lowered, the former import figures will never again be approached.

Woven fabrics, wholly of cotton, not bleached, which supplied the bulk of the total imports in 1929, had a rate of 20 or 22½ percent (imports - $4,500,000). In 1935 the duty had been raised to 25 percent ad valorem plus 4 cents per pound. Imports decreased to $512,000. The most-favored-nation provision of the 1936 agreement reduced the rate to 20 percent in addition to the 3½ cent per pound specific duty, and imports increased to $1,341,000 in 1937. The new agreement fixes the duty at 17½ percent plus 3 cents per pound, minus the 3 percent special excise tax.

Of the manufactured textiles, cotton fabrics, printed, dyed, or colored are the major item. The import value of this commodity in 1929 was $4,500,000, the rates at this time being 27½ and 30 percent. As in the previously mentioned instance, the higher rates in 1935 resulted in a decrease of imports to $889,000. The 1936 most-favored-nation provision set the duty at 27½ percent and 3 cents per pound, as compared with the 1935 charge of 32½ percent and 4 cents per pound. Imports in 1937 showed the results of favorable tariff treatment and rose to $1,438,000. The new agreement classifies the cotton fabrics according to their value and for each there is a different rate. Fabrics worth less than 50 cents per pound have their 1936 duty of 27½ percent plus 3½ cents per pound renewed but the 3 cent excise tax is removed; on denims for garment manufacture, the rate is 20 percent and 3 cents per pound. Those fabrics worth 50 to 80 cents per pound have a new rate of 25 percent plus 3 cents per pound, and the fabrics valued at more than 80 cents per pound are now dutiable at 20 percent plus 3 cents per pound.

A considerable benefit was given on woven fabrics of cotton, bleached or mercerized, not colored (imports - $86,000). The 1935 rate was 27½ percent plus 4 cents per pound, in 1936 it was 22½ percent plus 3½ cents per pound, and the present schedule I charges 20 percent plus 3 cents per pound.

Coated and impregnated fabrics were dutiable in 1935 at 35 percent and 4 cents per pound. In 1936 the new agreement brought about a marked cut in rate to 30 percent plus 1½ cents per pound (certain parts of the item were charged 30 or 32½ percent without a specific rate), imports increased from $520,000 in 1935 to $922,000 in 1937. Parliamentary action in 1937, again revised the rate and made it 30 percent without a specific duty, and schedule I of the new agreement binds this rate.

Besides the duty reductions on cotton, silk and artificial fabrics, the new schedule I provided a large number of important benefits to clothing manufactured from these products.

The duty in 1935 on clothing and wearing apparel made of woven cotton fabrics was 35 percent in addition to 4 cents per pound. The 1936 agreement revised this to 30 percent and 3½ cents per pound and subsequent Canadian legislation removed the specific part of the rate. The present program calls for a binding of this 30 percent rate against a further increase. Imports rose from $589,000 in 1935 to $920,000 in 1937, largely due to more favorable tariff terms.

Clothing and wearing apparel made from fabrics of vegetable fiber other than cotton or mixed with cotton (not containing wool or silk) suffered a loss in import value from over \$1,000,000 in 1929 to \$254,000 in 1935, largely because of the excessive increases in tariff. The 1936 agreement lowered the 1935 rate of 35 percent plus 4 cents per pound to 30 percent and 3½ cents per pound. Parliamentary action in 1937, retained the same ad valorem charge but changed the specific duty to 1½ cents per pound. The present rate is 30 percent by schedule I.

Clothing and wearing apparel made from fabric of which silk is the chief component of value, had a rate in 1935 of 45 percent plus 7 cents per ounce. Most-favored-nation provisions of the 1936 agreement cut this to 30 percent with the same specific duty, and the present import charge is a straight 30 percent. The 1937 imports were valued at \$378,000. Fabrics for the same use of which artificial silk is the component of chief value, were dutiable in 1935 at 50 percent plus 7 cents per ounce, in 1936 at 31½ percent plus 4½ cents per ounce, and now at 32½ percent and no specific duty. Imports in 1935 were \$123,000 and in 1937 they were \$373,000.

Socks and stockings (except wool), were dutiable in 1935 at the prohibitive rate of 35 percent plus \$1.50 per dozen pairs. This high specific duty had a drastic effect on the imports of lower priced grades. The 1936 most-favored-nation provision reduced the charge to 32½ percent and \$1.35 per dozen pairs but this still had little effect on the volume of trade. Under the new agreement a 20 percent plus \$1.00 per dozen pairs fee is in effect and American manufacturers should be benefitted by increased sales, specially on higher-priced goods.

Schedule I of the 1936 agreement provided tariff concessions on two large groups of textile manufactures. Linoleum, floor oilcloth and cork matting (imports - $172,000), under this schedule had their import charge reduced from 35 percent plus 4 cents per pound to 32½ percent without a specific duty. The new rate is 30 percent. The duty on regalia, badges and belts of all kinds, was lowered in 1936 from 45 to 30 percent and this latter figure has been renewed in the present program.

Some of the other schedule I duty revisions on textile products of less importance include cotton rovings, yarns and warps (from 22½ percent plus 4 cents in 1935 to 15 percent plus 3½ cents in 1937; mercerized cotton yarns and warps (from 25 to 22½ percent); cotton sewing thread, yarn, crochet, knitting, darning and embroidery yarn (from 20 to 12½ percent); cotton bags (from 25 or 35 percent plus 4 cents per pound to 27½ percent); handkerchiefs wholly of cotton (from 35 percent plus 4 cents per pound to 30 percent); household blankets of cotton (from 35 percent plus 30 cents per pound to 20 percent plus 5 cents per pound); women's and children's outer garments wholly or in part of wool or similar animal fibre (from 40 percent plus 35 cents per pound to 32½ percent); knitted garments, n.o.p. (from 45 percent plus 30 cents per pound to 35 percent); Oriental and imitation Oriental rugs (from 40 percent plus 20 cents per square foot to 30 percent and 7½ cents per square foot); and other miscellaneous items in which the volume of trade was extremely small.

Reductions in Duty under Most-Favored-Nation Policy. - As a result of the most-favored-nation provision of the 1936 agreement, certain benefits were granted to the United States which are not listed in the new schedule I. The total import value of textile manufactures which received such treatment was almost \$3,500,000. These rates are not bound against increases but in most cases no upward revision has been experienced.

The following list of commodities of the textile group which were given the above-mentioned treatment includes articles which in 1937 had a total import value of over \$100,000. These items are: woven fabrics of wool or hair (a reduction from 40 percent plus 35 cents per pound in 1935, to 35 percent plus 30 cents); woven silk fabrics (from 45 percent plus 10 cents per linear yard to 36 percent plus 10 cents per linear yard); velvets and plushes with silk or artificial silk pile (from 35 to 29¼ percent); artificial silk woven fabrics (from 45 percent plus 40 cents per pound to 36 percent plus 40 cents per pound); ribbons of silk or artificial silk (from 35 to 27 5/8 percent); woven fabrics of silk or artificial silk of a type not made in Canada, for the manufacture of neckties, etc., (from 20 to 18 percent); fringes, lace, embroideries, etc., (from 35 to 32½ or 27 5/8 percent); hats, hoods, and shapes of fur felt or wool and fur felt (from 35 to 30 percent); and hats, n.o.p., (from 35 percent plus \$1.50 per dozen to 30 percent plus \$1.50 per dozen).

<u>Coal, Coke, Charcoal, Pitch and Tar</u>.

In 1937, Canadian imports of coal and coke from the United States had a value of almost \$33,000,000 (this figure includes certain coke which enters Canada on the free list).

Anthracite coal was at one time on the Canadian free list from all lands. American anthracite was dutiable, in 1931, at 40 cents per short ton and this was increased to 50 cents in 1932. Moreover, British anthracite was bound free in 1932 and the United Kingdom was guaranteed that a 50 cent per ton preference over imports from other countries would be maintained. The revision of the Ottawa agreement in 1937 permitted the Canadian government to alter this guarantee and under the new tariff schedule the 50 cent rate is bound against an increase and the 3 percent excise tax is removed. The effects of these changes in trade restriction can be seen by a comparison of the trade values in 1929 of $23,600,000, to $9,800,000 in 1935.

Bituminous coal had a trade value in 1937 larger than that of anthracite coal (imports - $19,800,000). The United States supply Canada with more than 90 percent of her imports of bituminous coal, regardless of the fact that the American coal has a duty of 75 cents per ton as compared with the British coal duty of only 35 cents. Bituminous coal destined for use in certain processes is subject to drawback of 50 or 99 percent of the duty. The new agreement provides the binding of the previous rate and the removal of the 3 percent excise tax.

Large quantities of coke enter Canada duty-free when used for special purposes (imports - $1,173,000). Those imports of coke which are dutiable (imports - $1,700,000), had a rate of $1 per short ton in 1935, this was renewed in the 1936 agreement and has been rebound by the present trade treaty.

Coal and pine, pitch and tar, continue to have free entry under the 1938 arrangement (imports - $232,000).

Gas for heating and cooking now bears a 3 cent per one thousand cubic feet rate as compared with the previous duty of 6 cents.

Charcoal made from wood, dutiable formerly at $7.50 per ton now has this rate lowered to $4 per ton.

Hides, Skins, Furs, and Manufactures Thereof.

The concessions granted by the new schedule I on items included in this group, had an import value in 1937 of more than $7,000,000.

Duty Reductions by Schedule I. - Belting leather and sheepskin or lambskin leather, both had a rate of 27½ percent in 1935 and this charge was not altered by the 1936 agreement. The new program reduced the duty on the former item to 20 percent and the latter to 25 percent (imports of the two items - $933,000).

Sole leather, and genuine pig leathers, and genuine Morocco leathers formerly had the same tariff status as the previously mentioned products and under the new agreement they have a rate of 25 percent.

The 10 percent charge on leather imported for the manufacture of gloves or leather clothing, was lowered by the most-favored-nation provision of the 1936 agreement from 10 percent to 7½ percent and this action has been rebound by the new agreement (imports - $389,000).

Boots, shoes, slippers and insoles of any material received a valuable concession in the 1938 agreement. The 1935 rate of 40 percent was reduced to 35 percent by the 1936 most-favored-nation provision and now it becomes 30 percent. Imports have increased from $343,000 in 1935, to $515,000 in 1937. It is a significant fact that a large number of these products are being brought into Canada by residents of that country who travel in the United States and who exercise their $100 exemption rights.

Manufactures of leather and rawhide, n.o.p., are now dutiable at 25 percent as compared with the 1935 rate of 35 percent and the 1936 rate of 28 percent (imports - $199,000).

Other reductions in this group which are of lesser importance, include leather belting (from 35 to 25 percent); leather garments (from 35 to 30 percent); and harness and saddlery (from 30 to 22½ percent).

Bindings of Items Free in 1935. - Raw hides and skins and undressed fur skins of all kinds, have been on the free-entry list for a considerable length of time. The 1936 agreement bound this status and the new agreement rebinds it. The 1937 import value of hides and skins was $1,800,000, and that of furs was $3,100,000.

Reductions in Duty under Most-Favored-Nation Policy. - Although they are not shown in the new Schedule I, certain reductions in tariffs which resulted from the 1936 most-favored-nation provision still prevail. The duty on dressed furs was reduced from 15 percent but not less than 72 cents per dozen, to 13½ percent (imports - $795,000); on fur hats, garments and miscellaneous manufactures, from 35 to 30 percent; on leather of certain types for the manufacture of gloves and clothing, from 20 to 15 percent; on belting, not of leather, from 27½ to 25 percent; on feathers, from 15 to 12½ percent; on manufactures of feathers and artificial feathers leaves, and flowers, from 27½ to 23 3/8 percent.

Rubber and Rubber Goods.

The concessions granted on rubber and rubber products effect goods which had an import value in 1937 of over $2,500,000.

Duty Reductions by Schedule I. - The major concession in this field concerned miscellaneous manufactures of rubber. This item was dutiable in 1935 at 27½ percent and this was cut to 22½ percent by the 1936 most-favored-nation provision. This rate is now rebound. Imports rose from $718,000 in 1935 to $1,454,000 in 1937. The 1935 duty on rubber tires for vehicles was 35 percent. This charge was reduced to 30 percent by the most-favored-nation treatment of the 1936 agreement and the new schedule I makes this fee 25 percent. The imports on this item were $240,000 in 1937, as compared with $160,000 in 1935.

Rubber or gutta percha hose, matting and packing which had a duty of 35 percent and then 30 percent in 1935 and 1936 respectively, now are charged 22½ percent (imports - $229,000).

Other rubber products' rate reductions were on chlorine derivatives of India-rubber, India-rubber clothing and rubberized clothing.

Binding of Items Free in 1935. - The 1938 agreement binds the free entry of recovered rubber into Canada, as provided prior to the 1936 agreement in which this article was not included (imports - $712,000).

Reductions in Duty under Most-Favored-Nation Policy. - The most-favored-nation provision of the 1936 agreement reduced the duty on rubber boots and shoes from 25 to 22½ percent.

Miscellaneous Items.

The concessions granted to the large volume of trade which we shall term "miscellaneous items", consist, for the most part, in duty reductions as compared with 1935, and in many cases the charges are lower than those in effect immediately prior to the new agreement. The miscellaneous items may, for convenience's sake, be divided into three groups,(a) a large number of articles, specifically named which cannot be included in any other class, (b) certain items which, when imported for special purposes, receive special rates or free entry as exceptions from their main classification charge, and (c) the "basket" tariff item which includes all items not otherwise provided for.

Duty Reductions by Schedule I. - One of the most important of the 1938 schedule I rate reductions was granted to the group of fancy articles of leather or other materials, including cases, boxes, purses, etc., which, in 1935, had been dutiable at 40 percent. In 1936, as a result of the Canadian-French agreement, this rate was cut to 36 percent and the present charge is 30 percent (imports - $875,000).

Another important item which received a favorable concession is compounded or manufactured fertilizers. The 1935 rate was 10 percent, this was lowered to 7½ percent in the 1936 agreement and the new charge is 5 percent. Canada may withdraw this concession if the United States alter certain export restrictions on phosphate rock. Imports on fertilizers in 1937 were valued at $702,000.

Of equal prominence was the benefit extended to the duty on toys (imports - $702,000). The 1936 schedule I cut the 40 percent rate to 30 percent and this is repeated, with the removal of the 3 percent excise tax.

Miscellaneous musical instruments, including records and phonographs were dutiable in 1935 at 30 percent. The most-favored-nation provision of the 1936 agreement gave the United States the benefit of the 24 3/4 percent rate in the Canadian-French trade treaty. The new agreement provides that the duty will not exceed 25 percent even if the French agreement should be annulled. Imports increased from $196,000 in 1935 to $467,000 in 1937.

The 1935 rate of 45 percent on jewelry was downwardly revised to 37½ percent as a result of the most-favored-nation provision of the 1936 agreement; the 1938 schedule I further reduces this charge to 35 percent and removes the 3 percent excise tax. Imports rose from $409,000 in 1935 to $523,000 in 1937.

Positive motion-picture films received no rate revision in the 1936 agreement and the reduction from the 1935 duty is from 3 to 2¼ cents per linear foot (imports - $254,000).

Certain abrasive products (imports - $178,000) now have a rate of 22½ percent as compared with the 1935 charge of 30 percent and that of 1936 when it was 25 percent.

The 1935 charge on pianos and organs was 30 percent with a minimum of $75 each. The most-favored-nation provision of the 1936 agreement gave the United States the benefit of the Canadian-French agreement, the rate being lowered to 24 3/4 percent with the same minimum. The new agreement binds the rate at 25 percent even in the event of a break in the French trade treaty. The large minimum has been prohibitive on imports of less expensive organs and pianos. Imports in 1935 were $45,000, in 1936 they were $77,000, and in 1937 they were $115,000.

The duty on whiskey of the strength of proof, was $10 in 1935 and the 1936 arrangement did not alter this fee. The present tariff is $6 per Imperial gallon. It is quite obvious that prior to 1937 the imports were practically nil, and in that year they were valued at $63,000.

Trunks, valises and similar products had a 40 percent rate in 1935. As a result of the most-favored-nation provision of the 1936 agreement which extended to the United States the favorable terms of the Canadian-Polish trade treaty, this charge became 35 percent and the new agreement still further reduces it to 30 percent, (imports - $61,000).

The 1935 rate of $4.10 per pound and 25 percent ad valorem on cigarettes was not effected by the 1936 agreement, but the new arrangement sets the fee at $3 per pound and 15 percent ad valorem.

The largest tariff item in this group is "Item 711", the "catch-all" paragraph which relates to all commodities not otherwise described in the new schedule I. The products included in this item are of all types and classes. One of the most important goods falling into this category, are chemicals of a kind made in Canada, which has been mentioned earlier in this chapter. Another important group within this item are certain manufactured food products. In 1935, the rate on item 711 was 25 percent; as a result of most-favored-nation treatment in the 1936 agreement this was lowered to 22½ percent; and the present figure is 20 percent with the removal of the 3 percent excise tax. Exclusive of chemical products, the import value of this item in 1937 was nearly $3,000,000. The import value of the chemicals which were dutiable under this item was approximately $1,400,000, making the total value of this item as a whole around $4,500,000.

Other duty reductions of less importance under the new schedule I include chalk crayons (from 35 percent in 1935 to 20 percent); oyster shells for feeding poultry (from 25 to 10 percent); activated clay for use in oil refining (from 25 to 10 percent); coal-tar benzol for blending with gasoline (from 25 to 10 percent); vermiculite (from 25 to 10 percent); unfinished parts for themanufacture of cameras (from 7½ to 5 percent); brass band instruments of a kind not manufactured in Canada (from 35 to 25 percent); and certain types of buttons and button blanks which have a compound rate, the ad valorem part of which had been successively reduced from 35 to 31½ to 30 percent.

Bindings of Items Free in 1935. - The most valuable of the concessions which refer to miscellaneous items which were on the free list in 1935 relates to bone pitch and resin (imports - $1,248,000). Other commodities receiving similar treatment, include bristles, broom corn, and hair brush pads (imports - $671,000); soya beans and cakes and oil thereof (imports - $218,000); artificial teeth (imports - $372,000); artificial abrasive grains for use in Canadian manufactures (imports - $685,000); and ethylene glycol, for use in the manufacture of anti-freezing compounds of explosives (imports - $753,000).

Reductions in Duty under Most-Favored-Nation Policy. - On a large number of commodities, the most-favored-nation provision of the 1936 agreement set rates lower than those prevailing prior to that arrangement, and although they are not included in the new schedule I, they continue to apply. These rates are not, of course, bound against increases. Included in this group are parts of cash registers, from 25 to 20 percent (imports - $561,000); giant powder and high explosives, from 2½ to 2¼ cents per pound (imports - $321,000); gunpowder, from 3 to 2 3/4 cents per pound; adhesive materials for making laminated glass, from 25 percent to free; brass band instruments of a kind manufactured in Canada, from 25 to 22½ percent; dolls and childrens construction sets of metal, from 40 to 30 percent; fancy articles including bead ornaments, fans and statuettes, from 30 to 24 3/4 or 23 3/8 percent; brushes, from 40 to 30 or 27 percent; cigarette holders and pipes, from 35 to 29¼ percent; certain goods to be used in the manufacture of canes and umbrellas, from 20 percent to free; and coated paper to be used in the manufacture of photographically sensitive paper, from 15 percent to free.

Summary.

Having now completed a rather detailed presentation of the concessions granted by Canada to the United States on imports from that country, a fair picture can be seen of the extent and value of these benefits. Where import value figures have been shown for 1935 and 1937, it is not always correct to assume that the increases are solely a consequence of more favorable tariff treatment; such elements as a steady business recovery, the growth of American branch plants in Canada, increased domestic production and many other factors contribute, to a large extent, in determining the amount of trade which will be carried out between these two countries. However, it is, I think, quite evident that in some cases the rate reductions have stimulated trade and such results will continue to be evidenced if other deterrent factors do not become too prominent. A discussion of the effects of rate manipulation and other components in the determination of trade volume will be attempted in a later chapter, but for the present, we must now proceed to an examination of those concessions which the United States granted to Canada.

CHAPTER V

ANALYSIS OF THE PRINCIPAL CONCESSIONS RECEIVED BY CANADA.[1]

This chapter will be an attempt to analyze in a more detailed manner the concessions which the United States granted to Canada in the 1938 trade agreement. These benefits include rate reductions under schedule II of this treaty, bindings of continued free entry, bindings of previously lowered duty charges, revisions in the length and time of "in season" periods, and changes in the quota provisions. The discussion will be divided into the main groups of products, namely, agricultural, forest, mineral, fishery and manufactured. Wherever it is deemed necessary, these larger groupings will be sub-divided into the most important items contained in that category. Every group, whether a main section or a sub-division will then be examined and classified as to the type of concession it has received and to what extent these benefits have been granted.

Agricultural Products.

Before the new schedule II was drawn up, certain important considerations, particularly with reference to agricultural products, were weighed and discussed. These factors which contributed to make this new schedule both unique and far-reaching have been ably enumerated in the Department of State Report[2] on the new agreement, from which the following points have been developed:

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1. Note. All figures on trade values shown in this section are taken from "The New Trade Agreement with Canada", Department of State No. 1253, and the tariff rates are taken from "Tabular Statement of Tariff Changes Resulting from the Canada-United States Trade Agreement," Canadian Government Publication No. 71153-1.

2. "The New Trade Agreement with Canada," Dppartment of State No. 1253.

(1) Canada being to such a large extent an agricultural country, it is quite obvious that the major portion of the concessions granted must be on Canadian farm products.

(2) Normally the United States is by far a larger producer of agricultural products than is Canada. Therefore, American imports from Canada, although they may be a large portion of that country's exports, will in most years be small when compared with American domestic production.

(3) Certain circumstances have arisen in the past few years which have had an abnormal effect on American domestic production. Extreme and repeated droughts in recent years have led to a shortage in the home production of grains and meats, and therefore imports from Canada rose at those times. This situation no longer remains and the United States, which are normally exporters of agricultural products, have once more resumed that position.

(4) American agriculture is benefitted by many concessions made in the trade treaty with the United Kingdom, which was made at the same time as that with Canada. Several of these concessions involve the entire or partial relinquishment of tariff preferences which Canada had formerly held in the British market.

(5) Many concessions which were of importance to certain branches of American agriculture had been obtained from Canada in the 1936 agreement. Further concessions in this field appear in the new agreement.

(6) The 1936 agreement provided for considerable reductions in duty on American exports to Canada of manufactured and

factory products. These rate lowerings have resulted in increased exports in these products and the increased exports have led to increased purchasing power for the wage earners in American factories. Enlarged purchasing power will permit a more extensive expenditure on American farm products and also on imports from Canada.

In devising a schedule of concessions, great care must be taken not to place unnecessary hardship on domestic producers of similar commodities. As regards agricultural items, in certain cases, rate lowerings were necessitated to supplement an inadequate domestic supply. On other products, even if imports should increase to a very great extent as a consequence of a more liberal tariff program, they could never become more than a minor portion of American consumption. The remaining commodities enter the American market at lower rates with restrictions as to quantity, full duty being charged for imports in excess of the fixed quota.

Livestock and Meats

The major tariff concessions in the field of livestock, are still protected by the use of the quota device. Of singular importance is the rate reduction on cattle weighing over 700 pounds. The 1936 agreement lowered the existing charge of 3 cents per pound to 2 cents, and the new rate is 1½ cents. Formerly this item was limited by an annual quota of 156,000 head, under the 1938 arrangement, this has been increased to 225,000 head and no more than 60,000 head are permitted to enter in any one quarter. Despite the seemingly liberal attitude taken with respect to this item, when we realize that this figure represents but 1 1/8 percent of the average annual slaughter in the United States, it is quite apparent that the domestic market has still been reserved for American producers.

Cattle weighing less than 200 pounds each (calves), retain their 1936 rate of $1\frac{1}{2}$ cents per pound but the quota has been enlarged from 52,000 to 100,000 per year, and in addition, the maximum weight on this class has been raised from 175 to 200 pounds. Even these new concessions will permit the entry of only a small portion of the American consumption when compared with domestic slaughter.

Dairy cows weighing over 700 pounds, received a reduction in duty in the 1936 agreement of from 3 to $1\frac{1}{2}$ cents per pound. The imports of this type of cattle did not approach the quota of 20,000 head per year, and therefore the 1938 agreement, besides rebinding the existing charge, removed the quantity restriction.

Hogs and pork products received no concessions in the 1936 agreement. Under the terms of the new agreement, swine and fresh pork have their rates lowered to 1 cent and $1\frac{1}{4}$ cents per pound respectively. Cured pork products now have an import charge of 2 cents per pound as compared with the 1936 duty of 3 cents. Under normal conditions, the United States is a large exporter of pork and pork products but in recent years, continued dry spells have seriously impaired domestic production and exports. At that time imports from Canada increased until a maximum importation of 1 percent of the domestic production was reached. Since 1938, there has been a return to normal production in the United States, and therefore the new concessions will not too greatly enhance the volume of Canadian exports to the United States.

Dairy and Poultry Products.

The new agreement did not provide these products with any radical changes from the 1936 schedule, and in many cases the present rates are repetitions of these 1936 charges. The 1938 duty on whole milk has been lowered from 6½ to 3¼ cents per gallon on a quantity not to exceed 3,000,000 gallons, which is equivalent to less than 1 percent of domestic consumption even in the northern states where Canadian competition might be evidenced. The new charge on cream, subject to a quota of 1,500,000 gallons is 28.3 cents per gallon. This rate had formerly been 56.6 and then 35 cents per gallon. The quota figure represents less than one-fourth of 1 percent of domestic consumption.

The 1936 rate of 3 cents per pound on dried buttermilk had been lowered by the present policy to 1½ percent, the import value on this item is negligible.

The 1936 agreement lowered the import charge on Cheddar cheese in original loaves from 7 cents per pound plus 35 percent ad valorem, to 5 cents and 25 percent. 1936 import figures for this product rose to approximately 10,000,000 pounds or about 2 percent of the total American consumption. The terms of the present agreement combine the 1936 ad valorem charge and a reduced specific duty of 4 cents per pound.

The concessions granted in the 1936 agreement to live birds and to freshly killed birds are continued, with the exception of freshly killed ducks and geese, in which case the duty has been reduced from 10 to 6 cents per pound.

Chicken eggs in the shell had their former 10 cent per dozen fee revised downwardly to 5 cents. Even at this reduced charge it is estimated that imports will comprise only a fraction of 1 percent of American consumption. The concession on this item has been returned by Canada in the same trade treaty, and American exports, already large, should continue to increase.

Included in this group of items are horses of different valuations. For those valued at less than $150, a specific rate has been charged and this had been lowered from $30 to $20 to $15 per head. In the case of horses valued in excess of $150, an ad valorem charge is made and this has likewise been reduced from 20 to 17½ percent.

Grains and Granary Products.

The import charge on barley has been reduced from 20 to 15 cents per bushel. Poor crops in recent years, coupled with the post-prohibition increases in demand for barley malt, resulted in a rise in American imports. However, in 1937 a better crop was harvested and the United States again regained its normal exporting position.

The duty on oats has been cut from 16 to 8 cents per bushel. Under normal conditions, the United States import practically none of this product and Canada is usually the largest market for American exports. During the drought years when imports of appreciable size were necessary, the largest portion of these came from Argentina. On the whole, however, Canada has been the most important source of what little imports of this product are needed. The new schedule I has made an identical change for this item. Unhulled oats and byproduct animal feeds have experienced a 50 percent duty reduction.

Rye, formerly dutiable at 15 cents per bushel, now bears a charge of 12 cents. The United States have always been large exporters of this product but, as in the case of barley, the recent drought and the sudden increase in demand following the repeal of prohibition, resulted in temporary stimulation to imports. At the present date, a normal crop is again in evidence and the United States is again exporting a part of its domestic production.

The rate on barley malt, the largest single item in grain imports in 1937, experienced no reduction in the new schedule II, and the existing 40 cents per 100 pound rate has been bound against an increase.

Although American imports of wheat and wheat flour are normally of small importance, imports of noticeable magnitude of bran and other mill feeds have been experienced. Mill feeds, bran, and wheat unfit for human consumption were all bound by the 1936 agreement against an increase in the 10 percent rate. The new treaty grants a 50 percent reduction in this charge, thereby setting the present fee at 5 percent ad valorem.

Other less important products which will benefit from more liberal tariff treatment, include buckwheat and buckwheat flour; hulls of grains; rye malt; dried beet pulp; malt sprouts and brewer's grains; mixed feeds; screenings and scalpings of grains; and cereal breakfast foods.

<u>Potatoes.</u>

The 1936 agreement granted as its sole concession a reduction in the rate on white or Irish seed potatoes from 75 to 45 cents per 100 pounds, except during the period from December to

February, when as a result of a Cuban preferential agreement the 60 cent charge would be maintained. The annual quota in 1936 was fixed at 750,000 bushels per annum. In 1936 the quota was exceeded by a small amount, but the following year and since that date, the imports were of much smaller quantities. The present trade treaty lowers the rates for both periods of the year, that for December to February now becomes 60 cents and this is subject to a further reduction to $37\frac{1}{2}$ cents, should the Cuban arrangement be terminated, and for the remainder of the year the rate is $37\frac{1}{2}$ cents. In addition, the quota has been raised to 1,500,000 bushels per year.

The concession given to white and Irish potatoes, other than certified seed potatoes is first evidenced in the 1938 agreement, when the rate was cut from 75 to $37\frac{1}{2}$ cents per bushel (for the period from December to February this is 60 cents because of the Cuban agreement). The quota limit has been fixed at 1,000,000 bushels annually, and to the difference between the domestic crop and 350,000,000 bushels in years when the domestic crop falls below 350,000,000 bushels.

Superficially, at least, these concessions would appear to imperil the position of the American potatoe grower on the domestic market, since the combination of these two benefits would permit the entry into the United States of about five times the quantity of potatoes which had entered that country during the period from 1930 to 1935. However, the total quantity permitted to enter under the present agreement represents less than 1 percent of the domestic production of potatoes, and, except for years in which crop shortages were experienced, none of the former smaller quota have even been approached.

Canada has in the past given the United States an identical tariff treatment with that which she herself obtains, namely 75 cents per 100 pounds. Under the new agreement, however, free entry to American potatoes has been provided except for the period from June 15 to July 31 during which a charge prevails of half the former rate. In view of the large exports of American grown potatoes under a former duty of 35 cents per 100 pounds, this new concession should result in a significant increase in the volume of that commodity on the Canadian market.

Miscellaneous Agricultural Products.

Exclusive of the agricultural products previously mentioned, the most important concession in this field was granted with regard to maple sugar and maple syrup. The former rate of 6 cents per pound on the first of these two items was cut to 4 cents in 1936 and on the latter item the then prevailing 4 cent charge was maintained. Due to pressure exerted by American producers who used these products, it was decided that the former rate ratio of these two items should again be restored and in the terms of the new agreement this has been done with the resulting charges of 3 and 2 cents respectively. Although large imports of these commodities are needed to supplement a deficient American production, little fear need be felt that this will wrest the domestic market from the American producers, because, for the most part, there is no domestic production of these items and Canadian imports are used only in those lines where they are peculiarly suited for a special use.

The new rate on frozen blueberries of $17\frac{1}{2}$ percent was the result of a new agreement with the United Kingdom on behalf of Newfoundland, which supplies the largest quantities of these berries. Former charges had been 35, and then 25 percent. On unfrozen blueberries, of which a far smaller volume is imported, similar tariff treatment was given and the rate was lowered from $1\frac{1}{4}$ to 1 cent per pouhd. Despite recent increases in the production of these items in the United States, large imports are still needed to meet the present demand. In return for these concessions, Canada has been very liberal with its tariff treatment of American strawberries and other berries in which they are lacking and which account for valuable trade.

Another concession relates to cut flowers, fresh or dried on which the prevailing duty of 40 percent was lowered to 25 percent. An identical reduction was made in the new schedule I for American exports of the same item to Canada.

On the most important classes of seeds and grasses, the rates which existed in the 1936 agreement are retained, and, in some of the minor classes, new concessions were granted; similar reductions were made in the new Canadian schedule.

Some of the other agricultural products which received new benefits, or which retained their former tariff status, include, honey, apples, berries, cherries, cider, tree and shrub seeds, beets, (other than sugar beets), green peas, turnips and rutabagas, carrots, radishes and cauliflower, and hay and straw.

Fishery Products.

Of the total imports into the United States of fishery products, Canada supplies in the neighborhood of two-fifths of this value. A large proportion of this figure is made up of imports coming into the United States on the free-list, which includes such items as sea herring, lobsters, oysters, crabs, and scallops. These items received free-entry as a re-binding of their 1936 tariff status with the exception of "spiny lobsters" which are excluded in the new agreement. Whereas the 1936 agreement had been principally concerned with reduction in the charges on fresh water fish, the new trade treaty gives a more liberal treatment to former items besides covering a number of new items not previously enumerated. Again it is well to refer to the Department of State Report,[3] which lists the principal reasons for the expansion of concessions on fishery products:

(1) Even with a large amount of protection, the United States fisheries would not be able to supply the large and increasing demand for fish of most species, with the exception of canned salmon and sardines which it exports in large quantities. Pacific coast waters and Alaska provide large supplies of these two species. Considering the problem as a whole, the imports of fishery products are approximately three times as large as exports in value, which is a large portion of the total fish consumption. This phenomenon is partly due to the comparatively short seacoasts when related to the population, and the fact that only a small percentage of the population is engaged in fishing.

(2) To repeat this last statement, even in those parts of

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3. "The New Trade Agreement with Canada," Department of State No. 1253.

the country which rank high in the fishing industry, fishing represents only a very small percent of the business.

(3) Fishing is much more important to the Canadian national economy than it is to that of the United States. In the Maritime Provinces and British Columbia it is a very large industry. As a consequence of increased exports to Canada from the United States in other products, the Canadian authorities realized the necessity of obtaining compensating concessions on products in which she had a natural advantage.

(4) Concessions of great value to agriculture and industry have been obtained from Canada, and these have beenequally beneficial in those parts of the United States where fishing is a large occupation, particularly New England, the industrial States along the Great Lakes, and the Pacific Coast States. Many of the benefits extended to Canada are compensatory for these liberal tariff treatments.

Codfish and Related Fish.

The terms of the 1936 agreement did not provide any concessions on fish of the cod species (cod, haddock, pollock and cusk) commonly called groundfish. However, the 1938 agreement provides for duty reductions on almost all classes of this item, although on the highly competitive forms less than maximum permissible reductions are being granted and a quota restriction has been erected.

When the American fishing fleet was at its peak of development, it was able to supply the entire domestic consumption of these fish and was, in addition, able to export the surpluses to other lands. The decline of the fleet gave rise to the demand for imports of these groundfish, most of which were shipped in salted form. Approximately 15 years ago, as a consequence of the introduction of the filleting industry, this downward trend of the American cod industry was stopped, since with this new innovation the fish could be marketed, fresh or frozen. Therefore, despite the gradual decrease in the demand for salt and smoked fish, there has been a significant increase in the American catch and a definite trend toward a diminuation of the proportion of domestic consumption which is being supplied by imports.

Since salt and smoked groundfish already supply the bulk of the market, further duty benefits would not greatly enhance this Canadian trade, and hopes for increased trade must be placed on a stimulation of exports of filleted groundfish. It is small wonder, therefore, that there should be revisions in the rates of these products in the new schedule II. The charge on frozen and fresh fillets of groundfish has been reduced from 2½ to 1 7/8 cents per pound, subject to quota restrictions. The reduced duty is to apply to a quota of 15,000,000 pounds in any year, but this may be increased to 15 percent of United States consumption, if consumption in the 3 preceding years averaged over 100,000,000 pounds annually, United States domestic production is, therefore, still in a dominant position for the control of the supply for the home market.

As has been previously stated, the largest proportion of the goundfish exports from Canada to the United States consists of salted fish. Dry salt groundfish (not skinned or boned), had its 1¼ cents per pound rate lowered to 5/8 cent, whereas for the wet salt fish the lowering has been from 3/4 to 3/8 cents per pound. The import charge on "boneless" saltfish has been cut from 2 to 1½ cents per pound. Fresh or frozen groundfish, whole, beheaded or eviscerated or both, but not further advanced, now has a 3/4 cent rate as compared with the previous 1 cent charge; if the fins have been removed, the existing 1 cent rate is bound against an increase. Smoked or kippered fillets, formerly dutiable at 3 cents now are taxed 2 percent, whereas, the duty on other forms of this item have had a reduction from 2½ to 1½ cents.

Miscellaneous Seafish.

The 1936 agreement made 50 percent rate reductions on the items of fresh halibut, fresh eels, hard dry smoked herring, and boned smoked herring. In all cases these lowered rates have been retained under the new agreement. Rate reductions of a lesser magnitude were also extended to other species of seafish such as frozen mackerel, a specific type of salt herring, and smoked salmon. On certain other items the new rates represent 50 percent cuts from the duties existant prior to the 1936 agreement, and these include fresh salmon, fresh swordfish, salted salmon, and salted alewives. New concession involving 50 percent cuts in the 1936 rate which had not been lowered with respect to previous charges are made on the following: fresh sturgeon, fresh mackerel and fresh shad.

Lake Fish.

The 1936 agreement provides eight types of fresh water fish with import charge reductions of from 1 to 3/4 cents per pound.

This trade made up the dominant portion of American imports of lake fish. Under the 1938 trade treaty, the same treatment is maintained for these eight species, and four other species of lake fish are added to the list. Fish, fresh or frozen, not otherwise provided for, which includes lake fish, also retains its former charge of $2\frac{1}{2}$ cents per pound. A large percentage of the American consumption of this group is supplied by imports. This is, to a certain extent, due to the fact that the supply of fish in the Great Lakes has been almost exhausted and the Canadian lakes are the only other sources of these fish on the continent.

Forest Products.

More than 50 percent of the American imports from Canada in recent years has consisted of forest products, including newsprint paper. The largest portion of this group of products, especially newsprint paper and material for making paper, are included on the duty-free list.

Rough Lumber.

A duty of $1 per thousand board feet was imposed by the Tariff Act of 1930 on lumber of fir, hemlock, pine, spruce and larch; other softwood lumber, and practically all hardwood lumber remaining duty free. The Revenue Act of 1932, Section 601 (c) (6), placed an additional tax of $3 per thousand board feet on all of the aforementioned types of lumber and also on all other species of softwood or hardwood lumber. The 1936 agreement provided a 50 percent reduction on both the duty and the additional tax, but in addition, in the case of Douglas fir and Western hemlock, a quota restriction of 250,000,000 board feet per year was imposed.

The 1938 schedule II renews most of the 1936 provisions plus the removal of the quota restrictions on fir and hemlock. Moverover, with regard to northern white pine, Norway pine, and western white spruce, an act was passed by Congress in 1938 which states that the total import charge on these items may not exceed 50 cents per thousand board feet so long as the agreement remains in effect, and, therefore, the import tax was removed in these special cases. In reference to cabinet woods, of which Canada is not the principal supplier, the 1930 rate of $3 was reduced to $1.50 in 1936 and now it has been excluded from the new agreement thereby restoring it to the statutory revenue tax of $3 per thousand feet.

Certain very definite reasons have contributed to the formation of this extremely favorable tariff policy, and among the outstanding of these are (1) the $4 charge on many of these types of lumber was, in effect, prohibitive, and imports of these species fell off considerably; (2) the inadequate domestic supply of such lumber as white pine and spruce in the United States made imports from Canada a necessity; (3) the quota set on Douglas fir and Western hemlock was never approached, (in 1937, the year of maximum imports of these two timbers, the actual shipments were a bare 60 percent of the quota); (4) American lumber has obtained valuable concessions on British markets at the expense of Canadian relinquishments of their trade preferences in those markets; and the Canadian government has agreed to extend the relinquishment of preference to other forest products should the United States pursue a more liberal policy and repeal the import tax on Canadian lumber; and (5) even when free entry was permitted, the imports were always small when compared with American domestic production.

Free Entry Bindings on Forest Products. -- The most important free-entry binding on forest products are those on newsprint paper and paper-making materials, all of which have been duty-free for some time. The 1936 agreement bound the free-entry status of the three types of wood pulp entering the United States from Canada and for which the latter country is the principal supplier. The new agreement rebinds this tariff treatment on all of these items (import value in 1937 - $155,000,000).

Two outstanding reasons can be given for the attitude taken by the United States on imports of these free-list commodities; firstly, they have always been dependent on imports for a large portion of their paper requirements, and in the past ten years approximately 50 percent of the total paper consumption has been from imported materials; and secondly, it is believed that in periods of active building construction, the United States has been reluctant to deplete their timber supply by using the wood for the paper industries. The imports have, for the most part, been of materials for the manufacture of white paper since the domestic supply of balsam fir and spruce, which are component bases for this product, have, to a large extent, been depleted. It will be of considerable interest to note the effect of the development of new processes, whereby the abundant supplies of Southern pine can be utilized for the manufacture of white paper.

Another extremely valuable import from Canada on which free entry is granted, are shingles of wood, principally those of red cedar. The 1936 trade agreement had limited imports of any one-half year to 25 percent of the consumption of the previous half year, and whenever this quota was reached further, imports were not permitted to enter the country at any price. Such a stipulation lead to an unstable volume of imports and the new agreement modified this clause by setting a quota of a quantity equal to 30 percent of the average annual consumption during the three preceding years with a maximum duty of 25 cents per square or about 10 percent ad valorem.

Among the other items which received the same free entry treatment as of the 1936 agreement may be included, numerous unmanufactured or simply manufactured wood products, such as logs, laths, posts, poles, railway ties, palings and pickets.

Miscellaneous Dutiable Wood Products.

American imports of dutiable wood products are relatively small as compared with the trade in lumber. The trade agreement in 1936 gave concessions to only a few articles in this group and for the most part these benefits are continued plus a few new reductions in the 1938 schedule II. Certain of these articles were recipients of 50 percent duty reductions and this list includes flooring of maple (except Japanese maple), birch, and beech; veneers of maple and birch; hubs for wheels, heading and stave bolts, and other rough shaped blocks; casks, barrels and hogsheads (not including beer barrels or kegs). Another group of items received a cut in import charge from 33 1/3 to 20 percent ad valorem, and this assemblage is comprised of such imports as paint brush handles, broom and mop handles, tennis racket frames (valued at $1.75 or more each), toboggans, baby carriages, wheelbarrows, canoes and canoe paddles, horse-drawn vehicles, and icehockey sticks. The import value of these products is relatively insignificant when compared with American domestic production of these same wood manufactures.

One import of singularly large import value, which has received a 50 percent reduction in its rate of from 10 to 5 percent ad valorem, is Christmas trees. Canada has always been a large supplier of this item to the United States.

Mineral Products.

For a large number of important mineral products, Canada is the principal supplier to the United States. In many of the cases in which the product is either not mined in the latter country or in which a shortage exists, free entry is provided. These concessions on items receiving a free-list status are for the most part rebindings of similar treatment in the 1936 agreement. As is to be expected in keeping with the general tone of the new agreement, the scope covered by duty reductions is much wider than in previous trade programs. The three leading metallic items, that is from the standpoint of value of imports, nickel, aluminum, and zinc, have duty reductions of 25 percent or less. Some of the less important products have benefitted from cuts of up to 50 percent of former charges but of course the imports are very small when compared with domestic production.

Aluminum.

The 4 cent per pound duty on aluminum which was set by the Tariff Act of 1930 and repreated in the 1936 agreement is now cut to 3 cents. This product has a unique problem, in that the leading foreign producers of aluminum are affiliated in a cartel arrangement. In the United States there is only one producer of primary aluminum and this firm is, at least indirectly, affiliated with the dominant producers in Norway and Canada, the leading importers to the United States. Although the United States lead the world in the production of aluminum, the largest part of this is manufactured from imported bauxite. Therefore, American imports of aluminum have been affected to a considerable extent by artifical foreign controls and not wholly by the general market considerations. The 1937 domestic production of primary aluminum was about 293,000,000 pounds, and that of secondary aluminum (recovered from scrap) was about 125,000,000 pounds. The 1937 imports totaled approximately 45,000,000 pounds or a bit over 10 percent as compared with domestic production. Of this figure, Canada supplied about 60 percent and most of the remainder came from Norway.

Cadmium.

This by-product of copper manufacture has a very small import value as compared with that of the product from whose production it is derived. Only in recent years, essentially during the period of the rise in car manufacturing has this metal become at all prominent because of its use for automobile bearings. The recent rise in the automobile industry has then accounted for increased demands for cadmium, with consequent price rises. The 15 cent per pound import charge has been lowered to 7½ cents in the new agreement.

Nickel.

The leading American metal import from Canada is crude nickel. Despite the fact that a minimum of this metal is produced in the United States, it has always been subjected to a relatively high duty of 3 cents per pound with the resultant effect that the nickel industry has imported large supplies of nickel-copper matte from Canada and this is used in the manufacture of monel metal. The new agreement lowers this charge to 2½ cents and on such a large volume of trade (imports in 1937 - $19,767,939) this reduction is a considerable concession.

Zinc Ore and Zinc Metal.

The 1936 agreement rates for zinc ore and zinc metal which were 1½ and 1 3/4 cents per pound respectively, are now cut to 1 1/5 and 1 2/5 cents. The United States is the largest zinc producing country in the world, but the domestic consumption is so great, due to the importance of this metal for leading American industries, that in recent years imports, mostly of ore and unrefined zinc, have exceeded exports. The zinc mining industry is of primary importance to certain of the states, but it is thought that adequate protection has been left for these industries because the import excesses are but a very small figure when compared with domestic production and consumption.

Iron Alloys.

Few concessions were made on products which may be included under the above heading. Spiegeleisen continued to be dutiable at its former charge of 75 cents per ton. Ferromanganese, ferrochrome, ferrotitanium, ferrovanadium and ferrouranium continue to bear the rates imposed by the 1936 agreement. Ferrosilicon, dutiable prior to the 1936 agreement at 2 cents per pound had this charge lowered to 1½ cents in the trade agreement of that year and now this becomes 1 cent. Boron carbide has a new duty of $12\frac{1}{2}$ percent which is a 50 percent reduction from its 1936 rate.

Mineral Products on the Free List.

Cobalt and cobalt ore, and nickel ore, matte and oxide, continue to have the free-entry status granted to them in the 1936 agreement. These are commodities in which the United States has little production and on which the imports have been of considerable volume.

Nonmetallic Minerals and Products.

As in the case of metallic minerals and products, a very liberal new schedule of tariffs has been established. In the cases where American production is small, low rates or free entry has been promulgated, and in a few cases protective duties are still maintained to encourage the production of these commodities in the United States.

Nepheline syenite. -- Crude nepheline syenite is on the free list, and the ground material is dutiable at 15 percent ad valorem as compared with the former 30 percent charge. This product is used as a substitute for feldspar in certain manufactures and as yet the bulk of its production is confined to Canada. As a safeguard to the domestic feldspar industry, the following provision was made which states that in event of imports of crude and ground nepheline syenite together exceed 50,000 tons per annum, the two Governments shall consult regarding action to be taken. If consultation results in no agreement, the United States Government shall be free to increase the duty on imports in excess of 50,000 tons in any calendar year. This concession will permit an increase in Canadian imports to the United States without seriously endangering domestic manufactures.

Nonmetallic Minerals on the Free List.

Due to the extensive use and the comparatively small domestic supply, one of the largest items on the free entry list from Canada is crude asbestos and crude artificial abrasives.

Miscellaneous Dutiable Mineral Products.

Among the miscellaneous and comparatively insignificant imports from Canada may be included fire brick, brick n.o.p., limestone, lime, crude feldspar, low priced talc, and dead-burned basic refractory material. Most of these items had received rate reductions in the 1936 schedule II, and now, with the exception of limestone and talc, further benefits were granted. Other concessions which are solely the result of the new agreement were given to building and paving brick, cement bentonite, three types of mica, ground feldspar, and crushed or ground stone. None of these items has an import value of large enough proportion to be considered detrimental to American domestic production.

Manufactured Products.

Outside of the agricultural, fishing, forestry and mining products, there remained but a few commodities which Canada exported to the United States in sufficient volume to merit chief supplier concessions. Among the most important of these may be mentioned whiskey, certain chemicals and oils, metal products, paper and printed matter, silver fox furs and miscellaneous manufactured products. These items will now be described more fully.

Whiskey.

The outstanding item in this list is whiskey, the 1937 import value of which was $21,000,000. Prior to the 1936 agreement and during the prohibition period, the duty was fixed at $5 per proof gallon. The 1936 trade program reduced this figure to $2.50 with the result that the United Kingdom which supplied Scotch and Irish whiskey benefitted greatly. The new agreement renews this concession on all whiskey aged not less than 4 years, in wooden containers, with the same conditions being set forth in the trade treaty with the United Kingdom. American domestic production has increased to a large extent in recent years but as yet an adequate supply of sufficiently aged whiskey is still unavailable, and large imports must be relied on to meet the increased demand.

Chemicals and Oils.

Of the concessions coming under this group heading, the most valuable is that with regard to acetic acid containing by weight more than 65 percent of acetic acid (imports in 1937 -- $1,692,000). The rate of 2 cents per pound was lowered to $1\frac{1}{4}$ cents in the 1936 agreement and now this becomes 1 cent. Similarly, acetic acid with a lower acetic acid content received a rate-cut concession. No increases in imports have been experienced since the first tariff reduction, and increases up to that date were due mainly to a large demand for this product in the manufacture of rayon. Domestic manufacture is now supplying this new demand to a much larger extent.

Continuations of the maximum reductions granted by the 1936 agreement were extended on vinyl acetate, and synthetic resin therefrom, cobalt oxide and crude sperm oil. Gas black pigment and acetylene black pigment had their 1936 rates of 20 and 15 percent respectively cut to 10 percent.

The remaining large concession in this group is that on salt. The rate on salt in bags, sacks, barrels or other packages is lowered from 11 to 7 cents per 100 pounds. The rate on bulk salt is cut from 7 to 4 cents per 100 pounds. Other less important concessions include those on fir or Canada balsam, crude calcium acetate, specific fish oils, and cedar leaf oil.

Continued free-entry bindings were given on sulphuric acid, calcium cyanamid, and sodium cyanide. New bindings affected such products as certain crude or semi-manufactured coal-tar products, drugs from animals, radium and selenium and their respective salts.

Metal Manufactures.

A few valuable concessions were made on metal manufactures in the advanced stages of production. The rate on electric cooking stoves and ranges already lowered by the 1936 agreement, was still further reduced. On many other items, which were unaffected by this treaty, new concessions have now been made, and these products include hollow bars and hollow drill steel; woven wire cloth of certain mesh sizes; axles and parts thereof; cast-iron fittings for cast-iron pipe; miscellaneous cast-iron manufactures; molder's patterns; iron or steel chains of certain sizes; electric washing machines; and motor and pleasure boats valued at not more than $15,000 each. Imports on all of these items are negligible when compared with American production.

Paper and Printed Matter.

The sum total import value of all dutiable trade of this type by the United States is but a small fraction of the import value of newsprint which is permitted free entry into that country.

In most lines of production the American industry is quite capable of supplying domestic demands and those types of paper in which imports are sought are classes in which home production would not be profitable.

The 1936 agreement granted maximum tariff reductions on pulpboard in rolls for wallboard, either processed or unprocessed and the new agreement continues this status. Uncoated book and printing paper received the most important new concession, when the 1936 rate of ¼ cent per pound plus 10 percent ad valorem was reduced to 1/5 cent per pound plus 5 percent. Despite substantial increases in the import volume of this article, the figure for this trade is less than 1½ percent of domestic production. Hanging paper, not printed, which was dutiable in 1936 at 10 percent now becomes taxable at 7½ percent.

Tissue paper with a 1936 agreement duty of 6 cents per pound plus 20 percent and 5 cents per pound plus 15 percent for the two weight classes of this product, has received further downward revision to 3 cents per pound plus 10 percent and 2½ cents per pound and 7½ percent respectively. The specific part of this duty prior to the new agreement was prohibitive on the cheaper grades of tissue and therefore most of the imports consisted of high grade papers entering from Europe or Japan. The present 50 percent reductions granted to Canada apply only to tissue paper valued at not over 15 cents per pound. Most of the American domestic produce of tissue is of a much cheaper variety. A 50 percent reduction was also made by the 1938 trade treaty with regard to crepe paper valued at not more than 12½ cents per pound. Maximum reductions were given on tourist literature.

Silver-Fox Furs.

The duty on these furs has been cut from 50 to $37\frac{1}{2}$ percent ad valorem by the 1938 agreement. The United States production has increased considerably in the last few years, but the even greater increase in demand for these furs has necessitated imports of as much as 10 percent of domestic production. Most of the American exports of silver-fox furs are of lower class skins. The $37\frac{1}{2}$ percent duty should provide adequate protection for the domestic industry without too greatly reducing imports from Canada.

Miscellaneous Manufactured Products.

Patent leather received a 50 percent rate reduction in the new agreement thereby making this article dutiable at $7\frac{1}{2}$ percent. The 1936 charge of 10 percent on harness and saddlery leather has been renewed.

Other concessions of which perhaps the most important are those on ice skates and lacrosse sticks, include, in addition, leather skating boots, leather gloves, rubber hose and tubing, pipe organs and parts, and hose suitable for conducting liquids and gases, wholly or in chief value of vegetable fiber. Only ice skates and lacrosse sticks have exports which are of more than incidental importance.

Summary.

The statements made at the conclusion of Chapter IV, may again be repeated with regard to the effects and value of the

American concession to Canada. This new schedule II, although considerably shorter than the new schedule I, should have a beneficial effect on the stimulation of Canadian industry for the production of larger supplies of export materials. The numerous reductions in tariffs and the many items on the free list present attractive opportunities for Canadian producers despite the quota restrictions on certain of these products. And yet, even at the price of a more liberal trade policy, it is quite evident that little or no hardship has been imposed on American manufacturers. Those industries in which the United States has been a large producer, and those in which she is attempting to develop "infant industries", have been given ample protection until such a time as they are able to meet foreign competition.

More favorable tariff treatment will, no doubt, result in increased Canadian exports to the United States and in a similar manner American manufacturers and consumers should be benefitted by the increased imports. As has been previously stated, it is difficult to determine from a superficial study just what portion of import or export value is to be attributed to rate manipulation and what portion may be the result of factors external to this form of stimulus.

The following chapter will deal with the actual trade values of the leading exports and imports from the United States and Canada. This is to be followed by a final chapter dealing with factors instrumental in causing trade volume fluctuations, and how they act to combine or to conflict with rate manipulation in the control of international trade.

CHAPTER VI

STATISTICAL SURVEY OF RECENT CANADIAN-AMERICAN TRADE VOLUME.

The past chapters have dealt in a somewhat detailed manner with the actual changes and modifications of tariff schedules which took place in the 1936 and 1938 trade agreements. Therefore, they have been, for the most part, a description of what has been set forth in the schedules of these two agreements without reference to changes in the volume of trade between the United States and Canada which accompanied, or perhaps resulted from, these trade programs. True, it is difficult to ascertain the causal relationship in a complicated problem such as a consideration of how much any one factor affects import and export values, and yet without such an attempt, it would be difficult to evaluate or to determine whether or not the policy which is being subjected to trial is a good one. It is well then, one should think, to place one-self in the position of the formulators of international trade policy and attempt such an analysis on the basis of past and present experience. This is the purpose of the concluding chapters.

Realizing the complexity of this problem, it is difficult to determine what procedure would lead to the most conclusive and useful results, without becoming too deeply lost in a maze of figures and facts. The plan which seems the most suitable and profitable is the following.

There will be presented in this chapter the actual statistical values for exports and imports of certain commodities covering a period of five years, so that a realistic basis of comparison may be established. To represent Canadian imports from the United States, and American exports to Canada, a list of 20 commodities was selected, 10 to represent the flow of goods in each of the two directions. These 20 trade items were chosen from the hundreds which are component parts of the list of Canadian-American commercial exchanges, with certain definite purposes in mind. Firstly, the commodities should be those in which a comparatively large volume of trade has been carried on for a number of years; secondly, only those items should be selected in which there have been actual reductions in rates due to the agreements. Articles which have maintained the same charges throughout or a duty free status for the period to be studies would be of little value in the present survey; thirdly, in so far as possible, it is well to have a diversified list of products, so that the effects of unusual factors effecting one type of export or import will not render the entire study valueless; fourthly, products which have declined in trade volume should be included as well as those in which increases are reported, so that the possibilities of further stimulation in trade by rate manipulation can be appraised; and fifthly, it is well to exclude from our consideration all commodities in which a clearly defined factor, external to the trade program, has effected a violent fluctuation in exchange volume.

To qualify a product in all of these respects is a perplexing undertaking. The commodities in which the largest trade is realized are for the most part those which are on the duty-free list or which have retained the same tariff status throughout the period under consideration. Therefore, such highly valuable articles of commerce as wood-pulp, coal, raw cotton and silk, etc., were deleted from the list. In the case of Canadian exports to the United States, a long list could have been compiled of strictly agricultural, or fishery, or forest products; and with respect to Canadian imports from the United States, similar lists could have been tabulated of purely mechanical products; but in an attempt to circumvent the effects of such a restricted survey, other products of perhaps less actual trade value were included, to maintain a balance. For the most part then, the group of items represents those commodities which more closely conform to the principles set forth in the previous paragraphs.

The period chosen was one of five full years, from January 1, 1935 to December 31, 1939 inclusive. Since the inception dates of the two agreements were January 1, 1936 and January 1, 1938, this five year period would permit the comparison of data for a full year prior to the first agreement, three years between agreements, and a full year after the 1938 agreement.

The trade values shown are for the most part direct reproductions of the figures given in the "Summary of the Trade of Canada"[1] pamphlets for the years 1936, 1937, 1938 and 1939. In certain instances the grouping as indicated in the schedule of the trade agreements and the item in the trade value summary were not in strict conformity, in which case the author was obliged to calculate as closely as possible these values which could not be obtained from more reliable sources. All of the figures shown represent the value in Canadian dollars.

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1. Summary of the Trade of Canada, 1936,1937, 1938, 1939.

The rates indicated were obtained from the "Statement of Tariff Changes Resulting from the Canada-United State Agreement".[2] The figure which will be indicated as the 1935 rate is that which was in effect prior to the 1936 agreement, the other two tariff charges will be self-explanatory.

Having now set up a plan for an investigation of recent fluctuations in Canadian-American trade during the period of the reciprocal trade programs, the next object is to tabulate the changes in the exchange volume of the commodities to be examined for the period which has been chosen. The purpose of this chapter is, then, to indicate these values as compiled from authoritative sources, quite irrespective of the reason why changes and certain trends in these figures are exhibited. The following chapter will attempt to take and correlate the figures set forth in this discussion with reality, in an attempt to ascertain if possible to what extent trade was increased by a more liberal tariff program, and to what extent this attempt was modified by external factors.

Principal Commodities Imported By Canada From the United States.

The commodities chosen to represent American exports to Canada for the five year period are automobiles, oranges, mining machinery, textile machinery, aluminum and products, threshing machines, electric motors, unbleached cotton fabric, printing presses, and adding machines. These products appear to conform in most respects to the pattern which will provide the most conclusive results.

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2. Tabular Statement of Tariff Changes Resulting from the Canada-United States Trade Agreement. House of Commons Committee on Ways and Means.

Oranges.

TABLE B

CANADIAN IMPORTS OF ORANGES FROM THE UNITED STATES.

Year	Tariff Treatment	Trade Value
1935-1936	35¢ per cu. ft.	$5,041,103
1936-1937	Free Jan. - Apr. 35¢ May - Dec.	$5,949,725
1937-1938	Free Jan. - Apr. 35¢ May - Dec.	$6,823,885
1938-1939	Free Jan. - Apr. 35¢ May - Dec.	$5,320,342
1939-1940	Free Jan. - July 35¢ Aug. - Dec.	$5,842,272

The trade value of oranges increased steadily throughout the period under observation until the 1938-1939 returns, which showed a decline almost to the 1935-1936 level. The import value for 1939-1940 indicates a return to the normal trend and the figure is within $108,000 of the 1936-1937 level.

The tariff reductions have been in the form of a maintenance of the 35 cents per bushel charge of 1935, but in the two successive agreements, there have been increases in the period for free entry.

Automobiles.

TABLE C

CANADIAN IMPORTS OF AUTOMOBILES FROM THE UNITED STATES.

Year	Tariff Treatment	Trade Value
1935-1936	20, 30 or 40 per cent	$ 1,780,041
1936-1937	$17\frac{1}{2}$ per cent	$ 5,683,880
1937-1938	$17\frac{1}{2}$ per cent	$12,445,969
1938-1939	$17\frac{1}{2}$ per cent	$10,352,682
1939-1940	$17\frac{1}{2}$ per cent	$13,281,627

Canadian imports of automobiles have shown a remarkable increase from 1935 to 1940. The year 1938-1939 brought with it a slight downward deviation from the steadily increasing trend line, but the 1939-1940 figures show imports in excess of any previously attained yearly total.

The tariff scheme during this period was a revision of the 20, 30 or 40 percent ad valorem rates by the 1936 agreement, which set a new import charge of 17½ percent. Substantial trade increases have been evidenced and the new agreement binds the 1936 rate at 17½ percent.

<u>Mining Machinery</u>.

TABLE D

CANADIAN IMPORTS OF MINING MACHINERY FROM THE UNITED STATES.

Year	Tariff Treatment	Trade Value
1935-1936	25 percent	$
1936-1937	20 percent	$2,739,262
1937-1938	20 percent	$5,750,008
1938-1939	20 percent	$4,696,582
1939-1940	17½ percent	$5,160,441

Again, with the exception of the year 1938-1939 there has been a steady growth in the Canadian import volume of the items included under the heading, mining machinery. The value of 1939-1940 trade has not as yet reached the 1937-1938 level, but it far surpasses the value in any of the other previous years.

The accompanying rate revisions are in a steady downward trend from 25 percent ad valorem in 1935, to 20 percent under the 1936 agreement, and a 1938 import charge of 17½ percent.

Textile Machinery.

TABLE E

CANADIAN IMPORTS OF TEXTILE MACHINERY FROM THE UNITED STATES.

Year	Tariff Treatment	Trade Value
1935-1936	10 percent	$2,083,787
1936-1937	5 percent	$2,811,314
1937-1938	5 percent	$3,488,666
1938-1939	5 percent	$2,665,821
1939-1940	5 percent	$3,438,548

The annual import value figures for this very important item have risen from 1935 until 1938. The 1938-1939 figures show a value which is lower than the 1936-1937 level but the following year of 1939-1940 indicates a recovery to within $50,000 of the peak value in 1937-1938.

The 1936 agreement showed a reduction of 50 percent from the previous 10 percent ad valorem charge. The new agreement continues this 5 percent charge and binds it against an increase.

Aluminum and Aluminum Products.

TABLE F

CANADIAN IMPORTS OF ALUMINUM AND ALUMINUM PRODUCTS FROM THE UNITED STATES

Year	Tariff Treatment	Trade Value
1935-1936	30 percent	$2,589,341
1936-1937	30 percent	$2,791,753
1937-1938	30 percent	$3,971,085
1938-1939	30 percent	$1,966,767
1939-1940	27½ percent	$2,590,378

A slight rise in imports was experienced in the first three years of the period with which we are concerned. The last two years show a serious decrease in this trade value and the 1939-1940 import value has barely risen over the 1935-1936 total.

No changes in the rates on these items were effected until the 1938 agreement when the then existant charge of 30 percent ad valorem was cut to 27½ percent.

Threshing Machinery.

TABLE G.

CANADIAN IMPORTS OF THRESHING MACHINERY
FROM THE UNITED STATES

Year	Tariff Treatment	Trade Value
1935-1936	25 percent	$ 10,218
1936-1937	7½ percent	$ 316,221
1937-1938	7½ percent	$ 347,940
1938-1939	7½ percent	$1,279,606
1939-1940	7½ percent	$1,710,517

Almost phenomenal increases have been the experience with regard to the import figures on threshing machinery. The figures for 1936-1937 show an almost 3000 percent increase over the previous year total and in the succeeding years similar, although not quite as large, gains have been reported. There have been no deviations from the ascending trend at any time within this period.

Threshing machinery was dutiable at 25 percent ad valorem in 1935. The 1936 agreement lowered this to 7½ percent, where it is now bound against an increase in the terms of the new agreement.

Electric Motors.

TABLE H.

CANADIAN IMPORTS OF ELECTRIC MOTORS FROM THE UNITED STATES.

Year	Tariff Treatment	Trade Value
1935-1936	37½ percent	$ 885,699
1936-1937	30 percent	$1,240,136
1937-1938	30 percent	$1,891,223
1938-1939	30 percent	$1,498,789
1939-1940	25 percent	$1,514,013

A steady rise in Canadian imports of electric motors was reported until the 1938-1939 annual total, at which time the figure fell below the 1937-1938 high. The 1939-1940 trade value is again a step in the upward direction but as yet the 1937-1938 figure has not been approached.

The tariff treatment on electric motors has been a steady downward revision of the rates. The 1935-1936 charge was 37½ percent ad valorem, then the 1936 agreement reduced this to 30 percent and the present arrangement cuts the duty still further to 27½ percent.

Unbleached Cotton Fabrics.

TABLE I

CANADIAN IMPORTS OF UNBLEACHED COTTON FABRICS FROM THE UNITED STATES

Year	Tariff Treatment	Trade Value
1935-1936	25 percent, 4¢ per lb.	$ 512,248
1936-1937	20 percent, 3½¢ per lb.	$ 683,207
1937-1938	20 percent, 3½¢ per lb.	$1,341,080
1938-1939	20 percent, 3½¢ per lb.	$ 546,327
1939-1940	17½ percent, 3¢ per lb.	$1,498,077

After a gradual increase in imports during the first two years of the period of observation, the trade value of unbleached cotton imports rose sharply in 1937-1938 to more than twice the value of the previous year. 1938-1939 produced a slump to almost the level of the opening year, and the 1939-1940 figure again exhibits a marked sharp expansion in this trade to a new high total for the entire period.

Unbleached cotton fabrics are subject to both a specific and an ad valorem import charge. In 1935 these figures were 25 percent ad valorem and 4 cents per pound as an added specific fee. This was lowered in 1936 to 20 percent and 3½ cents, and at present the duty is 17½ percent and 3 cents.

Printing Presses.

TABLE J

CANADIAN IMPORTS OF PRINTING PRESSES FROM THE UNITED STATES.

Year	Tariff Treatment	Trade Value
1935-1936	15 percent	$ 662,811
1936-1937	10 percent	$1,052,434
1937-1938	10 percent	$1,644,610
1938-1939	10 percent	$ 955,378
1939-1940	10 percent	$1,498,077

The usual rise in imports which has been witnessed in most of the aforementioned items for the first three years of the period was similarly experienced in the case of printing presses. This was followed in 1938-1939 by a marked decline of 42 percent of the 1937-1938 annual total. The 1939-1940 trade value shows a favorable recovery from the one-year slump.

Only one tariff reduction has been made on this item in recent years, that coming in 1936 as a result of the agreement of that year whereby the existing 15 percent ad valorem charge became 10 percent. The new agreement has merely provided this product with a binding against increase of the 1936 duty.

Adding Machines.

TABLE K

CANADIAN IMPORTS OF ADDING MACHINES FROM THE UNITED STATES

Year	Tariff Treatment	Trade Value
1935-1936	25 percent	$ 833,577
1936-1937	20 percent	$1,064,858
1937-1938	20 percent	$1,237,755
1938-1939	20 percent	$1,050,468
1939-1940	20 percent	$1,241,366

A decline in the trade value during the year 1938-1939 follows a three year steady trade expansion in Canadian imports of adding machines. This drop is immediately followed by a year which surpasses all previous similar periods as a high mark in this type of trade. Throughout the entire five years there has been a comparatively stable trade volume for this import, and the fluctuations were only minor ones.

As in the case of the previously mentioned item, printing presses, the rates for adding machines have not been subjected to more than a single change during this period. That revision was included in the 1936 schedule I and cut the 25 percent ad valorem charge to 20 percent where it is now bound against increase by the new schedule I.

Total Canadian Imports from the United States.

To provide somewhat of a guide as to the general trend of

Canadian imports from the United States, regardless of whether or not a tariff concession has been made, the following table has been included. The figures shown are the trade totals excluding gold. The column on the right indicates the excess of Canadian imports over Canadian exports with regard to the United States, or what might be termed the "unfavorable balance".

TABLE L

TOTAL CANADIAN IMPORTS FROM THE UNITED STATES

Year	Import Value	Import Excess
1935-1936	$312,416,604	$ 39,297,000
1936-1937	$369,141,513	$ 24,354,970
1937-1938	$490,504,978	$118,284,211
1938-1939	$424,730,567	$145,972,641
1939-1940	$496,898,466	$107,144,868

Canadian imports rose steadily from 1935 to 1938. The next year produced a temporary fall in trade value, but the following year, 1939-1940 resulted in the highest import value in the entire period studied. The new agreement as analyzed by the Department of Commerce, shows that, both through concessions on specific products and the extention in the most-favored-nation treatment, it has resulted in a lowering of duties "on an amount of approximately $241,000,000 worth of United States exports to Canada in 1937. This figure, necessarily based in part on estimates, is 74 percent of the total imports into Canada from the United States in 1937, which were dutiable in 1935, (some dutiable in 1935 were free in 1937 as a result of the agreement of 1936 or of subsequent Canadian legislation). The amount mentioned is in addition to commodities, the 1935 rates of duty on which are bound against increase, or which are bound duty-free, but from which the 3 percent tax is removed."[3]

Approximately one-third of the aforementioned sum was made up of commodities on which the rates, although reduced in the 1936 agreement, had been lowered still further, or items which had not been included in the 1936 schedule and which were having duty reductions for the first time. "The imports of these items from the United States into Canada in 1937 were valued at $80,000,000."[4] The remaining two-thirds comprised such items which, either through special commitments or most-favored-nation treatment in the 1936 agreement, retained their advantage and remained as such in the new agreement.

The import excesses or the "unfavorable balances" throughout this five year period have been subjects of varied fluctuations. The second year of this period showed a decided import value increase over the first year, and the import excess decreased considerably. However, in the third year, the import value still increased, but the "unfavorably balance" also increased by almost 400 percent. The fourth year showed a slight reduction in import value but the "import excess" still increased above any previous figures. The final year brought about a revival in import value figures and also a very much more "favorable balance" than had been existant in the preceding two years.

These phenomena will not be analyzed in this chapter, and the foregone paragraphs are merely statements of facts as recorded

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3. The New Trade Agreement With Canada, Department of State. No. 1253.
4. Ibid.

by reliable statistical sources, void of any attempt to explain the circumstances which may have occasioned these figures.

Principal Commodities Imported by the United States From Canada.

The commodities selected as representative of Canadian exports to the United States which most closely conformed to the model product as set forth in the early portion of this chapter are cattle, n.o.p., over 700 lbs., spruce boards and planks, bran and bran shorts, barley, pine planks and boards, oats, maple sugar, fox furs, rye, and turnips. These items are typical of the various product groupings from which they have been chosen, both as to tariff treatment and as to trade value changes.

Cattle, n.o.p. Over 700 lbs.

TABLE M

AMERICAN IMPORTS OF CATTLE, n.o.p. OVER 700 LBS. FROM CANADA

Year	Tariff Treatment	Trade Value
1935-1936	3¢ per pound	
1936-1937 (From Apr. 1)	2¢ per pound	$ 4,845,075
1937-1938	2¢ per pound	$10,967,644
1938-1939	2¢ per pound	$ 4,331,946
1939-1940	1½¢ per pound	$11,773,979

American imports from Canada of the heavy-weight class of cattle, not specially provided for, may be characterized for this period as comparatively steady save for the two peak years of 1937-1938 and 1939-1940, at which times the annual figures exceeded those of the previous years by more than 100 percent. The all time high mark has been recorded in this latter year.

The rate under the old agreement applied annually to no more than three-fourths of 1 percent of the average annual total number of cattle, (including calves), slaughtered in the United States during 1928-32 (155,799 head). The rate under the new agreement is to apply annually to no more than 225,000 head, and in no quarter-year to more than 60,000 head. The 3 cent per pound charge applicable to imports in excess of quantity restrictions, is now bound against an increase.[5]

The actual specific duty reductions have been subject to steady reductions from the 3 cent charge prior to the 1936 agreement, to the 2 cent duty in this agreement and now the present rate of 1½ cents.

<u>Spruce Boards and Planks</u>.

TABLE N

AMERICAN IMPORTS OF SPRUCE BOARDS AND PLANKS FROM CANADA.

Year	Tariff Treatment	Trade Value
1935-1936	$3.00 Rev. Tax, $1.00 Tariff Rate	$3,612,122
1936-1937	$1.50 Rev. Tax, $ .50 Tariff Rate	$5,722,367
1937-1938	$1.50 Rev. Tax, $ .50 Tariff Rate	$6,679,237
1938-1939	$1.50 Rev. Tax, $ .50 Tariff Rate	$4,396,058
1939-1940	$1.50 Rev. Tax, $ .50 Tariff Rate	$6,676,621

The trade value of American imports of spruce boards and planks rose each year until the 1938-1939 period at which date this figure fell below the standard of the two previous years. Following this temporary set-back in trade volume, the 1939-1940 returns show a marked increase and the value for the year is within $3000 of the 1937-1938 high.

5. Tabular Statement of Tariff Changes Resulting from the Canada-United States Trade Agrement. House of Commons Committee on Ways and Means.

This particular item has been, and still is, subject to two types of duty, a revenue tax and a specific tariff rate. Spruce boards and planks were dutiable in 1935 at $3.00 revenue tax and a $1.00 tariff rate. The 1936 agreement reduced this by 50 percent to $1.50 revenue tax and 50 cents for the tariff rate. No change has been made in the tariff treatment on this product by the new agreement and the present charge is bound against an increase.

Bran and Bran Shorts.

TABLE O

AMERICAN IMPORTS OF BRAN FROM CANADA

Year	Tariff Treatment	Trade Value
1935-1936	10 percent	$3,133,301
1936-1937	10 percent	$3,861,961
1937-1938	10 percent	$2,171,719
1938-1939	10 percent	$ 318,702
1939-1940	5 percent	$4,647,412

Bran and bran shorts imports into the United States increased slightly in 1936-1937 as compared with the previous year, but the following year saw a sizeable reduction in the trade in this commodity. The 1938-1939 total was a still further fall in trade volume and then in direct contrast, the 1939-1940 returns indicated the highest value in the entire five year period.

Prior to 1935, bran and bran shorts were subject to a duty of 10 percent ad valorem. The agreement in 1936 bound this rate against an increase and the 1938 agreement has provided this item with a 50 percent rate reduction or a new charge of 5 percent.

Agricultural products are, of course, subject to numerous unpredictable factors and these account, to a large extent, for the variations in trade volume. This point should be kept in mind with regard to this and the other products of this group which are to be considered.

Barley.

TABLE P

AMERICAN IMPORTS OF BARLEY FROM CANADA.

Year	Tariff Treatment	Trade Value
1935-1936	20 cents per bushel	$ 1,588,185
1936-1937	20 cents per bushel	$11,767,504
1937-1938	20 cents per bushel	$ 2,514,165
1938-1939	20 cents per bushel	$ 556,287
1939-1940	15 cents per bushel	$ 3,276,179

It would be most difficult to characterize the trend of barley imports during this five year period due to the wide variations experienced in this trade. The second year represents a 1000 percent increase over the 1935-1936 period, the third year total falls to almost 20 percent of the second year figure, whereas the fourth year value is approximately 1/3 of the opening year total. The figure for the last year indicates that more favorable conditions for imports were restored with an increase of almost 500 percent over the 1938-1939 returns.

The rate of duty on barley as in the case of the majority of the important agricultural products was kept at the same level by the 1936 agreement as that which had existed prior to that arrangement. Then the new agreement brought about 50 percent reductions in these charges. In the case of barley, the 1935 and the post-1936 agreement rates were 20 cents per bushel, and the new rate is now 10 cents.

Pine Planks and Boards.

TABLE Q

AMERICAN IMPORTS OF PINE PLANKS AND BOARDS FROM CANADA

Year	Tariff Treatment	Trade Value
1935-1936	$3.00 Rev. Tax, $1.00 Tariff Rate	$2,098,860
1936-1937	$1.50 Rev. Tax, $ .50 Tariff Rate	$2,306,326
1937-1938	$1.50 Rev. Tax, $ .50 Tariff Rate	$2,315,408
1938-1939	$ .50 Tariff Rate	$1,643,814
1939-1940	$ .50 Tariff Rate	$3,167,306

Pine planks and boards imports show a return to a somewhat normal trend for American imports from Canada during the period 1935-1940. The first three years witnessed a gradual increase in volume followed by a 1938-1939 recession, which in turn was succeeded by a final year in which the imports exceeded any previous similar period.

As in the case of spruce planks and boards, this item is subject to a dual charge of both a revenue tax and a tariff rate. In 1935, pine planks and boards were subject to a duty of $3.00 as a revenue tax and $1.00 as the tariff duty. The 1936 agreement reduced this charge by 50 percent thereby establishing the fee at $1.50 and 50 cents and this double charge existed until 1938. The new arrangement renewed this 1936 tariff charge and binds the status set by the law in 1938, which repealed the revenue tax and stated that the total import charge could not exceed 50 cents as long as this agreement remained in effect. Thus, for the present, the 50 cent rate is the only charge on this item.

Oats.

TABLE R

AMERICAN IMPORTS OF OATS FROM CANADA.

Year	Tariff Treatment	Trade Value
1935-1936	16 cents per bushel	$ 423,746
1936-1937	16 cents per bushel	$ 69,065
1937-1938	16 cents per bushel	$ 35,282
1938-1939	16 cents per bushel	$ 4,938
1939-1940	8 cents per bushel	$2,239,498

Contrary to the experience reviewed for any of the previously examined products, the case of oats imports is unique in that for the first four years of the five year period under observation, there were steady reductions in trade until in 1938-1939 the total figure represented but little more than 1 percent of the 1935-1936 volume. Then in 1939-1940, there was a phenomenal increase in this trade, and the import volume rose to more than five times the previous high volume in 1935-1936.

The tariff treatment received by this item is characteristic of agricultural commodities as has been previously described. The 1935 rate was continued in 1936 by the agreement of that year. The new agreement cuts this charge to 8 cents per bushel or 50 percent of the former charge.

Maple Sugar.

TABLE S

AMERICAN IMPORTS OF MAPLE SUGAR FROM CANADA

Year	Tariff Treatment	Trade Value
1935-1936	6 cents per pound	$ 217,976

1936-1937	4 cents per pound	$1,289,776
1937-1938	4 cents per pound	$ 508,408
1938-1939	4 cents per pound	$1,190,766
1939-1940	3 cents per pound	$1,193,411

The trade volume of maple sugar increased greatly in 1935-1937, and the slump during the five year period came in the following year of 1937-1938 when imports dropped considerably but were still almost twice as valuable as at the outset of this era. The year 1938-1939 showed a rise in trade which exceeded any previous similar period, and the final year 1939-1940, showed figures even higher than these.

Maple sugar was dutiable in 1935 at 6 cents per pound. As a result of the 1936 schedule II, this rate was lowered to 4 cents. The 1938 agreement makes a still greater concession by cutting this charge to 3 cents or 50 percent of the pre-reciprocal trade agreement duty.

Fox Furs.

TABLE T

AMERICAN IMPORTS OF FOX FURS FROM CANADA

Year	Tariff Treatment	Trade Value
1935-1936	50 percent	$1,168,047
1936-1937	50 percent	$1,526,298
1937-1938	50 percent	$1,081,064
1938-1939	50 percent	$ 786,628
1939-1940	$37\frac{1}{2}$ percent	$1,810,451

The trade value on fox furs rose in 1936-1937 as compared with the period 1935-1936. Following the second year, there was a decline in 1937-1938 and a still further cut in 1938-1939. The 1939-1940 figure is higher than any others in the period studied, and places this item among the leading Canadian exports to the United States which are subject to some form of duty restriction.

The 50 percent ad valorem charge set forth in the Tariff Act of 1930 was repeated in the 1936 trade agreement. However, the present arrangement fixes this charge at 37½ percent which should result in a definite stimulation to trade.

<u>Rye</u>.

TABLE U

AMERICAN IMPORTS OF RYE FROM CANADA

Year	Tariff Treatment	Trade Value
1935-1936	15 cents per bushel	$ 2,073
1936-1937	15 cents per bushel	$ 1,152,003
1937-1938	15 cents per bushel	$ 242
1938-1939	15 cents per bushel	$ 113,025
1939-1940	12 cents per bushel	$ 1,479,310

Of all of the products under observation, the most violent fluctuations have been experienced in the case of rye imports. The 1935-1936 figures showed this item as one of the smaller American imports from Canada; however, the next year showed returns which exceeded this first year total by 560 times. The third year trade value dropped to approximately 1/10 of the first year value. The fourth year import returns again showed signs of an increase and the figure rose to 467 times the previous year's value. The final year's total was higher than for any similar period with which we are concerned.

A 15 cent per bushel rate was maintained throughout the first 4 years of the period and the only reduction came as a result of the new schedule II in 1938 which lowered this charge to 12 cents.

Turnips.

TABLE V

AMERICAN IMPORTS OF TURNIPS FROM CANADA.

Year	Tariff Treatment	Trade Value
1935-1936	25 cents per 100 pounds	$469,081
1936-1937	12½ cents per 100 pounds	$785,174
1937-1938	12½ cents per 100 pounds	$779,416
1938-1939	12½ cents per 100 pounds	$808,843
1939-1940	12½ cents per 100 pounds	$859,170

American turnip imports from Canada have for the most part been comparatively stable with regard to their volume and, except for the large increase in the first two years of this period, the trade value might be considered quite regular. The 1937-1938 period resulted in a slight decrease in this business, but the two years following, showed successive increases until the 1939-1940 period when the high-point of this trade was attained.

The 1936 agreement reduced the then existant charge of 25 cents per 100 pounds by 50 percent and this 12½ cent rate has been maintained by the new agreement.

Total American Imports from Canada.

As was done in the case of Canadian imports from the United States, this final section will be devoted to a tabulation and superficial discussion of the general trend of American imports from Canada. These figures are the import totals regardless of whether or not a tariff concession was granted; however, gold movements are not included. The column on the right reveals the excess of American exports to Canada over American imports from Canada, or the American "favorable balance".

TABLE W

TOTAL AMERICAN IMPORTS FROM CANADA

Year	Import Value	American Export Excess
1935-1936	$273,119,604	$ 39,297,000
1936-1937	$344,786,543	$ 24,354,970
1937-1938	$372,220,767	$118,284,211
1938-1939	$278,757,926	$145,972,641
1939-1940	$389,753,598	$107,144,868

American imports of Canadian products increased steadily from 1935 to 1938 and during this period the actual increase was almost $100,000,000. The 1938-1939 period saw a drop almost to the 1935-1936 level. However, the last year has witnessed a remarkable trade recovery and the figure for this year surpasses any previous one year total.

The concessions granted by the United States under the 1938 provisions, like those extended by Canada, were far-reaching in scope and in effect. Approximately two-fifths of the American imports from Canada are dutiable, and yet the rate reductions as compared to those in effect prior to 1936, "cover commodities which this country (the United States) imported in 1937 to a value of $121,000,000. This is 77 percent of the value of all dutiable imports from Canada and 31 percent of the combined free and dutiable imports."[6]

Further reductions or new reductions were made on articles, which in 1937 had amounted in value to about $73,000,000; in many instances the quotas were increased to permit the importation of larger quantities from Canada.[7] "On dutiable trade valued at $47,000,000 the concessions in the new agreement are the same as in that of 1936."[8]

Despite the general tendency toward an increase in the volume of Canadian exports to the United States, the "favorable balance" of the United States has for the most part been more and more "favorable". The second year showed a decline in the export excess as compared with the first year but then the third and fourth years were successively more "favorable." The last year under observation, during which Canadian exports to the United States rose sharply somewhat lessened the Canadian "unfavorable balance."

Summary of Total Canadian and American Trade.

To conclude this chapter and to provide a basis for comparison between the mutual exports and imports of these two countries, the following table is included.

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6. The New Trade Agreement with Canada, Department of State, No. 1253.
7. Ibid.
8. Ibid.

TABLE X

TOTAL CANADIAN-AMERICAN MUTUAL EXPORTS AND IMPORTS

Year	American Exports	Canadian Exports	American Favorable Balance
1935-1936	$312,416,604	$273,119,604	$ 29,297,000
1936-1937	$369,141,513	$344,786,543	$ 24,354,970
1937-1938	$490,504,978	$372,220,767	$118,284,211
1938-1939	$424,730,567	$278,757,926	$145,972,641
1939-1940	$496,898,466	$389,753,598	$107,144,868

From table X, certain trends may be observed which are common to the trades of both of these nations. The two countries increased their mutual trade annually for the first three years of this period. The fourth year brought a slight reduction in the trade volume of both countries, and the final year produced the greatest total of trade value in the five year period.

A study of the trade balance gives a clue to the degree to which the exports and imports increased or decreased in each of the countries. The opening year of 1935-1936 showed an American export excess of roughly $29,297,000. In 1936-1937, although the exports of both nations rose, the American imports increased a great deal more as compared with the exports to Canada and an approximate American "favorable balance" of only $24,350,000 was experienced. The 1937-1938 yearly total again revealed a rise in trade volume but in this case a reversal in the trend of the trade balance was seen, because with the general rise in exports in both nations, the rise in United States exports far exceeded the rise in American consumption of Canadian produce, with a consequent American "favorable balance" of almost $118,300,000. The 1938-1939 figures showed a drop in the trade between these two nations, although as in the previous year, the change was a bit more advantageous to the United States, in that their exports declined to a lesser extent than did those of Canada, with the result that the most "unfavorable balance" for the Canadians in this whole period was reported. The year following the new agreement brought with it the high point in trade value for these entire five years, and with the greater consumption of Canadian products by the American market, a slightly less "favorable balance" for the United States.

It must be remembered that the term "favorable balance" does not mean exactly what it may be thought to imply. In the strict economic sense, this phrase is used merely to indicate that one country exports more to another country, than the latter country has exported to the former in the same period of time, or, as expressed in terms of imports, the imports of the first country from the second are less than the imports of the second country from the first in the same period of time. Such balances may be the result of a myriad of causes and therefore cannot be attributed to a certain few reasons. It is also of considerable importance to note that, although a nation might have a "favorable balance" when related to a certain nation, it may be in an "unfavorable balance" with regard to others. A country which has a "favorable balance" with regard to all of the nations of the world will in due time be at a loss for foreign markets. A country in such a position must permit the other nations to pay for these imports by exports, or a serious crisis in international trade is precipitated. Therefore, when, in speaking of Canadian-American trade, the term American "favorable balance" is used, this does not suggest that Canadian trade is inferior or undesirable. In many cases Canadian trade is in the "favorable position" with regard to other nations, and perhaps through the operation of the 1938 agreement, the balance of trade between the United States and Canada will become less marked in favor of one or the other of the nations, which, objectively speaking, would be of mutual benefit to both these lands.

However, any analysis of the figures and facts as found with regard to Canadian-American trade are to be left for the remaining chapter in which an attempt will be made to provide some sort of an explanation for the apparent changes and variations in this exchange of goods.

With this purpose in mind, we leave this chapter and enter the seventh and final section of this study which proposes to undertake this analysis.

CHAPTER VII

EFFECTS OF THE TRADE AGREEMENT AND CONCLUSIONS CONCERNING IT.

"It is impossible accurately to measure by trade statistics the actual effects of trade agreements, for the flow of trade is affected by so many factors. For instance, until recently the effect of trade agreements upon American farm exports and imports has been obseured by the farm shortages and high prices prevailing in the United States as a result of the unprecedented draughts of 1934 and 1936."[1]

With this statement in mind, it seems apparent that attempts to evaluate increases or decreases in foreign trade by a comparison or correlation with any single standard index of business would be sheer folly. Therefore, no such effort will be made in this final chapter; what will, however, be described are the actual fluctuations in trade values, accompanied by a brief discussion of all factors which may have been instrumental in the determination of these figures.

To fortify this stand that it is improper to draw conclusions from as inadequate a source as a trade value and a business index correlation, there is the statement by Raymond Moley in which he says, "In amassing statistical arguments, both sides have juggled the years selected to show increases and decreases of imports or exports. After wading through realms of of this stuff and trying to strike a balance, I seem to make out that the net increase in foreign trade that can be ascribed

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1. Francis Bowes Sayre, "Trade By Treaties" Current History, January, 1939.

to the agreements is in an economy such as ours is, small. It is small in proportion to what we once had. But it is something."[2]

Having now dismissed the purely statistical approach to the analysis of trade agreements, a brief study of each of the commodities mentioned in Chapter VI will now follow, after which certain general statements and considerations will be expounded.

Canadian Imports of American Products.

Before entering upon a more detailed study of Canadian imports from the United States, certain basic considerations must be understood which had a marked effect on this type of trade.

Firstly, the largest portion of these Canadian imports is in the form of manufactured goods, that is, machinery of all types. Throughout the period with which this study is concerned, there has been a steady increase in the demand for such manufactured goods, with perhaps the exception of the 1938-1939 period at which time a "recession" in business activity was experienced in Canada. Therefore, it would be only natural to expect the trade volume for articles of this type to expand during this period as a whole.

Secondly, throughout these five years, Canada has been fortunate in having comparatively large and abundant crops, which resulted in increased purchasing power for farmers and larger imports of farm machinery.

Thirdly, and this of course relates most directly to the 1939-1940 figures, there has been the effect of the war scare

2. Raymond Moley, "Mr. Hull's Trade Policies", Newsweek, January 22, 1940.

which resulted in an increase in Canadian domestic production necessitating in many cases large imports of machinery, and where this domestic production seemed inadequate, the purchase of finished products of all types from the United States. The figures for this year would represent, then, an attempted program of stocking-up and preparation for the needs of a war economy.

Fourthly, again in reference to this past year, there has been in the latter part of this year the trade deterring phenomenon of an "unfavorable" exchange rate which placed an undue hardship on the Canadian importers, and would have the effect of sharply reducing imports on "luxury" commodities which could be foregone at times of such a marked purchasing disadvantage.

Fifthly, for the entire period examined, there has been a steady flow of American capital and investment to Canada in the form of branches of American plants and funds for the expansion of already existing establishments. These industries were first developed to circumvent the excessive trade barriers, but they are still being fostered despite recent tariff reductions. These branch plants, if equipped to complete the product, rely on the United States merely for capital, machinery and replacements for machinery; however, in many cases these units are simply assembly plants and in this case they look to the home-plant for parts and semi-manufactured material in addition to the previously mentioned factors of production.

Sixthly, there must always be considered the effects of the British Preferential Rates which permit England and the other Empire countries to compete for the Canadian market on terms more favorable than those which the United States now receives.

Lastly, and as a seventh consideration or group of considerations, there are the numerous less obvious and apparent factors which contribute to a country's desire to purchase abroad, such as the attitude of domestic producers, changes in price levels in the two countries, and political or non-economic forces which divert international trade from its normal course. This latter group does not by any means exhaust the list of elements which act as forces for the variation of trade volume, but, combined with the six previous factors, they seem to be the ones which should be given the closest attention in the further investigation of the trade problem.

To show the actual variations in the trade volume of certain commodities to which previous reference was made, the following tables were devised to illustrate more clearly the actual degree of change which was experienced. Based on the figures and sources indicated in Chapter VI, these tables take the form of index numbers, with reference to 1935-1936 as 100 or the normal year. The remaining four years are shown a related to this normal period.

Oranges.

TABLE Y

INDEX OF CANADIAN IMPORTS OF ORANGES FROM THE UNITED STATES

Year	Tariff Treatment	Index Number
1935-1936	35¢ per cu. ft.	100
1936-1937	35¢ May-Dec. Free Jan.-Apr.	118
1937-1938	35¢ May-Dec. Free Jan.-Apr.	135
1938-1939	35¢ May-Dec. Free Jan.-Apr.	105
1939-1940	35¢ Aug-Dec. Free Jan.-July	107

As indicated by the index numbers, the steady rise of imports is similar to the general rise in national prosperity in Canada which displayed this upward trend until 1938-1939, when, as in the case of the business slump, there was a decline in orange imports.

Oranges might well be included in the group of luxury commodities. Although this is not entirely the case, certainly it is a product which could be sacrificed for others which are more vitally a part of man's needs, and as a consequence, this type of product is most likely to suffer and be cut from a country's purchases in times of business depression.

The extension of the free-entry period indicates that attempts are being made to stimulate trade in this and other citrus fruits, but such action will be of little value without substantial increases in purchasing power to buy these luxury commodities.

Automobiles.

TABLE Z

INDEX OF CANADIAN IMPORTS OF AUTOMOBILES FROM THE UNITED STATES

Year	Tariff Treatment	Index Number
1935-1936	20, 30 or 40 percent	100
1936-1937	17½ percent	319
1937-1938	17½ percent	699
1938-1939	17½ percent	581
1939-1940	17½ percent	746

Automobiles are another import which might be classed as a luxury item, but the close adherence to the normal trend of business would indicate that this is perhaps not entirely true. With increasing prosperity in the 1935-1938 period, the import figures rose almost seven-fold. The 1938 slump showed somewhat of a reduction in purchases abroad but the "car habit" had already been sufficiently implanted in the Canadian business world so that the automobile was at that date already almost in a "necessity status", and it would seem reasonable to believe that the largest percentage of purchase decreases was experienced among buyers who used cars merely for strictly pleasure purposes or who had formerly owned several cars and now got along with only one.

The past year began rather favorably for the American automobile exporter but the comparatively high tariff, coupled with the more recent burden of an adverse exchange rate, effected a reduction in this trade in the later months of this year. Perhaps some compensation will be realized in a stimulation of purchases by the Canadian Government of cars suited for war purposes and this should aid automobile trade to a large extent. However, to meet this latter demand, it would seem highly probable that the Canadian branch plants of American automotive manufacturers will expand enormously and imports of parts will assume larger proportions when compared with trade in the finished products.

No change in the tariff has been made since the 1936 agreement and the present charge seems quite satisfactory in view of the fact that there were steady increases in this trade despite trade depressing influences.

Mining Machinery.

TABLE AA

INDEX OF CANADIAN IMPORTS OF MINING MACHINERY
FROM THE UNITED STATES

Year	Tariff Treatment	Index Number
1935-1936	25 percent	100
1936-1937	20 percent	136
1937-1938	20 percent	287
1938-1939	20 percent	234
1939-1940	17½ percent	258

Note: Figures for the year 1935-1936 were not available and therefore an estimate of $2,000,000 was made for the value of trade in that year. Despite the arbitrary nature of this 1936 figure, the other yearly numbers have been related to this figure and are therefore significant.

The period under observation was one of record production in the mining industries. Significant increases in mining during the first three years of this era necessitated, of course, larger purchases of mining machinery from the United States since such machinery is not produced in sufficient quantities in Canada. Although the 1938 mine production was in excess of the 1937 figure, the slight depression in Canada might have had the effect of reducing purchases of new equipment until a more favorable outlook was in order and this may have been the reason for reduced importation of mining machinery. In 1939, mineral industries established a new production record in excess of $470,000,000,[3] and such a volume of production, to a large extent, accounts for the increase of mining machinery purchases since more prosperous days seemed in view.

3. Avery F. Peterson, 1939 Review, Annual Economic Report of Canada.

The tariff revisions on mining machinery have been most liberal and the 1938 agreement brought about the second downward revisions of the 1935 rate. The main factor affecting the trade increases is most certainly the growth of mining in Canada but more liberal tariff concession cannot but help this trade and bring about a more extensive use in Canada of newer and more efficient machinery in the place of out-moded equipment.

Textile Machinery.

TABLE BB

INDEX OF CANADIAN IMPORTS OF TEXTILE MACHINERY FROM THE UNITED STATES

Year	Tariff Treatment	Index Number
1935-1936	10 percent	100
1936-1937	5 percent	134
1937-1938	5 percent	167
1938-1939	5 percent	127
1939-1940	5 percent	165

The textile industry in Canada has been one in which large strides have been taken in the past few years. The easy acess to American raw cotton, the favorable terms on which wool may be obtained from other Empire nations and the growth of artificial silk mills has made this one of the leading industries to be developed in recent years.

The index numbers reveal that despite the 1938-1939 slump, when all Canadian industry suffered from a period of business stagnation, imports of machinery to carry on this manufacturing increased steadily and the 1939 figures are again in the close proximity of the 1937 high. The war developments in September of 1939 created an immediate and widespread demand for all types of textiles,[4] and this resulted in an increased demand for machinery on which to produce these textiles.

For the most part then, the trade increases are consistent with the needs of a rapidly expanding industry and the 1939 figures are made a bit abnormal perhaps by the increased demands of a country at war. It must always be remembered, however, that with the larger demands there also came the adverse exchange and these two would in many cases counteract each other so as to nullify the favorable or unfavorable effects of either of them, and this is true of all imports of Canada from the United States. However, when the demand is abnormal as would be the case in a war economy, the unfavorable exchange might only act as a restraining force and there would still be increased imports from abroad.

Tariff treatment, although favorable, does not seem to have been particularly effective in increasing imports but they certainly did not restrict this trade.

Aluminum and Aluminum Products.

TABLE CC

INDEX OF CANADIAN IMPORTS OF ALUMINUM AND ALUMINUM PRODUCTS FROM THE UNITED STATES.

Year	Tariff Treatment	Index Number
1935-1936	30 percent	100
1936-1937	30 percent	107
1937-1938	30 percent	153
1938-1939	30 percent	75
1939-1940	$27\frac{1}{2}$ percent	100.04

4. Ibid.

With the exceptions of 1937-1938 when aluminum imports rose to 153 percent, and the following year when they dropped to 75 percent, this trade has been subject to but little change throughout this five-year period.

No single factor can be given credit for the sharp rise in these imports in 1937, save for perhaps the feeling of optimism which encouraged an increase in plant expansion and the use of numerous new aluminum manufactures plus the expansion of industries which use aluminum as a raw material for further manufactures. The equally marked decline in imports in the following year is more easily understandable in the light of general business trends and possibly a panicky attitude following the slight business decline.

The stable volume of aluminum imports may be interrupted by another decisive rise, when more Canadian war materials contracts are given out. To meet the abnormal demands for this emergency, American exports will have to increase to a very large extent and this should be extremely beneficial to the producers of this material. Although it is quite impossible to estimate, one would be lead to believe that the recovery of this trade to slightly more than the 1935 level is largely a result of war purchases.

Since the tariff revisions have been only slight, it is no wonder that whatever changes have taken place cannot be attributed to this cause. The rate is still rather high and it would appear that in order to stimulate this trade, a reduction larger than that of the 1938 agreement will have to be made.

Threshing Machinery.

TABLE DD

INDEX OF CANADIAN IMPORTS OF THRESHING MACHINERY FROM THE UNITED STATES

Year	Tariff Treatment	Index Number
1935-1936	25 percent	100
1936-1937	$7\frac{1}{2}$ percent	3009
1937-1938	$7\frac{1}{2}$ percent	3040
1938-1939	$7\frac{1}{2}$ percent	12,523
1939-1940	$7\frac{1}{2}$ percent	16,740

Canadian imports of threshing machinery, and in fact, all types of agricultural implements would indicate that the astounding trade increases in this line are a consequence of almost a purely agricultural stimulus. To a large extent this is true. The drought of 1936 in the United States necessitated the purchase of grain from abroad and Canada needed more machinery to harvest its abundant crop. Since then Canada has been enjoying even larger and better years of grain production and this prosperity permits the Canadian farmer to purchase modern machinery to aid him in his work.

Threshing machinery is an example of an import which did not suffer a single reverse in trade during the five-year period and the index numbers reveal a steady and amazing rise in trade volume. Even in 1938-1939 when most other imports were subject to a setback of some degree, this commodity experienced its most marked increase for the entire period.

The 1939-1940 figures show the effect of increased wheat production for war needs and the consequent boom in threshing machinery purchases to reap that harvest. Although it is doubtful as to whether or not the Canadian farmer anticipated this possible rise in demand, there seems to be no other satisfactory explanation for this phenomenon of intensified efforts to raise a plentiful crop.

This commodity exhibits another significant feature. The duty reduction given in the 1936 agreement seems to indicate that a large downward revision of the tariff schedule will result in increased trade, and this more liberal policy must have had a marked effect in stimulating Canadian purchases of these products. Therefore, along with the major effect of large harvests, the rate reductions have aided this trade remarkably.

Electric Motors.

TABLE EE

INDEX OF CANADIAN IMPORTS OF ELECTRIC MOTORS
FROM THE UNITED STATES

Year	Tariff Treatment	Index Number
1935-1936	$37\frac{1}{2}$ percent	100
1936-1937	30 percent	140
1937-1938	30 percent	213
1938-1939	30 percent	169
1939-1940	25 percent	170

Electric motors are imported by Canada for the most part for use in industrial enterprise and therefore the volume of these purchases have closely followed the trend of industrial development during the past five years. Canada increased its imports more than 100 percent during the 1935-1938 period and this is directly in line with general business activity, although in this particular case, the increase is a bit above normal. The 1938 business slump was also felt by importers of electric motors and the last year under observation has not indicated any tendency for another rise in these trade figures.

The 1939 totals were, of course, greatly enhanced by the war demands, but, even with this added stimulus, the rise as shown by the above table reveals an increase of only 1. In view of the comparatively cheap and abundant supply of hydro-electric power in Canada, it might be believed that a more general use of this form of power would be made and as a consequence a wider use of electrical apparatus. This does not, however, appear to be the case, and this failure may be attributed to increased purchases from other countries, increased domestic production, or perhaps to the fact that the saturation point in demand has been reached for the present stage of Canadian industrial development.

The tariff concession granted by the 1936 agreement must have aided American sales of electric motors and the additional reduction made by the new agreement is another step in the direction of trade stimulation. The rate of 25 percent as it now exists is still quite high when compared with the British preferential rate of free-entry.

Unbleached Cotton Fabrics.

TABLE FF

INDEX OF CANADIAN IMPORTS OF UNBLEACHED COTTON FROM THE UNITED STATES

Year	Tariff Treatment	Index Number
1935-1936	25 percent, 4¢ per lb.	100
1936-1937	20 percent, $3\frac{1}{2}$¢ per lb.	133
1937-1938	20 percent, $3\frac{1}{2}$¢ per lb.	262
1938-1939	20 percent, $3\frac{1}{2}$¢ per lb.	108
1939-1940	$17\frac{1}{2}$ percent, 3¢ per lb.	292

The first two years of the period found cotton imports closely in line with business activity. The decided rise in this figure in 1937-1938 is difficult to explain, since, at least superficially, there does not seem to be any reason for this trade boom. The 1938-1939 trade reverses are again closely adherent to the business recession. The tariff cannot be credited with a favorable influence on these imports since the 1936 reductions were of minor importance.

The 1939-1940 Canadian purchases of unbleached cotton may be directly attributed to the war demands for this material. Although Canadian production has increased, it is unable to cope with the present needs both for themselves and for Great Britain.

There is good reason for believing that if the war had not been started, the Canadian imports of this commodity might have fallen off considerably or at least remained but a few points above the 108 index of 1938-1939. This decision is based upon the figures for textile machinery imports which has been discussed earlier in this chapter. It would seem that Canada is attempting to expand its domestic production in all types of textiles, and cotton, because of its extensive use would certainly be one of the first to be influenced by this aim. Therefore, despite attempts by the trade agreements to increase this trade, it would seem that Canada is more desirous of producing textiles at home than taking advantage of the American low-cost production and the benefits of lower import charges. Unless much greater rate lowerings are effected it is doubtful if imports of this commodity will again attain great heights under normal conditions.

Printing Presses.

TABLE GG

INDEX OF CANADIAN IMPORTS OF PRINTING PRESSES FROM THE UNITED STATES

Years	Tariff Treatment	Index Number
1935-1936	15 percent	100
1936-1937	10 percent	158
1937-1938	10 percent	248
1938-1939	10 percent	144
1939-1940	10 percent	226

Closely adhering to the general business level of the past five years are Canadian imports of printing presses. The rise in the first three years has been most gratifying to American manufacturers; the 1938-1939 business recession was accompanied by a trade setback, but now there has again been a return to the normal.

The 1937-1938 boom in purchases from the United States was occasioned by large increases in the circulation of newspapers and periodicals as a result of more prosperous times, and this lead to a demand for newer and more efficient printing presses. The relative slump in the following year may then be attributed to the lack of the purchases of printed matter, and the fact that publishers and printers had found their equipment at that time quite adequate to handle these demands.

The past year which was headlined by the crisis and the war has again affected the wider circulation of all types of printed matter, and again there is evidenced this increased demand for additional equipment to meet these needs.

Although a tariff reduction was granted on this commodity by the 1936 agreement, since that arrangement there have been no further concessions made. The rate as it exists seems to permit a free operation of trade in this product, and even if it does not perhaps act as a direct trade stimulant, it can certainly not be described as prohibitive or detrimental to this commodity's intercourse.

Adding Machines.

TABLE HH

INDEX OF CANADIAN IMPORTS OF ADDING MACHINES FROM THE UNITED STATES

Year	Tariff Treatment	Index Number
1935-1936	25 percent	100
1936-1937	20 percent	127
1937-1938	20 percent	148
1938-1939	20 percent	124
1939-1940	20 percent	149

Because of the direct association between this import and business operations, it is only natural that a close correlation should be found between purchases of these machines and the prosperity of Canadian business. This has been the case. Adding machines and similar office equipment will, of course, be treated much as a luxury item by the business man, especially in times of depression, and this was the condition during the year 1938-1939. Business people were contented to struggle along with what machinery they possessed until the return of more favorable times for these purchases.

The 1939-1940 figures are a high for importation of adding machines but, perhaps, these present only a distorted picture of what the actual picture would be if conditions were closer to a normal. That is, the exchange rate has certainly played havoc on purchases on any items which are not absolutely essential to the continuation of business. In addition to this, there has been an expansion in Canadian domestic production of this type of equipment, both in the form of branch plants and home enterprise, so that the American producer is finding a strong competitor on the Canadian market. Finally, there is the consideration, inherent with war conditions, which is that, perhaps, under these conditions, foreign purchases will be restricted to more essential products for a war economy, although this might be, partially at least, compensated for by a diversion of a portion of the domestic productive power from the manufacture of this type of machinery, to create a concentration in the war industries manufactures. Therefore, this complex situation makes it difficult to estimate what the future will be for imports of the type just examined.

The tariff treatment of adding machines has taken the form of a single reduction by the 1936 agreement. Due to the aforementioned reasons, it is difficult to attempt an evaluation of the effects of the trade policy, but it would appear that, without a more drastic revision of this rate, domestic production might soon replace a large portion of annual purchases which have been made, up to the present, mostly in the United States.

American Imports of Canadian Products.

As was done in the case of trade in the direction opposite to that to which this section is devoted, before entering upon a detailed description of specific commodities and the factors which resulted in their exchange, it is well to make a preliminary survey of underlying considerations which may have been instrumental in regulating or stimulating American imports from Canada as a whole.

Firstly, the bulk of American imports from Canada on which duty charges are made, are agricultural products. These, although representing such a large portion of this trade, are in most cases but a small fraction of American domestic production and are purchased mostly to supplement, rather than to act as principal sources of supply for the domestic market. Only in times of severe drought, such as in 1934 and 1936, have these imports reached any considerable proportion, and the following years showed a rapid return to normal. Based on these premises, it seems the evident conclusion that for the most part, variations in this trade will be the result of domestic shortage although drastic reductions in tariff charges may be partly responsible for purchases from Canada of certain of these agricultural products in which domestic production would only be carried on at a comparative disadvantage.

Secondly, the large purchases by Canada of American machinery have given the United States the ability to buy more extensively of these agricultural commodities without the loss of its favorable trade balance.

Thirdly, the repeal of prohibition had a decided effect on American purchases of malt and rye and similar products which are essential in brewing, and in the distilling of alcoholic spirits. This demand was met largely through purchases from Canada.

Fourthly, the present war has so affected the exchange rate as to give American purchasers a singular advantage when buying from Canada. This should greatly enhance Canadian exportation unless their supplies of raw materials become so costly or scarce as to force prices up beyond the point of favorable competition with other nations for the American market.

Fifthly, in an attempt to aid the business recovery in the United States, there has been inaugurated an extensive building program, and purchases of lumber from Canada should be greatly increased as a consequence, especially in those types of wood in which the domestic production is more costly or more profitably used for other purposes.

Sixthly, and lastly, there are the numerous ever present forces which lead to international trade, including changes in the price levels in the countries involved, depletion of domestic supplies of certain raw materials, changes in tastes and desires, and non-economic tendencies which direct trade along channels which might not otherwise be used.

The position of the United States in recent years has been quite definitely that of a creditor nation but in spite of this it has been concerned primarily with newer and more extensive markets for the products of its numerous export industries. All efforts have been concentrated upon this endeavor and as a result the American nation has developed a one-sided economy which seeks to export and refuses to import. Therefore, any foreign produced commodities which have entered the United States in recent years have done so only because of very real and often abnormal conditions, rather than as a normal exchange of goods. American imports from Canada have increased during the past five years but, until the end of the 1938-1939 period, the American favorable balance had also risen at the expense of Canadian exports to the United States. How long such an economically unsound policy can continue, is a matter of conjecture, but it would seem plausible that something will have to be done to stimulate imports if exports are not to be seriously curtailed.

Although the situation is not as grave as would be the case under a purely bi-lateral policy, a survey of American exports and imports with regard to all nations reveals the same excess of the former and the general reduction of the latter. A policy such as the reciprocal trade program can go far to encourage a freer flow of trade, but without the cooperation of such nations as the United States and many others, which proceed on a policy of economic nationalism, it will have little effect.

We shall now investigate the fluctuations in trade value index figures for the commodities chosen previously, in Chapter VI, as representative for the five-year period from 1935 until 1940.

Cattle, n.o.p., over 700 lbs.

TABLE II

INDEX OF AMERICAN IMPORTS OF CATTLE, n.o.p., OVER 700 LBS. FROM CANADA

Year	Tariff Treatment	Index Number
1935-1936	3¢ per pound	100
1936-1937	(after Apr.1)2¢ per pound	161
1937-1938	2¢ per pound	365
1938-1939	2¢ per pound	144
1939-1940	1½¢ per pound	392

Note: Because of changes in the classifications of cattle and incomplete figures for the first two years of this period, an arbitrary estimate of 3,000,000 head was set for 1935. The figure for 1936 used in this calculation is that indicated in Table M which is for imports after April 1. The figures for the remaining three years are shown as related to the arbitrary 1935 total.

Despite the apparent inadequacy of statistical substantiation for the above tabulated figures, it is quite obvious that a fairly constant demand in 1935, 1936, and 1938 was interrupted, or followed, by one year each of abnormal imports in 1937 and 1939, respectively.

Recurrent droughts and impoverished pastures in the United

States in the years 1934 to 1937 would explain the rise of these imports in the early portion of the five year period. The 1938-1939 year was one of business recession, and in all types of imports a marked reduction was experienced. Although imports of foodstuffs would not be as readily the object of trade curtailments in time of business stagnation, this must have accounted for a good deal of the drop in cattle trade. In addition, however, there was the effect of more favorable grazing conditions and the purchase of younger cattle to be fattened in the United States, and this similarly lead to the low import returns in 1938-1939.

Domestic shortage and the high prices of meat have once more swelled the figures of Canadian exports of these animals, and the 1939-1940 returns show a new high for this trade. However, Canadian beef cattle numbers have declined, while Canadian per-capita consumption of beef has increased so that export marketings of cattle are likely to be curtailed.[5] Since high transportation costs and American quarantine restrictions prevent imports of dutiable live cattle from countries other than Canada and Mexico, trade with this latter country should increase.

The duty rates on this item have been reduced but slightly, but the quota permitted to enter under the new rate has been increased. Under normal conditions, the tariff would have little effect on imports of this commodity, although purchases from Argentina, a non-agreement country, would be somewhat affected. However, one is lead to believe that a more liberal tariff policy

5. Ibid.

would have little effect in increasing this trade, but the combination of close proximity, the less strict quarantine regulations and the low rate would cause any purchases to be made from Canada in preference to other countries.

Spruce Boards and Planks.

TABLE JJ

INDEX OF AMERICAN IMPORTS OF SPRUCE BOARDS AND PLANKS FROM CANADA

Year	Tariff Treatment	Index Number
1935-1936	$3.00 Rev.Tax, $1.00 Tariff Rate	100
1936-1937	1.50 Rev.Tax, $ .50 Tariff Rate	158
1937-1938	$1.50 Rev.Tax, $ .50 Tariff Rate	185
1938-1939	$1.50 Rev.Tax, $ .50 Tariff Rate	121
1939-1940	$1.50 Rev.Tax, $ .50 Tariff Rate	184

The business recession of 1938-1939 was partly responsible for the only deviation from a steady increase in the imports of spruce boards and planks from Canada during the past five years. This setback in industrial progress had numerous repercussions throughout the nation and it would follow that foreign purchases would be reduced.

As explained in the section of this chapter which deals with general considerations concerning American imports, there has been a tendency toward a more extensive housing program in the United States and this occasioned an increased demand for lumber of all types. Largely as a result of this building development, a steady rise in trade volume of these materials has been experienced. As would be expected, any slight instability in the industrial world acts immediately as a deterrent to the small man's plans of a new or improved home.

A large amount of credit should be given to the trade agreement of 1936, and the continuation of that action by the 1938 arrangement must have had a considerable effect in facilitating the purchase of the newly demanded supply of lumber. A reduction of 50 percent in both the specific tariff rate and the revenue tax cannot help but encourage trade and the complementary effect of increased demand and lower import charges should make this trade most profitable to both countries.

Much of the Scandinavian supply of timber to the United States has been cut off as a result of the war and the continuation of this conflict will be reflected in larger sales by Canada.

Bran and Bran Shorts.

TABLE KK

INDEX OF AMERICAN IMPORTS OF BRAN AND BRAN SHORTS FROM CANADA

Year	Tariff Treatment	Index Number
1935-1936	10 percent	100
1936-1937	10 percent	123
1937-1938	10 percent	69
1938-1939	10 percent	10
1939-1940	5 percent	158

American imports of bran and bran shorts may well be considered as typical of the virtual agricultural independence of the United States with respect to most products in this group. Under normal conditions, there is little demand in the United States for imports of most agricultural products and only in times of domestic drought or crop failure are there any noticeable increases in these foreign purchases.

The slight expansion in this trade which took place in 1936-1937 was the result of an unusually bad crop, and the decided decrease in the following two years shows how more favorable conditions at home make domestic production adequate for American consumption.

The sharp rise in imports in 1939-1940 must be partially attributed to the duty reduction on this item which makes it more suitable to compete with domestic produce on a strict price basis. As an added stimulus, there is the fact that another year of unfavorable home production was witnessed, and large imports were needed to supplement this supply. As a final consideration there is the effect of the favorable exchange rate which makes the already low priced bran sales more attractive to the American buyer.

The imports of this commodity seem to fluctuate irrespective of tariff manipulation, since, when a constant rate was being used, there were both high and very low points, which fact seems to indicate that other factors are of more importance. However, as has been intimated, the present reduction in duty may make it more profitable, in the future, for the United States to make these purchases from Canada, but under the present conditions this does not seem to have been the major motivating factor in the present import increases.

Barley.

TABLE LL

INDEX OF AMERICAN IMPORTS OF BARLEY FROM CANADA

Year	Tariff Treatment	Index Number
1935-1936	20 cents per bushel	100
1936-1937	20 cents per bushel	740
1937-1938	20 cents per bushel	158
1938-1939	20 cents per bushel	35
1939-1940	15 cents per bushel	206

The statements which have just been made concerning bran imports may be as well applied to imports of barley from Canada. The phenomenal rise in this figure for 1936-1937 was merely the result of an unusual shortage in the United States and can not be looked upon as indicative of a general tendency for more volume for this trade.

The years 1937-1939 repeat the experience of bran, in that imports were immediately reduced when normal domestic production was realized. The low mark for this period of 35 in 1938-1939 should serve to indicate the self-sufficiency of American barley production in most years.

One large and vital factor, however, cannot be overlooked, and that is the sudden and huge increase in the demand for barley which was occasioned by the repeal of prohibition in the early part of this period and for which the domestic farmer was not prepared. Now that this new market for malting barley has been uncovered the farmers have increased their plantings and once again, given normal conditions, the United States will become an exporter of this commodity.

Unfavorable growing conditions in the past year have again necessitated the importation of considerable quantities of barley from Canada, but this increase may as well be due to the favorable exchange, lower prices in Canada, and to a lesser extent, the 1938 tariff reduction.

Again in reference to this item, tariff treatment seems to have little effect on the volume of imports, except that should a shortage occur, it would be most advantageous to make the purchase from Canada.

Pine Boards and Planks.

TABLE MM

INDEX OF AMERICAN IMPORTS OF PINE BOARDS AND PLANKS FROM CANADA

Year	Tariff Treatment	Index Number
1935-1936	$3.00 Rev. Tax, $1.00 Tariff Rate	100
1936-1937	$1.50 Rev. Tax, $ .50 Tariff Rate	109
1937-1938	$1.50 Rev. Tax, $ .50 Tariff Rate	110
1938-1939	$ .50 Tariff Rate	78
1939-1940	$ .50 Tariff Rate	150

Following closely the trend line of American imports of spruce lumber, similar purchases of pine have been governed for the major part by the combined effects of the housing expansion program and the general prosperity of business.

The gradual rise of imports of pine in the first three years of the period reflects the recovery of business and the increased demand for building materials occasioned by a feeling of rising optimism. The recession of 1938-1939 discouraged the prospective builder, and permitted home production to catch-up with the demand which now took the form of fewer new contracts and some unfilled orders, for which this supply was sufficient.

The sharp increase in imports of 1939-1940 is again largely a product of a new feeling of optimism, and with it the exchange advantage which made the Canadian timber a much better buy.

The tariff reductions must certainly be given due credit for their effect on this trade despite the fact that the abnormal conditions of this past period have in many ways tended to nullify the attempts of this legislation. Two distinct and generous concessions have been made on this item, but only when the present charge is compared with that which prevailed in 1935, can a true picture of this reduction be observed. A downward revision of such proportions cannot help but aid the timber trade, and coupled with the possible plant expansions which may result from increased war demands, this item should be one of great value to Canada in the near future.

Oats.

TABLE NN

INDEX OF AMERICAN IMPORTS OF OATS FROM CANADA.

Year	Tariff Treatment	Index Number
1935-1936	16 cents per bushel	100
1936-1937	16 cents per bushel	16
1937-1938	16 cents per bushel	8
1938-1939	16 cents per bushel	1
1939-1940	8 cents per bushel	528

Contrary to the experience of any of the commodities heretofore examined, the imports of oats from Canada have declined steadily since the inception date of the five year period and only in the past year was a change noticeable and then this figure soared to five times any previous year's total.

During the 1936 drought there was a shortage of this commodity in the United States, but this need was satisfied by larger imports from Argentina rather than Canada, since in most years this latter country is the largest purchaser of oats from the United States.

The 1938-1939 returns show an all-time low for these imports and illustrate to what extent the American market is independent of Canadian supply. The phenomenal rise in imports in 1939-1940 can most accurately be ascribed to the domestic shortage and the advantage of securing a supply from a country which is operating on a depreciated currency.

Tariff reductions such as that granted in the 1938 agreement do much to enhance trade with countries which are recipients of such concessions and therefore the past year's revision of the import duty must be credited with being an important factor in orientating this trade to Canada. The maintenance of this low rate may make it more advantageous for American producers to specialize in other grains, and permit the Canadian farmer to maintain his strong position in the American market.

Maple Sugar.

TABLE 00

INDEX OF AMERICAN IMPORTS OF MAPLE SUGAR FROM CANADA

Year	Tariff Treatment	Index Number
1935-1936	6 cents per pound	100
1936-1937	4 cents per pound	590
1937-1938	4 cents per pound	233
1938-1939	4 cents per pound	546
1939-1940	3 cents per pound	547

Due largely to the duty reduction on maple sugar in the 1936 agreement, while the rate on maple syrup remained the same, a heavy shift of imports from the latter to the former product was realized in 1937-1938, when this annual figure was almost six times the previous total. This is certainly an excellent example of how the tariff can and does cause, whenever possible, a shift to the use of a more economical or less dutiable substitute. Although the reduction would appear to be a minor one, a close study of the trade increase reveals how great an effect this reduction has made on a shift from the purchase of the syrup to the sugar.

Both the sugar and the syrup imported are of a type which is not produced in the United States and therefore do not compete with domestic production, but only supplement it for special purposes. The decided slump in imports in 1937-1938 may have been the result of a particularly good year in domestic production or perhaps a consequence of large carry-over inventories from extensive purchases in the previous year.

Imports in 1938-1939 again showed a rise over the previous year and closely approached the 1936-1937 high mark, which would appear to be the new average level. The reduction by the 1938 agreement of the existing charge to 3 cents restores the former relationship between the rates of maple sugar and syrup, a move which was desired by domestic users of these products. The 1939-1940 figure shows a slight increase over the 1938-1939 total despite such factors as Canada's depreciated currency which might have incited larger purchases of this product. Increased buying of maple syrup may have replaced much of this trade.

Fox Furs.

TABLE PP

INDEX OF AMERICAN IMPORTS OF FOX FURS FROM CANADA

Year	Tariff Treatment	Index Number
1935-1936	50 percent	100
1936-1937	50 percent	130
1937-1938	50 percent	92
1938-1939	50 percent	67
1939-1940	37½ percent	154

In the production of black or silver fox furs, the United States is the second largest country in importance, surpassed only by Norway. Since these furs are obtained from "fox-farms", the domestic market is well supplied, especially in the lower grades. The imports from Canada are mostly composed of high-grade furs or special colors and varieties, and therefore do not compete with the domestic product.

The trend of purchases of these furs has followed the course of business prosperity and, fur being a luxury commodity, imports are, of course, prone to sharp reductions in times of stress. Therefore, the business slump in 1937 to 1939 must be largely credited as being the factor which reduced this trade during that two year period.

Better business, a tariff reduction, and the favorable exchange have all contributed to restoring fox-fur imports to a position among the leading Canadian exports to the United States, but a variation of any one of these component forces may have a very drastic effect on this trade.

The present duty of $37\frac{1}{2}$ percent still provides the American fox-farmer with ample protection and, in case the exchange disparity is lessened, this barrier will become even more effective. Certainly it could not be argued that this is an item which must, of necessity, be granted further concessions since it is primarily a luxury, and, as such, must be given secondary consideration. It is very probable that in a few years domestic production of even the rarer types of pelts will increase and the present rate will become prohibitive.

Rye.

TABLE QQ

INDEX OF AMERICAN IMPORTS OF RYE FROM CANADA

Year	Tariff Treatment	Index Number
1935-1936	15 cents per bushel	100
1936-1937	15 cents per bushel	55,571
1937-1938	15 cents per bushel	11
1938-1939	15 cents per bushel	5,452
1939-1940	12 cents per bushel	71,360

Rye imports, as was the case in barley purchases, were greatly stimulated by the repeal of prohibition in the United States which effected an increased demand for which the American farmer was unprepared. Essentially, as a consequence of this new demand, the Canadian exports increased from a 1936 normal of 100 to the fabulous figure of 55,571 in the following year. However, the extensive drought in the United States made for an unusually small domestic production and this necessitated still further purchases from abroad.

American production returned to its normal status in 1937, and immediately the imports fell off to a mere 11 as compared with the previous year's high. As the United States normally is a large producer and exporter of this crop, this occurence is not as unusual as the figures might suggest.

Again in 1938-1939, with a season of poor crops, the American market was in need of imports to supplement an impoverished domestic supply and Canadian exports made up for the shortage. Continued poor crops have raised these imports in 1939-1940 to a figure higher than for any similar period.

A tariff reduction was not granted in the 1936 agreement but the new arrangement has provided for a lower rate on this commodity. Since in earlier years the trade volume seemed to fluctuate irrespective of any tariff barrier, it would seem improbable that the new concession will do much to encourage these purchases from Canada, although, if purchases are necessary, the low rate would make buying in that land less costly.

Turnips.

TABLE RR

INDEX OF AMERICAN IMPORTS OF TURNIPS FROM CANADA

Year	Tariff Treatment	Index Number
1935-1936	25 cents per 100 pounds	100
1936-1937	$12\frac{1}{2}$ cents per 100 pounds	167
1937-1938	$12\frac{1}{2}$ cents per 100 pounds	166
1938-1939	$12\frac{1}{2}$ cents per 100 pounds	172
1939-1940	$12\frac{1}{2}$ cents per 100 pounds	183

A commodity such as turnips would in all probability be less subject to the effects of abnormal demands than any product which has as yet been studied. That is, no significant developments in recent years have contributed to violent increases or decreases in this trade and therefore the trend of these imports should be somewhat indicative of the tendency which most imports from Canada would display were they stripped of non-tariff changes.

The duty reduction which was made in the 1936 agreement, whereby the then existent rate was lowered by 50 percent, resulted in a decided increase in Canadian exports and the steady but slightly increasing expansion of this trade in the following years would seem to reveal that, except for such rate revisions as may be made, the turnip trade will increase but slightly. The increases following the establishment of the new charge being but minor ones as compared with that following the change would bear out this statement.

The United States has a large domestic production of turnips and rutabagas but with the present tariff regulations Canada should continue to supply the same portion of the American market which she has been in the habit of doing. Canada continues to be the principal supplier of turnip imports to the United States, and the reduced tariff should insure this position for the future.

Conclusions Concerning the 1938 Trade Agreement.

In terminating this study of trade agreements and trade policy, it is only fitting and proper to devote this concluding section to a general appraisal of the effectiveness of this program both as a stimulant to trade and as a means of bringing about a more complete revival in international commerce.

Of the sincerity and diligence of the formulators of this policy, there can be but little doubt. The American Secretary of State, Mr. Hull said of it, "I invite any person to show a single instance of general tariff readjustment either upward or downward in the entire fiscal history of the nation wherein there has been exercised as much impartiality, care and accuracy as to facts as has uniformly characterized the negotiation of our twenty-two agreements, - or any more solicitude for the welfare of agriculture, labor, business and the population of the country in its entirety."[6] To which Mr. Raymond Moley adds, "With this statement no one who has made a fair appraisal of the situation will dissent. There has been science, sincerity and infinite pains in the effort to increase foreign trade through

6. Raymond Moley: Mr. Hull's Trade Policies. Newsweek, January 22, 1940.

the reciprocal-trade agreements. One might almost say that, if science and sincerity and infinite pains could achieve the purpose through this instrument, it would be done."[7] From these statements, one would be lead to believe then, that in so far as possible every effort has been made to design a schedule of rates which would be fair to all interests, whether American or Canadian.

The farmers have long complained that reduced tariffs would deprive them of their livelihood, in answer to which complaints Mr. Hull adduced statistics which revealed that, "between 1934 and 1938, United States exports to trade-agreement countries had increased 61 percent; that United States farm cash income had risen from $4,700,000,000 in 1932 to $7,600,000,000 in 1938, exclusive of benefit payments."[8]

The charge most often preferred against the reciprocal-trade program, is, that for the fiscal year ending June 30, 1937, United States agricultural imports increased whereas exports decreased. Analyzed by trade experts, this was found to be the case. "Total increase in imports between July 1934 and July 1937 was $699,000,000. Of this, $252,000,000 was in tea, coffee, rubber, silk, bananas and other items, non-competitive with United States' products; $141,000,000 was in imports to supplement items affected by the 1935-1936 drought, - as corn, wheat, barley, fodder, butter, etc. But these imports, Mr. Hull can show conclusively, did not displace United States farm products; they supplemented the United States' supply and prevented a shortage.

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7. Ibid.
8. Hull Upholds Trade Act before House Committee: Life, January 22, 1940.

Further, they came in because farm prices were high, and their only effect on domestic prices was to check a rise to famine levels, thus benefitting all consumers, - including farmers who bought livestock feed."[9]

"What Mr. Hull points out is this: When farm income is high, farm imports are high, and vice versa, - simply because, when United States production is low, and prices are high, it is profitable for foreign nations to send their farm products here, - no matter how high the tariff barriers."[10]

With regard to exports, which to the majority of American producers is the sole benefit derived from the trade agreements, many instances of increases can be shown. "The figures show that in nearly every case the United States exports have immediately zoomed, imports from those countries have moderately increased."[11]

"Since inauguration of the program, American exports have approximately doubled. Manifestly it would not do to ascribe this increase to trade agreements alone. But that they substantially stimulated foreign trade is indicated by the fact that dur- the two-year period of 1936-1937, in comparison with the preceding two-year period (1934-1935), the increase in United States exports to all trade agreements countries was 41.9 per cent, whereas during the same period the increase of our exports to non-agreement countries was about 25.9 percent."[12]

To supplement these defenses of the trade program, it is well to note the view of a lifelong Republican, Mr. Thomas W.

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9. Saint in Serge: Time, January 8, 1940
10. Ibid.
11. Ibid.
12. Francis Bowes Sayre, Trade by Treaties: Current History, January, 1939.

Lamont, who says, "Naturally, our trade with all of the twenty countries now bound by agreements with the United States has not yielded spectacular results. But which one of the critics has stopped to figure to what low point our trade might have dropped if the agreements had not been in existence? I doubt whether the public at large has any realization of the extent to which in the last few years normal trade relations over the world have been dislocated and international trade cut down. Indeed, it was a lucky thing that, before the world began to turn completely topsy-turvy, we made a vigorous start on this trade-agreement plan for maintaining and increasing America's foreign commerce."[13]

In these appraisals of the reciprocal-trade policy, great stress has been laid on the rise in American exports with little regard to the effects of this on foreign markets. However, an understanding of the principles of foreign trade will reveal that the importing country is as much a beneficiary from these imports at low prices as is the exporter in the form of increased national income.

"Each sale of surplus products abroad created a chain of economic transactions within the country, the total effect of which is to increase purchasing power beyond the volume represented by the original sale; and increased purchasing power is what makes prosperity. Trade increases employment, creates profits, and raises the general level of well-being.

"If the domestic consumption of some commodity thus in-

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13. Thomas Lamont: Trade is a Two-Way Street, Collier's March 9, 1940.

creases by, say, 100,000 units, we can well afford an increased importation of say 10,000 units, for our domestic producers will be selling 90,000 more units than before."[14]

Particularly with regard to the United States, since its economy has been expanded to a point where millions of workers are engaged in industries which have become wholly dependent upon foreign markets, some effective way had to be found to increase markets abroad and under present-day conditions, "the most practical way to achieve this is by a series of agreements with individual countries to bargain down excessive trade barriers and reciprocally to guarantee each other's trade against discrimination. The real objective of the program is to benefit all producers alike by restoring prosperity through increased trade. Increased domestic markets constitute our objective quite as much as increased foreign markets."[15]

Time and time again, in the formulation of a trade policy, the administrators have run up against narrow sectional attitudes which feel that their particular interests should have primary consideration in national trade policy. "But the menace of economic breakdown on a world scale is too real today for us to tolerate selfish sectional measures."[16] "And I have no doubt that the six New England governors and others in opposition are entirely sincere in their conviction of the temporary disadvantage of these trade pacts to some of their local industries. It is always true that somebody has got to have his toes trod on a bit. But in the long run, under expanding international trade,

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14. Francis Bowes Sayre, Trade by Treaties: Current History, January, 1939.
15. Ibid.
16. Ibid.

those very industries that now complain will benefit from their share of the greater purchases that will eventually come from abroad and from a more prosperous people here at home."[17]

In conclusion then, a survey of the facts has revealed that in practically every attempt by this program, a satisfactory degree of achievement has been realized. "By means of the trade-agreements program, important foreign markets have been secured for American products and American exports have been protected from foreign discrimination. American exports have increased despite a period of business recession."[18]

The agreements with Great Britain and Canada are by a large margin the most important of all of the arrangements, since about one third of the entire foreign trade of the United States is carried on under these two agreements. "It is of particular interest that just as the United Kingdom wants to buy those of our goods which are primarily agricultural, so Canada wants to buy those of our goods which are primarily industrial. By these two agreements, both the American farmer and the American mill worker reap the profit through the gain of foreign markets; and the opportunity thus given to each for increased economic activity naturally reacts to the enormous benefit of the other in increased purchasing power and hence increased domestic markets."[19]

The next step to be taken, now that the Hull program has so conclusively proven itself to be a remedy for trade stagnation,

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17. Thomas Lamont, Trade is a Two-Way Street, Collier's March 9, 1940.

18. Francis Bowes Sayre, Trade by Treaties, Current History, January, 1939.

19. Ibid.

is to continue and amplify these beneficial results by a still greater reduction in tariff charges. By proving, first of all, to the countries involved in reciprocal agreements that this is the most effective stimulant to trade recovery, and then by disseminating this information to the world at large, more and more nations, it is hoped, will recognize the benefits of such an arrangement, with the possible result that the reciprocally-trading countries will become the dominant forces in international trade, thus bringing the remaining countries in line or leaving them to suffer the alternative of a virtual trade starvation.

Although there are numerous other factors hindering the restoration of world trade, such as political ambition and rising nationalism, it is not too fond a dream to image that through a revival in this form of exchange many of these evils may be reduced and a feeling of security and international co-operation might result. The reciprocal-trade policy is certainly one of the most important and effective steps toward the attainment of that goal.

APPENDIX

TABLE 1

SUMMARY OF THE TRADE OF CANADA WITH THE UNITED STATES, 1868-1940.

Year	Canadian Imports	Canadian Exports
1868	22,660,132	25,349,568*
1869	21,497,380	26,717,656*
1870	21,697,237	30,361,328*
1871	27,185,586	29,164,358*
1872	33,741,995	32,871,496*
1873	45,189,110	38,232,015
1874	51,706,906	34,378,999
1875	48,930,358	28,923,055
1876	44,099,880	30,734,439
1877	49,376,008	25,084,845
1878	48,002,875	25,100,105
1879	42,170,306	26,498,574
1880	28,193,783	31,610,090
1881	36,388,701	35,902,420
1882	47,052,935	47,570,149
1883	55,147,243	41,171,160
1884	49,785,888	36,656,838
1885	45,576,510	37,731,468
1886	42,818,651	36,528,669
1887	44,795,908	37,655,164
1888	46,440,296	42,554,531
1889	50,029,419	41,561,223
1890	51,365,661	38,083,028
1891	52,033,477	40,194,566
1892	51,742,132	37,178,909
1893	52,399,796	39,789,312
1894	50,746,091	33,970,560
1895	50,179,004	37,464,657
1896	53,529,390	39,750,221
1897	57,023,342	45,880,922
1898	74,824,923	41,082,237
1899	88,506,881	41,122,370
1900	102,224,917	59,962,905
1901	107,377,906	70,406,841
1902	115,001,533	69,562,232
1903	129,071,197	71,209,969
1904	143,329,697	70,713,053
1905	152,778,576	75,563,015

* The figures for these years are for exports of Canadian produce alone, for the remaining years they represent this total plus foreign produce sent through Canada.

Note: These figures do not include gold movements, and the totals are for the fiscal year.

Year	Canadian Imports	Canadian Exports
1906	169,256,452	88,001,309
1907	149,085,577	65,838,636
1908	205,309,803	96,920,138
1909	170,432,360	91,022,387
1910	218,004,556	110,614,327
1911	275,824,265	112,208,676
1912	331,384,657	112,956,295
1913	436,887,315	150,961,675
1914	396,302,138	176,948,299
1915	297,142,059	186,342,856
1916	370,880,549	216,669,262
1917	665,312,759	290,578,773
1918	792,894,957	440,811,400
1919	750,203,024	477,695,659
1920	801,097,318	501,130,117
1921	856,176,820	560,701,936
1922	515,958,196	304,104,177
1923	540,989,738	380,347,721
1924	601,256,447	441,642,909
1925	509,780,009	427,184,643
1926	608,618,542	491,164,591
1927	687,022,521	481,346,621
1928	718,896,270	502,340,907
1929	868,012,229	525,816,546
1930	847,442,037	536,688,181
1931	584,407,018	363,923,024
1932	351,686,775	266,934,350
1933	232,548,055	202,794,154
1934	238,187,681	224,980,603
1935	303,639,972	310,905,541
1936	319,479,594	372,127,774
1937	393,720,662	446,089,317
1938	487,279,507	435,085,647
1939	412,476,817	386,596,715 [1]

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