

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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CANADIAN TEMPORARY IMPORT SURCHARGES

The following communication dated 25 June 1962, has been received from the Government of Canada:

"I am directed to inform you that with effect from 25 June 1962 the Government of Canada, in order to safeguard its external financial position and its balance of payments, has imposed on certain categories of products temporary import surcharges of 5, 10 or 15 per cent ad valorem. These products include numerous items in Parts I and II of Schedule V to the General Agreement. Lists of these categories have been forwarded and should be in your hands not later than 28 June.

"The Government of Canada decided to adopt temporary import surcharges in preference to quantitative restrictions for a number of reasons. Among these were:

- (a) that it does not have an import licensing system and lacks the necessary machinery to administer such a system;
- (b) that it is satisfied that temporary import surcharges will have less restrictive effects on the trade of other contracting parties than would quantitative import restrictions.

"Attached is the statement made by the Prime Minister on 24 June describing the Canadian external financial situation and the measures which are being adopted to rectify it.

"The Government of Canada stands ready to consult other contracting parties on the emergency measures it has introduced to safeguard its monetary reserves and balance of payments at the earliest opportunity under whatever procedures the CONTRACTING PARTIES deem appropriate for the consideration of measures adopted for balance-of-payments purposes."

The text of the Canadian Prime Minister's statement of 24 June 1962 mentioned in the above communication is attached together with the text of a Canadian Government announcement entitled "Supplementary Information on Surcharges on Imports".

SUPPLEMENTARY INFORMATION ON SURCHARGES ON IMPORTS
ANNOUNCED BY THE CANADIAN GOVERNMENT 24 JUNE 1962

The Order in Council under which the additional levies on imports are being applied contains three Annexes - Schedule A, which lists the tariff items covering goods on which there will be an additional 15 per cent duty, Schedule B, the tariff items covering goods on which there will be an additional 10 per cent duty, and Schedule C, listing the tariff items covering the goods on which there will be an additional 5 per cent duty.

Goods not covered by the tariff items listed in these Schedules are free of any additional duty. They are not affected by the order in any way.

The surcharges apply to goods imported into Canada from all countries (except the very few subject to the general tariff). Since the surcharges are additional duties on top of existing rates of duty, it follows that the existing structure of tariff preferences is being retained without change.

The surcharge is being effected by applying the general tariff rates, as provided in the customs tariff, for these various items and then remitting in advance a portion of the tariff increase in order to provide a system of standard rates of surcharge.

The three lists of surcharges are related to the degree to which the goods are essential, to the adequacy of supplies of goods from domestic sources and to the degree of manufacture involved.

Made subject to a 15 per cent additional duty or surcharge, the maximum rate, are a group of non-essential or luxury imports: cut flowers, champagne, wines and spirits, beer, cigars, candy, brandied fruits, certain luxury foods (truffles, pâté de foie, liver paste, etc.), guns and rifles, the more elaborate types of cameras, jewellery, silverware, perfume, certain toilet articles, oriental rugs, fancy leather goods and refrigerators. This group covers about \$150 million of annual imports at current levels.

Made subject to a 10 per cent surcharge are a range of products, largely consumer goods, for which it is possible for consumers to defer some of their purchases or for which additional Canadian production is available. This group includes automobiles, furniture, power lawn mowers, sanitary ware and tile, chinaware, biscuits, candied fruits, advertising matter, plastic goods, paper manufactures, film, soap powders, sporting goods, clothing, radios and television sets, and toys. The group covers about \$650 million of annual imports at current levels.

Made subject to a 5 per cent surcharge are a broad group of less essential imports: manufactures of metal, iron and steel shapes, pipes and tubes, machinery, electrical apparatus, primary plastics, lubricating oil, some pulp and paper products, manufactures of wood, and textile fabrics. For some of these items

surplus capacity exists in Canada. For others, alternative or substitutable Canadian products are available. This 5 per cent duty covers about \$2,300 million of annual imports at current levels. The exempt category, that is, the category on which no repeat no additional duty is being applied, contains a broad range of basic foodstuffs: bananas, grapefruit, oranges, orange juice, tea and coffee, for example, and farm machinery, mining machinery, chemicals, raw materials, lumber, gasoline, and most component parts for Canadian manufactures, such as automobile parts and aircraft parts.

The group not subject to additional duty covers about \$2,900 million of annual imports at current levels.

STATEMENT BY THE
RT. HON. J.G. DIEFENBAKER,
PRIME MINISTER OF CANADA,
BROADCAST FROM OTTAWA AT 9 P.M. 24 JUNE 1962
(EASTERN DAYLIGHT TIME)

There has been developing an increasing degree of uncertainty and instability in the financial markets which has intensified in the last few days to a point requiring immediate emergency action. Dealings in the exchange markets have been exceptionally large.

These developments have been such that a comprehensive programme has become necessary to relieve the pressure on the Canadian dollar in the exchange field, to bring about greater stability in our international transactions and to strengthen our exchange reserves.

Under the Constitution of this country the Government has the responsibility to conduct the nation's affairs and within the authority given by Parliament it will do so. Parliament cannot legally be called together for some weeks. The situation demands action which cannot wait until Parliament could be convened. The Government therefore is immediately announcing and enforcing a programme designed to meet the needs of the situation. I trust that the leaders of the other parliamentary parties will recognize that Canada was faced with an exchange emergency which placed on the Government an obligation to take immediate action within the limits of the powers conferred on the Government by Parliament.

Other Western countries have passed through similar emergencies in recent years and have overcome them by taking corrective emergency measures. The Canadian economy is fundamentally strong and sound and we believe that with a combined effort on the part of all Canadians we shall soon overcome Canada's immediate problems.

Canada's exports of commodities last year, the highest in history, exceeded commodity imports for the first time in nine years. However, there still remained a large deficit in the payments to be made for services including payments of dividends and interest. This is a condition which has existed for many years and particularly since the end of World War II. Although this deficit in our current account diminished substantially last year, it remains a continuing problem.

Canada has become accustomed to large capital inflows from abroad. These capital imports have been approximately equal to the deficit in Canada's current international account.

Canada's immediate difficulties, however, have been precipitated by a drying-up of the net capital inflow and very recently by a net capital outflow. Canada has not been receiving the inflow of capital which was previously available and has been paying for the excess of imports of goods and services over exports out of reserves of gold and United States dollars.

Canada's exchange reserves have consequently fallen, and the measures now being announced are calculated to redress this position. These measures relate to Canada's balance of international payments, to the level of the exchange reserves, and to Government revenues and expenditures.

The first measure the Government has taken is designed both to improve Canada's balance of international payments and to produce revenue. It consists of a temporary, graduated surcharge on certain classes of imports which will be imposed within the scope permitted by the existing authority granted by Parliament. Approximately one half of all imports will be exempted from any surcharge. These consist in the main of basic foodstuffs, raw materials, industrial components and agricultural machinery which either enter directly into the costs of Canadian production or are highly essential for other reasons, or enter directly into the cost of living of the average Canadian.

The 5 per cent surcharge will be applied on categories amounting to some 2.3 billion dollars of annual imports of a less essential nature, for some of which surplus capacity exists in Canada and for others of which alternative Canadian products are available. These two categories, that is those exempt and those subject to the 5 per cent rate, include some 87 per cent of imports at recent levels.

A 15 per cent surcharge will be imposed on a group of imports which includes such luxury items as champagne, wines and spirits, jewellery, perfume, etc., totalling some 150 million dollars of annual imports.

A 10 per cent surcharge will be imposed on the remaining group of imports, amounting to 650 million dollars annually at recent levels, for most of which it is possible for consumers to defer their purchases or for which Canadian production is now available.

The surcharge will apply to imports from all countries except the few countries to which the general (maximum) tariff rates already apply. Their trade with Canada is very small.

It is estimated that the revenue derived from these surcharges will be of the order of 200 million dollars in a full fiscal year.

The Government will give notification under the General Agreement on Tariffs and Trade of these import measures and will be prepared to consult the other countries who are parties to this Agreement and who may be affected by the measures, subject to the needs of the emergency situation.

A second temporary measure designed to conserve foreign exchange relates to the tourist exemption under which Canadians travelling abroad are allowed to bring into Canada, duty free, one hundred dollars worth of goods once every four months or, if they travel overseas, three hundred dollars worth once every twelve months. The cost of this exemption, in terms of foreign exchange, is far higher than we can afford in present circumstances. Under the temporary order returning tourists will be allowed to bring back to Canada duty free 25 dollars worth of goods three times a year or, in the case of overseas visitors, 100 dollars once a year. This temporary reduction of the exemption will not apply to Canadian tourists who are already outside the country.

We estimate that the combined effect of the temporary import surcharges and the reduction of the tourist exemption will, together with the effects of the other measures contained in the emergency programme, lead to an improvement in the current international account of some 300 million dollars a year.

The third course of action relate to the important matter of government expenditures. We have recently conducted a careful review of the planned expenditures, covering all departments and activities of government. As a result, the Government has decided on a programme involving reductions in expenditure amounting to 250 million dollars in a full fiscal year. These reductions will be reflected in the revised estimates of expenditures which the Government will place before Parliament.

The reductions in expenditures combined with the increased revenues resulting from import surcharges will have the effect of reducing the budgetary deficit by about 450 million dollars in a full year.

A further financial measure relates to the composition of the exchange fund. Sales of gold and United States dollars out of the exchange fund in recent months have resulted in a corresponding substantial increase in the Canadian dollar cash balances in government accounts. The Government does not intend to use these cash balances to meet ordinary expenditures. Accordingly, the Minister of Finance will earmark Canadian dollar cash balances equivalent to the sales of exchange reserves during this fiscal year, to be used only for the purpose of financing increases in our reserves.

Canada's official holdings of gold and United States dollars now stand at approximately 1,100 million dollars. To reinforce these reserves immediately the Government and the Bank of Canada have taken a number of important steps. Canada is exercising its borrowing rights with the International Monetary Fund and is drawing 300 million dollars in foreign exchange. The Government has arranged a line of credit of 400 million dollars from the Export-Import Bank in Washington. The Bank of Canada has entered into a reciprocal currency arrangement with the Federal Reserve System of the United States in the amount of 250 million dollars, and has made a comparable arrangement with the United Kingdom in the amount of 100 million dollars.

This international financial support adds well over 1 billion dollars in cash and stand-by credits to Canada's exchange reserves but by no means exhausts the possibilities now open to Canada to reinforce her reserve position. These actions by friendly countries and institutions constitute an impressive vote of confidence in Canada and I express the thanks of the Canadian people to them.

The Government is determined to defend the foreign exchange value of the Canadian dollar as established last month at $92\frac{1}{2}$ US cents.

It is the Government's intention to continue to maintain a climate in Canada hospitable to foreign investment and, as I stated on Friday, the Government will not be imposing any exchange controls.

It is anticipated that the normal inflow of capital will revive and longer-term measures of a positive, constructive nature will be introduced to improve our current international accounts. I would emphasize again that these emergency measures are temporary and will be removed as soon as circumstances permit.

To improve her balance of international payments, Canada must keep her costs of production down, and strengthen her competitive position.

The present situation presents not only a challenge but an opportunity to Canadians. Not only must Canadians further increase exports but they must also be prepared to invest in Canadian industry and development to a greater extent than ever before. Many steps which the Government has taken in the past four years have been aimed at these essential objectives and these programmes will continue to be pushed forward with great vigour in the months ahead.

It is the belief of the Government that the measures I have announced will enable Canada to overcome her temporary difficulties and will assure that she will continue her economic progress to new high levels.

Canadians have never failed in the past to measure up to their responsibilities and I call upon all Canadians to support, in a spirit of national purpose, these measures which are required to assure and conserve the strength of the national economy.

