The Maritimes and Foreign Trade

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SINCE the earliest settlements, prosperity in the Maritimes has depended on external trade. To-day this is true of the Canadian economy as a whole but the Maritime economy remains one of the areas of Canada which is particularly sensitive to world trade. Recently Canada has been adapting its economy to a rapid post-war industrial development over and above our war-time growth and at the same time to a drastically changing pattern of world trade. This process has involved and must necessarily continue to imply difficulties for specific industries and the areas in which these are located. In these industries or areas there is a natural tendency to exaggerate the problem from a Canadian point of view; perhaps there is a danger of such exaggeration in the Maritimes. True, the area is not only the source of primary products such as apples, lumber, fish, and potatoes for which foreign markets have been vital, but its ports of Saint John and Halifax and the hinterland represent channels through which trade ebbs and flows. Our shipbuilding industry necessarily reflects the demands, active or otherwise, of international trade. But this is not to say that the Maritimes are unique in experiencing difficulties at this time.

Events of the last decade have made us realize more clearly than before the importance to the Maritimes of trade with what is now called the sterling area. Some Maritime products have been developed especially for sterling markets. Shutting off those markets does not call only for finding a new market for the same product: it requires developing a new and in some cases substantially different product. Apples are perhaps the outstanding example. Again, however, there is a danger of over-emphasizing our dependence on sterling area trade.

With the sterling dollar crisis ranking with the cold war as a leading feature of world news, there is a tendency to think of our export problems solely in such terms, and to assess sterling market prospects on an "all or nothing" basis unjustified by the facts. Perhaps it is also inevitable that there should be a widespread wishful assumption that old patterns will soon be restored, and that we should tend to think in terms of "tiding over" distressed export industries until supposedly "normal" times return, rather than critically examining the real nature of our problems.

It would be easy to take the approach of discussing, industry by industry, our main export products without ever viewing our economy in broad perspective. Statistics on apples, pit props and salt fish can be found in any standard reference work. It might be more helpful to question whether the direction of our essential trade interests to-day has changed, before looking at details. Only after agreement upon our long-term objectives, in relation to the changes arising from and since the war, will it be profitable to discuss details as to how these objectives can be achieved. Until the nature of our difficulties is understood, proposed solutions are unlikely to be very sound.

Many export industries of the Maritime Provinces are sharing the same currency problem which has afflicted export industries elsewhere in Canada, but in other cases the cause of declining markets must be sought elsewhere. Where currency reasons are the primary cause, the basic question which we must consider is whether to count on the eventual restoration of sterling area markets. If we decide to assume that sterling markets will come back, the problem is to survive the interval by whatever temporary expedients are available. If we conclude that sterling markets will not be freely available again within the measurable future, we must plan to reorganize existing export industries to fit this conclusion.

Federal government policy since the war would appear to express every confidence that sterling area recovery will be achieved, although most of those concerned with making policy have probably doubted that this recovery could be achieved without far-reaching and permanent adjustments in our trading relations with the sterling area. There has been no alternative to this policy of attempting to provide the conditions which would maximize the possibilities of sterling trade recovery: or rather the alternative is too painful and politically unpalatable to be faced until the possibilities of restoring multilateral trade have been exhausted. The seriousness of the basic situation has been obscured in some people's minds by the temporary special arrangements which during and since the war have enabled goods to flow to the sterling area in spite of the inability of that area to earn dollars enough to pay for them. Mutual aid, export credits, UNRRA and ECA purchases, and a variety of special marketing contracts and agreements have each in turn been hoped adequate to tide over the sensitive industries until conditions returned to "normal". It has, however, become increasingly clear that the sterling-dollar problem is not a temporary (or at any rate a short-term) one. This is the first point on which judgment must be made.

Without attempting here to analyse the pros and cons of the sterling dollar-problem, it appears probable that the old order will never be fully restored, and further comments in this article are based on this assumption. Again overstatement must be avoided. Even though Western Europe may not again in the near future be able to earn sufficient dollars to purchase our products in the same volume as in the past, it is still earning some dollars and will both need to and be able to purchase some of those goods which we produce. The problem is a marginal one, and should not be viewed in extreme terms. For some of our traditional exports to Western Europe, including the United Kingdom, prospects are by no means poor.

BEFORE developing the picture further in terms of individual industries, however, there is an important point that should be made. It was suggested earlier that there is a current tendency to oversimplify our export problems, and to think of them in terms of the sterling-dollar currency crisis even when the roots are elsewhere.

Recent declines in export markets are not all attributable to currency difficulties. Technological changes and development of competitive sources of supply must not be forgotten. The Maritime Provinces have good historical reasons for remembering this, from the passing of the days of the wooden ship, and even before. The feverish activity of the war years, and the subsequent world-wide currency problems, have combined to make many of us forget the quite substantial export problems which existed in decades past, when "foreign exchange control" was a phrase known only to economic theorists or had interfered but little with the flow of international trade.

Even prior to the war, the position of Nova Scotia apples in the United Kingdom market was by no means secure. From within our own country, British Columbia had offered strong competition. The apple producers of the eastern

United States had made serious inroads in the British market, with a high quality product and volume much greater than the volume from Nova Scotia. Australia started in the 1920's to market its apples in the United Kingdom, in competition with our own.

The loss of the market for pit props is being widely blamed on exchange controls; it is less frequently recalled that this industry was a "war baby", commenced only when the United Kingdom was cut off by German military action from its normal Baltic sources of supply.

New cheap methods of producing and preserving other protein foods, cutting the market for dried salt cod, and the enlarged output of producers abroad who offered intensified competition to the fisheries of Canada's Maritime Provinces, are developments dating from before the invention of the phrase "dollar crisis". Those who believe in the eventual restoration of the pre-war purchasing power of sterling area markets should not assume therefore that our export problems would automatically disappear should that time come.

II

TURNING from the general to the specific, the export prospects of the Maritime producers are by no means uniformly poor. The problem can be cut down to size by looking at a few of the principal items.

The market for our pulp and paper continues good. For sawn lumber, the long-term prospects give ground for hoping that we may actually improve our position considerably. Western Europe (and also the United States) have for several years been over-cutting, and the needs of reconstruction are such that lumber should have a high-priority claim on dollar earnings. The folly of denuding the German forests to supply lumber for export has at last been realized, and Germany is again turning into a net importer. Those countries which have drawn heavily on German supplies in the last few years will once again have to look to North America, and a new volume of purchasing may develop within a matter only of months. Whether Maritime producers will share fully in these anticipated purchases may depend largely on the extent to which we improve our efficiency and develop and maintain adequate grading standards, but the opportunity would appear to be there.

The position with respect to potatoes is a complicated one, on which it is difficult to form judgment. The traditional export market for potatoes has been in the West Indies. Prince Edward Island and New Brunswick have consistently produced beyond their own requirements, but have marketed large parts of their crop in the other Canadian provinces. Exports of table potatoes have consisted of relatively small proportions of the total crop, which moved abroad in response to higher prices or merely to the extent the Canadian market could not absorb the crop. The situation has been different in the case of seed potatoes, which have long enjoyed a quality preference in the United States market and have moved into that market in substantial quantities despite high tariffs and quota restrictions.

As sterling area exchange controls became increasingly stringent, shipments to the West Indies were reduced sharply. Supply conditions in the sterling area caused relaxations from time to time; in 1947 some 2.6 million bushels were shipped to the United Kingdom, and the West Indies imported relatively large quantities: but the general contraction of the sterling market continued after each such relaxation. In these circumstances the growers gave more attention to the United States market, and were encouraged by the reduction of the United States tariff from 75c to 37½c per hundredweight on imports up to a million bushels of table potatoes and 2.5 million bushels of seed potatoes a year. Their hopes were partly realized, for in 1948 the low-tariff quotas were filled and sales continued even under the higher tariffs. This was possible only because of the United States floor price of $2.70, which was high enough to enable Canadian potatoes to be sold profitably after payment of the full-scale duties. This "cashing-in" on United States floor prices by Canadian producers was the subject of negotiations between the United States and Canadian governments, which resulted in a Canadian embargo on shipments of table potatoes and narrow restrictions on shipments of seed potatoes to the United States. In 1949, a smaller Canadian crop meant fewer problems in locating export markets, but cases of Canadian potatoes competing in the United States under the protection of United States floor prices were reported in the press.

The point to be drawn from the recent history seems to be that it is impossible to assess the long-run possibilities of the United States market for Maritime potatoes until United States floor-price policy is stabilized. On the one hand, the present situation where the floor price across the border is so high may allow Canadian producers to make profitable sales on an occasional basis, but devices for preventing these foreign raids on the American taxpayer are sure to be applied. On the other hand, if the potato floor prices are removed or substantially reduced to terminate the fantastic overproduction at public expense which has occurred in recent years, the consequent shakedown of United States potato production may leave the Maritime producer in a strong competitive position, notwithstanding substantial tariffs.

III

THE fisheries, so far as export markets are concerned, fall into several distinct groups. The traditional staple export fish of the Maritimes has been dried salt cod; in recent years salt fish exports have been surpassed in importance by fresh and frozen fish; a flourishing trade in fresh lobsters has been established; and finally, during recent years canned fish has found large but partly temporary export markets.

The dried salt cod fishery has depended on sterling markets for at least half its output. The West Indies, Brazil and Mediterranean countries were important customers, although even before the war sales to the United States, Cuba, Puerto Rico and Central American countries in the dollar area accounted for a third to a half of export sales of dried salt fish. This was long the only protein food which would stay wholesome in hot climates and was cheap enough to be within the means of laborers in areas of low purchasing power. In the short run, the sterling area market for the product is reduced and threatened by the dollar shortage; the long run prospects for the product are dimmed by rising standards of living in former and present markets and by declining costs for other methods of producing and preserving protein foods. In addition, the Icelandic and Norwegian fisheries, with their new fully modern equipment, have greater capacity than before the war, and promise to offer intense competition in dollar as well as sterling markets. There is also a danger that our former sterling markets will come to like the sterling area dried fish with which they are now becoming familiar, and that Canadian cod will lose its former consumer preference.

Temporary succor has been afforded by the war-time disruption of the European fisheries, which together with the worldwide shortage of proteins has resulted in substantial purchases of Canadian fish by Italy, Greece and Portugal, with UNRRA and ECA funds or otherwise. The same reasons, absence of competition and shortage of proteins, have resulted in sterling area markets in the Western Hemisphere devoting to purchase of our dried fish large proportions of their scarce dollars, made available indirectly through ECA. Now, however, sterling area fisheries are in position to exceed their prewar production, ECA is ending, and sharp contraction of the sterling markets both in Europe and the Western Hemisphere probably lies ahead.

As previously noted, the salt fisheries have long marketed a substantial part of their output in the United States, Cuba, Puerto Rico and other dollar areas, in competition with Newfoundland and United States and European producers.

They must now enlarge their market in these areas, or reduce the output of salt fish. Both alternatives appear likely to be applied, sales in the dollar area (including perhaps the oil-producing countries of the Middle East) being pushed as hard as possible, and some of the resources of salt fishing being diverted to other production, chiefly fresh and frozen fish.

Exports of fresh and frozen fish have traditionally gone almost exclusively to the United States, the only other exports of importance being shipments of premium quality fish, such as salmon and halibut, to the United Kingdom and European countries in the immediate post-war years. With these relatively minor exceptions, the prosperity of the fresh and frozen fisheries has depended entirely on the United States market. There they are in direct and vigorous competition with the New England fisheries, and always have dangling over them the imminent threat of quota restrictions or prohibitive tariffs. The Geneva tariff negotiations resulted in some reductions of United States tariffs of importance to the Maritime fisheries, and present trade policies of the United States give more hope for further reductions than has existed in recent decades. The modernized and expanded fisheries of Iceland and Norway have access to the United States market under the same quota arrangements applying to Canadian fish, and in view of the general drive of European countries to earn dollars, they will naturally do everything possible to intensify their competition with us. If we can meet this competition, if tariffs are reduced or held to present levels, if the pressure from United States fishing interests for other forms of restriction continues to be resisted, then there is a reasonable expectation that Maritime fish can hold its present share of the United States market.

It might perhaps be pointed out that more intense competition in the United States market might create some internal difficulties within the Maritime area if Newfoundland is considered as a Maritime province. The development of modern fully equipped fresh and frozen fish plants in Newfoundland during the recent war may lead to intense competition between Nova Scotia and Newfoundland in the event of a general decline in the salt fish trade. Under special taxation arrangements, these Newfoundland plants have been largely depreciated so that their cost structure would be abnormally low and therefore more highly competitive.

FURTHER expansion of sales in the United States market depends not only on these conditions (and upon price levels not far below those prevailing in recent years) but particularly upon lower costs of production and better methods of preserving the freshness of the fish on its way to market. Improvement in production costs may lie in a shift from the present predominantly small-vessel operation to a greater use of large trawlers and draggers, if their use can be combined with sound conservation methods. Extensive research is being done into more effective methods of protecting fish from deterioration from the time it is caught until it reaches the consumer, and improvements are in sight at several stages in the process. In fresh and frozen fish lies the chief hope of future expansion of the Maritime fish products industry, and a degree of qualified optimism seems justified.

The same is true of lobster exports, which since the war have totalled from \$8 million to \$10 million annually. Because they are luxuries, demand is variable but usually strong enough to give attactive returns: in recent years there has been no difficulty about marketing the whole catch at attractive prices, and this seems likely to continue as long as the general level of economic activity in the United States remains high. Exports of other shellfish are relatively unsignificant in total, although they are important to some localities. The only foreign market of any importance for lobsters and other Maritime shellfish is in the United States, where they have a good reputation. Recent improvements in preservation and transportation, including air freight, may make a wider market available there.

The foreign trade in canned fish until the war years consisted mainly of sardines and lobsters. Before the war, canned lobster moved chiefly to the United Kingdom, and also in important quantities to France and Sweden. The United States took only ten to twenty percent of exports prior to the war, but now takes the great bulk of them. Since the war, there have been some substantial shipments to Sweden Belgium and the United Kingdom, but these have been intermittent and are not likely to become regularly important so long as England's dollar shortage continues. Even so, there has been little indication of trouble for exports of tinned lobster; the pack has been readily disposed of in North America, although the canners would naturally be pleased to see European markets re-established.

The trade in sardines, "little fish in oil" as the official trade statistics primly describe them, was well established with British Preference areas before the war, at annual levels under $1 million. In some postwar years it has approached the $4 million mark, and has been successful in penetrating the austerity programs of forty-odd territories within the sterling area. Although these markets are endangered by the currency problem, sardines have a utility value as an easily portable cheap preserved protein which gives reason to hope that they will continue to gain admission to sterling territories. In any event, the dollar area has taken a quarter to a third of exports in recent years, and maintenance of these sales seems feasible.

Aside from these two staples of the Maritime fish canneries, there was a brief war-bred burst of activity in the canning of other fish, principally herring and mackerel. When the extraordinary demand for preserved proteins eased off after the immediate post-war years, the market for most of this canned fish disappeared. Its reappearance is hardly to be expected, short of another crisis in world food supply.

IV

SIMILAR comments could be made on most of our less important export industries: they have problems to solve, but the necessary readjustments are being made without critical hardship. There are however exceptionally difficult problems for some export industries, and amongst these apple production and transportation services are probably the hardest hit.

For the apple growers, the situation is obviously serious. The apple industry, centred in the Annapolis Valley of Nova Scotia, has in the past normally produced about 1.5 million barrels annually, of which about 1.1 million barrels have been exported, chiefly to Britain. Apples have been the principal cash crop, in many cases the only cash crop, of those producing them, and the transportation, storage, commercial and financial facilities of the Annapolis Valley area have been geared to this crop. Since the war, the United Kingdom market has existed only by virtue of federal and provincial government assistance, direct and indirect.

The indirect assistance included Dominion Government "suggestions" to the British purchasing agencies, during negotiations for the credit to the United Kingdom, that it would be wise to use some of the credit to purchase Nova Scotia apples. More direct assistance has taken a variety of forms including underwriting of the 1947 and 1948 crops by the Agricultural Prices Support Board—and direct negotiation by the Minister of Trade and Commerce with the British Government of a contract for part of the 1949 crop. The prospects of continuing to lever open the door to the United Kindgom market by such annual negotiations are not good. Representatives of the British Government have made clear that the 1949 sale is not to be regarded as any forerunner of future business, and in any case annual negotiations between governments, one of which is an eager seller and the other a reluctant purchaser, offer in the long run neither prosperity not stability to the growers concerned.

The alternative is to seek other markets or other products. To seek other markets is, in the circumstances of the Nova Scotia apple industry, tantamount to seeking other products, for the apples grown for the United Kingdom and the methods of selling to that market are quite different from the apples and merchandising demanded by other markets. The United Kingdom market sought varieties entirely different from those in demand in North America: a Cox's Orange Pippin may be a delicacy in London, but in Montreal or New York it is just a little green apple that nobody wants. To reorganize an agricultural industry is a long process, to reorganize an industry depending on the maturing of trees a longer one still, but a very substantial start has been made. Once again, government assistance has been made available in the form of a Dominion-Provincial program to help finance the removal of trees bearing non-marketable kinds of apples or their conversion by grafting into trees bearing North American varieties. The intention is to concentrate production on a few standard varieties saleable in North America in place of the many scores of varieties previously grown. Government has also assisted private enterprise to expand cold storage facilities, so that the crop may reach the market in better condition, and much has been done to improve grading, packaging and merchandising methods in terms of North American market requirements. As one example, the box packaging now required by most markets has completely replaced barrel packaging.

So far, the United States market, which could probably absorb the surplus over Canadian requirements, has in general been less receptive to Nova Scotia than to British Columbia apples, but it is hoped that education and acquaintance with the Nova Scotia product will substantially increase the demand in that market. The United States under the General Agreement on Tariffs and Trade conceded a reduction in duties from 15c to 12½c per bushel on fresh apples, and a 50% reduction on processed apples, but the competition of United States growers and processors remains very strong in their home market.

During and since the war, the apple processing industry has grown substantially and through it an increasing proportion of the Nova Scotia crop has found an outlet in Central Canada. With the contraction of total apple production, the processing industry has in fact come into competition with the export market for table apples as well as providing a return on grades and varieties not suitable for table use. That competition became clear in late 1949, when a last moment export contract for fresh apples was made: the processors, who had been planning a busy winter converting the crop found themselves so short of apples that most of them had to close down wholly or partially. It may be that the processing industry provides the best means of stabilizing what remains of the apple producing industry: a firm if relatively low return on the bulk of the crop, plus whatever income is available from export or domestic marmets on the premium table apples, may offer more to the producer in the long run than the feast-or-famine experience of recent decades. Development of new markets, and particularly markets for processing industries, will not of course happen by itself. The special flavour of processed products such as juice, made from Nova Scotia apples, will have to be sold to consumers through efficient marketing.

OUR great ports and our inland carrying of goods, moving international trade to and from Central Canada, are in a position of peculiar difficulty. Here is an activity which cannot be converted from export trade to some endeavour within our borders. At this point is reflected any decline in exports of all those areas of Canada which use our rail and shipping facilities. The same extreme sensitivity characterizes our shipbuilding industry, which in addition is open to intense competition from abroad. The railway car building industry is similarly dependent on the volume of traffic moving to and from other parts of Canada, and as with shipbuilding, the large volume of export business it enjoyed during and since the war has now disappeared, perhaps permanently.

In saying that apple production and transportation and related activities are the only industries threatened with extreme hardship as the result of external trade difficulties, there is no implication that other industries do not face trying and perhaps painful readjustments. But it does appear that most other important industries are in a basically healthy condition, and capable of making those readjustments.

Many of them have already been made; others are now taking place quietly, some of them almost unconsciously. The Annapolis Valley, concurrently with the decline of the apple export industry, has become the centre of a promising poultry industry, which is not only producing eggs and poultry for the domestic market, but is building export markets for eggs in the West Indies and other areas, and for premium quality dressed poultry in Central Canada and the United States. The Annapolis Valley also now provides vegetables for canning plants which are filling a part of the Maritime demand formerly met by Central Canadian canners. More recently production of quality pickles has been commenced, and further developments in food processing are being put into effect.

The lumber industry, not content to await the reopening of Eurpoean markets even though that reopening can be expected with some confidence, is working through the Maritime Lumber Bureau to establish a market in New England. That market requires different grading and a higher degree of finishing than has been demanded by European markets, and sales there depend on thorough and aggressive promotion. Progress has been made in bringing the buyer and the seller to mutual understanding, and the gradual development of a healthy market in New England can reasonably be hoped for.

V

IN addition to these shifts of product and market, there has been a widespread but little publicised movement towards diversification of Maritime industry. Taken together, this diversification has the effect of lessening the dependence of the Maritimes on external markets. Examined closely, the diversification appears to follow three or four main lines, and these lines may offer guidance for the further adjustments of the Maritime economy which may still be necessary or desirable.

First, there is opportunity for industries which can establish a market, either entirely in the Maritimes, or principally in the Maritimes with some outlet in Central Canada or abroad. The poultry industry and the vegetable canning and pickling industries mentioned above fall into this group: so do the manufacture of margarine, fancy paper boxes, automobile license plates, steel cabinets, propane gas, and many other developments which have taken place or are in process of organization.

Secondly, enterprise is finding opportunity, in the adjustment of industries formerly exporting and in the establishment of new industries, to serve the Canadian market in general. In some cases this means gearing to intensive competition but the ready availability of intelligent, stable and highly trainable labor, together with supplies of some raw materials, constitute advantages which in many cases will offset the disadvantage of our distance from the bulk of the Canadian market. The establishment of the manufacture of electronic devices, of high-grade cutlery and of specialised textile products are demonstrating afresh, as Maritime chocolates, biscuits, knitted cotton clothing, shoes, paint brushes and other manufactures have shown in the past, that the distance between the Maritimes and Central Canada does not automatically prevent our products competing there.

Thirdly, opportunity is being found in manufacturing to serve the whole Canadian market and in addition some export markets. The production of Bendix washing machines and Servel refrigerators at Amherst is demonstrating that industries for which the optimum level of production is greater than that required in Canada alone may find a very substantial advantage in Maritime location: higher costs of Canadian distribution may be more than offset by savings on export distribution.

The fourth possible class of diversification of industry, referred to above, is related to the decentralization of defence industry. The manufacture of electronic apparatus could be fitted into this classification. So could the recent establishment of a permanent aircraft industry near Halifax, although this latter at the same time fills a regional market, in the sense that it is working with naval aircraft used in the Maritimes which previously were sent as far as Vancouver for overhaul. Further developments along this line of decentralization of defence industry should be practicable.

SUCCESS in reorganizing, developing and diversifying our economy along these lines requires favourable conditions in two vital sectors: freight rates and control of unfair trade practices.

It would perhaps be improper to comment at length on the subject of freight rates since they are now under study by a federal Royal Commission enjoined to consider their broad effects on the Canadian economy, but, as trade within Canada becomes relatively more important to us, it becomes correspondingly more important that the full utilization of our resources for the general good of Canada should not be unduly handicapped by transportation costs. Similarly, as we produce a larger proportion of manufactured goods, it becomes more important to us that there should be an equitable balance between the freights borne by finished goods and those borne by raw materials. There are Maritime products, such as radar sets, the value of which is so high that freight rates on them are relatively insignificant but for most of our present and potential manufactures freight costs will be a critical factor in their ability to compete in the prinicpal Canadian markets.

Freedom from unfair competition is particularly vital to industries and areas which are seeking to enter competition with established and highly organised industries elsewhere. The Maritime market for most manufactured goods has since Confederation been a comfortable preserve for Central industries, increasingly so as improvements in transportation and mass production techniques exposed small Maritime manufacturers to the competition of large-scale producers in Central Canada. Now, as the Maritime market has grown in size and purchasing power, it is again becoming increasingly feasible for efficient production within the Maritimes to compete in price with Central Canadian products. At the same time with the growth of industrial facilities and skills in the Maritimes, it is becoming feasible for more types of Maritime industry to compete economically in the rest of Canada. To realize these possibilities, it is essential that competition be free. Combines and monopolies as such are not illegal under Canadian law, and it is not suggested that they should be. What is suggested is that the Maritimes, with their urgent need and strong possibilities for diversification of industry, have a particular interest in minimizing restraint of trade by combines and monopolies, and unfair trade practices such as control of retail outlets, tied sales, loss selling and interference with raw material supplies, whether they are indulged in by monopolies or cartels or by leading producers.

Granted freight rates conforming to the national interest and maximum freedom from unfair competition, there appears to be no reason why the Maritimes can not only overcome the present difficulties arising from the changing pattern of international trade, but go on to contribute an increasing proportion to expanding Canadian production and prosperity.