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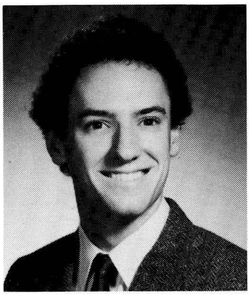

Introduction and Overview

The Soviet Union is becoming an increasingly important trading partner of Canada. Behind the United States, Japan, and Great Britain, the USSR was the fourth largest importer of Canadian goods and services in 1985 *(Exports Merchandise Trade 1985,* pp. 6–21). From 1975 to 1982, the nominal value of Canadian exports (f.o.b.) to the Soviet Union grew from $400 million (U.S.) to $1,666 million. However, the value of Canadian exports peaked in 1982 and declined to $1,164 million in 1985 (*Direction of Trade Statistics Yearbook,* 1982 and 1986).

Several important questions must be addressed when examining Canadian-Soviet trade. Are there unexploited opportunities in the Soviet market for Canadian business, and is Canadian business effectively competing for these markets? To what extent do political considerations, notably Afghanistan, affect Canadian-Soviet trade relations? What efforts are being made and what efforts should Canada be making to provide services to Soviet Foreign Trade Organizations (FTOs, the Soviet trading monopolies)? Is Canadian policy at least partly responsible for the recent decline in exports to the Soviets?

Although the Canadian trade surplus with the Soviets remains large, Canada can do better. When it comes to trading with the world's third-largest economy, Canada does not have the experience of countries like West Germany, the Soviet's largest trading partner. Perhaps the major problem in this case is a lack of information about Canadian products in the Soviet Union. Peter Dennis, the importer of Soviet-built Lada cars into Canada who also exports Canadian heavy equipment to the Russians, offers an example of this problem. A Soviet pro duction line was recently built with 90 robots from the U.S.; Canada has robotics (witness the Canadian flag on the mechanical arm of the U.S. space shuttle), but the people at the plant told Dennis that they "didn't know we made robotics" (Walker, p. 58).

The fallout from the Soviet invasion of Afghanistan dominated trade in the years following the invasion, to the benefit of Canadian farmers but to the detriment of industrial exporters. In the years immediately prior to the invasion (1975–79) annual exports to the USSR rose steadily from US$ 400 million to US$ 646 million. In the year following the invasion, however, exports more than doubled to US$ 1,303 million. This increase was achieved almost completely through grain exports (Brown, p. 32).

At first glance, the Canadian and Soviet economies appear to be more competitive rather than complementary. Both rely heavily on exports of natural resources. In 1985, only about 42% of Canada's total exports were in finished products such as industrial machinery, transportation equipment, and office equipment. There is, however, an opportunity for further mutually beneficial trade. An improved flow of information, facilitated by government action, could measurably improve the volume and value of Canadian exports to the USSR. Developing competitive skills for trading with controlled economies will also advance Canadian interests.

The purpose to this paper is to investigate whether Canada can reap greater benefits, such as increased net exports and employment, from its trade with the USSR, and how any such benefits might be realized. This paper will concentrate on the federal government, although the provincial governments are also involved in the competition for Soviet markets. The reader should keep in mind that there is a high degree of extraterritorial legal and managerial control over Canadian industry, which most likely will not be a positive factor in any Canadian government efforts to achieve greater exports to the Soviets. Canadian government and industry should be aware that there are great risks, both political and economic, involved in pursuing Soviet trade opportunities. These risks have been outlined in the related literature and are not the focus of this paper.

The Soviet Union and Its Needs

What are the opportunities for Canada in the Soviet market for Canadian goods and services? These can be deduced by comparing actual Soviet economic results with the designs of Soviet planners and observing where the essential weaknesses are. Such an analysis will show three basic types of opportunities. The first type consists of Soviet shortages. These are simply differences between actual and planned production and are shortrun needs. The other two types of opportunities pertain to facility development and national economic development (Hoyt, p. 53). Facility development concerns the modernization and improvement of existing plants, while national economic development deals with changes in the make-up of the economy's output. Both development needs are of a long term nature. Discovering the latter two types of opportunities requires an in-depth analysis of the Soviet economy. Making the most of either of these opportunities requires a close working relationship between the appropriate Soviet trade officials and Canadian business and government leaders.

Table 1 reveals the existence of a number of opportunities of all three kinds for Canadian business. In each of the Soviet industries listed in Table 1 (except machinery), the rate of growth of total productivity in 1981–82 was negative. Machinery, the industry in which Gorbachev intends to focus most of his development efforts, suffered a serious decline in the rate of growth of productivity of its capital. These productivity declines were not short-term unexpected disappointments to the Soviets but, in fact, are representative of a substantial downward trend in the productivity of Soviet industry in general.

Short-Term Soviet Needs Resulting From Shortages

Recent analysis of the Soviet economy has revealed the critical role which shortages have played in these disappointing Soviet productivity figures, the effect of which is magnified by a type of "chain reaction" throughout the economy. For instance, shortages of iron ore and scrap metal have hampered steel production, which in turn has curtailed the growth of machinery production, consequently affecting investment throughout the economy. Shortages of timber and non-metallic minerals have not only aggravated the investment problems caused by steel shortages, but have also affected other sectors as well. The mineral

Table 1
Rates of Growth of Productivity
(Labor, Capital, and Total Productivity)
of Select Soviet Industries in 1981–82

Industry	Labor	Capital	Total
1) Ferrous metals	-0.5	-5.3	-3.2
2) Non-ferrous metals	1.0	-5.5	-2.5
3) Electric power	0.8	-2.7	-2.0
4) Machinery	3.3	-4.6	0.7
5) Chemicals	2.4	-5.4	-1.6
6) Wood, pulp, and paper	1.4	-4.9	-0.8
7) Construction materials	0.1	-4.2	-1.4
8) Light industry	1.1	-5.4	-1.0
9) Food processing	2.4	-3.2	-0.3

Source: Schroeder, G.E., "The Slowdown in Soviet Industry, 1976–82," *Soviet Economy,* January–March 1985.

shortage, for example, has hampered the chemicals industry, thus curtailing production in areas such as textiles and agriculture (Schroeder, pp. 52, 56).

Canada has the resources to fill many of the shortages in the Soviet economy as will be seen in a later section. As Canada competes for opportunities in the Soviet market created by shortages, it should be impressed on the Soviets that the faster these resource gaps are filled, the more productive the Soviet economy will be as a whole. This is critical because ultimately the USSR will need hard-currency earnings to pay for Canadian goods, and the Soviet's hard-currency supply is in turn highly dependent on its productivity.

Long Term Development Needs

There are many opportunities for Canadian firms to meet Soviet facility development needs. According to the Twelfth Five Year Plan, modernization of Soviet facilities is to be achieved primarily through the renovation of old plant and equipment rather than through new construction. If such investment in facility development is to be successful, the Soviets must import some advanced technology (Hewett et al., p. 10). Some areas of facility development which are particularly likely to offer opportunities to Canadian suppliers are energy and mining. The investment required to extract one ruble's worth of raw materials has increased by four times since 1960. Furthermore, the highest quality coal and ores have already been extracted, so the Soviets will need to invest more in initial process operations in order to make use of their declining resources.

Machinery building and metal working (MBMW) are two areas where Canadian firms might be able to fill long term Soviet national economic development needs. In fact, MBMW is the primary focus of Gorbachev's plan for modernization. In 1985, a new Soviet bureau was formed to control the eleven machine building ministries. The creation of this bureau not only emphasizes the importance Gorbachev is placing on this sector, but may also offer Canada an efficient means of marketing machinery plant and equipment to the Soviets.

In June, 1985, Gorbachev called for MBMW investment to increase by a factor of 1.8 to 2.0. An increase of this magnitude is all the more noteworthy since as of 1985, MBMW investment already accounts for 24% of industrial investment and 8.6% of total investment. By his pronouncement Gorbachev has implied that investment in agriculture and energy will therefore be sacrificed to pay the higher investment bills of MBMW. Agriculture and energy are already two undependable sectors of the Soviet economy, and diverting investment away from these sectors is likely to induce further shortages. These shortages, especially in energy, will in turn have spillover effects which

Table 2
Average Capacity Utilization Rates for Selected Canadian Industries in 1985

Chemical and Chemical Products	62.3%
Durable Goods	80.3%
Machinery	65.2%
Electrical and Electronic Products	76.8%
Petroleum and Coal Products	63.5%
Wood	79.3%
Paper and Allied Products	82.9%
Rubber Products	79.3%
Plastic Products	98.5%
Primary Metal	75.3%
Fabricated Metal Products	82.1%
Food	79.9%
Total Manufacturing	78.1%

Source: Statistics Canada, "Capacity Utilization Rates in Manufacturing," Second Quarter 1986, pp. 48–52.

will affect the rest of Soviet industry (including MBMW). Gorbachev's ambitious plan may indeed require increased imports for all three of these sectors, and Canada should be positioning herself to take advantage of this. When the need to import arises, Soviet officials should know that accessible Canadian business and government leaders can be depended on to provide competitive, high quality products and services. Competitive financing, currently a Canadian shortcoming, should also be among these services.

Canada's Ability to Meet Soviet Needs

One way of determining the most profitable opportunities for Canada is by comparing weak sectors of the Soviet economy with the strengths of the relevant Canadian export industries. Nine troubled sectors of the Soviet economy were pointed out earlier in Table 1. In each of these sectors except for perhaps electricity (where overwhelming technological constraints exist), Canada has the ability to remedy Soviet shortages. Actually, depending on the cause of the Soviet electrical shortage (e.g., lack of suitable fuel), Canada may even be in a strong position to help in this industry, too. As Table 2 shows, Canada has surplus capacity in several industries related to the nine Soviet sectors noted earlier and can thereby reduce its surplus capacity problems by increasing exports to the USSR. Certainly Canadian industry has shown that it is capable of exporting to the rest of the world the types of products and services for which the Soviets may be in the market. For instance, total domestic exports of iron ores and concentrates in 1985 were approximately $1.2 billion (Canadian),and exports of fabricated ferrous metals were almost $2.4 billion. Exports of non-ferrous fabricated metals were valued at $5.9 billion. Exports of all industrial machinery totalled nearly $3.1 billion. Many other Canadian industries which could meet Soviet needs also show similarly strong export totals.

The Canadian Government Role

Now that it has been shown that the USSR has economic needs in at least nine sectors that Canadian industry is capable of providing for, what can the Canadian government do to turn this situation to the advantage of Canadian industry? There are numerous changes which Canada could initiate to make its industries more competitive not only for the Soviet market but for other worldwide markets as well. However, general suggestions of this nature are beyond the scope of this study. What follows in this section is an examination of various public agencies which affect Canadian-Soviet trade. Government support in Canada for exports to developed countries is assigned to three agencies: the Canadian Commercial Corporation (CCC), the Export Development Corporation (EDC), and the Department of External Affairs (DEA).

The principal function of the CCC, a government-owned Crown Corporation, is to develop contracts with governments and non-government organizations, such as the United Nations (*1986 Export Canada,* p. 94). There are considerable advantages of CCC involvement for importers of Canadian goods which should be made known to the Soviets. These advantages include CCC assurance of the technical and financial capabilities of suppliers; the convenience of a single point-of-contact agency for multiple-item purchases; the ease of dealing on a government-to-government basis; and the confidence of knowing that they will enjoy the same level of purchasing services employed by the Government of Canada when it purchases for its own account.

The goal of the Export Development Corporation, also a Crown Corporation, is to promote Canadian exports by providing insurance, guarantee, and loan facilities (*1986 Export Canada,* p. 105). The most important feature of EDC activities with respect to the Soviet Union is its financing of Soviet purchases of Canadian goods. In order to qualify for EDC financing, the exporter must show that the Canadian content of the exports meets "the achievable level." This required level of Canadian content varies from product to product so the EDC provides advice to exporters to help them meet minimum Canadian content requirements.

Since 1976, all EDC financing of Soviet purchases has been directed towards industrial exports. Given this focus on industrial exports, the EDC should be considered an important ingredient in any marketing strategy for further increasing industrial exports to the USSR. Prior to the 1979 invasion of Afghanistan,the USSR had a $500 million line-of-credit from the EDC, which was terminated by the government soon thereafter and not reinstated until 1985. Industrial exporting objectives obviously "bit the bullet" in this choice between economic gain and international political goals, as further evidenced by the complete absence of EDC financing activity with the USSR in 1981, 1982, and 1985.

The Department of External Affairs was created in 1982 as a result of the reorganization of the now-defunct Department of Industry, Trade, and Commerce. The DEA is responsible for finding international markets for Canadian manufactured goods, resource products, and services (*1986 Export Canada,* p. 94). In recent years the Trade Committee of the DEA has discussed the importance of East-West trade issues and has conducted high-level reviews of bilateral trade relations and trade consultations with the Soviets (DEA *Annual Report,* pp. 8, 30). The DEA Agriculture, Fish, and Food Products Bureau has also sponsored a mission to the USSR to increase sales of herring and frozen groundfish (DEA *Annual Report,* p. 10). In May 1984, a new fisheries treaty was signed with the USSR, which strengthened Canada's management of the 200-mile economic zone and for the first time included a Soviet commitment to purchase Canadian processed fish (DEA *Annual Report,* p. 30).

Putting the sanctions of the early Afghanistan invasion years in the past, Canada is currently seeking more industrial exports to the USSR. In February 1986, commenting on an $8 million sale of Canadian pumps for a Soviet coal slurry pipeline, DEA Minister James F. Kelleher stated, "This export to the USSR supports the government's strategy of expanding Canadian marketing and sales efforts in sectors such as energy while maintaining our grains market" (DEA Press Release, February 27, 1986).

Public Policy Options

Canada's government agencies are well structured to further develop Soviet markets. This section will discuss some of the ways in which Canada might, without any major organizational changes, expand sales of Canadian products and services to each of the nine USSR sectors noted previously.

Trade officials of the DEA and the CCC who are responsible for developing Canadian-Soviet trade might become more effective by developing closer working relationships with the Canadian-East European Trade Council. Many of the Trade Council's member firms (53, not including industry organizations such as the Canadian Export Association) are interested in the Soviet Market. The Department of External Affairs' USSR and Eastern European Trade Development Division (hereafter the DEA-USSR) might maintain a file of Canadian firms interested in doing business with the USSR. Each of these firms could provide the DEA-USSR with detailed descriptions of the products or services which they seek to export to the Soviets. On the opposite side of the coin, DEA-USSR officials could develop closer business relations with officials of the appropriate Soviet Foreign Trade Organizations (FTOs), with Soviet managers who will be seeking imports through the FTOs, and with the managers' representatives in the Ministry of Foreign Trade (e.g., senior officials of the Import Administration for Industrial Raw Materials, Food, and Finished Goods).

Because the Soviet system restricts the individual's choice of occupation, one can expect to be dealing with the same person in the same office much more than in the West. Therefore, it is important to cultivate an "old-boy" network in the FTOs and in the ministries behind them which are responsible for buying the products which Canada wants to sell to the Soviets. In this way the DEA or CCC will be well positioned to act both as a promoter and as a "listening post" for Canadian exporters.

It also might prove useful for DEA-USSR officials to maintain closer relations with Soviet companies in Canada. According to the *East-West Business Directory,* there are five such companies in Canada whose controlling shareholders are Soviet FTOs. Among other activities, these five companies and/or their parent FTOs are involved in importing the following items: ships; industrial licenses; technological know-how; plywood; hardboard; pulp; sulpher; aircraft engines and parts; welding machinery; metal-cutting machine tools; woodworking machine tools; complete plants and individual equipment for chemical and petrochemical industries; and road-building machinery. One of the advantages of working closely with the FTOs is that the DEA-USSR will be more knowledgeable regarding the better Soviet products and companies. The DEA-USSR will then be better situated to arrange more beneficial "countertrade" deals, a form of barter which is a favorite Soviet trading method. Another advantage of a close working relationship with Soviet companies in Canada is that Soviet companies abroad report on technical and commercial developments in the West and can strongly influence the purchasing decisions of the FTOs, sometimes acting as purchasing agents for parent FTOs (*East-West Business Directory,* pp. 1–02, 1–03). Therefore, an effective export strategy might be for the DEA-USSR to encourage Canadian companies interested in the Soviet market to ensure that the relevant Soviet-owned companies regularly receive accurate product information.

The DEA-USSR might also consider educating interested Canadian companies on the advantages of participating in joint companies with the Soviets. One potential benefit of forming a joint company in the USSR is increased Soviet purchases of the Canadian firm's products, a benefit which derives from the Canadian firm's contribution to increasing Soviet hard-currency sales in Western markets. Participation in a joint company may also offer the Canadian firm preferential access to Soviet products, leverage over Soviet suppliers, and increased control over quality and product delivery schedules with respect to countertrade deals (*East-West Business Directory,* p. 1–04).

The DEA-USSR could also undertake to educate Canadian trading houses seeking to export to the USSR. Traders will need to be able to deal with the Soviet government. This ability requires knowledge of the laws, and the formal and informal procedures for importing and exporting; understanding of Soviet priorities in trade; and good relationships with government officials (Kelly & Lecraw, p. 38). Effective trading houses can be quite useful in expanding exports to the Soviets because they can provide advisory services, insurance services, and economies of scale to both the buyer and seller. Some experts feel that the skill of Canadian trading houses in dealing with demands for countertrade will be increasingly crucial in the years ahead (Kelly & Lecraw, p. 39). The DEA-USSR should therefore do its best to equip Canada's trading houses with the necessary tools for dealing with the USSR.

Perhaps the strongest marketing effort Canada can make in the Soviet market is one which will promote those Canadian products and services which will in turn enhance Soviet exports. The Soviets have made it clear that they are reluctant to significantly increase their debt to the West. In fact, in 1977 the Soviets chose to curtail imports rather than increase their debt to the West, despite Western willingness to extend further credits (Schroeder, p. 65).This means that there are only two ways that Canada can increase its exports to the Soviets. One way is to promote the substitution of Canadian products for products currently exported to the USSR by other countries. This would require that Canadian industry offer products and services of quality comparable to those of other international competitors with more competitive pricing and financing. Although recent exchange rate movements increase the price competitiveness of Canadian exports vis-a-vis those of most other OECD countries, it would not be wise to depend on favorable foreign exchange markets as the foundation of an export policy. Exchange rate markets are quite volatile and are subject to political and economic considerations far greater in scope than a trade promotion effort aimed at one country. With regard to price competitiveness, Canadian industry is disadvantaged by its tax system. Although the Japanese, for example, are able to remove the value-added tax component from the price of their exports, the tax component of a Canadian export cannot be taken out. The price competitiveness of Canadian products, therefore, is a significant consideration but it is not specific to the Canadian-Soviet question. All in all, it would be very difficult for the government to undertake an effort to increase exports to the USSR by focusing on improving price competitiveness.

Similarly, more competitive financing, while desirable, is not the most feasible approach to increasing exports to the USSR under Canada's current export financing system. The export financing of Canada's exporters and bankers has long lacked the aggressiveness of her major European and Japanese competitors (Emery, p. 99). This is particularly true with respect to short-term export financing and government-supported export financing. Not only does Canada's short-term export financing currently not match the terms of its competitors, but it is not likely to soon (Conference Board, p. 85). Canadian bankers have not developed the range of short-term export financing services that European and Japanese bankers have, possibly due to the fact that almost 70% of Canada's exports go to the U.S. (Conference Board, pp. 89–91). Some exporters have said that subsidized interest rates from banks would be beneficial, but this policy would be discriminatory and costly and is not expected to develop (Conference Board, p. 85).

The situation in long-term, commercial export financing in Canada is more promising. According to R. G. Styles, Executive Vice President of World Trade and Merchant Banking at the Royal Bank of Canada, Canada's long-term export financing rates and terms "are every bit as competitive as those. . . our trade competitors have acquired through their commercial banking systems" (Conference Board, p. 86). However,government-supported financing does not match the terms of other countries' arrangements (Conference Board, p. 102). Budget constraints at the EDC have limited the availability of public funds to alleviate this problem. Furthermore, according to Sylvain Cloutier, Chairman of the Board and President of the EDC, "It is not possible in any significant degree over the long term to buy exports with cheap export financing. Such tactics are quickly matched by competitors" (Conference Board, p. 95).

If an effort to convince the Soviets to purchase more Canadian goods is going to be successful, the Soviets must be convinced that their purchases of Canadian goods will result in a reciprocal increase in the USSR's own exports. There are two simple means by which the Soviets may be assured of their ability to pay for Canadian purchases: by barter and by counterpurchase transactions. In a simple counterpurchase transaction, a Soviet company would, using Western credit, buy Canadian plant and equipment. The Canadian company would agree to purchase Soviet goods, the income from which would be used to retire the Soviet debt. Barter and counterpurchase arrangements can be altered by involving third parties to handle the acceptance and resale of the Soviet goods. Engaging a trading firm to fill this third-party role can accomplish significant economies of scale, making such a transaction worthwhile to a Canadian firm that does not have an in-house international trading group. Of course, the Soviet exports generated by Canadian sales to the USSR need not be marketed in Canada. Instead, the Soviet goods which the Canadian firm agrees to purchase can be chosen for either re-export or for direct delivery to a trading house of a third country. Effective trading of this nature would not only increase Canadian exports, but it would also satisfy the USSR by finding export markets for Soviet products and by protecting the Soviets from further indebtedness.

There are certainly problems related to the above two trading methods. One of the most significant problems is that aside from natural resources, the Soviets have little to offer Western markets, a fact evidenced by the less-than-four percent share of manufactured goods in the USSR's hard-currency earnings ("Venturing Jointly into the Russian Unknown," p. 67). However, inexpensive, lower-technology Soviet products may be suitable for re-export to Third World countries whose limited import budgets do not allow for the purchase of more advanced and expensive Canadian products.

In addition to barter and counterpurchase agreements, there is a third method which can help to eliminate the problem of choosing which Soviet goods to agree to purchase. This method is the compensation agreement. A compensation agreement is similar to a counterpurchase agreement, with the difference that the products which the Canadian firm agrees to buy are generated by the sale of Canadian capital equipment. For instance, a Canadian manufacturer of metalworking machinery would export machinery to the Soviets, with credit arranged by the EDC or a Canadian bank. The Canadian firm would then purchase Soviet metal products manufactured with the Canadian machinery. This trading method possesses all the benefits of both barter and counterpurchase transactions. In addition, it develops new or improved Soviet products which should be easier to resell (or re-export). The main problem currently with this trading method is the quality control of the Soviet-produced product. Hopefully, Gorbachev's planned reforms will eliminate this problem by allowing more Western involvement in Soviet-Western economic cooperation agreements.

Canada has clearly been ambitious in its pursuit of the short-term market for Soviet food needs. The USSR is the largest importer of Canadian grain. In May 1984 the DEA negotiated an agreement which resulted in the first Soviet commitment to purchase Canadian processed fish products. The DEA's Agriculture, Food, and Fish Products Bureau promotes Canadian food producers' interests in the Soviet market. The DEA's Program for Export Market Development also assists in the development of export markets for Canadian food products. Assistance provided by this program may cover capital or operating costs for special production, handling, storage, or technical promotion facilities. Long term market development plans and projects including generic promotion, establishment of overseas representation, as well as technical training of individuals from customer countries, may also be eligible for government support under this program. Canada should certainly continue its successful efforts to market food to the Soviets. However, Canada's lack of competitive short-term financing may still serve to limit her ability to satisfy short-term needs created by shortages in the Soviet system in those markets, like grain, in which the USSR is offered little choice among suppliers.

Conclusions

Returning to the opening questions of this paper, it is now possible to draw some definitive conclusions. There are substantial unexploited opportunities for Canada in the Soviet market. In the short-term markets, however, Canadian exporters are hampered by the relative weakness of both EDC and private short-term export financing institutions. Canada does compete effectively in the short-term markets for food, and government policies and programs have supported this effort. Matching Canadian resources to Soviet needs, one may conclude that the most accessible opportunities in the Soviet market for Canada are in the capital goods market. Counterpurchase agreements and, to an even greater extent, compensation agreements are particularly well-suited to the export of capital goods. The nature of these agreements requires medium to long-term financing, an area where Canadian private banking is internationally competitive. As pointed out earlier in the paper, Canada has the capacity to export capital goods and the productivity of Soviet capital is not what the Soviets wish it to be. Imports will, to a still uncertain degree, be necessary to remedy this Soviet problem.

In the longer term markets for industrial goods and capital equipment, Canada has shown some successes but there is still room for improvement. One area in which the Canadian government may be able to improve the Canadian-Soviet export effort is that of the effective collection and transmission of information about products from Canadian producers to Soviet consumers at every level, from the Soviet companies in Canada to senior Ministry of Trade officials in Moscow. Other areas include encouraging among trade officials and private individuals with trading interests the development of the skills and knowledge necessary to negotiate mutually profitable transactions with officials of command economies.

This paper has not discussed the means which Canada employs to provide information to Soviet FTOs. The DEA's agreement with the Soviets concerning Soviet purchases of processed fish may be taken as one example of the government's ability to market effectively to a Soviet FTO. Industrial markets, however, require more complicated information flows. Canada must work to carry over the success which she has enjoyed in the short-term agricultural markets into the longer term industrial markets. The only recent Canadian policy which seems to have hindered Canada's industrial exporters in the area of Soviet trade has been the official reaction to the invasion of Afghanistan; but Canadian-Soviet trade is definitely subject to political considerations. The termination of the Soviets' credit line and the drastic decline in EDC-supported industrial exports to the Soviet Union clearly illustrate this fact. Although roughly doubling her grain sales to the USSR after the invasion, Canada has withheld support for industrial exports. There is no way of knowing how damaging this action has been to industrial exporters to the Soviet Union. A more useful response might have been to hold grain sales to their then-current or legal minimum level while quietly maintaining the status quo in support of industrial exports.

In general, though, Canada has so far shown an ability to market her goods successfully in the USSR. It is to be hoped that such successes will continue to multiply in the future, especially in the relatively unexploited Soviet market for capital goods.

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