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ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS FOR CANADA, 1926-1929

According to the Estimated Balance of International Payments statement compiled by the Dominion Bureau of Statistics, the year 1929 appears to have shown a reversal of the net outward capital movement which has been characteristic of Canadian international transactions for the last few years. In this statement an effort has been made to bring together all the debit and credit items of the nation's business for the years 1926 to 1929.

Canada's international buying and selling of commodities and services amounted to nearly $4 billions in 1929 as compared with $2½ billions for the foreign trade in commodities alone, which means that the so-called "invisible items" of our international business accounted for nearly 40% of the aggregate for all items.

Comparing the items which are included in this estimate the largest is, of course, the commodity trade which in the calendar year 1929 showed a debit or "unfavorable" balance of $83 millions. Among so-called "invisible" items debit balances included freight payments $38 millions, interest payments $216 millions, non-commercial remittances $9 millions and motion picture royalties $4 millions. Shipments of gold and subsidiary coin showed a credit balance of $47 millions, tourist's expenditures $188 millions, insurance transactions $23 millions, advertising $4 millions, capital of immigrants and emigrants $1 million and electrical energy $4 millions. When all debits and credits are totalled a debit item of $88 millions is necessary to balance the account. This item will be partly accounted for by the errors and omissions which are inevitable in all such calculations. It is believed, however, that some portion of the amount is due to net importation of capital into Canada during 1929.

ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS, 1926-1929

(000's omitted)

	1926		1927		1928		1929	
	Exports Visible & Invisible	Imports Visible & Invisible	Exports Visible & Invisible	Imports Visible & Invisible	Exports Visible & Invisible	Imports Visible & Invisible	Exports Visible & Invisible	Imports Visible & Invisible
1. Commodity Trade - Recorded merchandise exports and imports	1,283,939	1,008,342	1,238,782	1,087,118	1,374,246	1,222,318	1,208,338	1,298,993
Deductions for Settlers' effects shown elsewhere and miscellaneous items	11,864	16,873	10,513	14,998	10,510	17,220	11,385	18,630
Total	1,272,075	991,469	1,228,269	1,072,120	1,363,736	1,205,098	1,196,953	1,280,363
Exports and imports of gold coin and bullion and subsidiary coin	79,563	47,126	49,359	44,220	107,613	40,178	51,112	3,746
Unrecorded imports of ships	-	1,000	-	269	-	4,000	-	4,000
2. Freight payments and receipts (not elsewhere provided for)	91,461	111,941	100,979	120,960	99,469	124,774	95,847	134,026
3. Tourists' expenditures	195,918	88,961	230,223	101,296	266,693	100,646	299,188	111,301
4. Interest payments and receipts	66,396	280,419	70,389	286,545	81,847	299,109	90,929	307,017
5. Non-Commercial Remittances	15,550	20,509	15,433	22,423	14,421	23,195	15,000	24,000
6. Expenditures of governments	11,948	10,863	11,850	11,751	11,819	11,030	11,750	11,300
7. Charitable and Missionary Contributions	814	1,878	873	1,766	900	1,800	900	1,800
8. Insurance transactions	15,342	22,198	25,234	24,716	43,963	21,302	45,000x	22,000x
9. Advertising	3,143	-	4,482	-	3,858	-	4,000	-
10. Motion picture royalties	-	3,500	-	3,500	-	3,750	-	3,750
11. Capital of immigrants & emigrants	9,636	13,396	10,132	11,521	11,250	10,219	11,250	10,493
12. Export and import of electrical energy	4,600x	89	4,798	87	4,000x	90	4,075	97
13. Difference between all exports and imports (representing (a) Canadian capital invested abroad in 1926, 1927, 1928 and outside capital invested in Canada in 1929, (b) errors and omissions)		173,097		50,847		164,378	87,889	
Total	1,766,446	1,766,446	1,752,021	1,752,021	2,009,569	2,009,569	1,913,893	1,913,893

x Approximate

DESCRIPTION OF METHOD OF CALCULATING FREIGHT PAYMENTS AND RECEIPTS FOR THE BALANCE OF INTERNATIONAL PAYMENTS

It is the intention of the Bureau, as time permits, to carry out improvements in methods of estimating the various items which enter into the balance of international payments statement. During the last year a careful study of freight payments and receipts led to considerable improvements in the method previously used. As a result new estimates were made back to 1926 and utilized in the present bulletin. A description of the method now in use follows:

Where a country values its imports on a C.I.F. basis the problem of estimating freight payments to outside nations for their shipping and railway services does not arise, since such expenses are included in the customs valuations. Canada, however, values its imports at their fair market value in the country whence exported at the place of direct shipment to Canada, hence freight charges are not included in the Canadian customs valuations and must be estimated as one of the "invisible" items of international transactions.

As to exports, Canada does not value these f.o.b. boundary but at the point of original shipment. Hence freight from the latter to the boundary must be estimated.

In general the above statements may be predicated of our imports and exports; but there are certain exceptions which must be noted before attempting an estimate of freight payments or receipts not already accounted for by inclusion in custom valuations. Some Canadian export commodities are sold f.o.b. destination and the customs valuation includes freight to the point of destination. This is true of such an important group as grain products. In this case some allowance should be made for freight credited to Canada in the customs valuations but eventually paid to transportation agencies in other countries.

Caution must also be exercised in applying the term "point of original shipment". For example, grain shipped from Port Arthur and Fort William via Buffalo has Fort William or Port Arthur as the point of original shipment; but in the case of grain shipped from Fort William and Port Arthur to Montreal and afterwards exported, Montreal becomes the point of original shipment for customs purposes, the freight from head-of-lakes to Montreal being included in the values shown in the customs invoice. In the first case grain carried from Fort William and Port Arthur in Canadian ships to Buffalo earns inland freight which is not included in customs figures, and in the second case the inland freight to Montreal is included in the customs figures.

With the above principles for guidance the following methods were adopted to estimate freight receipts and payments not accounted for in customs valuations:

A. Rail Freight Payments.- Tons of freight imported by rail are compiled by the Bureau. As these include only revenue freight some addition must be made for payments made abroad for transportation of commodities such as coal and steel rails used by Canadian railways themselves. The method adopted was to use import figures instead of revenue freight figures for coal and steel rails. Import quantities were multiplied by actual rail rates in force on the main coal-carrying railways between the principal United States coal fields and the Canadian boundary. For all other groups of commodities an estimate was made of the miles each class of freight would travel before reaching the Canadian boundary. Tons of freight received from foreign points were multiplied by the relevant item in the table of distances in order to arrive at ton miles, and the latter were multiplied by a yearly average rate per ton mile for that class in order to arrive at freight payments.

B. Rail and Inland Water Freight Receipts.- Traffic Reports compiled by the Bureau include figures showing (a) freight originating in Canada and delivered to foreign connections (rail and water) and (b) freight received from foreign connections destined for foreign points. The latter covers transit traffic which is a very important item in freight receipts. This transit traffic is heaviest on the lines running across south-western Ontario between Detroit and Buffalo and on the Canadian section of the line running between Chicago, Montreal and the New England States.

For all tonnage exported (including transit traffic) as shown in the traffic reports, with the exception of grain and grain products which are dealt with specially, an estimate has been made of the average number of miles each class of freight is carried to the border. Tons exported are converted into ton miles for each year and multiplied by the average yearly rate per ton mile in order to arrive atthe value of freight receipts.

For all groups except grain and grain products it is assumed that there are no difficulties with regard to point of original shipment or in regard to customs valuations (which would not be true if any invoices were f.o.b. point of destination). In the case of grain and grain products, since such difficulties do exist, special calculations were necessary.

Canadian shipping and railroad companies earn large sums annually for the carriage of export grain but far the graater portion of these earnings are included in customs valuations. It is only necessary, therefore, to take account of the "invisible" portion so far as a balance of international payments statement is concerned. The following is a list of customs ports of exit showing the geographical location of the point of original shipment for grains so far as customs valuations are concerned.

Customs Port of Exit	Point of Original Shipment
Montreal	Montreal
Quebec	Quebec
St.John, N.B.	St.John, N.B.
Halifax, N.S.	Halifax, N.S.
Vancouver, B.C.	Vancouver, B.C.
Prince Rupert, B.C.	Prince Rupert, B.C.
Coaticook, Que.)	
St.John, Que.)	Mostly Fort William and Port Arthur
Sherbrooke, Que.)	
Welland)	
Niagara Falls)	
Bridgeburg)	Georgian Bay ports
Prescott)	
Cornwall)	

"Invisible" items in inland freight are as follows: Working on the basis of the foregoing table and including also certain shipments in bond and transhipments from Buffalo, the "invisible" items in inland freight payments and receipts for grain are as follows:

Freight Earned by Canadian Carriers

I. United Stated grain in bond from Port Colborne to Montreal. Quantities obtained from Grain Trade Report. Rates from Transportation Branch, D.B.S.

2. United States grain in bond from Georgian Bay ports by rail to Montreal, American Seaboard, Canadian Seaboard, etc. Quantities from Grain Trade Report. Rates from Transportation Branch, D.B.S.

3. .Canadian grain Georgian Bay ports by rail to border points. Quantities from Grain Trade Report, Rates from Transportation Branch, D.B.S.

4. Canadian grain carried in Canadian ships from Fort William and Port Arthur to Buffalo. Quantities and rates from Transportation Branch, D.B.S.

5, Canadian grain from Fort William and Port Arthur by rail to Coaticook, etc. Quantities from Grain Trade Report, Rates from Transportation Branch, D.B.S.

6. United States grain in transit. Traffic Reports and Transportation Branch, D.B.S.

Payments to United States

1. Grain shipped from Fort William and Port Arthur to Canadian ports in U.S. vessels. Grain Trade Report.

2. Transhipments of Canadian grain from Buffalo to Montreal in U.S. vessels. Transportation Branch.

C. Ocean Freight Payments and Receipts.- Tons of exports and imports loaded and unloaded at Canadian ocean ports are obtained from the annual reports on shipping issued by the Department of National Revenue for Canadian, British and foreign ships. It is very difficult to get a reliable figure for average ocean freight rates. That used in these calculations was obtained by circularizing a number of shipping companies doing Canadian business and securing data as to tonnage shipped and total freight received. In this way an average rate of $7.50 per ton was arrived at for the

year 1929. The Economist's index of ocean freight rates was used to correct this figure for earlier years.

An addition to the payments made by Canada is necessary for imports from overseas via United States ports. The estimated tonnage in this category was multiplied by the same figure as for other ocean freights.

D. Port and Other Expenses of Shipping.- These expenses must be deducted from the freight paid to British and foreign vessels as an "invisible" item of purchases of Canadian goods and services from abroad and from receipts by Canadian vessels in foreign ports as an "invisible" item of purchases of foreign goods and services by Canadians. They are extremely difficult to estimate. Usually a flat proportion of the gross earnings is deducted to cover them, one-fifth being commonly used. A detailed study was made for the Bureau by Professor Taylor for the year 1925. Statistics of the principal ports were examined, the actual harbour and pilotage dues paid in each port being estimated for all non-Canadian shipping. Loading and unloading expense was taken at twenty-five cents a ton cargo; brokerage and commission at five cents a ton net register; supplies purchased at ten cents a ton net register; and expenditures by crews at one dollar a head. The final result proved to be 35% of the estimated freight earnings for Canadian cargo of British and foreign ships in 1925. One-third of the earnings of these ships and of Canadian ships in foreign ports has been deducted in our calculation of freight receipts and payments.

TABLE OF FREIGHT RECEIPTS AND PAYMENTS

1926 - 1929
(000's Omitted)

RECEIPTS

	Inland Freight Payments to Canada including Transit Traffic	Earned by Canadian Ships	Total
	$	$	$
1926	82,409	9,052	91,461
1927	91,183	9,796	100,979
1928	90,139	9,330	99,469
1929	86,297	9,550	95,847

PAYMENTS

	To U.S. Railroads	Paid to British & Foreign Ships	On Acct. of ocean Imports via U.S.	Total
	$	$	$	$
1926	85,251	25,415	1,275	111,941
1927	90,292	29,191	1,477	120,960
1928	94,874	28,400	1,500	124,774
1929	104,476	28,050	1,500	134,026