

clusion deliberately to prepare the ground for an arrangement with the United States involving closer economic ties.

The option spans a considerable range of possibilities. At the lower end of the scale, it might involve no more than the pursuit of sectoral or other limited arrangements with the United States based on an assessment of mutual interest. In effect, this would represent an extension of past practices except to the extent that such arrangements would be pursued more as a matter of deliberate policy. We might seek, for example, to adapt to other industries the approach reflected in the Automotive Products Agreement. The chemical industry is one such industry that could lend itself to rationalization on a North-South basis. The aerospace industry might well be another. We might also endeavour to negotiate a continental arrangement with the United States covering energy resources. Under such an arrangement, U.S. access to Canadian energy supplies might be traded in exchange for unimpeded access to the U.S. market for Canadian uranium, petroleum and petrochemical products (to be produced by a much expanded and developed industry within Canada).

This more limited form of integration has a certain logic to it and, indeed, warrants careful examination. It may be expected, however, to generate pressures for more and more continental arrangements of this kind that would be increasingly difficult to resist. Experience with the Automotive Products Agreement suggests that, in any such sectoral arrangements, there may be difficulty in maintaining an equal voice with the United States over time. Nor could we be sure that the concept of formal symmetry, on which the United States has lately insisted, is one that can easily be built into a sectoral arrangement without impairing the interests of the economically weaker partner. In the energy field, by dealing continentally with the United States, we would almost certainly limit our capacity to come to an arrangement with other potential purchasers, in Europe or Japan, quite apart from possibly impinging upon future Canadian needs. In sum, we might well be driven to the conclusion that partial or sectoral arrangements are less likely to afford us the protection we seek than a more comprehensive regime of free trade.

A free-trade area or a customs union arrangement with the United States would, to all intents and purposes, be irreversible for Canada once embarked upon. It

would, theoretically, protect us against future changes in U.S. trade policy towards the rest of the world, though not against changes in U.S. domestic economic policy. This option has been rejected in the past because it was judged to be inconsistent with Canada's desire to preserve a maximum degree of independence, not because it lacked economic sense in terms of Canadian living standards and the stability of the Canadian economy.

### Risks involved

A free-trade area permits greater freedom than a customs or economic union, which calls for a unified external tariff and considerable harmonization of fiscal and other domestic economic policies. It might enable us, for example, to continue to protect our energy resources by limiting exports to the surpluses available after meeting present and prospective Canadian requirements and to ensure against harmful pricing practices. It would not debar us from continuing to bargain with third countries for improved access to their markets or from protecting ourselves against low-cost imports. Yet it must be accepted that the integration of the Canadian and U.S. economies would proceed apace and we should be bound to be more affected than ever by decisions taken in Washington with only limited and indirect means of influencing them.

Internationally, there is a real risk that the conclusion of a free-trade arrangement between Canada and the United States would be taken as setting the seal upon the polarization of world trade. To the extent that it was, our room for bargaining with third countries would inevitably be reduced and our economic fortunes become more closely linked with those of the United States.

The experience of free-trade areas (such as the European Free Trade Association) suggests, in any case, that they tend to evolve toward more organic arrangements and the harmonization of internal economic policies. More specifically, they tend towards a full customs and economic union as a matter of internal logic. A Canada-U.S. free-trade area would be almost certain to do likewise. Indeed, such a course could be argued to be in the Canadian interest because, to compete, we would probably require some harmonization of social and economic costs.

If a free-trade area or customs union is a well nigh irreversible option for Canada, this cannot necessarily be assumed to be the case for the United States. A situation