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Diplomatic contact, if not formal diplomatic relations, has been established between Washington and Peking. Regrettably, there has not been a similar improvement in relations between Moscow and Peking, even though diplomatic relations are formally correct. The United States has withdrawn its combat units from Viet-Nam and is actively pursuing peace in the Middle East, with at least the tacit approval of the Soviet Union. Many aspects of traditional defence relations are in the process of re-examination in the context of the changing international strategic environment.

The second relates to the new functional influences on the international system. These go beyond the traditional concerns over economic or military power we have been accustomed to.

These new influences involve such comparatively new considerations as the recognition of the finiteness of world resources -- and, consequently, new attitudes on the terms on which these resources will be made available to meet global demand; dangers to the world environment; managing new technology; the power of modern communications; and needs of less-developed countries. These factors are major modifiers of the current international scene. Their impact on the international political situation, including on existing political alignments, is only beginning to be felt.

The so-called energy crisis alone is a dramatic illustration. It has touched off a spate of attempts at bilateral supply arrangements, which are having their effects on relations between the United States and many of its allies. It has led to attempts, under the sponsorship of the United States, to approach the problem as a global one. Canada supported this conception and was instrumental in moving the initial discussions to wider forums, which will include not only LDCs, but producing countries as well. The energy crisis has forced us to re-examine our own position and to take measures to ensure Canadian security of supply. This in turn has required us to enter upon intensive and continuous consultations with the United States on oil exports.

The third heading under which I want to describe changes in the "international system" is international trade and payments. On this, the effect of the energy crisis has been convulsive.

Well before the curtailment of the international supply of crude oil, it was abundantly clear that the pattern of international economic relations had been dramatically altered. Japan had emerged as a major economic force. The European Community had expanded and strengthened to the point of rivalling the United States in global economic terms. Since the introduction by the United States of the New Economic Policy in August 1971, the postwar