

As Western relations evolve, it is natural for Canadians to worry over the possibility that tension may develop between Europe and the United States. There is an interaction among relations between the United States and Europe, our own relations with the United States, and our relations with Europe. The Government's review of foreign policy sought to demonstrate that a policy that attempts to diversify Canada's relations, inevitably draws Canada closer to Europe. Equally -- as the monetary and trade crisis of last year made us aware -- a breakdown in the mechanisms governing relations between the United States and Europe can result in the isolation of Canada in North America.

From the economic point of view the new Europe raises equally far-reaching considerations. By 1980 the imports of the enlarged EEC from the outside world could soar to 130 billion dollars. Canada -- the world's fourth exporter after the EEC, the United States and Japan -- must take the Common Market very seriously. The ten countries already form what is by far the world's largest trading unit; they imported over seventy billion dollars' worth of goods from the outside world last year. Of these seventy billion dollars' worth over two billion seven hundred thousand dollars' worth of goods came from Canada. This represented 17% of our total exports and about half of our exports outside North America, making the EEC our second largest trading partner by a considerable margin.

Yet we can do much better. We shall have to do much better. Since 1958, Canadian exports to the EEC have increased greatly. They have not, however, kept pace with the increase in total EEC imports from the outside world. Our share of those markets has declined. Just as important, our exports to the EEC have not followed the trend in EEC imports toward manufactures and processed goods and away from primary materials and commodities. It is here, particularly in sectors of intensive technology, that we shall have to improve greatly.

It has not been easy to assess the fault for our difficulties in this category of exports to the EEC. Access has been a problem for a number of products, including some of interest to Canada. But this problem should not be exaggerated. By and large, the common tariff of the European Community is low. In spite of protective policies in the agricultural sector, the Community remains a large agricultural importer. Other world traders have done very well in this EEC market. Certainly the Americans have with their export of sophisticated manufactures to the EEC, although they have been helped by their massive investment in Western Europe. Much of the difficulty probably lies with our industrial structures and trading habits themselves. We can't sell too well what we don't make, obviously. For this reason,