

trade agreement. The Canadian government pretended that no such proposal had been made. Later I learned that the British government was disappointed that nothing happened because at that time they were being thwarted by General de Gaulle of France in their effort to get into the European Community.

As a statistical fact, Canada was more dependent on trade with the United States at the end of the Diefenbaker regime than it had been at the beginning.

When the Pearson government took office in 1963, one of the early developments was the negotiation of the automotive agreement with the United States. Curiously, the idea came from the American side, who put it forward as an alternative to a proposal by Canada to promote exports of automobiles and automobile parts to the United States by duty withdrawal. The Americans said that this would look like subsidization of exports and would incur countervail; instead, why not have free trade between manufacturers? And so it came about, with excellent results for our export trade and for the companies concerned, particularly those located in Canada, all of whom were American owned. It wasn't real free trade, of course, since consumers still had to pay duty on imports of automobiles from the United States. But it achieved its purpose.

The autopact worked so well that in the late 1970's and early 1980's efforts were made to find other industries that offered the same possibilities of a sectoral approach to free trade; but the search was in vain. It proved impossible to find any other industry with the special characteristics of the automotive industry, like complete American ownership.

Until the 1970's, there was a so-called "special relationship," never well defined, between Canada and the United States in economic affairs. It was founded on the principle that our economies were so intertwined that the United States could not improve its balance of payments at the expense of Canada. Any attempt to do so would have an adverse reaction on United States exports to Canada and on the financial return on American investments in Canada. I used this argument on several occasions to persuade the American authorities to modify the application of United States policies so as to exempt Canada.

In 1971, the U.S. Secretary of the Treasury, despite our protest, decided to treat Canada like other countries by imposing a tax on imports from Canada for balance of payments reasons. The special relationship came to an end. The Trudeau government undertook a fundamental review of our policy towards the United States, from which emerged a document signed by me as Secretary of State for External Affairs which became known as the Third Option paper. It rejected a continuation of the pragmatic policies then being followed; it rejected a free trade agreement with the United States; (there were no supporters for this option from any of the ministers or their deputies) and recommended as a Third Option that "Canada can pursue a comprehensive, long-term strategy to develop and strengthen the Canadian economy and other aspects of its national life and in the process to reduce the present Canadian vulnerability."

Since I signed the paper, I may not be an impartial judge of its effect, but for what it's worth this is my assessment. The publication of the paper did have the effect of confirming support for cultural institutions like the CBC and the Canada Council on the Arts, which helped to define Canadian identity. It led to an effort to diversify trade, particularly to do more business with Europe, and to the establishment of formal relations