

113. In May, 1950 the question of Canadian association with ERP on a close basis reappeared in unexpected fashion. During discussions among France, the United Kingdom and the United States in London on economic problems the French placed on the agenda the question of "development of long-term economic relations between North America and Europe". The French explained that they had originally thought of suggesting setting up an agency under Article 2 of the North Atlantic Treaty but had decided against it because West Germany and several European countries of importance were not in NATO, and there was also doubt about the advisability of creating another functional agency. Hence the suggestion that the United States and Canada should agree to some type of association with OEEC so that its agencies might be used "for the continuing study of relations between dollar and non-dollar economies." On May 15, Mr. Robertson, who was in London at the time, reported on this development and asked for guidance.

114. The Department felt that a decision could not be made quickly on such a political matter, unless it could be shown that the new relationship "flowed clearly from the provisions of the North Atlantic Treaty" which was, obviously, not the case. If a four-power declaration were to be made, as Mr. Jessup of the United States contemplated, it would have the objection that "the only country apparently affected by the change and the only country taking on new responsibilities would be Canada". It suggested that Mr. Pearson who was in London for a NATO meeting might report to Cabinet on his return. On the following day, May 16, Mr. Pearson cabled the Prime Minister that an early decision was necessary because the Foreign Ministers wished to announce the proposal during the NATO Council meeting. He thought it should be examined "most seriously" and not ruled out by fairly narrow considerations. He doubted if the obligations under the proposed informal arrangement with OEEC would be any greater than those which would result from action under Article 2. The proposed policy would form a background for a campaign to be waged by the United States administration at home "to modify those United States practices and policies which are aggravating the dollar difficulties of other countries, including Canada." If Canada held aloof, the declaration would probably be issued in any event on a Three Power basis, and the impression might develop that Canada had missed an opportunity to improve her trading relations with OEEC countries. Mr. Pearson commented that there might be some domestic criticism, if nothing were accomplished of substance under Article 2 of NATO and Canada held aloof from a temporary arrangement in which the United States was willing to participate. Finally the Minister suggested that OEEC also provided the only feasible way of bringing the West German economy into closer relationship with the North Atlantic community. In his reply to these observations the Prime Minister said that Cabinet had agreed that, if Mr. Howe, who was arriving in London for trade talks, also concurred, Canada should be associated with the proposed draft statement. Mr. Heeney cabled at the same time to explain the views of the group of officials, Messrs. Towers, Clark, Deutsch, Beaupre, Pierce, Plumptre and himself who had met to prepare a report to Cabinet on the proposal. He said there was complete agreement that the invitation could not be refused, but some strong disagreement as to its advisability. This disagreement was based on the arguments that the new policy, which involved no real change in relationship, except for Canada, might be a "mere publicity device", would add to the already severe personnel problems confronting Canada, and might open the way for pressure for financial assistance in the future. In any event any action taken to