FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

1972

THE SENATE OF CANADA

PROCEEDINGS OF THE STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 1

TUESDAY, FEBRUARY 29, 1972

WEDNESDAY, MARCH 1, 1972

Respecting

THE PACIFIC AREA

FINAL REPORT OF THE COMMITTEE
Respecting
CANADIAN RELATIONS
with the countries of the
PACIFIC REGION

Index of the Committee's Proceedings
during
Third Session of Twenty-eighth Parliament
concerning
THE PACIFIC REGION

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Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Tuesday, February 22, 1972:

With leave of the Senate.

The Honourable Senator McDonald moved, seconded by the Honourable Senator Smith:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the papers and evidence received and taken on the examination of the Pacific area in the preceding session be referred to the Committee.

The question being put on the motion, it was–
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

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Minutes of Proceedings

Tuesday, February 29, 1972.
(1)

Pursuant to notice the Standing Senate Committee on Foreign Affairs met, *in camera,* at 3.05 p.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Belisle, Connolly (*Ottawa West*), Fergusson, Grosart, Lafond, Lapointe, Macnaughton, McElman, McNamara and Yuzyk. (11)

In attendance: Mr. Peter Dobell, Parliamentary Centre for Foreign Affairs and Foreign Trade; and Mr. Bernard Wood, Special Assistant to the Committee.

On Motion of Senator Macnaughton, it was *RESOLVED:* that 800 copies in English and 300 copies in French of the Committee's proceedings be printed.

On Motion of Senator Fergusson, it was *RESOLVED:* That the Steering Committee be authorized, subject to confirmation by the Committee, to negotiate contracts and agreements for goods and services reasonably and necessarily required for the purposes of the Committee.

On Motion of Senator Belisle, it was *RESOLVED:* That the Chairman report to the Senate that this Committee has expended, during the past session, while studying Canada-Pacific Relations, the sum of $72,358.31 and that expenses for printing not yet accounted for will amount to approximately $800.00.

On Motion of Senator Lafond, it was *RESOLVED:* That the Chairman submit to the Senate Committee on Internal Economy and Contingent Accounts a budget of expenses to be incurred, during the present session, in connection with this Committee's hearings respecting the Pacific Area ($15,000).

The Committee proceeded to the consideration of a "Draft Report" respecting Canadian relations with countries of the Pacific Area.

At 4.45 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

Wednesday, March 1, 1972.
(2)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met, *in camera,* at 11.35 a.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Cameron, Carter, Grosart, Heath, Lafond, Lapointe and McNamara. (8)

In attendance: Mr. Bernard Wood, Special Assistant to the Committee.

The Committee resumed consideration of its "Draft Report". The Report was amended and on Motion of Senator Lafond, *RESOLVED:* That the said Report be adopted as the Committee's "Report to the Senate" and that the Chairman present the same to the Senate as this Committee's *Report on Canadian Relations with the countries of the Pacific Region.*

On Motion of Senator Cameron, *ORDERED:* That the Committee print in booklet form 2,000 bilingual copies of its Report to the Senate respecting the Pacific Region; and also 1,000 copies in bilingual booklet form of the "Highlights" of the aforementioned Report.

At 1.15 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

Note: A topical index of the Committees printed proceedings, of the past session, is appended to this issue, immediately following the Committee's Report to the Senate.

CANADA

March, 1972

Report on CANADIAN RELATIONS with the countries of the PACIFIC REGION

The Standing Senate Committee on FOREIGN AFFAIRS

Chairman:
The Honourable John B. Aird, Q.C.

Deputy Chairman:
The Honourable Allister Grosart

Minutes of Proceedings

Tuesday, February 29, 1972

(11)

Pursuant to notice, the Standing Senate Committee on Foreign Affairs met, in camera, at 3.05 p.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Bélisle, Connolly (*Ottawa West*), Fergusson, Grosart, Hicks, Laprairie, Macnaughton, McElman, McNamara and Yuzyk. (11)

In attendance: Mr. Peter Dobell, Parliamentary Centre for Foreign Affairs and Foreign Trade, and Mr. Bernard Wood, Special Assistant to the Committee.

On Motion of Senator Macnaughton, it was *RESOLVED*: that 800 copies in English and 400 copies in French of the Committee's proceedings be printed.

On Motion of Senator Laprairie, it was *RESOLVED*: That the Steering Committee be authorized, subject to confirmation by the Committee, to negotiate contracts and agreements for goods and services reasonably and necessarily required for the purposes of the Committee.

On Motion of Senator [illegible], it was *RESOLVED*: That the Chairman report to the Senate that the Committee has expended during the past session, which ended [illegible], the sum of $73,328.37 and that [illegible] for will amount to approximately [illegible].

On Motion of Senator [illegible], it was *RESOLVED*: That the Chairman submit to the Committee on Internal Economy, Budgets and Contingent Accounts a request for funds for the [illegible] during the present session, in connection with the Committee's hearings respecting our Pacific [illegible].

The Committee proceeded to the consideration of a draft "Report" respecting Canadian relations with [illegible] Area.

At 4.45 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

Wednesday, March 1, 1972

(12)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met, in camera, at 11.35 a.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Cameron, Carter, Grosart, Heath, Laford, Laprairie and McElman. (8)

In attendance: Mr. Peter Dobell, Special Assistant to the Committee.

The Committee resumed consideration of its "Draft Report".

On Motion of Senator Lafond, it was *RESOLVED*: That the said Report be adopted as the Committee's [illegible] Canada present the issue to the Senate [illegible] on Canadian Relations with the countries of the Pacific Region.

On Motion of Senator [illegible], it was *ORDERED*: That the committee print in pamphlet form 2,000 bilingual copies of its [illegible] Canada Pacific Region, and also 1,500 [illegible] the "Highlights" of the above mentioned Report.

At 12.05 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

[illegible] of the Committee's printed proceedings of [illegible] is approved, to this issue, pursuant to Standing Rule [illegible] of the Senate.

Report
on
CANADIAN
RELATIONS
with the countries of the
PACIFIC
REGION

The
Standing
Senate Committee
on
FOREIGN AFFAIRS

Chairman:
The Honourable John B. Aird, Q.C.

Deputy Chairman:
The Honourable Allister Grosart

MEMBERSHIP OF COMMITTEE
(As of March 1, 1972)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Belisle	Haig	McNamara
Cameron	Heath	Nichol
Carter	Lafond	O'Leary
Choquette	Laird	Quart
Connolly (*Ottawa West*)	Lang	Rattenbury
Croll	Lapointe	Sparrow
Eudes	Macnaughton	Sullivan
Fergusson	McElman	White
Gouin	McLean	Yuzyk—(30).

Ex Officio Members: Flynn and Martin

(Quorum 7)

Note: The Honourable Senators Hastings, Pearson and Robichaud served on the Committee during the Third Session of the 28th Parliament.

MEMBERSHIP OF COMMITTEE

(As of March 1, 1972)

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, Chairman

The Honourable Allister Grosart, Deputy Chairman

and

The Honourable Senators:

Belisle	Haig	McNamara
Cameron	Heath	Nichol
Carter	Lafond	O'Leary
Choquette	Laird	Quart
Connolly (Ottawa West)	Lang	Rattenbury
Croll	Lapointe	Sparrow
Eudes	Macnaughton	Sullivan
Ferguson	McElman	White
Gouin	McLean	Yuzyk—(30).

Ex Officio Members: Flynn and Martin

(Quorum 7)

Note: The Honourable Senators Hastings, Pearson and Robichaud served on the Committee during the Third Session of the 28th Parliament.

ORDER OF REFERENCE

(Third Session—28th Parliament (1970-72))

Extract from the Minutes of the Proceedings of the Senate, Thursday, October 8, 1970:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Denis, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the Committee, before assuming any financial obligations in connection with the said examination and report, submit to the Standing Committee on Internal Economy and Contingent Accounts a budget for approval setting forth in reasonable detail the forecast of expenses to be incurred.

The question being put on the motion, it was—

Resolved in the affirmative.

ROBERT FORTIER,
Clerk of the Senate.

* * *

(Fourth Session—28th Parliament (1972))

Extract from the Minutes of the Proceedings of the Senate, Tuesday, February 22, 1972:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Smith:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report to the Senate from time to time on any matter relating

to foreign and Commonwealth affairs generally, on any matter assigned to the said Committee by the Rules of the Senate, and, in particular, without limiting the generality of the foregoing, on any matter concerning the Pacific area with particular emphasis on the position set out in the policy paper "Foreign Policy for Canadians: Pacific";

That the said Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the foregoing purposes, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine; and

That the papers and evidence received and taken on the examination of the Pacific area in the preceding session be referred to the Committee.

The question being put on the motion, it was—
Resolved in the affirmative.

ROBERT FORTIER,
Clerk of the Senate.

REPORT

of the

STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

Respecting

CANADIAN RELATIONS

with the countries of the

PACIFIC REGION

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INTRODUCTION

1. The present report, the Committee's second for the twenty-eight Parliament, is closely related to the process of foreign policy review undertaken by the Government between 1968 and 1970. The product of that review, the series of six papers under the general title of *Foreign Policy for Canadians,* was tabled in the House of Commons on 25 June, 1970. On 8 October 1970, one of the papers, entitled *Pacific,* was referred by the Senate to this Committee.

2. The Pacific area, as defined in the Government's Policy Paper, includes more than twenty different countries and territories, encompassing well over one-third of the world's total population. Around the thousands of miles of the western Pacific rim is found impressive diversity in cultural, political and economic terms, as indicated by the following list: Japan, China, Indonesia, The Philippines, Australia, New Zealand, Malaysia, Singapore, North and South Vietnam, North and South Korea, Cambodia, Laos, Thailand, Burma, Hong Kong, Taiwan and the countries and territories of the South Pacific.

3. Clearly, Canada cannot attempt to adopt uniform general policies toward this heterogeneous group. The Committee has found, however, that an overall attitude and approach of increased Canadian interest and involvement in the whole Pacific region is not only possible but essential. The fact that Canada is a Pacific nation has long been viewed simply as a kind of geographical accident, with the world's largest ocean serving more as a barrier than a bond. With the revolutionary growth of communications, transport and global inter-dependence, however, it can now become vital reality. As the Policy Paper says, "In Canada's Pacific outlook, distance and remoteness are no longer synonymous." Yet it is important to recognize that most of the great movements of history which are taking place in the Pacific region are doing so with little significant involvement by Canada. It is probably only in the economic field, that Canada can be properly called "a Pacific power".

4. Any realistic survey of the present Canadian involvement in the Pacific must therefore give first attention to the economic sphere. This has been the field of most exciting and spectacular growth—with a doubling of Canada's Pacific trade between 1965 and 1970 and until 1971 a large surplus balance in Canada's favour. The direct economic benefits to Canadians are immense, and are reinforced by the healthy diversification of Canada's overall economic relationships.

5. The very rapid expansion of profitable economic relations in the Pacific region, however, has sometimes obscured a number of other vital concerns for Canada. It is probable that Canada cannot long sustain relations with its Pacific neighbors solely on the basis of trade, particularly trade which is in its own favour. Commercial considerations alone require a concern for reciprocal advantage, and

a widening knowledge and understanding of the partner-countries involved. The emergence of any broader sense of community involves the acceptance of wider responsibilities for the general well-being of the region. Pacific countries are anxious to see what role Canada will play in the achievement of regional peace and security, and in cooperative action to share the benefits of economic development with the disadvantaged countries. As a result, Canada faces a series of new decisions as to the directions of its Pacific policies.

6. The Policy Paper supplied some answers to these questions. In the period since this document was referred to it by the Senate on 8 October, 1970, the Committee has had the opportunity to observe the policies selected in practice. As the Policy Paper states, "For Canada, as for many of the smaller nations of the Pacific, the problem for the future will be to define constructive policies and interrelationships realistically tied to individual national capacities, yet effectively aimed at common Pacific objectives." (p. 11). This Report is concerned with elaborating the real meaning and potential of Canadian membership in the Pacific community of nations.

I THE BASIS FOR INVOLVEMENT

A. Awareness and Understanding

7. Canada's involvement in Pacific affairs pre-dated Confederation and increased throughout the late nineteenth and early twentieth centuries. "Until recently, however," as one of this Committee's witnesses has written, "the Pacific region did not hold a prominent place in the consciousness of Canadians." General interest in Pacific affairs, Dr. Kavic has stressed, was uneven, superficial and dealt too often in stereotypes. As he says, "The natural consequence of these attitudes was the presumption that Canada had no direct interest or stake in the Pacific, and the perpetuation of an increasingly absolete image of the area that was a compound of ignorance, prejudice and misinformation."

8. In recent years there has been improvement, but the deficiencies in Canadian understanding of the Pacific cannot be remedied overnight, or by half measures. It must be recognized that Pacific Asia is the least familiar to Canadians of all the world's great zones of civilization. Even simple communication is more difficult. European languages are little used today in many of the Pacific countries. The unfamiliar and difficult languages of the region have deterred most Canadian students even when facilities were available. Furthermore, Western perceptions of the "Far East", which have always been shrouded in ignorance and myths, have failed to keep pace with the tremendous changes in progress, particularly in contemporary China and Japan. Canada, moreover has fallen behind most other developed countries of the Pacific (and a number of the less-developed) in generating a regional consciousness and in acquiring the necessary knowledge and expertise in Pacific affairs.

9. Even in business relationships, where Canadian ties are now most extensive, this lack of background familiarity represents a real and continuing problem. Mr. Robert Bonner outlined its dimensions in his testimony:

> . . . when you seek to do business with Japan or when you seek to do business in Malaysia or the countries of Oceania, there is an immediate cultural lack of familiarity which represents a very real and practical psychological barrier against the otherwise commonplace task of doing business. In other words, you have to spend a lot of time finding your way in . . . .
>
> In other words, the approach to the Pacific is not to be viewed as being other than a complicated question of culture, of language and of unfamiliar history and institutions, and it would be unwise to overlook these facts as an obstacle to easy penetration of the Pacific excluding the western hemisphere countries of the Pacific and excluding, of course, Australia and New Zealand. (p. 3:6)

10. It is clear that a large-scale and concerted national effort to improve Canadian understanding of the Pacific region will be a vital pre-requisite to broader and more fruitful Canadian involvement. In this effort, federal authorities can provide encouragement and example, but full participation will be required from

all the sectors concerned: governments at all levels, the academic community, business and industry, and the communications media.

11. The Policy Paper contained a number of suggestions for action in this field, especially directed to the projection of Canada to these countries, and some progress has been made. The Committee has concluded, however, that a much broader and more reciprocal range of initiatives is required, and these are outlined below.

Language Training and Orientation

12. Facilities and financing for training in the difficult languages of the region, particularly Chinese and Japanese, are important elements in an active Canadian presence in the Pacific. They are now badly lacking, and Canadians dealing with the area are often dependent on non-Canadian middlemen. In the new conditions which prevail in international commerce this is an unsatisfactory situation.

13. It is natural to assume that improved language training and orientation facilities should be built upon existing resources in universities. The Committee feels strongly, however, that an expansion of the traditional type of university language instruction will not go far enough to meet the present national need. The requirement for more academic specialists on the Pacific area is only one of several equally-pressing priorities.

14. The Committee has been disappointed to learn (from an answer in the House of Commons on 3rd May, 1971) that the Government does not have under consideration financial assistance either to universities or to students to promote studies of Pacific area languages. Because of its importance to the whole new Pacific policy, such a programme should be started as soon as possible. The Committee is prepared to suggest a number of specific and practical guidelines.

15. Concentrating initially on a small number of existing centres of excellence (perhaps one each in British Columbia, Ontario and Quebec), the Government should make available special grants to expand the teaching of Chinese and Japanese, and perhaps one additional Pacific language at each centre. The grants could be distributed in roughly equal proportions between salaries for instructors (for supplementary language study and intensive summer programmes), and fellowships for students (from all regions) both for extended graduate programmes and field work and intensive summer courses. An annual grant of $50,000 to each of three centres could quickly transform the national situation with regard to the availability of individuals proficient in these languages.

16. In addition to recruiting actively from this growing pool of skilled personnel —with the understanding that a period of in-job training may be required— government departments (both federal and provincial) and industry could use the facilities directly for the training of selected staff members. Because of their special needs, however, the government and business sectors will have to take urgent short-term measures to fill the present gaps. It should be a more standard and extensive practice for Federal Government departments concerned to post

officials in China and Japan with about half the normal load of duties to allow them to undertake intensive language training. It would probably be advantageous to maintain standardized arrangements (i.e. long-term contracts with tutors or schools) to keep up the momentum of this scheme. The Committee also believes that businesses operating in these areas would soon reap a considerable return from a similar programme of half-duty postings (although business trainees in Chinese would almost certainly have to be based in Hong Kong rather than in China proper). The Committee recommends that the government as soon as possible establish regular, in-area intensive language training arrangements for both Japanese and Chinese and offer a number of places in these facilities to business representatives and provincial officials.

17. Another general measure to up-grade overall Canadian capabilities in these languages would be to utilize more effectively the skills derived from the diverse national origins of Canadians. Even at the time of the 1961 census there were nearly 60,000 Canadians of Chinese origin and almost 30,000 of Japanese origin. Even in the second and third generations of residence considerable language skills remain. Both the government and business sectors concerned with these areas should be acutely aware of these substantial pools of language skills and cultural background.

Centres for Asian and Pacific Studies

18. Closely related to training in Pacific languages is the need for more study in depth of all aspects of the great civilizations of the region. A number of universities have developed local pools of expertise, * and in 1969 the scholars concerned established a national society of Asian Studies. In the Policy Paper the Government announced its intention to "appoint a small committee to examine, in consultation with the provinces and university authorities, ways by which it might make some contribution to strengthening teaching, library, research and publication facilities, with emphasis on contemporary Japan and China". There appears not to have been any subsequent action on this front.

19. The Committee considers it essential that there be more national cooperation, in order to better utilize existing resources and strengthen those where deficiencies exist. There should be in Canada several well-stocked university libraries on Pacific affairs. As a first step, it would seem advisable for the universities concerned to agree on different areas of specialization in their library holdings on Pacific affairs. This would reduce unnecessary duplication and permit the building of truly excellent collections on a national scale at an acceptable cost. Once specializations have been agreed upon, an up-to-date national inventory and inter-library loan facilities would allow all regions to draw on these specialized collections. Once agreements are made for the rationalization of national library holding on Pacific affairs, the Committee recommends that the Government

* The national capability in the fields of international and area studies has been analyzed in a survey commissioned by the Department of External Affairs and the Canadian Institute of International Affairs. This report, by Arthur R. Kilgour, is entitled "Resources for the Study of International Relations in Canadian Universities" publshed in 1969; updated December, 1970.

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consider making up-grading grants to help bring the libraries up to the first level in their specialized fields.

20. The Federal Government could provide much-needed stimulus to Pacific area studies at relatively little cost by endowing a small number of senior and post-doctoral research fellowships at Canadian universities. These would broaden the base of Pacific studies and also keep qualified young specialists in Canada to fill faculty vacancies as they may arise. Six fellowships (three senior and three post-doctoral), would cost approximately $60,000 annually. The Committee believes that such an expenditure could produce substantial results in a short period.

21. There should be, for non-Commonwealth Pacific countries, the equivalent of the Commonwealth Scholarship and Fellowship Plan to provide for scholars to move between Canada and these countries. Even a small number of scholarships (perhaps ten annually) for Canadians would in a very few years substantially augment the pool of knowledgeable Canadians. At the same time, the scholarships in Canada for Pacific area students (perhaps fifteen each year) would completment the present opportunities under the National Research Council (NRC) and the Canadian International Development Agency (CIDA) auspices. Such a scheme is mentioned in the Policy Paper (on page 23) but only in the context of incoming students from Pacific countries. Clearly a two-way flow would be most beneficial. On a formula similar to the Commonwealth Plan the total cost of such a scheme to Canada would be on the order of $60,000 annually.

22. The strengthened expertise of the academic community must also be utilized in a more directly beneficial manner from the national point of view. High priority should be given to the kind of "continuing" educational activity mentioned by Dr. John Howes in his testimony. The Committee was impressed by his example of "short seminars or courses for people who are already involved in professions or business" dealing with the Pacific.

23. Another of Dr. Howes's suggestions which might be of considerable benefit, with relatively little cost, is for the compilation of a national directory of Canadian institutions and individuals with competence in different aspects of Pacific affairs. Circulating among the official, business, and academic sectors, such a directory would help to pool national talent and expertise and make fuller use of the resources available. Similarly, it is to be hoped that action will soon be forthcoming on the Government's plans for programmes of rotation and secondment among serving Foreign Service officers and academics and graduate students. In the Committee's view, this is a promising experimental scheme. Such short-term personnel, with special linguistic or other skills, could make a valuable contribution to the missions concerned while supplementing their own field experience.

Public Information

24. Full Canadian participation in the Pacific community cannot be achieved by a select few, while the vast majority of Canadians remain largely uninformed and exposed only to "spotty and crisis-oriented" media coverage of regional affairs.

The Policy Paper referred to the possibilities for "dramatically expanding" the Canadian capacity for reciprocal information exchanges with Pacific countries. Certainly, agencies such as Information Canada, the Canadian Broadcasting Corporation and the National Film Board should be encouraged to play an expanding role in such exchanges (as outlined on page 22 of the Policy Paper) but major initiatives must also come from the private media.

25. The volume and quality of Canadian media coverage has perceptibly improved in the past two years, partially as a result of visits by Canadian leaders, the exchange of diplomatic relations with the People's Republic of China, and the opening up of that country to Western journalists and travellers. It will be important to sustain this interest beyond the initial excitement of "discovery" and steadily deepen the public awareness and understanding of Pacific affairs. While there are short-term limits on the capacity of Canadian media organizations to maintain their own coverage, the Committee is convinced of the need for a growing Canadian perspective in in-depth news from the Pacific. The Special Senate Committee on the Mass Media discussed in its report the general problem of "Canadian content" in foreign news coverage (see especially Vol. 1, pages 232-235). The Committee would like to see the Canadian media give special priority to reducing their reliance on foreign news services in their Pacific coverage.

Sports and Cultural Exchanges

26. The Policy Paper (on page 23) mentions a number of plans for stepping-up exchanges of these kinds. One that is not mentioned, however, is reciprocal visits by sporting teams. Such visits have been shown, by recent experience, (including the Olympic games in Japan), to involve large numbers in friendly people-to-people contact, in spite of linguistic, cultural or political barriers. Support of sports exchanges with Pacific countries by the Canadian Government could be a highly effective means of increasing public interest and awareness.

27. Canadian participation, (with Japan, the U.S., Australia, and New Zealand), in the Pacific Games provides for regional competition in track and field events. Since Canada is to be the host country for these Games in 1973, they can be expected to have a particular impact. The Commonwealth Games, of course, also involve competition with a number of Pacific countries. Bilateral sports exchanges with Pacific countries have been growing steadily, sometimes at a provincial or club level. Some of the most prominent sports include swimming, rugby, soccer, field hockey, basketball, and volleyball. Table tennis has, of course, opened up the possibility of broadening athletic contacts with China, tours by badminton teams have followed and water sports may be the next area of competition with that country. The countries most involved in these bilateral sports exchanges in the past have been Australia, New Zealand, and Japan. It must be recognized that Canada's main sports are not widely shared by Pacific countries and that this fact places a definite limit on the exchanges which may develop. It is noteworthy, however, that hockey is of increasing interest in Japan and possibly also in China. With close co-ordination between the Departments of External Affairs and National Health and Welfare and private Canadian sports

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bodies it should be possible to continue widening the scope of these exchanges, (both the number of countries and the number of sports involved).

28. In addition to sports and educational exchanges, there are a large number of other cultural contacts which can complement official and commercial dealings in expanding Canada's relationships with Pacific countries. In these fields, federal policy is only one element in the national effort, and a concerted federal government programme will require close co-ordination among a number of departments and agencies.

29. Australia and New Zealand, which have fairly well-developed educational contacts with Canada, have surprisingly few exchanges in the cultural fields. Expanded contacts with Japan, China and the Francophone states of Indochina are also possible and very desirable. In view of the importance of Japan, and its traditional unfamiliarity to Canadians, the establishment of a Canadian cultural and information centre in Tokyo might provide a necessary base for expanding cultural contacts. In the case of China, formal agreement may be required to ensure the reciprocity of cultural exchanges. The establishment of cultural centres may also be justified in Australia and, eventualy, in Indochina.

30. The specific type of exchanges desired will differ from country to country. In general, however, there appear to be immediate opportunities in the following fields: financial and other assistance for exchange of musical, dance, and theatrical groups; encouragement of exhibitions of graphic arts, films and books; encouragement of co-operation and mutual assistance in cinema, radio and television, and the exploration of possible co-production arrangements in these fields; financial and other support of cultural research projects in such fields as anthropology, archaelogy or ethnology.

Scientific Cooperation

31. With respect to scientific and technological cooperation, the Policy Paper, recognizing the growing importance of essentially transnational problems, envisages generally closer ties with the Pacific countries. The Committee emphatically favours such ties, especially in view of Japan's leading role in technological innovation, and the many common concerns of Canada and Australia in scientific and technical fields. Encouraging examples of this kind of co-operation are the September, 1971, Agreement between Canada and Japan to exchange technical information and work together on nuclear reactors, and the visit of an important Canadian Science and Technology Mission to Japan in March 1972.

32. The Committee wishes to emphasize that this kind of cooperation will become increasingly essential in international relations, and it seems clear that expert scientific and technological liaison and representation should be among the priority roles of the Canadian foreign service, particularly as it progresses toward greater integration.

B. Coordination

33.

> If we are truly resolved, as a nation, to enter fully into the life and future of the huge Pacific community, . . . we must do so by a unified national effort. It is difficult for close-knit, nationalistic societies of the region, such as Japan, to understand the Canadian penchant for speaking abroad in a multitude of voices, some of which, on occasion, create a discord. (11:23)

34. The above quotation, from the testimony of the Canada-Japan Trade Council, succinctly summarizes perhaps the main theme emerging from the Committee's whole inquiry. Different witnesses repeatedly stressed that even in economic relations, where Canada's involvement is broad and well-established, this country suffers from the diffuse and uncoordinated character of its national dealings. A national policy of fuller and more active participation in Pacific affairs is unrealistic unless Canada is prepared to assert a unified national presence and pursue consistent and coherent national policies.

35. In part this need derives from the fact that the Pacific remains to most Canadians, a kind of "Terra Incognita". When venturing out into what the Prime Minister has called, "the New West" it stands to reason that Canadian explorers —official, commercial, or academic—should share the benefits of their particular knowledge and experience. It is also a simple fact, as the witnesses have stressed, that in dealing with the two giants of the region, China and Japan, (and increasingly with other countries), political, commercial and other relationships are inseparably mingled.

36. Clearly such an environment demands re-thinking and new approaches on the part of Canadians. The trade mission was cited as an example of the kind of technique required for successful collaboration between government and industry, and it is notable that the mission to Japan in January, 1972, was the largest economic mission that Canada has ever sent anywhere in the world. As Mr. Robert Bonner pointed out, however, the trade mission "is only the first thrust of the effort". Continued collaboration is required in the "follow-up" stages. While there has been no evidence to suggest that Government facilities are generally lacking in this regard, it must be recognized that they will face rapidly-increasing demands in coming years. "Facilities", however, are less the issue than "attitudes". Patterns of cooperation between industry and government are still hampered by mutual lack of knowledge and often suspicion. A related problem is the lack of communication and cooperation among Canadian businesses themselves. Testimony indicated that these problems lead to a costly "fragmentation of effort" in Canada's economic relations with Pacific countries. Specific references and a discussion of remedial possibilities will be found in a later chapter on "Canada's Economic Interests".

37. Similar gaps appear to exist between academics concerned with the Pacific and businesses and government departments sharing that interest. Once again, there are probably deep-rooted prejudices involved on both sides, but they clearly must be overcome. There should, for example, be continuing institutional contact between the Canadian Society of Asian Studies and the business groups concerned

with Pacific trade and investment. Among the many mutual benefits might be: the development of various types of "continuing education" programmes for executives; better information regarding opportunities for, and the availability of, graduates skilled in Pacific languages and Pacific area studies; the sponsorship of scholarships, fellowships, conferences and research grants; the sponsorship and distribution of Canadian publications on Pacific affairs.

38. One further possibility for evolving a more concerted national approach to Pacific involvement was opened up in the main Policy Paper, *Foreign Policy for Canadians*. It stated that a subcommittee of the Interdepartmental Committee on External Relations "will . . . concern itself with the formulation of programmes of rotation and secondment between the foreign service, on the one hand, and government departments, the business world, the academic community, on the other." (p. 40). According to a return tabled in the House of Commons on May 3, 1971, the Government was still "considering" such programmes. This Committee believes that this kind of rotation might be extremely valuable to all concerned in exposing individuals to the perspectives and problems of other sectors. These programmes should therefore be tested in practice as quickly as possible.

C. **Representation**

39. A number of recommendations in the two preceding sections have related to the strengthened representation of Canada and Canadian interests in the Pacific region. This factor will obviously have an important bearing on the success of all Canadian policies of increased involvement. Canadian missions abroad can play a vital role in channelling information, expediting people-to-people contact and thereby augmenting Canadian awareness and projecting Canada's image in their host countries. The missions will also have a major share in the assertion of a more concerted national presence and better co-ordinated national policies. The plans for integration of the foreign service should assist greatly in the achievement of the second goal, especially if the plans for wider rotation of personnel are also put into effect.

40. As the Policy Paper pointed out, "The expectation of rapidly increasing commercial and other relations with Pacific countries over the next few years suggest that Canada consider extending its presence by the opening of additional offices in the area". (p. 19). It later added, "The Government will . . . consider, as soon as financial resources are available, the extension of diplomatic links by means of dual accreditation and perhaps additional resident offices in those countries offering adequate scope for increased trade, investment, development assistance and useful political and cultural contacts."

41. The Committee is aware of the financial constraints involved in these decisions, since the Government has apparently been unable to act on the recommendation it made in June, 1970, for the establishment of a separate Canadian mission in Barbados. Nevertheless, the need for strengthened representational facilities in the Pacific is pressing. Because of the breadth and

importance of Canadian interests concerned, prompt action should be taken to raise the Canadian mission in the Philippines to the status of a full embassy, and to establish a resident embassy in South Korea.

42. It must also be stressed, however, that the strengthening of official representation will in no way reduce the need for active, on-the-spot involvement by businessmen and other interested individuals from the non-official sector. The Committee's witnesses have been unanimous in their conclusion that there is no substitute for first-hand Pacific experience and face-to-face contact. Some have also been highly critical of the past performance of Canadians in this regard. The Committee will have further comments on this subject, but it is worthwhile to quote at this point from the testimony of Dr. Lorne Kavic:

> The cause of this neglect by the Canadian manufacturer would seem to lie in the comfortable preference for concentrating upon traditional markets in the United States and Europe and a tendency to rely upon the Canadian Trade Service to drum up business for them in less familiar markets. The continuance of such a posture, however, is manifestly impractical in view of contemporary patterns of competitive trade. (1:10)

II CANADA'S ECONOMIC INTERESTS

43. As mentioned at the outset of this report, it is in the economic field that the Pacific region looms largest for Canada, and economic relationships with Pacific countries are still growing at a remarkable pace. Canadian exports to the area doubled from $699 million in 1965 to $1.4 billion in 1971. During the same period, Canadian imports from the area rose from $406 million to $1.2 billion The 1971 total of two-way trade with Pacific countries (at $2.6 billion) represents almost 8 per cent of Canada's total trade and one-third of Canada's overseas trade. All available projections indicate that the volume of trade will continue to grow at a comparable pace over the next few years, with a continuing balance in Canada's favour. At the same time, the flow of Canadian investment to Pacific countries has intensified and Japan has become a very important new supplier of capital for the development of Canadian resources and industry.

44. In spite of this record of growth in Canadian economic relations with the countries of the Pacific region, the Committee believes that more can and must be done to realize the full national potential in this area. There is a special urgency to this objective in view of the growing realization that Canada's economic prospects are vitaly dependent on a diversified range of expanding trade relationships. From a Canadian viewpoint, the vast potential markets of the Pacific have only begun to be tapped. If Canadians can meet the new challenges and opportunities in this area, the national economy will be immeasurably strengthened.

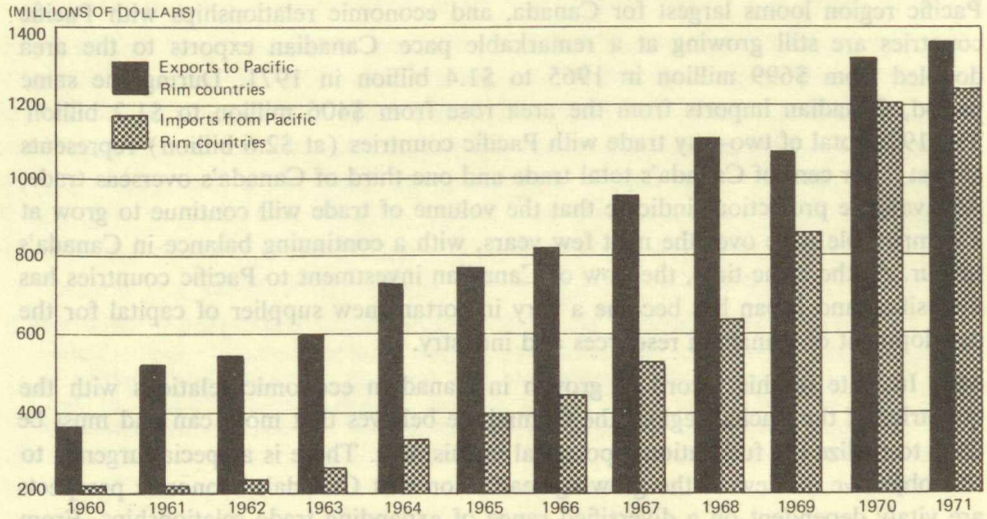
Japan

45. Japan accounts for 60 per cent of Canadian exports to the Pacific and almost the same proportion of imports. It is thus not only the dominant factor in Canada's Pacific trade, but a top trading partner in its own right—Japan is now Canada's third largest export market and will probably soon overtake the UK for second place. As the table below shows, Japan also ranks third (after the US and UK) as a supplier of Canadian imports.

46. CANADA'S PRINCIPAL TRADING PARTNERS
1970 and 1971

	$ millions			*$ millions*	
Exports to	*1970*	*1971*	*Imports from*	*1970*	*1971*
United States	10,641	12,149	United States	9,905	10,949
Britain	1,480	1,361	Britain	738	832
Japan	793	791	Japan	582	802
Germany, Federal Republic	384	319	Germany, Federal Republic	371	429
Netherlands	277	235	Venezuela	339	388
Australia	198	183	France	158	213
Belgium–Luxembourg	190	181	Australia	146	126
Italy	184	210	Italy	145	157
Norway	176	186	Sweden	106	113
France	154	156	Switzerland	81	86
China	142	204	Netherlands	79	76

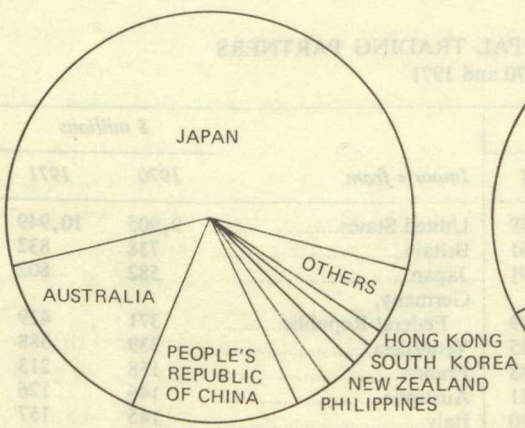
GROWTH OF CANADA'S PACIFIC TRADE (1960 – 71)



DISTRIBUTION OF CANADA'S PACIFIC TRADE (1971)

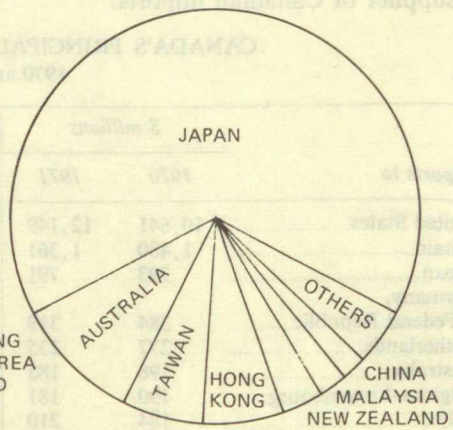
(MILLIONS OF DOLLARS)

Exports to Pacific Rim countries



TOTAL – $1,368

Imports from Pacific Rim countries

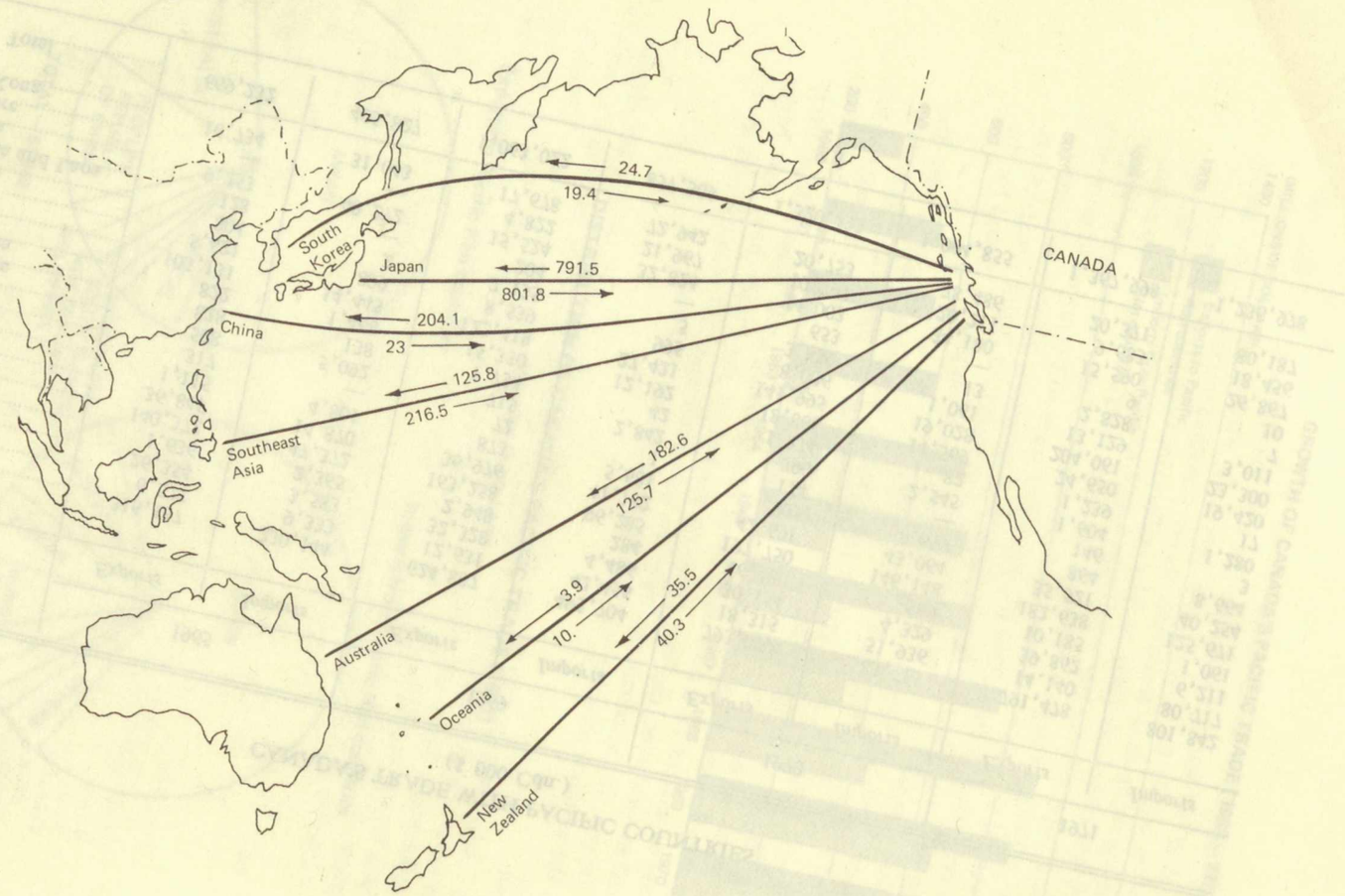


TOTAL – $1,237

CANADA'S TRADE WITH PACIFIC COUNTRIES

($ 000 Cdn.)

	1965		1969		1970		1971	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
Japan	316,187	230,144	624,837	495,704	793,079	583,715	791,478	801,842
Taiwan	6,577	9,333	12,631	42,456	18,315	51,936	14,140	80,717
Philippines	26,354	3,583	32,328	4,486	30,154	4,329	39,862	6,211
Indonesia	1,636	2,365	2,948	284	16,489	589	10,185	1,061
Australia	140,372	47,372	163,258	96,285	197,750	146,148	182,638	125,671
New Zealand	36,845	14,870	36,976	41,182	42,691	43,064	35,521	40,254
Fiji	1,115	4,801	873	5,681	905	6,899	864	8,664
Br. Oceania	317	—	72	1	174	—	146	3
Fr. Oceania	508	5,092	715	2,842	790	2,545	1,604	1,280
U.S. Oceania	828	138	1,734	42	1,234	82	1,239	17
South Korea	822	1,468	15,330	12,192	18,806	14,569	24,650	19,420
China	105,131	14,445	122,418	27,421	141,995	19,028	204,061	23,300
Thailand	5,621	899	8,539	995	8,006	1,061	13,129	3,011
Viet-Nam	804	2	2,135	5	3,839	13	2,828	7
Cambodia and Laos	128	—	204	—	653	—	9	10
Malaysia	9,253	40,272	15,524	32,824	14,003	34,180	15,590	26,867
Singapore	—	—	4,822	21,967	10,797	20,211	9,683	18,456
Hong Kong	16,734	31,043	17,678	72,942	20,753	78,486	20,371	80,187
Total	669,232	405,827	1,063,022	857,309	1,320,433	1,004,855	1,367,998	1,236,978



CANADA'S PACIFIC TRADE IN 1971

(Millions of Canadian Dollars)

47. These facts, however, fail to show the full impact of Canada-Japan trade on the Canadian economy. The great bulk of Canadian exports to Japan are in a few large commodity groups and their production is heavily concentrated in one geographic area. Thus, in 1969, 76% of Canada's exports were made up of: copper & copper products (21.8%); lumber & lumber products (20.2%); grains (13.4%) and other agricultural products (10.7%); aluminum and primary aluminum products (9.7%). In the same year, Western Canada accounted for almost 80% of Canada's total exports to Japan, comprising British Columbia, Yukon and the Northwest Territories (52.5%), Saskatchewan (13.4%), Alberta (10.8%) and Manitoba (3.0%). Thus if Japanese trade is important to the Canadian economy as a whole, it is crucial to the western provinces and territories.

48. In contrast with this export picture, in which the bulk of Canadian exports move in the crudest form (with only 3 per cent in the form of finished products), more than 96 per cent of Japanese sales to Canada are accounted for by a diversified range of processed and manufactured goods. The geographical distribution of Canadian imports from Japan is also markedly different from that of exports. Western Canada receives 26.4% of the total. Ontario and Quebec together take 67%.

49. The Committee believes that these basic factors of composition and distribution must be borne in mind in any discussion of Canada's overall trade balance with Japan. As the Minister of Industry, Trade and Commerce told the Committee, "we are very pleased about" the high volume of raw materials sales to Japan, but in view of the high job-producing manufactured content of Japanese sales to Canada, "this is a typical case of where asking for balance of trade between two countries is obviously not logical or acceptable."

50. These questions relate to some of the main policy issues at stake in Canada-Japan economic relations. Specifically, these include: the Canadian desire to up-grade the level of processing of existing exports and to sell a broader range of end-products; Japanese dissatisfaction about the total imbalance of trade and restrictions on access to the Canadian markets for some of their major exports; and varied concerns about the two-way flow of investment.

Upgrading and diversification of Canadian exports

51.

> The Japanese ideal—and this is not criticism of the Japanese—is to send a steam shovel built in Japan, in a Japanese bottom, to Canada; ship it—all right—on a Canadian railroad to the mining site; put one Canadian at the controls; dig up the real estate; ship it out in Japanese bottoms to Japan—the minimum of Canadian participation, the minimum of Canadian value added. This is not, in my view, very advantageous to Canada. I agree that it is very advantageous to Japan. (p. 9:17)

52. This colourful illustration, from the testimony of Mr. T. J. Pope, a former Canadian Foreign Service Officer in Japan, depicts one of the perennial problems involved in resource industries. Issues of processing, like those of price, terms and delivery, are central to the bargaining process. Governments are concerned, because of the employment and economic "spin-offs" derived from processing. At

the same time, however, most of the international raw materials markets are uncertain and highly competitive. For this reason, the basic bargaining power of buyer and seller varies from time to time and from commodity to commodity. It is therefore neither realistic nor desirable to attempt to set up inflexible processing standards to apply to the whole range of raw-materials industries.

53. With these factors in mind, however, the Committee has concluded that, whatever the past considerations, it is no longer economically desirable (or perhaps necessary) for the great bulk (as much as 65%) of Canadian exports to be shipped to Japan, as the Policy Paper says, "in their rawest transportable and least profitable form". Some of the Committee's testimony is encouraging about the prospects for improvement. Mr. Robert Bonner expressed the following view:

> . . . having become a dependable, responsible, and large-scale supplier of many Japanese raw material requirements over the years we can interpose the legitimate viewpoint that we ought to be upgrading the quality of those exports to Japan in every possible way. When I had something to do with this subject as a matter of public policy, these points were touched upon with various Japanese delegations with whom I met. There was not at that time any resistance to this idea . . . so I think that there is on the Japanese side frank recognition of legitimate aspirations of this sort which might be voiced on our side. (p. 3:7)

54. These opinions were corroborated by the testimony of the Canada-Japan Trade Council. The Council's president, Mr. R. L. Houston, put it this way:

> It might be a very interesting exercise were Canadian suppliers of basic raw materials . . . to suggest to their Japanese counterparts during contract negotiations that more Canadian content in shipments was desirable. There is nothing that I know of to indicate that Japanese businessmen would be adverse to a proposal that a greater degree of processing or even manufacture be undertaken in Canada before shipment. In such a proposal, of course, it would be desirable to see that it made sense commercially. (p. 11:7)

55. It has also been pointed out that Japan itself, while remaining dependent on imported raw materials for its industries, will almost certainly be shifting to a more sophisticated technological level of production over the next decade or two. This fact, combined with problems of pollution and labour shortages, make it very likely that Japanese industry will be less interested in processing raw materials at home and that Japan's "foreign investment will be made increasingly in projects which involve processing of raw materials to a progressively higher degree abroad." (p. 11:9)

56. It seems clear from this evidence that it would now be opportune for Canada to begin redressing this imbalance. The Canadian claims are reasonable and, for various reasons, the Japanese should be increasingly amenable. However, it is only reasonable to expect the primary initiatives should come from the Canadian side. There emerges the recurring problem of "fragmentation". Varied interests, including different provincial jurisdictions, are involved in the resource industries concerned. Japanese negotiators, who are able to represent concerted national policies, find no equivalent counterpart in Canada. With open competition among supplying industries and jurisdictions, it is of course difficult to set up and enforce consistent regulations or legislation. The Committee considers this an urgent priority for

action by industries concerned and by governments at all levels. The federal role will be particularly important in pressing for uniform legislation and in negotiating general improvements with the Japanese Government.

57. A concerted Canadian approach would allow this country to take full advantage of its very considerable bargaining assets: a highly stable economic and political climate to guarantee that the Japanese requirements for assured supplies will be met; abundant resources and reserves in certain commodities; and a proven record in relations with Japanese enterprises.

58. With respect to diversification of Canadian exports, the Committee has heard conflicting testimony about the gravity of Canada's problem, and its causes. With less than 3 per cent of Canadian exports to Japan in the form of end-products, the Committee believes that there is unquestionably a serious problem. There is not, however, any one simple explanation. It is to be expected, of course, given the structure of the Japanese economy, that a very large proportion of that country's total imports would be in the form of raw or semi-processed materials. However, among the industrialized countries, Japan imports the lowest proportion of its total imports in manufactured goods (15 per cent). This figure lends credence to the view, expressed by the Honourable Jean-Luc Pepin, that "in Japan, tariff and non-tariff barriers have tended to work excessively to control imports of manufactured products and to limit to a marked degree import competition."* It was stressed by other witnesses that Japan has made considerable progress in liberalizing its tariff restrictions, but the Committee believes that the Canadian Government is justified in pressing for acceleration of this process and for the elimination of Japan's "non-tariff barriers" which include import-licensing policies and quantitative import restrictions.

59. These Japanese controls, however, do not explain the fact that Canada lags so far behind the average in the proportion of its exports to Japan in manufactured form. The Canada-Japan Trade Council asserted that "markets in Japan for Canadian manufactured goods exist. More imaginative, dynamic and persistent Canadian salesmanship could probably have changed our trade 'mix' before now." (11:22). There have been several suggestions that this is attribuable to a lack of "imagination and aggressiveness" on the part of Canadian businessmen, and the Committee has concluded that this criticism is basically valid. As mentioned in Chapter I, it relates to a general lack of familiarity with the Pacific area and its potential. Perhaps a more deep-rooted, and alarming cause however, was identified by Professor K. A. J. Hay:

> . . . at the end of the 1960's the market for manufactured exports to Japan . . . was equal to $15 billion . . . If one looks at the structure of that market one finds that it is dominated by three suppliers who have been supplying the market for 15 years, the United States, West Germany and the United Kingdom.
>
> . . . The reason why the Japanese concentrated on these three suppliers is again very simple to understand: those three countries lead the world in investment in research and development and they are, in order, those countries which produce the largest number of patents, new ideas and new technology each year.

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* Speech to the Annual Meeting of the Pacific Basin Economic Cooperation Council, Vancouver, May 14, 1971 (p. 8)

> . . . Unless ve concentrate a little more on developing highly sophisticated specialized manufactured goods it will be difficult for us to get back a substantial portion of the Japanese market for manufactures . . . (11:13, 14).

60. This problem, of course, relates to one of the main national concerns about Canada's general economic situation, and one which has been extensively studied by another Senate Committee. Canada's position in the highly competitive Japanese market appears to be yet another indication of the central importance of scientific and technological innovation to this country's vital trade interests.

61. An encouraging demonstration of the Canadian Government's determination, in co-operation with the business community, to attack these problems and promote the growth of mutually-beneficial economic relations with Japan, was the despatch of the Canadian Economic Mission to Japan in January, 1972. This mission, headed by the Minister of Industry, Trade and Commerce, was the largest Canadian mission of its kind ever sent anywhere in the world. It led to a full discussion of outstanding bilateral issues, and the initiation of important new contacts between Canadian and Japanese businessmen. The participants in this mission also indicated their firm intention to carry out all the necessary "follow-up", in order to achieve the most effective and lasting results.

Areas of Concern for Japan

62. Two kinds of Japanese concern have been referred to: dissatisfaction about the general balance of trade in Canada's favour; and complaints about access for specific products in the Canadian market.

63. The general concern has been dealth with in previous sections. There is no reason to believe that the total volume of bilateral trade should be in perfect balance, especially when 96 per cent of Japanese exports to Canada are end products, while only 3 per cent of Japanese imports from Canada are in this category. In 1971, in fact, the overall trade balance was suddenly and dramatically reversed. Japanese sales to Canada increased approximately 38% while Canadian exports to Japan actually declined slightly. It is not yet clear whether these developments represent the beginning of new trends, or are results of temporary circumstances. As Mr. Pepin told the Japanese Press Club on 24 January, 1972, "We hope that our exports decline is temporary, you hope that your exports leap is permanent". Whatever its duration, however, the Committee hopes that this changed balance of Canada-Japan trade will shift the focus of discussion from the overall dollar-volume of trade to the more pressing and relevant questions about the "quality" of that trade.

64. Specific Japanese complaints about bilateral trade with Canada relate especially to "anti-dumping" actions and procedures relating to the voluntary restraints system by which the Japanese agree to limit exports of certain goods in order to avoid disruption of the Canadian market. The range of Japanese exports to which restraints apply, however, has narrowed progressively, leaving only textiles as the real point of contention. The textile issue is, of course, part of a

broader global issue and is extremely important domestically in Canada. Mr. Pepin has been quite categorical in his assertions on this subject.

> For this commodity, Canada is probably the most open of all industrial countries, as shown, for example, by the degree of penetration of the domestic market already reached by imports. Per capita, Canada buys ten times more textiles from Japan than does the EEC, or the U.K., almost double the per capita imports of the USA and triple that of Sweden. In value Canada imports roughly as much from Japan as does the entire European economic community—a market approaching 200 million people. (P.B.E.C.C. speech, p. 9)

65. These statistics are certainly impressive, and in this light, the Committee finds the present Canadian policy on textile imports to be reasonable. The criteria for protection, which include the obligation for producers to present rationalization plans to the textile board, are designed to guarantee that only viable and internationally-competitive producers will remain in operation.

66. In any discussion of this topic, it must also be recognized that for Japan, textiles represent a relatively small and declining proportion of total exports to Canada (10.48% in 1969). The main part of Japanese exports is now made up of diversified consumer durable goods (42.53% in 1969) and producers' goods (34.64%). In relative terms, textile and clothing exports are vastly more important to several of Canada's other Pacific trading partners. Some of these are in the category of "developing countries" with a less diversified industrial base and may merit special consideration on that basis. It must also be added that the Committee has seen no evidence to indicate that anti-dumping actions have been abused to hamper Japanese exports to Canada.

Two-way investment flows

67. Since both Japan and Canada have rapidly-expanding economies, with heavy domestic capital requirements, there has not been extensive investment by either country in the economy of the other. Another contributory factor has been the close control, by the Japanese Government, of both foreign investment in Japan and Japanese investment abroad. This is now changing, however, and a steadily-increasing volume of investment is flowing in both directions.

68. The book value of Japanese investment in Canada (at the end of 1969) has been estimated at $110 million, concentrated primarily in the extractive resource industries. The bulk of this investment is in the form of debt rather than direct equity financing. While there seems to be a trend in the direction of more equity financing, Japanese investors seem to be flexible, depending on the needs of individual projects. Their primary concern is to secure a stable supply of resource materials. They have not sought majority control of Canadian industries and are aware of the advantages of joint ventures. Under these conditions, the Committee considers that Japanese investment can be particularly beneficial to the Canadian economy, with the further advantage of diversifying this country's sources of foreign capital.

69. Canadian investment in Japan remains small and narrowly distributed among a few large firms. The Japanese Government is now liberalizing its strict

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controls, and there will be increasing scope for certain types of investment from Canada—although this is unlikely to reach large proportions. It is clear that joint venture arrangements in Japan will be almost essential for most types of Canadian investors.

Scientific and Technological Co-operation

70. Of all the Pacific countries, Japan, in particular, offers exciting scope for new co-operation in the scientific and technological fields. The March, 1972, Canadian Scientific and Technological Mission to Japan, headed by the Minister of State for Science and Technology, represents the beginning of an important new stage in this process of co-operation. The Committee believes that Canadians can now look forward to expanding and highly beneficial contacts in the future.

China

71. Intense interest has been generated in Canadian trade with China by the exchange of diplomatic recognition in October 1970, the opening of embassies and the successful visit of the trade mission headed by the Honourable Jean-Luc Pepin (in June & July 1971) and of visits by other Canadian leaders and business groups.

72. There are two striking characteristics of Canada-China trade: the heavy balance in Canada's favour (the value of exports was more than seven times that of imports in 1970), and the importance of grain sales as a proportion of Canadian exports, (well over 80% for the past decade).

73. Reporting on his discussions in Peking, Mr. Pepin noted that the Chinese did not insist on "balancing trade between China and Canada, which was a very important point for me." While it would not be reasonable to expect that perfect balance could be achieved, the extent of the present imbalance is understandably a matter of concern to China. The dollar-imbalance is not offset, as in the case of Japan, by a high volume of manufactured exports to Canada. China's foreign exchange is limited. To sustain imports at their present levels they will seek new opportunities to earn exchange with exports to Canada.

74. Chinese exports to Canada include a very wide range of products. The total volume has been growing significantly and an appreciable proportion of Canada's imports from Hong Kong—$78 million in 1970—probably consists of re-exports from China. Restraint arrangements have been required on certain types of textiles and footwear, but here again the Chinese appear to have adopted an understanding approach to the problem of disruption of Canadian industry by low-cost imports. It is likely that there will continue to be increasing scope for Chinese exports to Canada, particularly as contacts widen through two-way travel and trade exhibitions.

75. It has been mentioned several times in testimony that the main obstacle to increased exports from China to Canada in the past seems to have been the limited Chinese supplies of the goods of interest to Canadian importers. The general opinion, based on recent trade fairs, seems to be that these shortages are now being rectified. Thus increases may be expected in a wide range of light

manufactures and textiles, as well as new commodities, including certain metals. The Chinese authorities look forward to increases in their exports to Canada and do not anticipate any serious problems in this mutually-beneficial trade relationship.

76. Since the first major wheat sales in 1961, China has each year provided a substantial outlet for Canadian grains, and therefore a continuing stimulus for the economy of the prairie region. While uncertainty has been a characteristic of most export markets for Canadian grains, China has been a reliable buyer, and now shows every indication of remaining one. Chinese planners have apparently determined that it will be beneficial to continue importing some proportion of the country's cereal needs. Canada has fared well in vigorous competition for this market and is now regarded as the priority grain supplier. In recent years it appears that political considerations have been a factor, with Canada's early initiative for recognition conferring a distinct advantage. As the normalization of China's relations with other Western countries progresses, Canada can expect increasing competition for the Chinese market in most products. Assuming that the present basis of good relations is maintained, however, the Committee believes that the Chinese will continue to be favourably disposed toward Canadian exports in general and will stand by their assurance that first consideration will be given to Canadian grains.

77. The Canadian Government was right in not expecting that diplomatic recognition would lead to a sudden upsurge in exports but there are signs that new types of opportunities are opening up. Forest products and minerals are now being bought, and the Chinese have agreed to consider Canadian machine products and transportation and communication equipment. They will also consider imports of Canadian technology—heavy machinery or perhaps complete plants—and have accepted the possibility of Canadian experts travelling to China to work temporarily in the installation and development phases. In general, the Committee has concluded that there is expanding scope for valuable economic relationships, both immediate and long-term, between Canada and China.

Australia and New Zealand

78. Canadians too often underestimate the importance of their economic relations with Australia and New Zealand. In 1970, Australia was Canada's sixth largest customer. Canadian exports were valued at $197.7 million. Australia ranked well ahead of such countries as France, China and U.S.S.R. It is significant that 40 per cent of those exports were fully manufactured end products, providing extensive employment and other benefits to the Canadian economy. On a per capita basis, New Zealand has long been one of Canada's best customers. Imports from Canada (amounting to $42.7 million) are largely manufactured and semi-manufactured goods.

79. Both of these countries, and particularly New Zealand, are confronted by an uncertain economic outlook because of British entry into the E.E.C. It will be important, for all concerned, to maintain the present preferential arrangements

between Canada and these countries as the Commonwealth (or British Preferential) system comes to an end. This seems to be fully recognized on all sides, and has been a frequent topic of discussion among representatives of the three countries in the recent past. Arrangements made in 1970 with both Australia and New Zealand should provide improved opportunities for close and regular consultation on economic matters at decision-making levels.

80. Apart from mutual trade, this consultation can be very beneficial on a number of broader economic issues in the Pacific region. The three countries share a common background and natural links of many kinds. As middle-ranking members of the Pacific community, however, the similarities of approach are reinforced by tangible common interests, particularly in the case of Canada and Australia. The two economies are competitive in many fields. This competition, no matter how vigorous, has not prevented cooperation, as in efforts to stabilize world trade in agricultural products. This experience (and the precedents of co-operation among producer-countries of other commodities) can and should be extended. Canada and Australia share an interest in a number of industrial raw materials flowing to a number of shared markets. It could be valuable for the two governments to maintain close consultation on matters of common concern (such as processing requirements) involved in this trade.

81. Canadian investment in Australia has been estimated at approximately $400 million, distributed among a number of resource development and manufacturing industries. The Committee's evidence suggests that this will continue to grow. With respect to foreign investment in general, Canada and Australia once again have similar problems, and the sharing of experience may prove increasingly useful.

Other countries

82. Most of the remaining countries of the Pacific region are developing countries, at various levels of economic progress. Among them are a number which are already important to Canada in the fields of trade and investment, and several others which are certain to become so in the future. To the extent that these economic relationships bear on the general effort to advance development in the Pacific region they will be discussed in the succeeding chapter. However, it is to be noted that Canada tends to have a favourable balance of trade with the least developed of these countries. This reflects some natural economic forces, and, in some cases, the flow of aid-financed goods from Canada. It also illustrates the extent of the tasks which lie ahead if these countries are to be helped to help themselves by expanding their exports. In this process, of course, they will also offer expanding markets for Canadian exports of all kinds.

83. The more industrialized countries and territories of this group, such as Hong Kong, Singapore, Taiwan and South Korea, maintain healthy levels of exports to Canada. They have implemented voluntary restraint arrangements for certain commodities, so as not to unduly disrupt Canadian industry. The Committee's comments above on protection against certain Japanese imports generally

apply to these countries as well. Such protective arrangements appear to be justifiable in certain circumstances as a temporary measure to allow for the rationalization of specific industries with high regional employment impact.

84. In applying these limitations to less-developed countries, however, it must be recognized that they tend to be much less diversified industrially and are therefore more dependent on the exports in question. The Committee therefore recommends that wherever latitude exists a generous approach be adopted in limiting imports from these countries. (Note: See tables on pages 26 & 27).

85. Canadian-based investment is to be found throughout the region in different concentrations. Substantial new amounts may be invested, particularly in Indonesia and New Caledonia. It seems likely that investment, particularly under joint venture or management contract arrangements, will be a key factor in Canada's future economic relations with most of the developing countries of the area. The location and kind of Canadian investment will have a strong determining effect on the two-way flow of trade.

86. A formula which has been highly successful in the past, and which may prove increasingly essential in future, is the "package" approach to developing new industries. Under these arrangements, (which have worked well in forest products and minerals development) Canadian expertise is utilized in exploratory work, followed by management and engineering, machinery and capital. With this "package" are likely to come both sales outlets for the production of the new industry, and expanding opportunities for sales of Canadian goods and services. In a number of these countries fields are developing (particularly the two cited) in which Canadian corporations and individuals can offer substantial experience and expertise.

87. The Policy Paper outlines a number of measures being taken to facilitate investment by Canadian corporations. The negotiation of double taxation agreements with Pacific countries is a preliminary step. The Committee believes that the new investment insurance facility of the Export Development Corporation (EDC) will be extensively utilized by Canadian investors in developing countries in the Pacific. The Government also states that "it will continue to make available to Canadian firms information about national development plans and their prospects, and ensure that they are informed about the export financing assistance available." (p. 18).

88. All these measures will be of considerable value in encouraging Canadian investors to assume a larger role. In particular, the dissemination of information is a vital function the importance of which is too often under-estimated.

89. Further discussion of investment in these countries will be found in the succeeding chapter.

VOLUNTARY EXPORT RESTRAINT AGREEMENTS BETWEEN CANADA AND EXPORTING COUNTRIES IN THE PACIFIC REGION*
(December 1971)**

Country	*Year First Agreement Negotiated by Canada* (1)	*Month Latest Agreement Concluded* (2)	*Period Covered by Latest Agreement* (3)	*Number of Separate Limits* (4)	*Cotton Textiles (more than 50 per cent Cotton Content)* (5)	*Other Textiles* (6)	*Non-Textile Products* (7)	*Implementing Provisions* (8)
China, People's Republic of	1963		Aug. 1970–July 1971	11	cotton yarn, fabric pillow cases, sheets, shirts, blouses, slacks and shorts	fabrics, towels, knitted wear, shirts, blouses, slacks and shorts	men's and boys' gloves, wholly or partly leather	
Hong Kong	1961	Aug. 1971	Oct. 1971–Sept. 1972	8	fabric, towels, shirts, blouses, nightwear, slacks and shorts, cotton yarn	shirts, blouses, slacks and shorts, sweaters (woolen and man-made)	—	Hong Kong authorizes exports and supplies monthly statistics of licensed shipments
Japan	1960	Oct. 1971	Jan. 1971–Dec. 1971	9	fabric, pillow cases, sheets, blouses, shirts, slacks and shorts	nylon fabric, blouses, shirts, elastic braid, slacks and shorts, pillow cases, sheets, polyester cotton and filament	electronic receiving tubes for radio and television; only tube types produced in Canada	"The Japanese Gov't will use its best endeavour to urge Japanese producers and exporters to so plan their shipments that there will be no undue concentration on any item within the quota categories"
Korea, Republic of	1967	July 1971	Jan. 1971–Dec. 1971	9	broad woven fabric, cotton yarn, pillow cases, sheets, shirts, blouses, slacks and shorts, sleepwear	nylon fabric, worsted fabric, woven shirts, blouses, knitted shirts, slacks and shorts, pillow cases, sheets, sleepwear, polyester fabric		The Korean Gov't has agreed to certify shipments of restrained goods.
Macao		Dec. 1970	Jan. 1971–Dec. 1971	5	garments of any fibre content: woven shirts, pyjamas, knitted sweaters, knitted shirts, slacks and shorts			Shipments under quota require export licence

Malaysia	1968	Dec. 1969	Sept. 1969 Aug. 1971	2	shirts, trousers	shirts, trousers		Exchange of statistical data envisaged
Singapore	1968	Dec. 1970	Jan. 1971– Dec. 1971	3	cotton towels, shirts, slacks and shorts	woven shirts, slacks and shorts		Exchange of statistical data envisaged
Taiwan	1963	Nov. 1969 (Dec. 1970)	Oct. 1969– Oct. 1971	6	cotton fabrics, woven shirts, sleepwear, slacks and shorts, (sheets and pillow cases)	woven shirts, slacks and shorts, (sheets and pillow cases)		

*SOURCE: Based mainly on material assembled by Prof. Klaus Stegeman to be published in a 1972 study for the Private Planning Association of Canada.
**Agreements that had expired in December 1971 are being negotiated. The information given in columns 2 to 8 refers to the latest agreements as of December 1971.

B. New Issues

The Canadian Approach

90. The first chapter of this report stressed the need for improved general co-ordination between different sectors if Canada is to adopt a more active and constructive role in the Pacific community. In the economic sphere, which is so central to the present overall relationship, better cooperation (both between and within the government and business sectors) is a particularly urgent necessity.

91. Improved communication is an important condition, and was recognized as such in the Policy Paper. It stated that "the Government welcomes the active co-operation of private interests involved in the Pacific", and pointed out that "the existing Pacific Basin Economic Cooperation Council provides a means for the expression of views to governments individually and jointly" (p. 19). However, the existing channels were not considered adequate, and the Government went further to state that it:

> is prepared to consider, with other interested parties, the establishment of a Pacific Economic Advisory Council which would bring private interests and the investment community together with government, in order to take best advantage of trading opportunities and investment possibilities in the Pacific area. (p. 19)

92. The Committee regrets that apparently no further action has been taken on this suggestion. In dealing with the Pacific in particular it is essential to maintain this kind of close and continuing dialogue. This requires a firm organizational structure. The Committee feels that the Canadian Committee of the Pacific Basin Economic Council *(P.B.E.C.)—with its established international connections and its joint sponsorship by the Canadian Manufacturers' Association and the Canadian Chamber of Commerce—should be able to provide appropriate representation from Canadian business for a continuing dialogue with governments. P.B.E.C. has a specialized committee structure and, according to the testimony of Mr. K. H. J. Clarke, the then Chairman of the Canadian Committee, has established a solid basis for exchanges with governments (see pages 4:53, 54). If it can be assured that P.B.E.C.'s Canadian membership is sufficiently representative of Canadian economic interests, the Committee recommends that a joint initiative be undertaken by the Canadian Committee of that group and the Government to establish arrangements for continuing consultation on a firm and regular basis, rather than attempting to set up a new advisory council.

93. Improved communications and continuing consultation are, however, only preliminaries to the kind of concerted economic policy required by Canada in the Pacific. Throughout the Committee's discussion of economic relations with Japan, it was clearly implied that Canada has been at a continuing disadvantage in dealing with that closely integrated and dynamic national entity. Related problems emerge in trading with the monopoly state trading corporations of China. Elsewhere in the Pacific, it has been pointed out, the greatest economic benefits will probably be reserved for countries which can assemble and implement composite "investment-aid-trade packages". Canada now uniformly lacks almost all the necessary characteristics, "Fragmentation of effort" is the rule.

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* The name of the organization was changed in May, 1971.

94. The extent of adjustment required should not be under-estimated. Mr. G. H. D. Hobbs, of Cominco Ltd. was asked if he was not suggesting "restructuring the whole Canadian economy along the lines of some of these other countries" (and notably Japan). He replied that:

> . . . in any economic situation you are dealing with dynamic factors that require change. Certainly the Pacific requires closer collaboration between industry and government, and the development of institutions to ensure that our best interests in aggregate are further to our maximum effort. This is a very sophisticated group of competitors that we are dealing with and it is quite unlike those in other areas of the world. (p. 6:17)

95. A necessary adjustment is the development and enforcement of uniform national requirements for the processing of resource exports. Resolution of the federal-provincial jurisdictional problems involved will be a less formidable matter when weighed against the heavy costs to the national economy of the continuance of the present unsatisfactory situation.

96. Another basic consideration in any attempt to extend and expand Canadian economic relations in an area is the availability of incentives and other stimulants from government to Canadian industry. These encouragements range from a tax climate which is generally favourable to exporting and to investment abroad by Canadian corporations, to a number of specific programmes of financial incentives including export credits insurance, export financing and foreign investment insurance. It is essential that Canadian businesses receive Government support which is fully comparable with that provided by other countries. A number of witnesses implied that this is not now the case. The Committee therefore recommends that urgent study be given by the Government to the incentives available to Canadian businesses involved in the Pacific region, with a view to ensuring a continuing level of "comparability" (especially in export incentive programmes) with the support available in competitor countries. The Pacific region is a highly competitive economic environment. It is therefore vital to remove unnecessary obstacles to a more dynamic Canadian performance.

97. Another far-reaching suggestion, which has been supported by a number of witnesses, is for the creation of some kind of Canadian counterparts for the most successful Japanese trading corporations. These corporations, with their special responsibilities and expertise in trading and overseas representations, are all either affiliated or integrated with a wide range of financial, producing and transportation companies. They are thus able to maintain continuing global representation and carry export transactions through from prospect to actual delivery. In carrying out these functions, they acquire an enormous fund of economic intelligence and familiarity with conditions in the countries in which they operate.

98. The contrast with the situation of Canadian companies is startling. In dealing with Japanese firms, for example, most smaller Canadian companies (and some of the larger ones) lack even their own translation services and are sometimes in the position of having to rely solely on the interpreter of the other party. Economic intelligence is sometimes comparably deficient.

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99. The formation of large Canadian trading companies to remedy these shortcomings will not be a simple task. Some witnesses have argued that Japanese corporate forms are essentially indigenous to that country and cannot be transplanted. However, comparable trading corporations operate elsewhere in the world.

100. Detailed study will also be needed to determine the exact form of organizations appropriate to the Canadian situation. In some Canadian industries, export agreements among producers may be sufficient to achieve the desired result. In other cases, a trading corporation structure may also be needed to provide market intelligence, negotiating facilities and expertise, and coordination of production, distribution and sales.

101. While all of the Committee's witnesses questioned on this subject favoured the new structures being in the private sector, they could not point to any immediate prospect of action. Such trading corporations will require effective cooperation from governments in Canada. The Committee recommends that the federal Government be prepared to take the first steps in organizing them. Naturally, the full support of the private sector must also be secured. The Committee therefore recommends that the formation of new trading structures of this kind be the first priority for discussion with the Pacific economic advisory committee when that group is formally constituted. In the meantime, the Government should conduct full studies of the types of structures in use elsewhere and the organizational alternatives available to Canada. Preliminary discussions should also be held with the Canadian Committee of the Pacific Basin Economic Council and other interested groups.

102. Co-operation between government and business in the sponsorship of trade missions and exhibitions is imperative. As promised in the Policy Paper, this kind of promotional activity is being stepped up. Increasing numbers of businessmen are moving in both directions and expenditures on trade missions and trade fairs are being increased. The policy of selectivity in promotion should maximize their effectiveness.

103. It is also relevant to ask why there is such an institution as the Canada-Japan Trade Council based in Ottawa and no comparable body operating in Tokyo. The inescapable answer seems to be that the Japanese business community has been energetic in its initiative interest and support, while no comparable drive has been forthcoming from their Canadian counterparts (see p. 11:12). The Committee finds that the Canadian need for this kind of vehicle of communication is much greater than the Japanese need. Canadian business groups should be actively studying the experience of this institution and acting on it as appropriate.

104. Mutual relationships among the Pacific nations have been developing at an impressive pace. The increasing economic importance of Japan to Canada has been documented in previous sections—Japan has also become Australia's most important trading partner. Japan-U.S. economic relations, while difficult at times,

have reached a scale of critical importance for both countries. In view of these growing ties (and the natural complementarity of the economies mentioned), it is not surprising that some observers have been much attracted by the idea of closer (and formalized) regional economic associations. One such suggestion of a Pacific trading bloc was originated by Mr. Miki, the former Foreign Minister of Japan. Though the specifics of the "Miki concept" were never fully defined, the basic notion was enthusiastically received in some quarters.

105. A number of the Committee's witnesses commented favorably on the possibility of closer regional economic associations, and the president of the Canada-Japan Trade Council went so far as to advocate that Canada take the initiative. He stated:

> I feel that Canada could take a lead in exploring the setting up of an economic association between the United States of America, Japan and Canada, and perhaps later on Australia and New Zealand, and perhaps still other countries such as the Philippines. We might then have a group of countries linked economically in a somewhat similar manner to the European Economic Community. Of course there would be many difficulties to be overcome, but I do not feel they would be insoluble. (11:10)

106. The parallel with the European Economic Community (EEC) indicates the ambitiousness of some of the hopes for regional economic integration. There is a wide range of more limited and gradual possibilities. In the light of developments subsequent to Mr. Houston's testimony (in March 1971), however, the prospects for any kind of closer regional integration appear slight at present.

107. From a Canadian point of view, there are also some very fundamental questions involved in any consideration of membership in a regional economic bloc. While the Pacific region unquestionably offers Canada expanding markets, it does not necessarily present the most attractive growth prospects for Canadian exports of fully-processed and manufactured goods. A regional arrangement in the Pacific, therefore, might benefit Canada much less than its partners and, conceivably, diminish more attractive Canadian opportunities elsewhere. The prospect of closer regional economic ties would, therefore, require intensive examination by Canada in the light of long term economic strategy. It is clear from the present state of economic relations between Japan and the United States that a regional trade bloc is probably a distant prospect and that Canadian initiatives in this regard would almost certainly prove ineffective at this time.

108. One field of cooperation, which is almost invariably mentioned in the context of regional economic arrangements among the developed countries of the Pacific, is assistance to the region's less-developed countries. Combined or better-coordinated aid efforts are generally to be welcomed, and the Pacific region may offer special opportunities for this kind of joint endeavour. Here, Canadian programmes may be effectively meshed with those of Australia, the Netherlands, Japan and other medium-sized donor-countries particularly involved. There are a number of possible mechanisms for achieving coordination on a regional scale—the Asian Development Bank (ADB) is one, and the Economic Commission for Asia and the Far East (ECAFE) another. The Committee recommends that Canada should work

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actively within these institutions to help mobilize the kind of massive aid effort required. The existing machinery for "aid consortia" and "consultative groups" should provide valuable experience in aid cooperation and help build a basis for joint undertakings on a regional scale. On a parallel basis, non-governmental regional groupings, such as the Pacific Basin Economic Council (PBEC) should work to strengthen the contribution of the private sector to regional development.

III CANADA'S INTEREST IN DEVELOPMENT COOPERATION

A. The Rationale

109. It is clear from the Government's Policy Paper, and from subsequent statements and announcements, that international development aid will be one of the main elements in Canada's future involvement in the Pacific region. The Committee firmly supports this policy.

110. Development assistance is a responsibility of richer countries toward their poorer neighbours and is a contribution to international social justice and the improvement of the global quality of life. It seems especially appropriate that Canada should very actively discharge this responsibility in the Pacific community, to balance the attractive commercial opportunities and economic benefits which it finds in the region. It seems clear that this contribution is expected of Canada and will be a prerequisite for full Canadian participation in the regional community. Ultimately, only widespread economic and social development can eliminate the conditions which produce chronic instability in the Pacific and make it a prime focus of international tension and conflict. It is in the field of development aid that Canada can best utilize its existing national institutions and capabilities to make a constructive contribution to the long-term peace and stability of the region. Supporting the moral imperatives involved is the impressive economic potential of the developing countries of the region, some of which are already at or near the take-off point of economic viability. A number of these countries already provide important markets for Canadian exports, and if present trends are maintained, continued rapid growth can be expected. Canada's own interests are thus directly served by the general progress of the regional economies, and in particular by their familiarization, through aid programmes, with Canadians and Canadian goods and services.

111. In the face of these very strong arguments for an expanded Canadian programme of development cooperation in the Pacific, it is also recognized that there are a number of significant constraints. The main limitation is the availability of Canadian aid resources in relation to the size of regional needs. It was reported to the Committee by CIDA that Canada's bilateral aid commitments and disbursements to Pacific Rim countries represent just under 6 per cent of the value of Canada's world-wide bilateral programme. This very small proportion, in spite of rapid increases in recent years, reflects the extent of continuing Canadian aid commitments elsewhere in the world. It is clear that all of the existing areas of emphasis—India and Pakistan, the Commonwealth Caribbean, and Francophone and Commonwealth Africa—will continue to require intensive Canadian assistance. Even with continuing increases in Canada's overall aid programme, it will be extremely difficult to quickly raise allocations to the Pacific to a much higher proportional level. Another constraint is imposed by

Canada's relative lack of knowledge and experience of most of the developing nations of the Pacific. With a few exceptions, such as Malaysia, Canada has not had aid programmes of substantial size or duration in Pacific countries, nor extensive involvements in other fields.

112. In view of these problems, the Committee believes it probable that Canada's programme of development cooperation in the Pacific will grow gradually, perhaps more gradually than is implied by the Government's Policy Paper. It would be regrettable if the foreign policy review, with its emphasis on "new directions" and greater involvement in the Pacific region were to have led to unrealistic expectations among potential recipient nations as to the amount of aid which Canada may provide. An illustration of this problem is the fact that in the Policy Paper it was stated that Indonesia would become a "country of concentration" for Canadian aid. As a start in this direction, the allocation for that country was doubled to $5.75 million in 1970. This figure, however, represented only slightly more than one per cent of the total aid received by Indonesia, a country of approximately 120 million people. Even with a continued rapid growth at this rate, it will clearly be some time before the Canadian programme assumes major importance from the Indonesian point of view.

113. In view of the limits on its present capabilities, the Committee considers it vital that Canada's approach to development cooperation in the Pacific be constructive and unostentatious in its tone. To make the most of the limited amounts of Canadian aid available, selectivity will be essential, both as to countries and fields of operation. In those countries where it will not be practicable to mount full bilateral programmes, Canada can still participate to great advantage through multilateral and regional channels.

B. **Regional Channels**

114. Canada is already contributing to the Pacific area programmes of the World Bank Group and the Asian Development Bank. On a sub-regional scale, Canadian support of the Mekong Committee has already proved worthwhile and shows continuing potential for the future. Similarly, Canadian assistance to the Asian Institute of Technology in Bangkok, and the University of the South Pacific in Fiji provide widespread development benefits in Southeast Asia and Oceania respectively. A particularly effective element of this assistance is the provision of scholarships for students from neighboring countries to study at these regional institutions. In most cases, this is a more efficient use of funds than bringing students to Canada, and has the further advantage of providing more relevant training conditions and helping to build up the capabilities of the local institutions.

115. Canada has encountered difficulties in pursuing its intention (expressed in the Policy Paper) "to establish closer relations" with the regional United Nations Commission, the Economic Commission for Asia and the Far East (ECAFE). The Secretary of State for External Affairs has said that the Canadian Government is postponing its application for non-regional membership "until after some ques-

tions of a constitutional and organizational nature within ECAFE have been resolved by the membership." It is to be hoped that this delay will not be prolonged and that Canada will soon be able to play a full role in this regional group.

C. Country Programmes

116. The Committee is encouraged by the apparent direction of the programme in Indonesia (stressing projects in the forestry and transportation sectors) and the continuing excellence of the diversified programme in Malaysia. Elsewhere, as in Thailand, Burma, Cambodia and Laos the emphasis on technical assistance and forestry and resource development seem to be a good blend of local needs and Canadian capabilities.

117. In the cases of Hong Kong and Singapore, the Committee notes the expressed view of CIDA that, in the light of their attainment of impressive and self-sustaining growth, it now "appears appropriate to de-emphasize Canadian assistance" to these countries. It remains true, however, that if these countries are to maintain their growth and extend its benefits throughout their societies, they will require continuing assistance from developed countries and fair access to overseas markets for their export products.

118. In the cases of South Korea and the Philippines, the Committee is concerned with the rationale presented by CIDA for the "modest" level of past Canadian assistance. The CIDA brief stated, "These countries have traditionally received substantial economic assistance from the United States and Japan, and for this reason have not been emphasized in the Canadian program." While the Committee would not be inclined to recommend concentrated Canadian assistance to these countries, it does not believe that such a retiring attitude is justified. No one, and least of all the countries concerned, would contend that it is healthy for them to be so largely dependent on any one "donor", and they are actively seeking to diversify their sources of development assistance. Furthermore, both of these countries are at a critical juncture in their economic development and both are important to Canada in their own right. Canada has substantial trade (and favourable trade balances) with both countries. The Philippines is Canada's largest market in Southeast Asia and the future potential appears bright. Both countries also provide significant numbers of immigrants to Canada. On these grounds, the Committee recommends that CIDA adopt a more positive approach to their development needs, and remain open to requests from these countries for Canadian participation in promising development projects.

119. In South Vietnam, and in Indochina generally, the Government anticipates that Canada may well have a significant role in rehabilitation aid after the cessation of hostilities. The Committee supports the emphasis placed on this future possibility in the Policy Paper. The needs for rehabilitation and reconstruction aid will of course be immense, and Canada, because of its non-involvement in the hostilities and its francophone cabability can play a particulary helpful role.

120. A further element in the Government's plans for development aid in the Pacific is the projected expansion of assistance to island territories of the South Pacific. Beginning with assistance to the University of the South Pacific, (in the form of scholarships, instructors, and some equipment), the programme has been extended to include the occasional provision of experts to the South Pacific Commission, and "a modest number" of teachers to Western Samoa. The CIDA brief to the Committee stated that further Canadian assistance is under consideration. The Committee has heard suggestions for a much-expanded Canadian effort in this area. Its advocates have pointed out that a relatively small infusion of resources could have quite a decisive impact in this region of less than four million people, and that Canada's bilingual capabilities could be used to good effect. The Committee believes that these are very strong arguments for a more energetic Canadian role. On the other hand, there are also grounds for some caution in approaching this situation. Because of its very "manageability" in terms of size, there is a temptation for Canadians to think along the lines of "adopting" the region in order to accelerate its development. This kind of sentiment may be seen in suggestions that Canada provide subsidized shipping services to and between the islands and provide special markets for a proportion of their exports. Such a scheme, if realized, would be likely to draw these countries into a very artificial Canadian "orbit". This would quickly be resented as paternalism and would probably frustrate the original good intent.

121. The Committee therefore recommends that Canada expand its assistance to the South Pacific countries and territories, acknowledging the need for Canadians to learn more about the region, and cooperating rather than competing with other outside countries working for regional development. The possibility of some form of closer association with the South Pacific Commission merits further examination by the Government.

D. **Coordination and Cooperation**

122. Working with the South Pacific Commission would provide opportunities for Canada to learn more about the area and at the same time coordinate its aid efforts with those of other interested donors, especially Australia and New Zealand. Some observers have suggested that this co-operation might take the form of a "little Colombo Plan". It must be reiterated that in the Pacific region this kind of co-operation with other donors is especially essential because of Canada's relative inexperience in the area and the limits of its available resources. Participation in regional and sub-regional development programmes is one of the most effective ways of sharing experience and achieving coordination, but there are also an increasing number of other possibilities. It will be generally beneficial to maintain an active dialogue with other donor countries with special Pacific interests. At the 1971 meeting of the Japan-Canada Ministerial Committee, it was agreed that the two countries should co-operate in their respective aid programmes. Other possibilities include the aid consortia and consultative groups to coordinate programmes in individual countries. Canada's membership in the Inter-Governmental Group on Indonesia is a positive move in this direction. On

a much broader scale, the Committee has heard suggestions for a massive joint effort for development, particularly in Southeast Asia (Prof. Ben Higgins recommended a kind of "Marshall Plan" for the region). While the level of Canada's present efforts would not lend credibility to a Canadian initiative in this direction, Canada could play a valuable role in such a plan. The special ties with Commonwealth and francophone countries, for instance, might prove very useful indeed.

E. **Trade, Investment and Development**

123. The Committee wishes to stress as forcefully as possible the central role of providing expanding trade opportunities in the economic development of these countries. Their achievement of economic growth and long-term stability will depend to a vital degree on their ability to find markets for their products of all kinds, especially labour-intensive manufactured goods. Many of the Committee's recommendations with respect to Canadian imports from the Caribbean are also applicable to Pacific countries. A full discussion of the problems involved for Canada and the new policies needed has also been presented in Chapter II A of the Report of the Subcommittee on International Assistance of the House of Commons Standing Committee on External Affairs and National Defence (May, 1971). Without decisive action to further assist these countries in the trade area, the Committee believes that present aid efforts may prove largely ineffectual.

124. In the present difficult trading climate among the developed nations the special needs of the developing countries appear to have been pushed even further into the background. The Generalized Preference System (GPS) for manufactured and semi-manufactured products of developing countries, which showed considerable promise, has not yet been generally implemented. In this respect, Canada and the U.S. have fallen behind the EEC and Japan, which have already put GPS schemes into effect. Implementation by Canada as soon as possible is needed to demonstrate a genuine Canadian commitment to development assistance. Once a GPS scheme is in operation, it should be applied as generously as possible and its coverage should be extended steadily as circumstances permit. Another important opportunity to act on these essential development issues will arise at the Third session of the United Nations Conference on Trade and Development (UNCTAD) in Santiago, Chile in 1972. The Committee hopes that Canada will be able to exercise a leading and progressive role among the developed countries at this important Conference.

125. The Commons Subcommittee report also goes into the broad range of current issues involved in the operations of Canadian-based investors in developing countries. The evidence before this Committee indicates that there is a substantial flow of investment from Canada to a number of developing countries in the Pacific. In these cases, this form of economic cooperation has great potential and is welcomed by the host-countries concerned. The fact that most of this investment is new means that arrangements can be made which are in accord with the realities of the contemporary situation and do not result in the kind of conflicts which have occurred in the past.

126. The encouragement offered to potential investors by the Canadian Government—in the form of CIDA incentives and EDC investment insurance—is a valuable complement to the official aid programme, and there are indications that the response from the Pacific region has been very good.

F. The Work of Non-governmental Agencies

127. Similarly complementary to the official programme of development assistance is the work of non-governmental agencies concerned with development cooperation. While this kind of Canadian involvement in the Pacific region has historic roots, it is not now as intensive as in some other areas of the world. As in other fields, however, Canadian activity is growing rapidly. The Committee's discussion with representatives of the Canadian University Service Overseas (CUSO)—which has the most personnel in the field—made it clear that the agencies are learning rapidly about the area and that their services are increasingly sought-after by local governments. Here again, the Government recognizes the complementary developmental role of these groups and provides a substantial portion of their financing. The Committee believes that this is a worthwhile use of aid funds, and that further support will be justified as these agencies expand their work in the Pacific region.

IV CANADA'S POLITICAL AND SECURITY INTERESTS

A. Regional Challenges and Canadian Capabilities

128. It has been observed earlier that Canada can be described as a "Pacific power" only in the economic sense, and then only if the national potential is more fully realized. In the more traditional senses in which the term is used, Canada has neither the aspiration nor the means of being a "Pacific power". In regional politics, however, one important Canadian asset is the experience as a relatively small power co-existing side-by-side with a superpower. As a result of this background, Canadians have an instinctive understanding of the aspirations of the smaller Pacific powers for national independence, and a familiarity with the lopsided power relationships which are characteristic of the region.

129. In very broad terms, the regional outlook was cogently summarized for the Committee by Professor Hedley Bull of the Australian National University, when he said:

> I think it is obvious that there grew up in the 1950's a pattern of power relationships in the Pacific area which in the course of the 1960's has been disintegrating and in the course of the 1970's will give place to something quite new. I believe that pattern will be governed primarily by the relationship of three great powers—the United States, the Soviet Union and China—and that the principal uncertainty of the 1970's is whether they will be joined by a fourth great power, Japan, and how the pattern of their relationships will be affected, if they are. (7:15)

130. At this point in time, there are numerous possibilities for the relations among these four giants, in patterns of competition, cooperation or merely co-existence. Yet against this uncertain background the smaller powers of the Pacific must pursue their own national objectives.

131. At the same time, as the Policy Paper notes, "The shifting power balance is . . . only one aspect of the pattern of unresolved tensions in the Pacific region". Further "seeds of instability and conflict" are to be found in: the challenges of ideology and technological change to traditional societies and institutions; the race to meet the rising expectations of Asian peoples for economic and social development; and the racial frictions and territorial ambitions which are, "in Asia as elsewhere, an aspect of the inter-action of peoples and nations." (Policy Paper, p. 9)

132. The leaders of most of the smaller nations of the Pacific, preoccupied with these problems, seek an external environment sufficiently secure for them to devote their full energies to the urgent tasks of nation-building. They are anxious to avoid being drawn into regional rivalries among the great powers.

133. The Policy Paper stressed, as a Canadian contribution to general peace and stability in the Pacific, the effort to establish diplomatic relations with the People's Republic of China, "in the hope that Canada would be able to make a contribution

towards bringing China into a more constructive relationship with the world community". (p. 24). Subsequently, negotiations proved successful and ambassadors have been exchanged. The modest statement of the Government's hopes was appropriate; Canada could not aspire to any grand mediatory role, and the agreement with Canada was certainly more a result of a new Chinese approach than a cause. However, it is noteworthy that, in spite of China's new bilateral and multilateral initiatives, Canada is still the only developed nation of the Pacific region which enjoys the full range of interstate relations with China. As others work gradually to remove the barriers to communication and understanding, there may be numerous ways in which Canada, with open lines of communication to all these powers, can help. Such a role, the Committee believes, may represent a significant contribution that Canada can make in the normalization of great-power relationships and thus in the achievement of a more stable equilibrium in the Pacific.

134. The Canadian Government does not envisage any extensive military involvement, direct or indirect, in the Pacific region. As the Minister of National Defence, Honourable Donald Macdonald, told the Committee about Canada's general foreign policy objectives in the Pacific:

> We believe the best way for Canada to enhance both its own aims and at the same time help the Asian countries achieve their goals of increasing their prosperity and raising the standard of living of their people is by increasing the level of trade and investment, and by development aid. The Government, therefore, . . . has given priority to our economic and political relations with the Pacific countries. (8:5)

135. The Committee agrees with these priorities, and particularly with the emphasis on development assistance as a constructive attack on the deep-rooted causes of social and international tension. While economic development provides no short-term assurance of stability, severe underdevelopment can only lead to continuing misery and conflict. The Committee therefore considers that development assistance is an urgent necessity for peace and stability in the Pacific, and one which is well-suited to Canada's interests and capabilities, especially in view of the flagging interest and commitment of some other donor countries.

136. In his testimony, Mr. Macdonald also stated:

> While the Government feels that . . . Canada neither can nor should engage in large scale military participation in the Western Pacific in the present circumstances, there are various things that the Department of National Defence and the Canadian armed forces can usefully do to make some contribution both to the stability of the area and to the furtherance of our foreign policy objectives. (8:5)

137. The Minister added, however, that "the Government has concluded that at the present time it is not in the Canadian interest to seek to participate in the various multilateral or bilateral security agreements in the Pacific. We do not, in other words, propose to enter the Australia, New Zealand, United States (ANZUS) pact, or the South-East Asia Treaty Organization (SEATO), or the Five Power Defence arrangements, or any . . . bilateral military alliance, with a Pacific country." (8:6) On the basis of its study, the Committee concurs with this "basic conclusion" of the foreign policy review.

B. **Particular Roles**

138. The military activities in which Canada will remain involved, according to the Minister's testimony, are: "to continue Canada's long-established programs of military collaboration with Australia and New Zealand, possibly to have limited military contacts with other Pacific countries, notably Japan, and to provide some carefully evaluated training assistance to Malaysia and Singapore." In addition to these involvements, Canadian military personnel continue to represent Canada on the Military Armistance Commission in Korea (a two-man team) and on the International Commission for Supervision and Control (ICSC) to Indochina (22 all ranks: 20 in Vietnam and 2 in Laos). A final—and the major—element in Pacific activity involving Canadian security interests is in jurisdictional, coastal and territorial protection on Canada's West Coast.

Jurisdictional, Coastal and Territorial Protection

139. Canada's military activities in the West Coast region are, of course, related to Canadian security interests in the Pacific area, and in various ways involve Canadian relationships with other Pacific countries. The major functions of the Canadian forces components in the area are related to the integrated arrangements for North American defence under the North American Air Defence (NORAD) and Alaska, Canada and United States (ALCANUS) agreements. In addition to this, elements of the armed forces are increasingly being utilized in conducting surveillance, and maintaining a Canadian presence, in relation to various kinds of coastal jurisdiction claimed by Canada. The Department of National Defence, in addition to maintaining its purely military preparedness, is well-equipped to assist other departments in the protection of the Canadian territorial sea, fishing zones, and pollution control zones. These activities have been assigned a very high priority in the Government's new defence policy. The Committee considers this an important step in the effective utilization of the Federal Government's overall capabilities to promote important national interests in the Pacific coastal region.

Military Cooperation and Contacts

140. Australia and New Zealand are at present the only two Pacific countries with which Canada is prepared to undertake programmes of military cooperation on any scale. These programmes are well-established and mutually beneficial, and the decision to continue them is justified. The Committee understands that the plans for "limited military contacts" with other Pacific countries (notably Japan) are unlikely to involve standardization or technical cooperation agreements or large-scale training exchanges. More restricted contacts may, however, help to enhance mutual good-will and maintain an atmosphere conducive to collaboration on broad issues of security policy. There is some uncertainty about Japan's potential role in Pacific security affairs (particularly in the light of partial American disengagement). While its significance should not be exaggerated, there is an obvious rationale for a Japanese-Canadian dialogue on these matters.

Military Training Assistance

141. The Government clearly approaches these activities with a certain measure of caution, as evidenced by the following statement in the DND background papers: "The provision of carefully evaluated and limited military training assistance, both in Canada and in the recipient country, is one way in which Canada can help selected friendly states."

142. The Committee finds this cautious approach to be fully justified and in certain areas would recommend further caution. The largest and longest-established programmes are those in Malaysia and Singapore (introduced in 1964). Both programmes appear to have provided tangible benefits (to the Canadian forces personnel involved as well as to the recipient governments) and have contributed to continuing good Canadian relations with these countries. It must be recognized, however, that there are certain intrinsically sensitive characteristics to this kind of assistance (particularly when it is restricted to "friendly" countries) and that in the complex and fluid Pacific environment the political risks might outweigh any potential benefits.

143. These risks and complexities are evident in the fact that since 1969 South Korea has been sending small numbers of military personnel to Canada for staff training and, in 1971, Indonesia has also been included. Even with very small numbers involved, serious diplomatic complications could arise if these countries became involved in international or certain types of internal hostilities. The Minister stated that in future for budgetary reasons, "a very large amount of assistance will be confined to Malaysia and Singapore". (p. 8:11). The Committee welcomes this statement, on the grounds that well-tested activities can be sufficiently concentrated in these two Commonwealth countries to provide benefits commensurate with the possible diplomatic risks.

Peacekeeping and Truce Supervisory Roles

144. Canada's continuing representation on the Korean Armistice Commission is a hold-over from Canadian participation in the Korean War, but does not in practical terms represent any open-ended Canadian commitment in the event of a renewal of hostilities. As the Minister stated, "the extent of our involvement would, of course, depend upon our own decisions." (p. 8:14). At the same time, the Committee is concerned that no final legal settlement to the Korean War has been arrived at and that the original participant countries would, in theory, be automatically involved (under UN Command) in any new hostilities. This longstanding anomaly, and the legal, political and military implications of Canada's continuing representation on the Armistice Commission, should be thoroughly examined by the Government. The Committee believes that the establishment of a Canadian Embassy in Seoul would allow for political representation to reflect and clarify Canada's current policies on these changing issues.

145. The outlook for truce supervision or peacekeeping activities in Indochina remains highly uncertain. As the Policy Paper states, the circumstances surrounding the cessation of hostilities will determine the prospects for different types of

arrangement. Clearly reflecting the frustrating Canadian experience with the ICSC, the Government has adopted a cautious approach to future operations, stating that, in the event of a settlement, "there could even be a role for an international mechanism, provided that a clear mandate, adequate resources and the full co-operation of the parties could be assured. These are essential conditions if the role of such an international mechanism is to be effective rather than merely symbolic." (p. 24). During his Pacific visits in 1970 and 1971, the Prime Minister at times expressed an even more guarded approach to the suggestion of Canadian participation in a revitalized ICSC, or similar new body.

146. The Committee concurs with the testimony of Mr. Macdonald, who stated " . . . there is, I think justifiably, a feeling of Canadian opinion—and I think there would be in this case—that if we can play a constructive and helpful role in Vietnam, then we should get right in there and do it." (p. 8:13). As the Policy Paper points out, "The political aspect of a new settlement will, in all likelihood, be even more complex." (p. 24). Here, of course, the intentions and commitments of the parties involved will be fully tested. The Committee agrees with the Government's judgement that "It would be unwise for Canada to go any distance in advance toward undertaking a new obligation to supervise a political settlement until it has been fully defined and is judged acceptable and workable." (p. 24).

147. While understanding the reasons for the Government's reservations, the Committee believes it important for Canada to indicate its continuing willingness to accept a role in order to help bring an end to the war in Indochina.

HIGHLIGHTS

of

CONCLUSIONS AND RECOMMENDATIONS

of the

REPORT

of the

STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

Respecting

CANADIAN RELATIONS

with the countries of the

PACIFIC REGION

GENERAL

While Canada cannot attempt to adopt uniform general policies toward the heterogeneous group of countries found in the Western Pacific Rim, an overall attitude and approach of increased Canadian involvement in the whole Pacific region is not only possible but essential.

It is probably only in the economic field that Canada can at present be called "a Pacific power". Canadian trade and investment relations in this area provide immense economic benefits to Canadians, including new opportunities for the diversification of Canada's overall economic interests. This alone is an insufficient basis for Canada's future relationships in the region. Pacific countries are anxious to see what role Canada will play in the achievement of regional peace and security and in co-operative action to share the benefits of economic development with the disadvantaged countries.

I THE BASIS FOR INVOLVEMENT

AWARENESS AND UNDERSTANDING

The Committee's evidence has indicated that Pacific Asia is the least familiar to Canadians of all the world's great zones of civilization. Canada lags behind other developed countries of the region, and some of the less developed, in generating a regional consciousness of the Pacific Rim and in acquiring the necessary knowledge and expertise. The Committee has therefore concluded that a large-scale and concerted national effort to improve Canadian understanding of the Pacific region is a vital pre-requisite to broader and more fruitful Canadian involvement.

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Specifically, the Committee recommends measures to promote the study of Pacific area languages in Canada; to better utilize and strengthen Canada's resources for Asian and Pacific studies; to expand exchanges of public information with Pacific countries; and to increase cultural exchanges (including sports competitions) and scientific and technological co-operation.

CO-ORDINATION

Canada suffers distinct disadvantages, in its relationships with close-knit Pacific societies, because of the diffuse and unco-ordinated character of its national dealings. A national policy of fuller and more active participation in Pacific affairs is unrealistic unless Canada is prepared to assert a more unified national presence and pursue consistent and coherent national policies.

In order to overcome a costly "fragmentation of effort" in Canada's economic relations with Pacific countries there is an urgent need for improved patterns of co-operation and communication between government and industry and among Canadian businesses themselves. Involvement of the academic community will also prove beneficial, and the Committee recommends prompt action on proposals of the Government's Policy Paper on the Pacific, to stimulate exchanges of personnel among these three sectors.

REPRESENTATION

While recognizing the financial and other constraints involved, the Committee has concluded that, if Canada is to pursue broad policies of increased involvement, the need for strengthened official representational facilities in the Pacific is urgent and inescapable. Prompt action should be taken to raise the Canadian mission in the Philippines to the status of a full embassy, and to establish a resident embassy in South Korea.

II CANADA'S ECONOMIC INTERESTS

In recent years, Canadian trade with Pacific countries (in both directions), has expanded at a phenomenal pace, and two-way flows of investment are growing steadily. All the indications are that the Pacific will continue to be an increasingly important focus for Canadian economic interests.

JAPAN

Japan is the dominant factor in Canada's Pacific trade and will probably become Canada's second largest market within the next few years.

The most striking features of Canada's export flow to Japan are the predominance of a few major groups of raw materials, and the concentration of their production in Western Canada which accounts for almost 80% of total Canadian exports. In contrast, more than 96% of Japanese exports to Canada are made up of a diversified range of processed and manufactured goods, with two-thirds of the total going to Ontario and Quebec.

The Committee is deeply concerned with the need for upgrading and diversifying Canadian exports to Japan. There is no longer any justification for the

great bulk (as much as 65%) of Canadian exports to be shipped to Japan, as the Policy Paper says, "in their rawest transportable and least profitable form."

The time has come for Canada to begin redressing this imbalance. A concerted national effort will be required, however, and the Committee considers this an urgent priority for action by industries concerned and by governments at all levels.

With respect to the serious problem represented by the unsatisfactory level of Canada's manufactured exports to Japan (less than 3% of the total), the Committee believes that the Canadian Government is justified in pressing for further tariff liberalization by Japan and for the elimination of its many "non-tariff barriers". Other clear needs, however, are to overcome the lack of famialiarity, imagination and aggressiveness on the part of Canadian businessmen in the area, and to attack the general problem of lagging scientific and technical innovation in Canadian industry.

In view of the vast discrepancy in the level of processing involved in Canadian and Japanese exports, the Committee found no basic inequity in the past in the overall dollar-imbalance in Canada's favour. Since Japan achieved a surplus in its 1971 trade with Canada there are now even more compelling reasons to focus on the "quality" rather than the gross volume of trade.

There have also been expressions of Japanese concern about Canadian limitations on certain types of imports. The Committee takes the view that Canada has a relatively open market in the textile field and that the voluntary restraint system, tied to rationalization plans, is a good one. Nor does it appear that the instrument of "anti-dumping" actions has been abused.

The increasing flow of private investment, in both directions, between Canada and Japan promises growing mutual benefit. Japanese investment in Canada represents a healthy diversification of Canada's sources of development capital, and seems to be sensitive and responsive to the conditions now prevailing for foreign investment in Canada.

Another increasingly important area of co-operation with Japan is that of scientific and technological exchanges. With the important Canadian mission of March 1972, a good beginning has been made in this field, and the Committee believes that Canadians can look forward to expanding, and highly beneficial, contacts in the future.

CHINA

Canada's trade with the People's Republic of China has been significant for more than a decade and shows considerable potential for further growth.

However, the present large imbalance of trade in Canada's favour cannot be sustained indefinitely. The main obstacle to increased exports from China to Canada in the past seems to have been the limited Chinese supplies of the goods of interest to Canadian importers. The general opinion, based on recent trade

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fairs, seems to be that these shortages are now being rectified. While total balance is not necessarily to be expected, it is probable that China will increasingly press for Canada to accept more of its exports in return for a continuing and growing place in the Chinese market.

China continues to provide a substantial and reliable market for Canadian grains. There are also encouraging signs that China will in future buy a widening range of Canadian goods, including forest and mineral products, machinery and transportation and communication equipment.

In the next few years, Canada is likely to meet increasing competition from other Western countries for the Chinese market in most product-areas. While spectacular growth should not be expected, however, the Committee believes that with the proper selling efforts, the Chinese will continue to be favourably disposed toward Canadian exports.

AUSTRALIA AND NEW ZEALAND

Canadians too often underestimate the importance of their economic relations with Australia and New Zealand. Each of these countries has long provided a substantial market for Canadian goods, especially job-producing manufactured and semi-manufactured products.

For all concerned, it will be essential to re-negotiate the full range of mutual preferences on a bilateral basis once the Commonwealth preferential system comes to an end, as a result of Britain's entry into the E.E.C.

OTHER COUNTRIES

In general, Canada tends to have a favourable balance of trade with the developing countries of the Pacific region and especially with the least-developed among them. Various factors are involved, but major adjustments will have to be made if these countries are to be helped to help themselves by expanding their exports.

It seems likely that private investment, particularly under joint venture or management contract arrangements, will be a key factor in Canada's future economic relations with most of the developing countries of the area. A formula which has been highly successful in the past, and may prove increasingly essential in the future, is the "package" approach to developing new industries.

THE CANADIAN APPROACH

In view of the urgent need for improved co-ordination in Canada's economic relationships in the Pacific, the Committee recommends that further action be taken on the Policy Paper's proposal for the establishment of a joint Pacific economic advisory council. If it can be assured that the representation of the Pacific Basin Economic Council is sufficiently comprehensive, the Committee recommends that the Government take a joint initiative with the Canadian Committee of P.B.E.C. to establish arrangements for continuing consultation on a firm and regular basis, rather than creating a new advisory council.

These are only preliminary steps, however, to the very basic new co-ordination required. The establishment and enforcement of uniform national requirements for the processing of resource exports is one pressing need. Another is for a national approach to scientific and technological innovation which will keep Canadian products marketable in the highly competitive Pacific environment.

In this competitive environment, the Committee also considers it essential that Canadian businesses receive government encouragement to export and invest abroad which is fully comparable with that provided by other countries.

Another imaginative, and well-supported, suggestion is for the formation of some kind of Canadian counterparts for the highly-successful Japanese trading corporations. These structures would provide market intelligence, negotiating facilities (including translation) and expertise and co-ordination of export production, distribution and sales. The Committee recommends that the formation of new trading structures of this kind be the first priority for discussion by the Government with the Pacific economic advisory council when such a group is formally constituted. In the meantime, the Government should conduct full studies of the types of structures in use elsewhere and the organizational alternatives available to Canada.

In the Committee's view, Canadian business groups concerned with the Pacific should also be studying actively the experience of the Canada-Japan Trade Council in Ottawa and considering the establishment of a counterpart body in Tokyo.

One field of closer co-operation which seems to have immediate potential is that of development assistance to the region's less-developed countries. The scope for co-operation is wide: through regional organizations (such as the ADB and ECAFE); through consortia and consultative groups; and through joint efforts with other medium-sized "donors" such as Australia, the Netherlands and Japan.

III CANADA'S INTEREST IN DEVELOPMENT CO-OPERATION

The Government has made it clear that development aid will be one of the main elements in Canada's future official involvement in the Pacific region. The Committee firmly supports this policy emphasis. It seems especially appropriate that Canada should very actively discharge this responsibility in the Pacific community, to balance the attractive commercial opportunities and economic benefits which it finds in the region. Through development co-operation Canada can also best utilize its national capabilities to make a constructive contribution to the long-term peace and stability of the region.

In spite of the very good reasons for expanding aid to Pacific countries, it must be recognized that Canadian aid will be limited by the scarcity of Canadian resources in relation to the size of regional needs, by continuing commitments elsewhere in the world, and by Canada's general inexperience in the area. The Committee thus considers it essential that Canada's approach to development

co-operation in the Pacific be constructive and unostentatious in its tone, reflecting the limits of its present capabilities.

In the new Pacific aid programme, selectivity will be essential, both as to countries and fields of operation. In those countries where it will not be practicable to mount full bilateral programmes, Canada can still participate to great advantage through multilateral and regional organizations.

On a regional scale, Canada is already active in the Pacific programmes of the World Bank group and the Asian Development Bank, and it is to be hoped that closer association with the ECAFE can soon be achieved. At a sub-regional level, support of the Mekong Committee, Asian Institute of Technology and the University of the South Pacific appear to be highly effective uses of Canadian aid funds. (A discussion of Canadian programmes in individual Pacific countries may be found in paragraphs 116 to 121).

After the cessation of hostilities in Indochina, the needs for rehabilitation and reconstruction aid will of course be immense, and Canada, because of its non-involvement in the war and its francophone capability, can play a particularly helpful part.

The Committee recommends a vigorous expansion of Canadian assistance to the countries of the South Pacific in co-operation with other outside countries concerned. It is important, however, to acknowledge the need for Canadians to learn more about this area, and to avoid creating paternalistic relationships. The possibility of some form of closer association with the South Pacific Commission merits further examination by the Government.

As in its report on Canada-Caribbean relations (of June 1970), the Committee wishes to stress as forcefully as possible the crucial role of expanding trade opportunities in the economic progress of developing countries. Many of the Committee's recommendations with respect to Canadian imports from the Caribbean are also applicable to Pacific countries. A full discussion of the problems involved for Canada and the new policies needed has also been presented in Chapter IIA of the Report of the Commons Subcommittee on International Development Assistance (29 May, 1971).

Canadian implementation of the Generalized Preference System (GPS) for developing countries is needed as soon as possible to demonstrate a genuine Canadian commitment to development assistance. Once a GPS scheme is in operation, it should be applied as generously as possible and its coverage should be steadily extended as circumstances permit.

Under the right conditions, the flow of Canadian private investment to these countries offers exciting potential for economic co-operation and development. The encouragement offered to potential investors by CIDA and the Export Development Corporation (EDC) is thus a valuable complement to the official aid programme.

Similarly complementary to the official programme of development assistance is the work of non-governmental agencies in the development field. While the Pacific region has not been an area of primary emphasis for these groups in the past, they are successfully responding to a growing demand and merit continuing support.

IV CANADA'S POLITICAL AND SECURITY INTERESTS

REGIONAL CHALLENGES AND CANADIAN CAPABILITIES

Because of their own history, Canadians have an instinctive understanding of the aspirations of the smaller Pacific powers for national independence, and a familiarity with the lop-sided power relationships which are characteristic of the region.

It is noteworthy that Canada is the only developed nation of the Pacific region which enjoys the full range of inter-state relations with China. Since Canada also has open lines of communication with all the nations which will sooner or later be moving to strengthen their relations with the People's Republic, there appears to be a continuing potential for a modest but useful Canadian contribution in normalizing China's position in the Pacific community.

The Canadian Government does not envisage participation in military alliances with Pacific countries, or any other extensive military involvement, in the region. It has instead given priority to co-operative political and economic action to alleviate the deep-rooted causes of social and international tension. The Committee fully agrees with these priorities which are well-suited both to regional needs and to Canada's interests and capabilities.

The major element in Pacific activity involving Canada's direct security interests is in jurisdictional, coastal, and territorial protection on Canada's West Coast. These activities have been assigned a very high priority in the Government's new defence policy. The Committee considers this an important step in the effective utilization of the federal government's overall capabilities to promote important national interests in the Pacific coastal region.

The Committee generally supports the continuation of Canada's limited programmes of military co-operation and training assistance with a number of Pacific countries. In the absence of a final legal settlement to the Korean War, the Committee is concerned about the possible legal and political implications of Canada's continuing representation on the Armistice Commission. These matters should be thoroughly examined by the Government. The Committee believes that the establishment of a Canadian embassy in Seoul would allow for political representation to reflect and clarify Canada's current policies on these changing issues.

With respect to truce supervisory functions in Indochina, the Committee, while understanding the reasons for the Government's reservations, believes it important for Canada to indicate its continued willingness to accept a role in order to help bring an end to the war in Indochina.

APPENDIX

STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS
(1970–1972)

Issue Number	*Date of Meeting*	*Witnesses Heard*
1	October 27, 1970	Dr. Lorne Kavic, Lecturer in International Politics, University of British Columbia.
2	November 4, 1970	*Department of Industry, Trade and Commerce:* Hon. Jean-Luc Pepin, Minister; Mr. F. R. Petrie, Director of the Pacific, Asia and Africa Branch; Mr. T. M. Burns, Assistant Deputy Minister for External Services; Mr. V. J. Macklin, General Director, Office of Economics. *Export Development Corporation:* Mr. F. M. Carlton, Loan Director, Asia Area.
3	November 10, 1970	Mr. R. W. Bonner, Executive Vice-President, Administration, MacMillan & Bloedel Ltd., Vancouver, British Columbia.
4	November 24, 1970	*ALCAN Aluminium Limited:* Mr. R. A. Gentles, Planning Co-ordinator; Mr. Karel C. Bala, Assistant Secretary; Mr. R. F. Allen, Assistant to the Vice-President (Finance) of ALCAN International. *International Nickel Company of Canada:* Mr. K. H. J. Clarke, Assistant Vice-President. *Canadian National Committee, Pacific Basin Economic Corporation Council:* Mr. K. H. J. Clarke, Chairman.
5	November 25, 1970	Mr. Mark Gayn, Chief of Asia Bureau, Toronto Star, Toronto.
6	December 1, 1970	*Canadian Pacific:* Mr. A. F. Joplin, Director of Development Planning. *C.P. Air:* Mr. Ian A. Gray, Vice-President—Administration; Mr. H. D. Cameron, Vice-President—International Affairs. *COMINCO:* Mr. G. H. D. Hobbs, Vice-President, Pacific Region.
7	December 8, 1970	Dr. Hedley N. Bull, Professor of International Relations of the Australian National University, presently on sabbatical leave at the Institute of War and Peace, Columbia University, New York.
8	January 27, 1971	*Department of National Defence:* Hon. D. S. Macdonald, Minister; Brig. General G. G. Bell, Director General of Plans; Mr. William Snarr, Director of Policy Guidance, Finance Division.

Issue Number	*Date of Meeting*	*Witnesses Heard*
9	February 9, 1971	Mr. Thomas Pope, Assistant Vice-President, Bankers Trust Company, New York City.
10	February 24, 1971	Mr. Chester A. Ronning, Former Canadian High Commissioner.
11	March 2, 1971	*Canada–Japan Trade Council:* Mr. Robert L. Houston, President; Mr. N. Gauthrie, Executive Secretary; Professor Keith Hay, Economics Professor at Carleton University.
12	March 9, 1971	*Department of Fisheries and Forestry:* Hon. Jack Davis, Minister; Dr. W. M. Sprules, Director, International Fisheries Branch.
13	March 11, 1971	Dr. John F. Howes, Professor of History, Department of Asian Studies, University of British Columbia.
14	April 6, 1971	Dr. Benjamin Higgins, Project Director, Centre for Research in Economic Development, University of Montreal, Montreal, P.Q.
15	April 27, 1971	*Canadian University Service Overseas (C.U.S.O.):* Mr. David M. Catmur, Director of Overseas Operations and Acting Executive Director; Mr. Robert D. H. Sallery, Editor-in-Chief, Readings in Development/Newstatements; Mr. Alfred E. Harland, Field Staff Officer in Papua–New Guinea; Mr. Jean-Marc Metivier, Director of Asian Programs; Miss Gail Ann Taylor, Assistant to Director of Fund Raising.
16	May 4, 1971	*Canadian International Development Agency: (C.I.D.A):* Mr. Fergus Chambers, Director General of Planning; Mr. Rick Ward, Desk Officer, Asia Area.
17	September 22, 1971	*Department of Industry, Trade and Commerce:* Hon. Jean-Luc Pepin, Minister; Mr. Frank Petrie, Director, Pacific, Asia and Africa Affairs Branch, Office of Area Relations; Mr. J. L. MacNeil, Chief, Pacific Division of the same branch.
18	October 20, 1971	Dr. Phillips Talbot, President, The Asia Society, New York City, U.S.A.

Note: A number of informal meetings with experts were also held.

INDEX OF COMMITTEE PROCEEDINGS RESPECTING THE PACIFIC REGION

(Third Session–28th Parliament)

Explanatory Notes:

This is an Index of the Proceedings of the Standing Senate Committee on Foreign Affairs respecting Canadian relations with the countries of the Pacific Region. These studies were carried out during the Third Session of the 28th Parliament.

Each issue is paginated separately (e.g., 2:17, 9:16, 17, 18).

For list of witnesses, titles, dates and issue numbers, see Appendix to the Committee's Report, which appears immediately preceding this Index.

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FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

1972

THE SENATE OF CANADA

PROCEEDINGS OF THE STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 2

TUESDAY, MARCH 21, 1972

First Proceedings Respecting:

Canadian Relations with the Expanded European Communities

(Witness:—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE
ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*
and
The Honourable Senators:

Belisle	Lapointe
Cameron	Macnaughton
Carter	McElman
Choquette	McLean
Connolly (*Ottawa West*)	McNamara
Croll	Nichol
Eudes	O'Leary
Fergusson	Quart
Gouin	Rattenbury
Haig	Sparrow
Heath	Sullivan
Lafond	White
Laird	Yuzyk–(30).
Lang	

Ex Officio Members: Flynn and Martin
(Quorum 7)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate Thursday, March 16, 1972:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Aird, seconded by the Honourable Senator Connolly, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the expanded European Communities.

After debate, and–
The question being put on the motion, it was–
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

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Minutes of Proceedings

Tuesday, March 21, 1972.
(3)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met at 3.35 p.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Cameron, Carter, Connolly (*Ottawa West*), Croll, Eudes, Fergusson, Grosart, Heath, Lafond, Laird, Lapointe, Martin, Macnaughton, McElman, McNamara, Sparrow, White and Yuzyk. (19)

Present but not of the Committee: The Honourable Senator Smith.

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee commenced its study of Canadian Relations with the expanded European Communities.

WITNESSES:

Department of External Affairs:
The Honourable Mitchell Sharp,
Secretary of State for External Affairs.

Mr. Michel Dupuy,
Assistant Under-Secretary of State
for Economic and Social Development.

At 5.08 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E.W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, March 21, 1972.

The Standing Senate Committee on Foreign Affairs met this day at 3.30 p.m. to examine Canadian relations with the expanded European Communities.

Senator John B. Aird (*Chairman*) in the Chair.

The Chairman: Honourable senators, this afternoon's meeting is the first in our study of Canada's relations with the expanded European Communities. Although our inquiry may spend considerable time looking at the economic aspects of our relationship with the new Europe, there are broader implications for Canada as well. What will be the effect of European integration on the Atlantic Alliance? What effect will the new European economic giant have on Canadian export trade? What effect would European monetary integration have on international currency problems and the Canadian monetary position? These are a few of the questions that the Canadian people must increasingly ask.

Today we are most fortunate to have as our lead-off witness the Honourable Mitchell Sharp. The minister is in the best position to give us an overview of the whole range of Canada's present relations with the Communities. Undoubtedly, he and his department have become more preoccupied with this problem in the last two years as Britain's entry apparently has become more assured. Canada's contacts have accordingly become more numerous with the EEC. During 1970 and 1971 Mr. Sharp paid several visits to EEC officials in Brussels. He has held discussions with each of the member states and Britain, and he received in Ottawa both the Right Honourable Geoffrey Rippon, the chief negotiator for British entry, and Mr. F.M. Malfatti, President of the Commission of the European Economic Communities. Mr. Ralf Dahrendorf, the Commissioner for External Relations and External Trade, will visit Canada next month.

Mr. Sharp has reported that during these conversations he attempted to stress Canada's continuing need for Europe, and to urge that the enlargement of the Common Market should not take place at the expense of third countries like Canada. The committee will be very interested in hearing his assessment of the success he has had in making the Europeans more aware of the Canadian position, and his thoughts as to what long-term as well as short-term effects the enlargement will have on Canada.

Mr. Sharp is accompanied today by Mr. Michel Dupuy.

Following our usual procedure, I have asked Senator Grosart if he will lead the questioning. Senator McNamara has indicated that he will follow, and the Chair will recognize other senators in due course.

Mr. Minister, on behalf of the committee I am very pleased to welcome you and to invite you to make your opening remarks.

Hon. Mitchell Sharp, Secretary of State for External Affairs: I am grateful for being able to appear before you. You have chosen a timely and important topic to examine. Canada's developing relationship with the European Economic Communities is of increasing importance. It is one of the preoccupations of the Government in foreign policy. We want these relations to be closer. We welcome your examination of them and we shall look forward to your suggestions. Indeed, during your own travels to Europe, you will be able to assist our efforts in this direction.

For all these reasons, I wish to provide a framework for your consideration of these relations.

First, what is the actual state of our relations with the ten countries that will presumably make up the enlarged EEC? You are aware of the closeness of the ties forged during two world wars and our post-war alliance. The EEC now contains both our founding nations, and, as well, other countries of birth of many Canadians. The two most used working languages of the new Europeans are the two official languages of Canada. I do not suggest that this alone provides a basis for new relations. But I do think that we speak the same language as the Europeans in many important respects.

We admire the imaginative concept that the enlarged Community provides for Europe's potential.

Our Prime Minister underlined this potential in his messages of congratulation to Prime Minister Heath and to the Presidents of the EEC Commission at the time the new members signed the Treaty of Accession in January.

Messages were sent also to the heads of government in Ireland, Norway and Dennmark. Mr. Trudeau wrote:

> Canadians admire the audacity of concept of the new Community and skillfulness with which it has been designed. We are confident that the economic strength which will flow from it will be employed in a fashion of benefit not just to the partners but to all members of the International Community. A co-operating, prospering, Europe has much to offer the world in friendship, in trade, in economic assistance and in example.

In political terms, the entire Atlantic world is going to be affected by this new dynamic Europe which is taking shape before our eyes. Adjustments are going to have to be made in recognition of the new balance which will come about in the Western world. For its part, the United States has long wanted the Europeans to assume a greater share of the burden of ensuring their own security. These

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two tendencies have a cumulative effect on the way the Atlantic Alliance–as we have known it since the war– will work in future. European unity is by no means incompatible with stronger ties with Europe's major partners. Thus, there are problems of adjusting relations as between the Western countries. These require solutions not only for their own sake but also because solidarity in the West is as important as ever in an era of rapidly evolving relations with Eastern Europe.

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 million 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 cause of 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 cannot sell too well what we do not make, obviously. For this reason, we are thinking about our general policies toward the EEC very much in terms of policies on which we are working in other areas: energy policy, investment policy, industrial policy generally–including policy on secondary industry and policy on research and development–and other related policy studies. Our success in realizing our own potential could well be related to some extent to the EEC's success in doing the same thing. We should develop a degree of interest in this expanding but difficult market in keeping with its potential and with what we are doing, say, in the United States market.

I mentioned that we spoke the same language.

This is partly because we share some of the same problems. Many of you will have read the book by Jean-Jacques Servan-Schreiber of a few years ago which has by now become something of a classic, *Le Défi Américain*: The American Challenge. You will recall that *Le Défi Américain* documents the difficulties the Europeans have had in building big enough companies in technologically sophisticated fields–to generate sufficient capital–to finance sufficient research and development–to permit the innovation in technology–to make these companies competitive. Meanwhile, European firms have shown a tendency to sell out more often to American multinationals than to a European competitor. Put in these terms, the Europeans have a problem with which we have had some experience.

Common problems do not necessarily make partnerships. We would all, I am sure, prefer to choose our bedfellows on some basis other than misery. Moreover, I think that both the EEC–which has wrought an economic miracle–and Canada–which last year led the world in growth in industrial production–are rather buoyant than anything else. But there are problems. To the extent these are common to both the EEC and to Canada, we can help each other to develop solutions to our mutual benefit. This is the basis for partnership and this is the time to make the effort required.

In recent years, we have been trying hard to develop closer economic relations in the field of sophisticated manufactured goods. We have sent technological missions and trade missions to Europe. We have had some good results. But now I think that we shall begin to get better results. I do not know if the Europeans have had the political will in the past to make the effort necessary. They may have been inhibited by reservations about the degree to which Canadian interests were nationally distinct, and about our wish to co-operate in the future. Until recently, I doubt if we demonstrated this clearly enough to the Europeans to distract them from their preoccupations with internal consolidation. Both Mr. Pepin and myself have brought this to their attention in our visits to European capitals over the last year and a half, as the Chairman mentioned in his opening remarks.

Of course, we shall also be raising with them our export interests which have been adversely affected by Britain's joining the EEC: over 40% of our 1971 exports to the United Kingdom of over one billion three hundred millions dollars could now face more difficult entry. There are other issues as well. I will not document them here as you are familiar with them but you may be sure that they will be defended. Britain's entry into the EEC was a decision for Britain to make. While we welcome the EEC's success, the parties to enlargement must understand that the burden of adjustment thrown

upon Canada is greater than that placed upon any other country outside the enlarged EEC. If EEC policies took a protectionist turnover there could be real damage to our trade. We have, therefore, been pleased to note the recent declaration of intent published by the United States and the EEC in which they make a pledge to enter into broad multilateral trade negotiations in about a year from now. If a new balance is necessary we want it at a higher not lower level of trade.

So we intend to speak to the Europeans not only about the protection of our present interests but also to work now with them to develop our shared potential interests. We shall both benefit from outward looking approaches and liberalizing tendencies in world trade, since our respective stakes in world trade are important. Closer relations will assist us both. Closer industrial ties would help.

In the end, of course, the possibilities of closer industrial ties are going to be only as la:ge as the mutual interests and abilities of Canadian and European industry make them. We can't develop synthetic interest. I am convinced, however, that a closer examination of possibilities will reveal matters of ample potential interest, if the political will is there. I believe this is now more apparent on both sides.

Let me say, very forcefully, Mr. Chairman, that there is nothing in what I have said which could be seen as being in any way "anti-American". Nothing I have said is intended to suggest that the closeness of our relations with the United States needs re-evaluation in the light of possibilities for closer economic relations with Europe. Indeed, it is because of the unusual closeness of our economic relations with the United States that we need energetically to explore the possibilities of other areas we may have underplayed. It is all the more necessary for us to do this in Europe now that Britain has joined the EEC.

Never before have so many questions been raised about Canada's relations with Europe. Until now, Europe has been too busy re-organising itself to pay much attention to how it is going to arrange its relations with the rest of the world. This is changing, and with this change there is an opportunity to improve our relationship. Europe is now going to have to devote some attention to deciding how it wants to maintain the links it has with others–above all, with its closest and most important partners in Canada and the United States.

I believe that it is in Europe's interest that Canada remain independent, prosperous and united. Europeans should be convinced of this fact. I believe the Europeans have come to appreciate this more clearly in the past few months than ever before. Because of their own preoccupations, because of distance, because perhaps we did not explain ourselves often enough–for many reasons–they were inclined in the past to assume that the view they took of their relations with the United States would do more or less for their relations with Canada. The Government has worked to change this attitude, with some success. It is a fact of considerable importance that the next European Summit will have specifically on its Agenda the question of the European Community's relations with its major economic partners which I have no doubt will include Canada.

For our own part, we should try to keep as open-minded an attitude as possible to the new forms of multi-lateral co-operation the Europeans are trying to work out among themselves. We have to look to our interests, and we will. But their success is our success. Both bilaterally with the European capitals, and multilaterally with the institutions of the Community itself, we wish to build upon the multiple dialogue we have begun.

There will be much hard work before we can develop the sort of relations with the new Europe that will suit our interests. This is why I welcome all contributions to the dialogue, including those of your committee. The government also looks forward to receiving shortly a visit from Mr. Dahrendorf, the Community's Commissioner for foreign affairs and a former German Parliamentary Secretary to Mr. Scheel. Many of the themes I have touched on above will be discussed with him. The EEC with Great Britain and Ireland, Norway and Denmark is a developing economic power of great strength and wide-ranging political significance. Canada has much at stake in the Community. Canada has much in common with the Community. And I am convinced both our stake and our common interests will grow.

I shall look forward to our own appraisal.

The Chairman: Thank you, Mr. Minister. From the applause, you will gather that we are indeed grateful to you for your full presentation and statement.

We turn now to the question period, and I call upon Senator Grosart.

Senator Grosart: Mr. Minister, we are certainly glad to have you with us again. After all, you are the oracle in this field and we are mere suppliants seeking the truth.

Hon. Mr. Sharp: I will bear that in mind as a quotation.

Senator Grosart: The words which occur most often in your presentation, Mr. Minister, are "close, closer, closeness". I think I counted eleven times when these are used. It seems to me that the questions with which we will be most closely concerned are: How close? And in what form?

Your paper seems to suggest that this new closeness will come from business-to-business relationships, largely within the political framework. But do you see any possibility of a formal relationship between Canada and the EEC along any of the lines of their present relations, the association relationship, the preferential arrangements, the non-preferential trade arrangements? Are we going to go in that direction, or are we going to rely on free market arrangements?

Hon. Mr. Sharp: Mr. Chairman, I think the short answer to the question is that this government has not intention of seeking any formal relationship with the EEC by way of becoming an associate member or entering into any of the preferential arrangements that this organization has made with other states, whether former colonies of member countries, or all around the Mediterranean, and so on. Our policy remains based on a multilateral approach and not upon relationships of this kind.

We believe it is in our interest to work towards the lowering of trade barriers in a general way and towards the negotiation, on a multilateral basis, of reductions of all barriers to trade, rather than upon the negotiating of special arrangements either with the United States or with Europe, if I may generalize for a moment.

Senator Grosart: Of course, you can use that word "multilateral" in many senses. It merely means many nations, not particular nations. There are already many multilateral arrangements within the EEC and the enlarged EEC. Why do we say that we have to wait for the whole world to come up with the kind of international business climate that we want, before we actually say we will go out and do what everybody else is doing and make deals?

Hon. Mr. Sharp: I believe, Mr. Chairman, that it is in our interest to follow—and I use a different terminology, since the senator seems to feel that "multilateral" does not convey what I had in mind—non-discriminatory trade relations. In other words, I do not think that Canada should enter into discriminatory trade relationships with Europe or with the United States, as we have been sometimes urged to do. I believe that it suits our purpose better to avoid such exclusive relationships. That is what they are; they exclude someone else. If we enter into a preferential relationship with Europe, it discriminates against the United States. Similarly, if we entered into one with the United States, it would discriminate against Europe and other countries.

We have, indeed, protested very strongly against the kind of preferential arrangements that are emerging around Europe; because, while we have no objection and, indeed, in some ways encouraged the formation of common markets and free trade areas, we do not favour the kind of preferential arrangements that have been entered into by Europe with countries around the fringes of Europe. We have protested quite strongly, along with the Americans, against these tendencies; and I hope that our views are being taken seriously and that, in fact, the situation will move to the point where this kind of arrangement becomes of minor importance. The Europeans justify these arrangements on the ground that these are countries that need assistance. To which I have said, "Fine, you help them. But should you demand, in turn, that they discriminate against us in your favor? " That is the argument.

Senator Grosart: But is it not so that the whole trend is for these limited kinds of multilateral trading agreements to proliferate rather than going the other way?

Hon. Mr. Sharp: Unfortunately, they have been proliferating, but I think Canadian policy should be very strongly opposed. I think that we ought not and cannot oppose the formation of genuine free-trade areas or common markets where there is, in effect, one area trading with others. But these preferential arrangements that have been multiplying around Europe are, it seems to me, a menace to the stability of the trading system and are particularly opposed to our interests. This is one of the reasons why I say to you, Senator Grosart, through you, Mr. Chariman, that I do think that, if we are going to be consistent in opposing those kinds of arrangements which discriminate against us, we must not be tempted to enter into them.

Senator Grosart: Is our opposing them going to have any effect?

Hon. Mr. Sharp: I think it will, yes. I think it has already. I can give you an example of the sort of problem that arises. I was in Africa some months ago visiting the East African Community, which is a small common market, as you know, in the centre of Africa. I protested to them about their preferential arrangements with Europe. I asked, "Why did you give preference to Europe? Do you want to become, exclusively, a ward or a protectorate of Europe? Do you not want us to help in your assistance and in your development? " I said, "By entering into these preferential arrangements with Europe, you have discriminated against Canada, which is offering to help in the development of your country." Well, they had not looked at it from that point of view.

When I went to Europe I made the same point. I asked, "Do you want us to help in the development of Africa, or do you want to encourage policies which discriminate against those who are helping? "

Senator Grosart: Do you think there is any possibility, Mr. Minister, that this will happen—in other words, that we will start to correlate our international aid or external aid policies with our trade policies with respect to these countries? For example, I refer to the three East African Commonwealth countries which now have special arrangements with the EEC. If these people are making trade agreements which are prejudicial to our interest, is it going to make sense for us to continue to give them external aid?

Hon. Mr. Sharp: Let me put it this way, sir: If we are not helping, there is very little we can say about it; but, if we are, they will listen to what we are saying. As I say, I have no objection if the Europeans give them special advantages on the European market. That is, perhaps, a way that Europe can help in the development of those countries, their former colonies. But when they demand, in return, that those former colonies discriminate in favour of Europe against countries like Canada and the United States, I think it is a very bad policy from the point of view even of the Europeans themselves. I think it tends to break up the world into discriminatory trading blocs.

Senator Grosart: But even if they are given preferential access to the common market, is that not, in effect, discrimination against us?

Hon. Mr. Sharp: No. We can easily counter by offering them preferential arrangements in our market, which we are about to do.

Senator Grosart: But it would still prejudice our position with respect to access to the European Common Market.

Hon. Mr. Sharp: No. We are not very competitive with most of these countries. We do not object to the extention of preferential arrangements to the developing countries of the world.

The Chairman: Quite the reverse.

Hon. Mr. Sharp: Yes, quite the reverse. Indeed, I hope that very shortly we will be approving a generalized preferential scheme in favour of underdeveloped countries. So I really do not object to Europe's giving preferences to its former colonies or to any other countries that are in an underdeveloped state. I do object very strongly, and I think all Canadians should, to the reverse preference.

Senator Grosart: And yet some of these special trading arrangements are with countries which could hardly be regarded as developing countries–for example, Yugoslavia, and perhaps Spain, in one sense. There seems to be an indication that these preferential trading agreements will be extended, perhaps well behind the Iron Curtain, to Roumania, Bulgaria and so on.

Hon. Mr. Sharp: Yes. We have objected very strongly to these. Some are justified on the basis that they are the first steps to eventual inclusion within the common market. That may be a reason. But in many cases I do not think that that is what is going to happen, and they amount to preferential trading arrangements which are opposed to our own interests. However, I do not think that the answer is for us to enter into preferential arrangements with Europe, because then we would be discriminating against countries where we hope to sell goods, and they would probably take action against us.

Senator Grosart: Finally, Mr. Minister, do you really think it is going to be possible for our trade policy to increase the proportion of our export trade that is not with the United States?

Hon. Mr. Sharp: Yes, I think the possibilities of diversifying are very good. I do not think our trade with the United States is going to decline. Indeed, I expect that it will go on increasing.

Senator Grosart: But as a percentage?

Hon. Mr. Sharp: But, as a percentage, I expect it will go down. There is every reason to think so.

The world has changed dramatically in the last few years. At one time the United States was a giant amongst mere mortals in an economic sense. Now Europe, which you are studying, is challenging the position of the United States, and so is Japan, which some people think will become richer per capita in some years even than the United States. So we have an opportunity of diversifying our trade which we never had before. That is why this government has been emphasizing the importance of our relations with both Europe and Japan in trade. My colleague, Mr. Pepin, went to Japan and entered into probably the most fruitful negotiations we have ever had with Japan. We now have a group of companies coming here–among others, the Mitsubishi company. They are interested in buying things from Canada. But what is our industrial capacity? This is a revolution that I never thought would happen as quickly as it is.

Senator Grosart: I can think of two former prime ministers who had very high hopes of reversing the "eggs in one basket." Mr. Bennett was going to blast it, and Mr. Diefenbaker had another way of doing it.

Hon. Mr. Sharp: Both were Conservatives.

Senator Grosart: Yes. I had forgotten that. Thank you.

Hon. Mr. Sharp: May I just make one slight comment on that, Mr. Chairman? This government has not been suggesting a diversification in our imports *per se,* as Mr. Diefenbaker did suggest at one time. Mr. Diefenbaker talked about diverting imports from the United States to the United Kingdom; but we have been talking in terms of diversifying our exports and our imports–of just diversifying all of our trade.

Senator McNamara: Mr. Minister, if I may say something as an aside first, I am very much enjoying the reverse roles the Minister and I are taking this afternoon, as compared to our association over the years.

From your remarks, Mr. Minister, and from the paper you have presented and the statements of government policy, it would appear that the Canadian government is now more conscious of the potentiality and necessity of expanding trade with Europe, as compared to what we have been directing our attention to more recently. Is the British entry influencing us greatly in this regard?

Hon. Mr. Sharp: Yes. We are influenced by the growing strength of Europe and the opportunity that this does give us for carrying out a policy of diversification with some chance of achieving results. Up until a few years ago the European market was not that attractive to us; but now, with the end of the Kennedy Round and the lowering of our tariff barriers around Europe, it has become one of the more accessible markets and one of the most rapidly growing.

The entry of Britain has necessitated our trying to compensate for any temporary losses that would arise as a result of the ending of the preferences. So the combination of these factors has concentrated our attention on Europe.

Moreover, from a political point of view we have seen the great opportunity for diversifying our cultural and our political relations which are now so greatly dominated by the United States. As I said in my remarks, this is not anti-Americanism; it is simply an attempt to retain and build up our own traditions, based upon our associations with Europe from which our people originally came.

Senator McNamara: In this regard, Mr. Minister, I have had some concern recently about our approach to the individual Common Market countries, as a way of developing our trade. In the past we have had our relationships with the various nations, but now with the centralization of control through the EEC and the Council of Ministers. I wonder if having our office in Brussels and having our ambassadors and trade commissions dealing with the individual governments, is going to continue to be the effective approach, or do we have to think more of dealing with the Community as a Community rather than with the individual trading partners?

Hon. Mr. Sharp: I think inevitably we are going to be dealing more with the EEC Commission. One of the problems we have encountered in trying to work our relationship with the EEC along the lines of the relationship which we have with our other principal

trading partners, the United States and Japan, is just the sheer mechanics of it. How do you establish relationships with a body that is representative of many governments? When we work out a relationship with the United States we set up a joint cabinet committee, and the same applies to Japan; but we cannot set up a joint cabinet committee with the European Economic Community in the same way. There are ten governments in the enlarged Community, so we have to work out a different kind of mechanism. However, we are beginning to do this. It has been an extremely delicate problem for the Europeans too. Some consider that whatever they work out with us might have implications for their other important trading partners as well.

The Chairman: Is the US example of any help to you in this?

Hon. Mr. Sharp: Yes, it is. May I add also that we fully expect that we will have to enlarge our Brussells operation and, in due course, have a separate ambassador to the Community, quite apart from our ambassador to Belgium. At the present time our ambassador to Belgium is serving both functions, but our plan is to split that office and have an ambassador to the Community as well as one to Brussels.

Senator McNamara: I think that is absolutely necessary because if we are going to get the advantage of the influence of the British on trading policies, which I think would be very helpful to us, then it seems that we have to have some form of more direct access to the Council of Ministers, because, as I understand it, all their major policies are not decided on an individual basis but are formalized by the Council of Ministers. Eventually, if we are going to have the benefit of the British influence, we will have to have more direct access to the Council of Ministers.

There is a further question I want to ask relating to agricultural products, of which I know something. Do we gain by dealing bilaterally, or should we be working with the United States in relation to problems which also concern them in making our representations? In other words, is it best for us to go our separate ways?

Hon. Mr. Sharp: Well, when Mr. Pepin and I made our forays into Europe during the last months and years, we did it in both places. I visited the Commissioners in Community headquarters, and I took the occasion of visiting the ministers in each country and urged the Canadian point of view, the importance of Canada, in the plans that the Europeans had for their consultations with the rest of the world. I think this will have to go on; I do not think you can depend on contact only with the ECC Commission and its representatives. I think we will have to continue to urge our point of view upon the individual countries which form the Community itself, although the decisions are made by all EEC member countries jointly. There is no doubt about that. We must find some way of getting to those who make the decisions.

Senator McNamara: Is there a danger that the Community will regard us simply as being North American, with the result that every deal they make with the Americans will automatically apply to us?

Hon. Mr. Sharp: We were very fearful of this. We have heard offhand opinions expressed, not perhaps by very important people, but by some people that Canada "is just part of the North American market, so why should we worry about the Canadians? They make their deals with the Americans, and we make our deals amongst ourselves." That has changed. We have had very encouraging signs that not only do the Europeans not regard us in this way, but they do not want that to happen. They look on an independent Canadian position as being valuable to them.

You are also asking about our co-operation with the United States. Well, there are occasions when we do not have common cause with them, not as you have seen recently; but there are occasions when we do have common cause with them, and one is in the field of agriculture. But there, senator, as you probably know, the Americans have probably done better, relatively, than we have because they have been concentrating upon feeds and oil seeds.

Senator McNamara: I have a further question dealing with my own field, which is grain. Do you share my view that in so far as the British entry into the Common Market and our wheat exports are concerned, it is not going to be very harmful to us? It is my view that the United Kingdom has already cut down to the extent where they need quality wheat and they will still need this percentage whether they are in the Common Market or not, and our wheat trade is not going to be adversely affected.

Hon. Mr. Sharp: That is the view that I have formed. It is not going to be helpful, but I do not think it will affect us too seriously. I imagine we will continue to do as much wheat business as we have been doing.

Senator McNamara: But even in the field of other grains, such as barley where we are going to lose our preference by the recent action of the United Kingdom Government to protect their own domestic consumption and in imposing a levy, I do not see that this will be too damaging. I am not saying that it will help us, but I do not think it will be too damaging to us.

Hon. Mr. Sharp: Mr. Chairman, on all these matters I always accept the advice of Senator McNamara.

Senator Connolly (Ottawa West): If I might ask a supplementary question on this point: You have been talking about the arrangements made with the Commission of the Community, and then you follow up with the ministers of the various countries concerned, and now that the Community has been enlarged there are obviously more calls to make. That is on the official side of the trading question, and that is trying to get policies to make it possible to trade under the best available circumstances. But is not the real nub of increasing trade the salesmanship efforts put forward by Canadian exporters and by Canadian producers? That is something that I should think must be done, not only on the basis of the individual country concerned but also on the basis of the individual company in the individual country that would be importing or might be a potential importer of Canadian goods.

I wonder if you would like to speak about the relationship between activities to enlarge and develop our export trade with

Europe–which are taking place on the official level, with which you are primarily concerned, and properly so–and those on the part of the private sector.

Hon. Mr. Sharp: Mr. Chairman, I feel that Senator Connolly has touched upon some of the most important aspects of our developing economic relations with Europe. In my opening remarks I touched on this subject rather briefly. I do not believe that we have yet begun to explore the possibilities within the European market with respect to industrial goods from Canada. We can expect Europe to look to us for raw materials, and so on, as their demands grow. Canada is a good, reliable source of supply. Sales of these kinds of materials do not require a great deal of saleamanship. They may require other qualities, but it is not primarily a job of selling. It is, however, a job of producing in stable quantities and at good prices that which is required.

When you speak of industrial goods you are in a different field altogether. There is little evidence to suggest that our producers of manufactured goods have yet taken the European market as seriously as they have the American market. There are many reasons for this. However, I hope those reasons will not prevail very long.

Europe is, of course, a highly advanced and very sophisticated producer of manufactured goods. At first blush, it might appear unlikely that Canada would be able to break into this market. However, experience shows that the more highly industrialized a community or country becomes. the more it is required to import manufactured goods: it does not tend to reduce imports of manufactured goods; it tends to enlarge the market and create more opportunity for outsiders to participate. The United States is a very good example of this. It would seem to me we are merely at the beginning of the process, just as we are with Japan. It is quite remarkable that as early as this date we are thinking about marketing Canadian manufactured goods in Japan. No one would have thought this was likely. However, it is now beginning to emerge. They have buyers looking at the potential which exists in Canada.

Senator Connolly (Ottawa West): Do we have Canadian sellers in Japan?

Hon. Mr. Sharp: Not as many as we would like to see in Japan. This is partly due to the fact that the Canadian manufacturing industry is not geared to produce either for the European or the Japanese market. It is essentially geared to produce for the North American market. We have often criticized Britain for not having adapted themselves to the requirements of the North American market. However, to some extent, we are now guilty of the same thing. If we want to diversify, we must think not in terms of producing North American goods for Europe, but of producing the kind of goods that can be sold in Europe or Japan, as the case may be.

Senator Connolly (Ottawa West): Mr. Chairman, I do not wish to go beyond this question, but I think there are probably many efforts being made on official diplomatic, departmental and governmental levels to increase our trading relationship with the Community and with Europe generally. I am wondering whether our own producers, and I am speaking mainly about our industrial producers, are making comparable efforts; and also if there is something which this committee might do to encourage developments of this kind in the private sector.

Hon. Mr. Sharp: Well, there is one activity which we have been carrying on to an increasing extent, and which I feel will help, and that is the encouragement of technological exchanges.

Senator Connolly (Ottawa West): You are speaking about the government involvement, are you not?

Hon. Mr. Sharp: No, technological exchanges in cooperation with industry.

Senator Connolly (Ottawa West): I see. You are opening the door, so to speak?

Hon. Mr. Sharp: Yes, we are opening the door for technological exchanges between industries of the two countries. This is important in our endeavour to build up our trading relationships, and it is becoming more and more important as we become more sophisticated.

As far as this committee is concerned, I am not aware of the number of big industrialists there are here. At any rate, in your contacts, and particularly in the report which you will be making, emphasis could be placed upon this. As I have said, we are merely beginning what we hope will be a more serious effort to break into the European market.

The Chairman: In the minister's opening remarks, he indicated that he would welcome any input this committee could make. No doubt we will be looking into this matter.

Senator Carter: In reply to a question asked by Senator Grosart, you mentioned something about a multi-national agreement which you considered to be discriminatory. How do these agreements fit in with GATT? What will eventually happen to GATT?

Hon. Mr. Sharp: We contend that some of these agreements are in contravention of the underlying principles of non-discrimination. It is necessary to establish that they do not infringe upon these principles. However, we feel that they do. What is occuring in the world with respect to trading relationships, and especially in relation to GATT, is really quite dramatic. The Kennedy Round, for example, consisted of tariff negotiations among developed countries with the European Common Market. The EEC was then composed of six countries–leaving Britain and several other independent European countries, Canada, the United States, Japan, Australia, New Zealand, and a group of smaller countries. Now, it is quite different. Within the Community now there is a group of ten countries embracing the original six countries plus the new four. In addition, special arrangements are being formed with EFTA and other European countries, such as Switzerland, Sweden, Finland, Spain, Yugoslavia, Portugal. There is also the group of countries along the Mediterranean which have entered into preferential arrangements with the EEC.

Moreover, former colonies of the European countries can carry their preferential arrangements over if they wish, and this could include as many as thirty former British or French colonies. All of these form a great EEC bloc on the outside of which are really very few industrialized GATT countries: the United States, Japan, Canada, Australia and New Zealand. For this reason, not a great many countries now negotiate and follow principles of non-discrimination.

We have been making the point to our trading partners that these relationships are shifting. That is why we have urged that the type of arrangements which we have with the United States and Japan for close consultation should be matched by consultation with Europe. Therefore, the next round of negotiations, which I hope will take place, will be quite different. We hope that the principles will be retained, but I have to agree with Senator Grosart in the implication of his observation, that there will be as many countries in breach of the GATT principles as conform. This will be true in numbers, if not in total volume of trade involved.

We are now the fourth of several economic giants. We do not realize this ourselves, but after the enlarged EEC come the USA and Japan; and then Canada is next.

The Chairman: As a trading nation.

Hon. Mr. Sharp: Yes.

Senator Grosart: And approximately 50 of the 93 GATT countries are in this bloc.

Hon. Mr. Sharp: Yes. I hope that soon we ourselves will be participating in a generalized preference system which will look after the underdeveloped countries of the world. It will be a concentrated negotiation in so far as our barriers to trade and those of Europe, the United States and Japan are concerned, and in quite a different atmosphere. I hope, however, that we can retain the principles of non-discrimination, at least in negotiation with these groups. In any event, I do not consider that an exclusive relationship with any of the economic giants would serve a useful purpose for a country such as Canada, which wishes to remain independent.

Senator Carter: If the present members of GATT do not now honour its principles, would it not be even more difficult for blocs if it must be taken on faith, or can something practical be done about it?

Hon. Mr. Sharp: I do not know. The Europeans claim that they do not seek these arrangements. They say that the countries approach them asking for special relations. They ask, moreover, "Surely, you would not wish us to divide Europe, but to have special relations with Switzerland, Sweden and all others who are not now members of the Community? Surely, you believe in the unity of Europe? " I do, but I do not believe in discrimination, nor do I like to see these instruments used against us, which is, in effect, what happens.

Senator Carter: You mentioned in your presentation the book *The American Challenge*. The thesis of that book is that American companies buy into Europe out of their profits, acquiring assets very much as we say they do in Canada, not with new capital but out of profits. Would that be allowed to continue in the new enlarged market, or would steps be taken to curb it?

Hon. Mr. Sharp: I do not know what attitude the new Community will take towards foreign investment. I am familiar with the positions of individual countries. They do not, of course, have the same problem as we in terms of degree. Foreign ownership is the exception in Europe. There are many, many competing companies which have their origin and home office in Europe. Unfortunately we do not have as many.

Senator Carter: You spoke of the growing strength ot the European Common Market and the fact that we cannot afford to be lackadaisical concerning our relations with it but must take it more seriously. What will be the impact on communist nations if that growth in strength continues and the European Common Market emerges as an even stronger giant?

Hon. Mr. Sharp: The Russians are very suspicious of the European Common Market. They believe that it has political in addition to economic significance. Our view is that it has political significance, but that it makes for stability in the world rather than otherwise. We believe that a united western Europe is better than one divided, as it was in the past. The wars we have been involved in there, of course, arose out of conflicts between members of the Common Market. The fact that they are now joined together in an economic grouping reduces enormously the chances that another conflict would arise out of a war between, for instance, France and Germany. The Russians, on the other hand, feel that this is not a development favourable to their interests. That point of view is very short-sighted, in my opinion. If the Russians are interested in peace and stability in the world, they should not oppose this development. At the moment, however, I think it is fair to say that they view it with great suspicion.

Senator Carter: In Canada we feel the pull of the tremendous influence of the huge United States. The same situation will prevail in Europe when this giant community of two or three hundred million people emerges with small countries on its fringes as a buffer between the communist and European blocs. Will there not exist the same pull towards them as we find towards the United States, which would cause tension?

Hon. Mr. Sharp: Perhaps. There is no doubt about the attractiveness of Europe to many of the peoples along the borders. There have been signs that these countries would like to have some type of relationship with Western Europe. One very apparent phenomenon is the desire of Eastern Europe to participate in the technology of the western world. I expect that there would be an increase in the number of exchanges between eastern and western Europe. This is one of the reasons for my personal opinion that the formation of the Community is a stabilizing factor. In the long run it will be a very good thing for the world that these countries have united and pooled their economic sovereignty and have decided, to some extent, to proceed on agreed lines.

It is highly unlikely, in my judgment, that a grouping such as that would ever be aggressive. There are too many national interests involved for them to be able to embark on an aggressive policy. That is one reason for my opinion that this will make for peace. The situation was much more unstable when individual nationalities became aggressive.

The Chairman: I would like to ask a quick supplementary before I call upon Senator Yuzyk. I wonder whether you would comment on Mr. Brezhnev's remarks about the reality of the EEC. A short report appeared in yesterday's newspaper. Mr Brezhnev was addressing a trade union conference in Moscow and in a very long speech he dealt with the EEC and spoke about its reality. The newspaper report seemed to attach some significance to this.

Mr. Michel Dupuy, Assistant Under-Secretary of State for Economic and Social Development, Department of External Affairs: I did not see the report. There is an evolution, it seems, in the attitude of the Soviet Union. At first they seemed to be very skeptical about the prospects for the development of a serious community of Western interests but they have had to yield to the evidence. One by one, some of the Eastern European states have developed, as Mr. Sharp has indicated, a certain relationship with the Common Market. This is not a highly official form of relationship, but is in the form of commissions and trade agreements. The Soviet Union has been watching the scene; and increasingly, in statements made by their ministers or senior officials, they have given this kind of recognition to the existence of the Common Market.

The Chairman: Thank you very much.

Senator Connolly (Ottawa West): not only have they relations and treaties, but there is trade between the USSR and some countries within the Community. I have already mentioned the United Kingdom, France, West Germany, and so on. They are trading back and forth to the extent of a quarter of a billion dollars a year. It may be double that figure this year. So, it is a reality.

Senator Yuzyk: My first question is with regard to external policies of the EEC, as far as we get wind of them or as they are pronounced from time to time. Has the EEC made any effort to negotiate with Canada along certain lines? My second question is connected with my first. Is there any information which would lead us to believe that the EEC could establish an embassy here in Ottawa, with which we could negotiate?

Hon. Mr. Sharp: Perhaps, Mr. Chairman, I should start by saying that so far this is an economic community. They have pooled their economic sovereignty to a very large extent, and increasingly so. They are now talking about a common currency. They are beginning to bring all of their economic policies under the purview of the Community organization. They have not as yet, so far as I know, taken any really significant steps to pool their political sovereignty, or in any way to interfere with the relationships between individual countries and the outside world on political questions. In other words, we never talk about, and I do not think the Economic Commission is authorized to talk to us about, anything except economic questions.

In so far as economic questions are concerned, we have been having not formal negotiations but consultations in the way that I have described. I have visited the European Economic Communities' Commission headquarters a number of times. I cannot remember how many times, but each time that I go to Europe I make a point of going to Brussels to see the President and other members of the Commission, to discuss our common problems in the Commission's jurisdiction.

I think it is fair to say that so far most of the initiative has come from our side, because the Europeans have been so concerned about developing their internal organization that they have not devoted very much time to their external relationships, even on economic questions. That is now beginning to change. Mr. Malfatti, the former president–I believe he has just retired–

Mr. Dupuy: He retired this week.

Hon. Mr. Sharp: –came here in September last. Mr. Dahrendorf is coming next month. This is the beginning of a process. Our trade relations with all the EEC member countries are governed by the GATT. This is assumed in the new relationship with the EEC Commission, which now speaks on behalf of EEC member states on external trade and tariff matters, since there is a common EEC tariff.

Senator Yuzyk: Surely, it would be in our interest to encourage them to set up a mission here in Canada in the very near future, even along trade lines? At the basis of the EEC is also political unity, which will have to be worked out, perhaps in the fairly near future. Perhaps that is what the USSR is fearful about.

Hon. Mr. Sharp: Yes. There is no doubt that the European movement is ultimately a political movement. It is designed to promote unity among the countries of Western Europe. I am sure that this is one of the reasons why the USSR took a rather negative view. Now, recognizing its reality, she is having to deal with it.

From our point of view, I would have thought we should encourage a political unity of that part of the world which, as I say, has been the location of so much conflict. The end of wars in Europe would certainly be one great gain in the cause of world peace.

I do not know whether Mr. Dupuy would like to add anything on the political side.

Mr. Dupuy: On the question of representation of the Community and formal links with other governments, they have taken a position that they welcome the embassies or missions of non-EEC countries in Brussels. Through these missions–and we have an important one–the EEC Commission and the EEC Council have a relationship with foreign governments. They have, on the other hand, been inhibited in reciprocating with Common Market missions abroad. This is largely due to the views of some of the member states on supranationality. They feel that the establishment of

European Economic Communities missions abroad would be an exercise in such supranationality, which is not quite in keeping with what they regard the EEC at this stage to be.

Senator Yuzyk: Has the EEC sent any officials abroad?

Mr. Dupuy: They have opened about four or five information offices abroad, the most important of which is in Washington.

Senator Yuzyk: Thank you.

Senator White: Mr. Chairman, I should like to ask the minister a question about a statement on page 4, which refers to the amount of our exports to Britain and the difficulties which will be faced. For example, I understand that cheese and bacon at the present time have preferential treatment. Now, when this preferential treatment no longer exists under the new system, will the Danes then have a decided advantage over Canada as regards the exporting of Cheddar cheese, milk products, bacon, and so on, to the United Kingdom; and could you give any idea as to what the present preferences are under the old setup?

Hon. Mr. Sharp: I cannot offhand, senator, but I do have a number of experts with me.

Mr. Dupuy: Generally speaking, it is quite true that the Danes will gain better access to the British market as a result of both countries joining the European Economic Communities as full members. However, the Danes already enjoy some preferred treatment in the British market as a result of their common membership in the European Free Trade Area. In addition, with regard to certain agricultural commodities–including, if my memory serves me, bacon–there exists a special bilateral arrangement between Denmark and the United Kingdom which provides for a large measure of free trade. There will definitely be change, but the change may not be that dramatic because of the existence of this bilateral agreement, particularly covering the agricultural products, and their common membership in EFTA.

Senator White: But Canada will be at a decided disadvantage with respect to the shipment of dairy products and bacon to the United Kingdom–is that not correct?

Mr. Dupuy: Yes.

Senator White: And once the new setup gets going, I take it that from that point on the United Kingdom will not be able to make an agreement of any kind with Canada; in other words, it would have to be a decision of the whole Community?

Mr. Dupuy: Yes, senator, the whole of the common commercial policy will be decided in Brussels.

Senator White: One other question, Mr. Minister. You referred earlier to the possibilities of their policies taking a protectionist turn. Do you not think that the present policies among the old members are protectionist?

Hon. Mr. Sharp: No. They are more protectionist in agriculture than they are in other products, but in industrial products they have the lowest tariffs in the world. It is in agriculture where it is not the tariff but the common agricultural policy which is designed to protect European agriculture.

One of our concerns when Britain entered the Common Market was, of course, the application of the common agricultural policy to Britain. It was also a concern to the British, I might add, because they thought they were going to be faced with much higher prices as a result. However, there are various transitional arrangements that will help somewhat in reducing the impact. I think our general view is that if Europe does succeed in uniting and in becoming a more productive union the demand for imports will rise more rapidly than if the constituent parts remained separated. That is the general opinion we have formed. In support of this, if you look at our respective trading histories with the EEC and Britain you will note that our exports to Britain in recent years have not risen very much, whereas our exports to the EEC have risen quite dramatically; so we believe that when Britain and the others join Europe they will, united, be a bigger importer than they were separate countries.

Senator White: Do you not think they will still buy our cheese, seeing it is the best cheese in the world?

Hon. Mr. Sharp: I should hope so. Indeed, as you probably are aware, there was a time when we had to try to sell our cheese in Britain, but now it has come to be recognized as a specialty, as it ought to be.

Senator Cameron: My first question is really one of mechanics. The minister suggested that we might appoint an ambassador to the European Economic Communities.

Hon. Mr. Sharp: May I interrupt? At the present time we do have an ambassador to the EEC. I said that we might consider having a separate ambassador.

Senator Cameron: In doing this, do you envisage setting up an organization with commercial ministers, as you would within a country?

Hon. Mr. Sharp: I would think that there would have to be an even greater number of specialists on his staff, yes.

Senator Cameron: Do you envisage the commission, which is the executive arm of the Council of Europe, co-ordinating their purchases and making their purchases through that body?

Hon. Mr. Sharp: No.

Senator Cameron: So it would be done through the individual countries pooling their needs?

Hon. Mr. Sharp: In effect, they will be one country in some respects. It will eventually be like the United States for trade purposes. In other words, Canada will trade with the various parts of Europe, as it does with the various regions of the United States.

Someone once remarked that the most important free trade area in the world has been the United States.

Senator Cameron: I am thinking of the co-ordination between the special mission to the EEC and the existing organization–the ambassadors and the commercial ministers in the individual countries.

Hon. Mr. Sharp: It could be much the same relationship dealing with commercial matters that there is with our ambassador in Washington. Political matters, of course, are another thing. We already have trade commissioners spread throughout the United States promoting the sale of goods, and the same thing will happen in Europe. The local embassies will have trade commissioners who will be helping Canadian industrialists and others to sell in Europe.

Senator Cameron: In effect, you are envisaging a more aggressive approach than we have had so far.

Hon. Mr. Sharp: Yes.

Senator Cameron: The second question is this: It is frequently remarked by some of our competitors–the Japanese and Russians have mentioned it, but I have not heard that much from the Europeans–that Canadian business has not been as aggressive as it might be in seeking markets. At various times you have sent missions or delegations of businessmen to various countries. As a result of those missions have you any measurable evidence of the return Canada has been able to receive?

Hon. Mr. Sharp: It is difficult to measure that. Attempts are made, particularly in the Department of Industry, Trade and Commerce, to show the effect of such missions, but for a country like Canada, which exports large quantities of raw materials and foodstuffs, it is difficult. Wheat, for example is sold on the basis of its quality, availability and suitability to the needs of the people; metals are sold to manufacturers rather than to the public, and so on. That part of the business is promoted by the trade commissioners and by the other agents of the Canadian government, but it is a rather different business, of course, getting entry into the consumer markets for finished goods, and there the trade commissioners have their most important role. However, in terms of the results, they look smaller than the results in terms of the vast quantities of raw materials and foodstuffs that we sell. We see better examples of that in the United States, where we have evidence to show that we are able to sell more successfully within a region of the United States if we have a trade commissioner co-ordinating the efforts of Canadians who are trying to sell in that market.

Senator Connolly (Ottawa-West): Snowmobiles, for example.

Hon. Mr. Sharp: Yes. The nature of the business makes it difficult to measure the effectiveness of a particular person in promoting trade. It is a cumulative effect which sometimes takes years to be realized.

Senator Cameron: I realize that, but I was wondering if you had any spectacular evidence.

Hon. Mr. Sharp: The most spectacular example we have had of an increase in our exports of industrial goods, of course, has been under the automobile agreement, where business co-operated with the government in exploiting the possibilities, and we have had so great a success that the Americans have protested.

Senator Cameron: Your answer relates to my next question. The Special Committee of the Senate on Science Policy has suggested that if we are to provide the jobs needed to reduce unemployment in Canada, we must do so through an expansion of secondary industry. I may have misunderstood you, but I thought you said that we are entering into a pretty tough league when we start to export the products of secondary industry into a very sophisticated European market. Do you see any special areas where we might have an advantage in Europe, assuming we upgrade the quality of our secondary industries?

Hon. Mr. Sharp: Yes, there is some evidence that the Europeans recognize that Canada is a quite technologically advanced country. We have seen evidence of this in various forms, in their desire to have technological exchanges, to enter into agreements with us. I think we sometimes under-rate ourselves in this field. In some areas we probably have the best technology in the world, and this is Canadian, being developed to suit Canadian requirements. This is undoubtedly so in fields like hydro, pulp and paper, mining.

Senator Cameron: Electronics too.

Hon. Mr. Sharp: And in electronics. In many, many fields we are not behind anyone at all. What I was saying was that we have never thought in terms of the European market for the purpose of developing our technology. We have always been thinking more in terms of the North American market, and quite rightly; it was the most prosperous and the most available. Now, if we are to diversify, we have to leap across the Atlantic Ocean of the Pacific Ocean, and try to do this in a market with which we are not so familiar, where advertising is different, where much is different.

Senator Fergusson: Mr. Minister, maybe you have already answered what I have in mind when you said that the Community is economic and not political. However, I understand that amongst the institutions of the EEC there is an economic and social committee. I believe it is only consultative, and is made up of employers, professional people, farmers and others. All the discussions we have had seem to have been on trade. If this consultative body has some responsibility in the social area, I should like to know what they might be consulted about. Is there any attempt to co-ordinate the social policies of the different members of the EEC?

Hon. Mr. Sharp: Perhaps the shortest answer is to say that if the Europeans succeed in unifying their currencies, as they are now attempting to do, to reduce the margins of fluctuations between the currencies of Europe, with the eventual aim of having a single currency, they cannot achieve this without co-ordination of almost all aspects of their economic and social policies. The co-ordination would even extend into the defence of currencies, because when you think about the consequences of having a single currency you must realize that that implies a willingness on the part of each to

come to the help of the other, which will not succeed unless each has confidence in the fiscal and monetary policies of each of the partners. It seems to me that that will require a great deal of co-ordination, not only of economic policy but of social policy, and perhaps even of military defence policy, because that often looms so large in the budgets of the individual countries. I think the short answer is that they are moving towards the co-ordination of all their policies, and they must be if they are to have a common currency.

Senator Fergusson: This question may seem silly. The Prime Minister's message of congratulation finishes by saying:

> A co-operating, prospering Europe has much to offer the world in friendship, in trade, in economic assistance.

Friendship is not only one way. If they are going to offer us friendship, we have to offer them friendship too. What are we doing? Just having trade with people does not always make for friendship—sometimes the contrary!

Hon. Mr. Sharp: For example, almost all the members of the EEC are members of NATO, and we have a very friendly relationship in that military alliance with them. Canada has also been trying to promote friendly relations, in the most general sense, with all the EEC countries in many ways. I think for another example, I may say that recently our efforts to promote friendlier relations with France have succeeded enormously.

Senator Fergusson: Yes, I agree.

Senator McElman: I appreciate that the emphasis is towards economics, but there is evolving, of course, the political aspect too. In a situation in which one of the members of the Community is damaging Canadian industry to a great extent, have the political aspects of the Community evolved sufficiently that Canada could negotiate through it to reduce that damage, to repair it? I am thinking here particularly of the Atlantic salmon fishery, which has reached a crisis situation, primarily because of the Danes. Has the Community evolved in a political sense sufficiently that it would be useful to deal or negotiate through them, in addition to the negotiations Canada has already had?

Hon. Mr. Sharp: I do not think that point has yet arrived, What is involved here is fishing by the Danes on the high seas. So far as I know, the European Community has not yet entered into any agreements amongst themselves in relation to fishing on the high seas. They have some agreements relating to fisheries, fisheries within the coastal waters, the definition of zones and so on. When you get out on to the high seas, where the Danes are finding our salmon, we have to deal with them directly, and I do not think the Danes would be prepared to see their decisions influenced by the Community.

This is my own assessment of the situation. I agree, however, that the implication of trends is that, not only will this be a concern of the Community—and I think it will be because the great danger of over-fishing will affect everybody—but it will become a concern of the whole world.

The Danish example is probably one of the best of the effects that over-fishing by one country can have upon the welfare of many other countries—not just those of the EEC Common Market, of course, but the United States, ourselves, other countries, including the Japanese, who are fishing on the Pacific. We do not yet know what the instant relationships are within these various species.

Senator McElman: At this point in time, even unofficial negotiations would not be effective?

Hon. Mr. Sharp: They would not be effective, in my judgment.

Senator Heath: Mr. Chairman, I think the minister has answered my question already, by inference. I was wondering how this is gradually to phase out NATO and bring in an enlarged EEC.

Hon. Mr. Sharp: The military alliance is not, of course, synonymous with the EEC, but I do feel that in order to ensure a strong alliance of the Western countries, there must be a strong economic foundation. I say this not because of Article II of the NATO Agreement, but just generally. You may recall that about a year and a half ago I was in Europe and I spoke out very strongly about the dangers that the world was facing, of a confrontation between the Europeans and the Americans in the field of trade. I did not realize at the time how prophetic my utterances were, but it all came true in due course. I am even more strongly of the view now that NATO would be subject to very great strains, if we were to face an economic confrontation between Europe and America.

Senator Lapointe: A few minutes ago you mentioned Mr. Malfatti and his visit, and we heard that an EEC official had complained that there was not much coverage of his visit here. Did the Government issue a press release when he came, or what is the matter with the English-language press?

Hon. Mr. Sharp: They are all sitting at the back of the room. I looked upon the visit as being of very great importance, and we devoted a great deal of time to his visit here. The press probably had something much more important to put in the headlines at the time, but I do not remember exactly.

Senator Lapointe: Do you think that Canadians are alert enough or interested enough in these problems, especially the press?

Hon. Mr. Sharp: No, I do not think they are, and I hope they will be.

Senator Cameron: They were probably concerned with the honeymoon in Madrid.

Senator Grosart: I would like to ask the minister if he would relate the EEC trading preferences to the projected Canadian general preferences with developing countries. My recollection is that we have reversed our field on that. I believe that, about the time of the first United Nations trade and development conference, we were rather against preferences. We now seem to have swung around and said that it may be they are necessary. Will there be a conflict between these two sets of preferences?

Hon. Mr. Sharp: No. I hope that the contrary will prove to be true, Mr. Chairman; that this will be one way of getting rid of the problem of the discriminatory preferences in the relationship between the former colonies of the European countries and the Common Market. If the general preference scheme comes into effect, there will be very little difference in the treatment then of imports from those countries, whether they go to Europe, or come here or go to the United States, Australia or anywhere else. I do not think I can add to that.

Senator Grosart: What was the thinking on this?

Hon. Mr. Sharp: Would you like to go back to the history?

Senator Grosart: I am interested, in a general way, as to why we changed it.

Hon. Mr. Sharp: We expressed some scepticism, at the beginning, as to the importance to the underdeveloped countries of preferences. We thought that the concentration of the interests of these underdeveloped countries on that particular issue was really to divert them from what were much more important problems. We did this partly because of our view that it is better to have a non-discriminatory trading system than one that does discriminate. Secondly, there was some scepticism as to the assistance that these preferences would give to those countries, particularly as we see tariffs going down around the world. As I have said, the European tariffs on industrial goods are now very low. Even the American tariffs are low. Our tariffs are now medium-high compared with the generality.

So we asked at the beginning, "Why attach so much importance to the gaining of preferences? " Later, when we found that there was very general support, we said, "Well, we will certainly be prepared to participate." It was not out of any fear; There was some scepticism as to the advantages.

Senator Grosart: Perhaps we thought we would save them from our own fate.

The Chairman: Thank you very much, Mr. Minister. It has been a very rewarding afternoon.

The committee adjourned.

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FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

1972

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

No. 3

TUESDAY, MAY 23, 1972

Second Proceedings Respecting:

Canadian Relations with the Expanded
European Communities

(Witnesses—See Minutes of Proceedings)

24854—1

The Standing Senate Committee on Foreign Affairs

Minutes of Proceedings

Evidence

Minutes of Proceedings

Tuesday, May 23, 1972.
(5)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 4:05 p.m. this day.

Present: The Honourable Senators Aird, (*Chairman*), Cameron, Carter, Choquette, Connolly (*Ottawa West*), Croll, Fergusson, Flynn, Grosart, Lapointe, Martin, McNamara and Quart—(13).

Present, but not of the Committee: The Honourable Senator Macdonald.

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the expanded European Communities.

WITNESSES:

Department of Industry, Trade and Commerce:

The Honourable Jean-Luc Pépin, Minister;

Mr. A. W. A. Lane, Director, European Affairs Branch, Office of Area Relations;

Mr. G. Elliot—Chief—EEC Enlargement Task Force; and

Mr. F. J. McNaughton—Chief—Overseas Market Development Division, International Defence Programs Branch.

Agreed; That additional information, requested by the Committee, be supplied by the Department of Industry, Trade and Commerce.

At 6:00 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,

Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, May 23, 1972.

The Standing Senate Committee on Foreign Affairs met this day at 4 p.m. to examine Canadian relations with the expanded European Communities.

Senator John B. Aird (Chairman) in the Chair.

The Chairman: Honourable senators, it is now past the hour of four o'clock and I declare the meeting regularly constituted. I thank you for your attendance.

At the beginning of our study of Canada's relations with the expanded European Economic Communities, the Minister of External Affairs, Mr. Sharp, gave us a broad picture of Canadian-EEC relations and discussed some of the overall implications of enlargement. Today the Minister of Industry, Trade and Commerce has kindly consented to examine with us, in more detail, the effects which enlargement may have on the Canadian economy and the more specific problems which may arise in our trade and investment relations with the Ten.

In September 1970, shortly after the Prime Minister announced that Canadian ministers would undertake a series of consultations with European governments concerning the EEC enlargement, Mr. Pepin set off on the first such trip, visiting London, Brussels and Geneva, where he consulted United Kingdom and EEC officials. The next spring he sent a mission on science and technology to the Federal Republic of Germany to help "create a greater awareness of Canadian capabilities" and "to foster a close working relationship at all levels from which will evolve exchanges of technology, information and expert personnel."

The next month, in April 1971, Mr. Pepin led a trade and industrial mission to Germany to seek stronger economic ties with that country and to "help improve our prospects for increasing exports to all countries in the European Economic Community." While in Europe he signed a science and technology agreement with Germany and with Belgium.

In addition to these visits, there have been numerous consultations in Ottawa with ministers and officials of member countries of the EEC, including: the Rt. Hon. Geoffrey Rippon; the British Prime Minister, Mr. Heath; Mr. Malfatti, then President of the EEC Commission; and Mr. Schumann, the French Foreign Minister. Besides these direct consultations of the minister and his officials, a special group was set up within his department called the EEC Enlargement Task Force whose job it is to study the implications for Canada of EEC enlargement.

It seems evident from this activity, and if I may say, performance, that Mr. Pepin is in an excellent position to bring us up to date on our problems with the enlarged EEC, an area which seems full of potential dangers to Canadian trade, but also one which offers some larger opportunities.

I might add that although there have been discussions concerning the visit by the committee to Europe, no definite plans have yet been made. In addition to the uncertainty which derives from the electoral situation in Canada, the timing of a fall visit is somewhat complicated by the EEC Summit Conference which will be held around the third week in October in Paris. Obviously, it would be undesirable to arrive in Brussels during the fortnight immediately prior to this meeting. As some of you may wish to make personal plans—and I would be very pleased to talk with any of you about this situation—I think I can say with confidence that a visit would not be arranged before late September, at the earliest, and it is more likely to be late October or even November.

The next meeting of the committee has been arranged for Tuesday, May 30 at 3.30 p.m., when we will have as our witness Professor Charles Pentland, a specialist in European affairs from Queen's University.

Mr. Pepin, I would ask you to introduce your officials when you make your presentation.

Honourable senators, I was about to welcome those you have seen enter, who are a distinguished group of European journalists. Gentlemen, we hope that your trip to Canada will prove to be an interesting one. We are very happy indeed and honoured to have you with us this afternoon. Thank you for coming.

Mr. Minister, I would like to apologize for the uncertainties connected with the date of this meeting, and thank you for persevering with us and consenting to come today in spite of your enormously heavy schedule, which I understand was a little heavier today than usual. I understand you will make some opening remarks, after which Senator Cameron will lead off the questioning.

NOTE: Speaking in French, the Honourable Mr. Pepin requested the Department Officials to identify themselves; he then made the same request in English.

The Hon. Jean-Luc Pepin (Minister of Industry, Trade and Commerce): I will ask my officials to identify themselves with their titles, so that the committee will feel in security and confidence.

NOTE: The following then introduced themselves:

Mr. A. W. Lane, Director, European Division, Office of Area Relations, Department of Industry, Trade and Commerce.

Mr. G. Elliot, Chief, EEC Enlargement Task Force, Department of Industry, Trade and Commerce.

Mr. F. McNaughton, Chief, Overseas Market Development Division, International Defence Programs Branch, Department of Industry, Trade and Commerce.

Mr. John B. McLaren, Chief, European Division, Regional Marketing and Operations, Trade Commissioner Service, Department of Industry, Trade and Commerce.

Mr. W. J. O'Connor, Chief, Grains Division, Department of Industry, Trade and Commerce.

Senator Connolly: Might the European journalists introduce themselves?

NOTE: The following then introduced themselves:

Mr. Christopher Marley, *The Times*, London.

Mr. Robert Held, *Frankfurter Allgemeine.*

Mr. Age Ramsby, *Expressen*, Stockholm.

Mr. Voluer Schröder, *Handelsblatt*, Dusseldorf.

Mr. Ib Forchhammer, *Borsen*, Copenhagen.

Hon. Mr. Pepin: It will not change anything I intended to say!

The Chairman: I hope the translation facilities will suffice, so that you will be able to understand. You might locate yourselves beside one another to assist each other.

Hon. Mr. Pepin: I will be speaking English, so that the only translation necessary will be from my English to their English!

Senator Choquette: Mr. Minister, I do not wish to be a bigot, but how many of your officials are bilingual? I notice there is not one French-Canadian name there.

Hon. Mr. Pepin: Mr. Lane speaks French.

Senator Choquette: Mr. Pepin, I can ask that question, I hope?

[*Text*]

L'hon. M. Pepin: Monsieur Lane, vous parlez très bien le français, n'est-ce pas?

[*Translation*]

The Hon. Mr. Pepin: Mr. Lane, you speak very good french, is it not?

[*Text*]

M. Lane: Un petit peu.

[*Translation*]

Mr. Lane: A little bit.

[*Text*]

L'hon. M. Pepin: Monsieur Elliot, vous parlez bien le français?

[*Translation*]

The Hon. Mr. Pepin: Mr. Elliot, do you speak good french?

[*Text*]

M. Elliot: Seulement,—je suis un cours de français à l'école.

[*Translation*]

Mr. Elliot: Only,—I am taking a french course at school.

[*Text*]

L'hon. M. Pepin: Un cours d'immersion totale? Monsieur McNaughton?

[*Translation*]

The Hon. Mr. Pepin: A total immersion course? Mr. McNaughton?

[*Text*]

M. McNaughton: Je parle français un peu.

[*Translation*]

Mr. McNaughton: I speak a little bit of french.

[*Text*]

L'hon. M. Pepin: Monsieur McLaren?

[*Translation*]

The Hon. Mr. Pepin: Mr. McLaren?

[*Text*]

M. McLaren: Un peu.

[*Translation*]

Mr. McLaren: A little bit.

[*Text*]

L'hon. M. Pepin: M. O'Connor parle une langue tout à fait spéciale; il parle «blé»!

[*Translation*]

The Hon. Mr. Pepin: Mr. O'Connor speaks quite a special one; he speaks "wheat"!

Before speaking of the relations with the EEC, Mr. Chairman, I would like to congratulate the committee on the work it has done with respect to Canadian relations with the countries of the Pacific. I was privileged to appear before you, I think twice, with many other people. I expressed the view at the time that our economic relations in the Pacific should and were taking on increasing importance, more commensurate with Canada's position as a Pacific rim country and with the potential of that vast and important market. I regret that the press did not, in my view, pay enough attention to the work you have been doing. For my part, I have used every occasion to give you the publicity that you well deserve.

Senator Flynn: We are used to it.

Hon. Mr. Pepin: I regard the report of your committee as a most valuable contribution to the purpose for and the end to which we are all working. The "national presence," I, and the "regional consciousness" for which you worked, in my view, is improving.

I have endeavoured to do my best towards the same objective, if I may pay myself a compliment, by means of the trips which I have made with a group of businessmen to Japan, China and, with officials, to Korea. I attempted to attract as much attention as I could. Some say that I have done reasonably well at that.

Since then I have met with the Canadian branch of PBEC. I also followed your views with respect to the need to develop, I quote, "a counterpart to the Japanese trading corporations" in Canada. Studies are being carried out on this subject.

I might underline the fact that we are using these Japanese trading corporations now much more than at any time in the past. You are aware that in recent weeks three of the major trading companies have been in Canada—Mitsubishi, Sumitomo and, most recently, Marubeni. Mitsubishi told the press that in the short period or time they were in Canada they developed $20 million-worth of added exports from Canada to Japan and third countries. Marubeni, the other day, mentioned a $30 million increase in the coming year. Mitsui and C. Itoh are coming too, Mitsui in the coming weeks. This will be a pretty profitable exercise, I suggest.

Senator Connolly: Mr. Minister, are they exports from Canada?

Hon. Mr. Pepin: Yes.

Senator Connolly: How are they getting along on the other side, by way of exports to Canada?

Hon. Mr. Pepin: They are doing extremely well. For the first four months of 1972 Japanese exports to Canada were increased by some 75 per cent. Our own exports to Japan are down by some 12 or 14 per cent, because of the slowdown in the industrial activity in Japan. You are all aware of that I am sure. The present rate of industrial production in Japan is only 5 or 6 per cent higher than it was last year. In Japanese terms this is a catastrophe! In terms of every other country it would be a very good performance! So much for the Pacific, Mr. Chairman.

The Chairman: Might I thank you, Mr. Minister, because your remarks mean a great deal to me in my capacity as Chairman. Senator Grosart, as Vice-Chairman, and all members of this committee are indeed grateful to you for your very kind reference to our work. That report represented a great number of man hours and, as I said in my remarks when I presented it to the Senate, it was a participating event and very much a committee effort. On behalf of all members of the committee we are indeed grateful. Thank you, sir.

Hon. Mr. Pepin: You are quite welcome. With respect to EEC, Mr. Sharp has already covered much of the general ground, as you commented, Mr. Chairman. Therefore much of what I will say will relate to details. I endeavoured to organize, with the support of my officials, of course, all the material in a very professorial and academic fashion in order that the committee may use it, hopefully, as a reference for whatever further study they wish to make.

I will first speak of the *significance of EEC and enlargement.* I will then talk about its meaning to Canada, to our exports. I will then cover "what we have done about it". My fourth point, quite logically, will be what we further plan to do.

I. *First of all: The economic and the political significance of EEC.*—The formation of the European Communities—as you know, there are three of them, the economic, the coal and steel and the atomic energy, 14 years ago and their enlargement in the near future to include Great Britain, Ireland, Denmark and Norway, are having far-reaching effects, as we all know, on world economic and political relationships. The enlarged Community will have a combined population of 260 million people, one-quarter greater than that of the U.S.A. and slightly above the population of the U.S.S.R. It will also have a gross production of approximately $650 billion, which is more than double the gross production of the U.S.S.R. and a little more than two-thirds of that of the U.S.A. These simple figures indicate the magnitude, importance and significance of the formation of the enlarged EEC. Every other other nation in western Europe is seeking some form of association with the Community and many former dependent territories and other countries, especially around the Mediterranean and Africa, have obtained or are being offered associate status.

The power of the attraction of the EEC must be underlined. The Community is already one of the world's super powers in economic terms. As the member countries deepen their integration, referred to en français as l'«approfondissement", we can expect to see an increasing degree of similarity and co-ordination in their approach to major political questions. As we all know, the Treaty of Rome emphasizes the political objective of the Community.

While the eventual formation which the political and economic integration of Europe will take is unclear at present—as we know, federalism can take minuses and pluses, the members of the Community have already given up a good deal of their economic sovereignty, and current plans for moving towards common monetary policy would involve a further big step in the direction of federalism.

I repeat that the final political form that western Europe will take is not yet too clear. I always say about Canadian federalism, "as it was in the beginning, as it is now, and as it shall not be, world with an end". I presume the same kind of flexibility will show itself also with respect to the form of federalism that Europe will finally adopt.

Senator Flynn: Or even better.

Hon. Mr. Pepin: They can do better than we do! They can also save themselves a lot of time by using our experience, which is also debatable, I presume.

Progress which has been made towards European unity, during the past three decades, in the face of some serious difficulties and in spite of periodic crises, suggests that it is one of those irresistible forces of history which one should try to accommodate to and which it is futile to try to stop, even if that were desirable. That we must do.

II My next point *What does it mean to Canada*? It being the formaion of the European community and enlargement in particular?

The entry of Britain and of the other three applicants into the Community, and the coming establishment of an industrial free-trade area with six other European countries referred to as the EFTA non-candidates, and the association of many former British independent territories in various parts of the world, will bring about many changes in Canada's trading relationships with all of these countries, and in our terms of access to their markets

including our competitive position vis-à-vis other suppliers.

There are so many uncertainties and complexities about the trading impact of these changes that it is intellectually possible to reach quite different conclusions about how Canada will be affected. This is one of my favorite themes! I have developed it before, and I suggest it is a valid one. The future has so many uncertainties that anybody who pronounces final judgment on the effects of EEC enlargment on Canada is a much better man than I am, and better than the whole Department of Industry, Trade and Commerce!

I suggest that there are two ways of looking at it, one is pessimistic and the other is optimistic. I mention the pessimistic way first, because people always like to hear bad news first! The more pessimistic view of the implication of British entry on our exports to Britain would stress the following points:

1. There will be worsening in the terms of access for close to $700 million worth of Canadian exports to our second biggest market, affecting almost all trading items except primary products. I mean that $700 million worth of exports to Great Britain will be affected by the entry of Great Britain into the Common Market; and this worsening includes such major items as wheat, aluminum, lead, zinc, barley, tobacco and linerboard.

2. For nearly $450 million of this $700 million trade there will be a complete turn around, from a situation where we have tariff preferences in the British market, to one in which we will face "reverse preferences" in favour of European countries and have to compete on an equal basis with other outside suppliers. So of $700 million worth of exports, affected unfavorably, $450 million will now face reversed preference. The other members of EEC will be on the British market in the same advantageous position which we enjoyed in Britain in the past.

3. In the case of agriculture, which accounts for close to $300 million of Canadian exports to Britain, we will, for 90 per cent of this trade, face the highly restrictive common agricultural policy of the EEC. Again, Mr. Chairman, the figures to remember are $700 million, $450 million and $300 million. If one looks at those, the picture is pretty dramatic.

If one takes the more optimistic view, which I personally think is a much more balanced view, one will bring out the following considerations:

1. over one-half of our exports to Britain, some $800 million worth of trade, will continue to enter duty-free.

2. The amount of trade which will face less favourable terms is only slightly more than 4 per cent of our total exports to all countries, and much of it is likely to be able to adjust to the new conditions.

Senator Connolly: Would you repeat the last statement?

Hon. Mr. Pepin: Yes. The $800 million represents 4 per cent of our total exports. I am trying to put the whole thing in perspective.

3) The changeover to the EEC common tariff and common agricultural policy in Britain will take place over a four- or five-year transitional period, so that the full duties and levies will not be collected on our exports until 1977. It is a progressive increase in tariff for Canada, as honourable senators know. The emphasis is here on the transitional period.

4) The EEC tariff on industrial goods is, on average, less than 10 per cent and lower than that of the United States and Japan. Moreover, now that the Community has agreed with the USA and Japan— and Canada has also agreed— on initiatives for a new round of major trade negotiations commencing in 1973, there are good grounds for hoping that by the end of the transitional period in 1977 EEC tariffs and other import barriers will have been significantly reduced, and we will certainly be working towards this objective in these negotiations.

5) In any case, terms of access do not tell the whole story. We must also take into account such factors as our strong international competitive position for many items, intercompany arrangements, and the distinctive characteristics of some of our products for which no satisfactory alternative sources are available. In some cases it may still be possible for our exporters to go on selling to Britain, but they may find more profitable markets elsewhere, and the department will, of course, help them in this.

6) In the agricultural sector, the British have expressed the view that the two biggest items, wheat and special quality malting barley, «are likely, although facing levies under the common agricultural policy, to be affected only marginally if at all». That is a quote from the White Paper on the UK and European Communities, page 31.

The British base this conclusion on the fact that the hard wheat necessary for the type of bread traditionally in demand in Britain, and the special quality malting barley they need, are not available anywhere in the enlarged Community. These quality factors will undoubtedly be of help to us, and we hope the British are right in thinking that they will be important enough to enable us to retain this important business.

There is an element of consumer taste, of consumer demand in some of these products. I singled out wheat. I could also single out cheese and tobacco. It may be that the British are going to convert in time to Western European brown tobaccos, but some people doubt that, having been exposed to those tobaccos! It may also be that the British will learn to eat more Western European cheeses, but some people believe that they are so attached to Cheddar that they will not easily be converted to it. Again, there is here an element of consumer taste, Mr. Chairman, which is rather unpredictable.

7) In agriculture the EEC has agreed to the inclusion in the treaty of accession of certain safeguard provisions designed to prevent the abrupt dislocation of agricultural trade, including that of third countries. I would be the first to underline that this clause is, of course, yet to be tested and some adjustments in agricultural trade appear to be unavoidable.

8) I also underline that a general factor on the positive side is the dynamic effect Britain's entry to the EEC will have on its economy, and, consequently, on British imports. As you are aware, Britain's rate of growth has been slower in recent years than that of the EEC, and its imports from us have been expanding at a less rapid rate than those of the ECC. The argument is that Britain's entry and the entry of the other three former EFTA mem-

bers will mark such a growth of economic dynamism and of wealth in Western Europe that the disadvantages of entry will be carried away on a wave of progress and prosperity. I say amen to that, as we all do.

III. My third question: *What has Canada done up to now?*

1) Canada is not a party to enlargement negotiations. We have sought to safeguard our interests to the maximum extent possible, though it must be noted en passant that scope for doing this was limited since the British from the outset agreed to accept the common external tariff and common agricultural policy. I am simply underlining the fact that it was not a completely open debate; they accepted from the point of departure the common external tariff and the common agricultural policy.

As the chairman reminded us a moment ago, the Prime Minister, the Secretary of State for External Affairs and myself have maintained continuous dialogue with Britain and other participants throughout the enlargment negotiations in order to keep our interests before them and ensure that they take into account implications for their trading relationship with Canada.

We worked very closely with the British in particular on their lists of "sensitive materials"—you have heard the expression, I am sure—for which they were seeking special quota arrangements. Our efforts, together with initiatives taken by the Canadian forest industries, contributed to the successful negotiations by Britain of duty free quotas for newsprint, woodpulp and plywood which permit this trade to continue. These items, together with phosphorus which will benefit from a similar arrangement, account for about $165 million of Canadian exports or 11 per cent of our total sales in British markets. We feel that by good negotiation we have protected this further 11 per cent.

We also negotiated an interim arrangement with Britain on cereals which preserves our contractual rights for later use in relation to Britain's adoption of the common agricultural policy.

In conjunction with the Canadian Pulp and Paper Association we also sent a mission to London and other EEC capitals with a view to protecting the position of our paper exports to these markets in the face of a proposed industrial free trade area between the community and some of our competitors in this field.

That might be expanded on, if you feel interested, but on my last trip to Rome I simply brought to the attention of Italian authorities that they would be wise to make sure they have more than one supplier in the future and that it was in their best interests to make sure that their forest products could also come from Canada as well as coming from Scandinavia. This is the type of frank talk that we are having with European governments.

Senator Connolly: Are they amenable to that kind of discussion?

Hon. Mr. Pepin: Well, I cannot speak for them, but they received our views with obvious interest.

2) Still on the diplomatic side, we have been taking steps to improve and strengthen our relations with the EEC. We have sought to intensify consultation with the community so as to obtain better receptivity for Canadian interests and lay the basis for co-operation in areas where we have mutual trade and economic interests.

The Secretary of State for External Affairs and I have both had a round of consultations with the EEC Commission in Brussels. As Mr. Sharp has already pointed out to your committee, the then president of the Commission, Mr. Malfatti was in Ottawa last fall and we now have an agreement with the commission to hold consultations with us regularly in the future on the same basis as it does with the United States.

We have also been laying the basis for interchange and cooperation in science and technology. As you know, agreements were signed last year with Belgium and Germany. We sent technology missions to these countries and we had discussions with Britain on the best way of furthering cooperation with them in this field. I could expand later on the success of this approach.

We have finally been working to remove irritants in our trade relations with the EEC, especially as regards our agricultural exports. One success recently reached was in the removal of border taxes on rapeseed which accounted for $66 million of Canadian exports to the EEC in the crop year 1970-71.

3) In another area of activity, we have been putting major emphasis on supporting efforts by the Canadian business community to penetrate European markets more effectively. I might remind you that one-third of our officer strength in trade commissioner service is deployed in 21 offices in the European countries which will constitute the enlarged community or be associated with it. I might also remind you that I led a major mission of senior businessmen to Germany, the biggest market in the community, last spring to spearhead more systematic and determined development of the possibilities of trade and other forms of economic cooperation with that country. As a result of these missions ten joint government and industry groups are now searching out these possibilities in greater depth.

A mission of senior Canadian industrialists was sent to Sweden in May of 1971 with the objective of increasing sales of high technology products. That mission has resulted in the sale of Canadian marine equipment and there are also other good prospects in electronic equipment for aircraft. The department participated in eleven trade fairs in Western Europe in the 1971-72 fiscal year. I have further notes on this particular item. This represents an expenditure of a little more than $1 million in 1971-72. The results have been good. I might give you two or three examples. We took part in Germany's industries fair in Hanover, in April, 1971. This fair specializes in electronic equipment and machinery. We made $700,000 worth of onsight sales and possibilities exist for the following twelve months of $6.7 million. We also took part in the Interstoff fair specializing in textiles. Onsight sales of$5.8 million were made and the forecast of derived sales for the following 12 months is nearly $15 million. Another fair Canada took part in was the International Hotel and Catering Exhibition in London in January of 1972. On that occasion we reached onsight sales of nearly half a million dollars and a forecast of derived sales of $2.5 million. The Interstoff fair is a particularly good example. I am proud of the Canadian performance there because for a long time Canadian

textile producers said that they could not export textiles too easily. The results demonstrates the opposite.

We have also introduced—and I am quite sure you are aware of it—a series of risk-sharing incentives for Canadian manufacturers and the Canadian service industries, which should improve Canadian participation in capital projects abroad, enable Canadian manufacturers to identify and take advantage of market opportunities abroad, take part in trade fairs on an individual basis, and bring potential buyers to Canada. You know now that if, for example, the Canadian government does not take part in a fair in France, Germany, or anywhere else, but if you as a specialized manufacturer want to do so, the department will pay up to 50 per cent of your expenditure. Similarly, we have new programs now to bring importers to Canada. Very often it is easier to bring the buyer here than to go and see him abroad. When he comes to Canada he often has a better facility to investigate and observe the use of the product in which he is interested than he would have by simply looking at the publicity.

Senator Connolly: You mentioned the transfer of capital from Canada abroad.

Hon. Mr. Pepin: No, capital projects, for a power development for example. The bidding procedure on these capital projects is very expensive. You may have bid two or three times already this year; it might have cost you $250,000 each time. You welcome government support on the next round. The department will pay 50 per cent of the cost of the bid. If you win it you give the government back its money. If you do not, you forget it, and so does the department.

The Chairman: Is there a ceiling on that?

Hon. Mr. Pepin: My memory tells me it is $50,000, but I do not always count on my memory. Is there a ceiling?

Mr. F. J. McNaughton, Chief, Overseas Market Development division, International Defence Programs Branch, Department of Industry, Trade and Commerce: $50,000.

Hon. Mr. Pepin: There is a ceiling of $50,000.

Senator Connolly: That is $50,000 to any one person in any one year is it?

Mr. McNaughton: I am not qualified to answer that.

Hon. Mr. Pepin: We will bring some more experts next time!

The Chairman: Has it been widely used?

Hon. Mr. Pepin: All these four programs I have indicated are already being used.

Senator Connolly: Has it been successful?

Hon. Mr. Pepin: I will have to ask for an up to date report. The most popular one up to now has been the Incoming of Buyers Program.

Mr. A. W. Lane (Director, European Affairs Branch, Office of Area Relations, Department of Industry, Trade and Commerce): It has only recently been introduced, Mr. Minister.

Hon. Mr. Pepin: All of them are pretty recent.

Senator Connolly: Perhaps I might suggest to the chairman that in due time, before the committee winds up its work, we could have a memo from someone in the department.

Hon. Mr. Pepin: That is easy. I have one, but it is not up to date. I will ask for an up to date one. I am glad you are showing so much interest, because I think this risk sharing is very useful.

The Chairman: It is a very positive form of assistance, Mr. Minister.

Senator Cameron: Does this apply in the case where we are bidding on the supplying of a nuclear reactor to another country? I understand that it costs about $450,000 to submit a bid to Turkey or the Argentine.

Hon. Mr. Pepin: No, I do not think it has been used for that purpose. Not to my knowledge, anyway.

Senator Flynn: It could be offered by a crown corporation anyway.

Hon. Mr. Pepin: This is a special case. I will add this to the report.

The Chairman: Thank you.

Hon. Mr. Pepin: While I am boasting, may I say that the department has also played a significant role in the following success stories in Europe. You may know that major shipbuilding contracts for export to France, Britain and Greece, totalling $163 million, have been made possible by the Shipbuilding Temporary Assistance Program. You may also know that Dassault in France has given a subcontract to Canadair, Montreal, for Mercury II aircraft parts valued at $21 million, with a potential increase of up to $75 million. This was made possible by federal government assistance.

Co-operative arrangements with different countries—Germany, Italy and others—in aerospace, electronics, mechanical transport and marine equipment also provide the basis for sales of such sophisticated items to Western European countries, totalling about $67 million in 1971.

You may have heard of the consortium created by Campeau Construction of Ottawa and the French company Dumaise. They built 114 housing units of Canadian timber frame type in the Parc des Erables project at Igny near Paris. I was present at the opening.

There are all kinds of similar things. The other day I met with two Frenchmen, M. Boulot and M. Villeneau, who have created a company in France called Kanata, having borrowed the name from the village near Ottawa. They are building timber frame Canadian type houses in France, importing a lot of wood from Canada.

Senator Connolly: In the building there there is no pre-fab arrangement?

Hon. Mr. Pepin: Not in Europe, to my knowledge, but yes in Algeria, possibly soon in Israel and in the U.S.S.R. In another case, recently announced, involving a Japanese company and a Canadian company—I do not remember the name now—the wood is cut in Canada and shipped to Japan for immediate use.

Senator Connolly: For assembly?

Hon. Mr. Pepin: Yes.

4) We have also been itensifying our efforts in some countries which are or will be associated with the EEC, especially around the Mediterranean rim. Between November, 1971, and January, 1972, I visited Morocco, Algeria and Israel, in the last two countries accompanied by senior Canadian businessmen. Canadian firms are conducting negotiations in these countries that could lead to sales of Canadian goods worth several hundred million dollars. You are aware that in Algeria, in particular, the Export Development Corporation committed $100 million worth of financing of Canadian exports. The same thing was done in Israel. The strategy is to try to get better entry and sales in all these countries surrounding the European Economic Community.

5) In addition, we have been going all out to find new markets for products that could be affected by enlargement. I remind you that Canadian grain slaes set a new record in the last crop year, and this will again be exceeded in the current one. This is in spite of the overall decline in the current crop year in the world wheat trade.

The final point:

IV *What is our strategy for the future?* On the trade relations front our objectives are better access, improved co-operation and a fair balance of advantage with the enlarged community through the following means.

1) To obtain full recognition by the EEC of the unique nature of the impact of enlargement on Canada, and need of the EEC to take account of this in providing adjustments and compensations. We are making the case here that they should not compare our position with the American. The United States is not losing any preferential status, as we are.

2) We are vigorously pursuing with the EEC and other participants and remaining issues relating ot transitional arrangements for certain agricultural items, as well as the implications of the proposed industrial free trade area for Canada's traditional parity of access with other European countries in Britain and the EEC market. Mr. Lane and Mr. Elliot could dwell at further length on this subject. The common agricultural policies levies have to be phased in, in a way which has not been totally refined yet. There are possible negotiations on that and possible arrangements also about apples and cheese, I understand.

3) In the GATT review of enlargment terms, which will begin shortly, and in negotiations to secure compensation for increases in contractually bound rates, likely to get under way later this year—this is the famous Article 24 of GATT—we will be taking full advantages of opportunities for significant changes in EEC common tariff and common agricultural policies.

4) We will also continue an active participation in multilateral negotiations, with a view to getting improvement in access to EEC as well as to other major markets.

5) We will continue our initatives to strengthen consultative arrangements with the Community. This could be done by setting up a consultative committee on a ministerial basis, as we have with the United States of America and Japan; or between senior officials, as we have with the United Kingdom and France.

As Mr. Sharp told you, the former president of the commission, Mr. Malfatti, has suggested that one way of setting up a ministerial committee, including representatives of EEC member states, would be by negotiating a bi-lateral trade agreement. Such an agreement could replace those we have at present with existing members of the EEC.

6) You may have heard that we are planning to send a small mission to Europe in mid-June—am I announcing it now?—to explore ways of strengthening Canada-EEC trade relations. They will have discussions with the EEC commission and the governments of member states of the enlarged Community. These officials will be looking into the possibility of putting into place new consultative arrangements with the EEC and improving the framework for our trade relations with the new entity, by such means as the negotiation of a formal trade agreement.

The Chairman: If this is a formal announcement, Mr. Minister, do I gather that this is from the department top officials?

Hon. Mr. Pepin: There will be others, from the Department of External Affairs, Finance and, who else?

Mr. Lane: It is not settled exactly who will be on the mission to Europe, but there will be senior officials from the main interested departments.

Hon. Mr. Pepin: In the meantime the main EEC commission delegation led by Mr. Dahrendorf, the commissioner in charge of EEC external relations, is scheduled to come here this year.

Senator Connolly: With regard to that commission or group that will go over to discuss trade matters in Europe shortly, do I understand you to say, Mr. Minister, that they will discuss at Brussels the problems that are appropriate, but that they will also have discussions with the trade officials of the member countries?

Hon. Mr. Pepin: Yes.

Senator Connolly: Of the existing Six, or the enlarged Community?

Hon. Mr. Pepin: All of them I think. The situation on the trading power is a little undefined at this time. The EEC Commission responsibilities are growing, but there is still a lot of trading power in the different member states. We have in front of us an evolving position which we have to take into account. This is why our representations, our views, will be made known both at the commission and in the different member states.

Senator Connolly: Mr. Chairman, I hope I am not interfering with the minister's presentation, but it seems to me that, as we run along, sometimes we get a better idea of what the minister is telling us. It is very familiar to him, but it is not quite so familiar to us. Do you envisage bilateral treaties with the member states, rather than a treaty between Canada and the Community, as the eventual solution to the problem?

Hon. Mr. Pepin: I will let Mr. Lane comment, and I will comment on his comment.

Mr. Lane: We already have bilateral agreements with most of the member states.

As the Community develops its common commercial policies, bilateral agreements become more and more superseded. The idea is that we might consider negotiating a trade agreement with the Community as a whole, which would replace the existing agreements with the member states.

Senator Connolly: As the Community arrangements develop, do they automatically provide that the bilateral treaties, say with Canada, are renounced? Do they come to an end in some way? You say they are "superseded".

Hon. Mr. Pepin: As some of the powers which the different member states have now in trade matters are taken over progressively by the commission, the agreements that we have with the said member states on these particular items will become "depassés", obsolete.

Senator Connolly: I see; but it is really on a unilateral basis that this happens?

Mr. Lane: It is not clear whether the Community would wish to abrogate these agreements, or whether they would eventually just let them lapse. In either case, the agreements cease to have the same significance when the powers of the trade are exercised by the council of ministers and by the commitments of the Community in Brussels. Therefore, in considering the basis of our trade relations with the Community in the future, the question has come up of establishing, or looking into the possibility of establishing, a formal agreement with the Community as a whole.

Hon. Mr. Pepin: In your own categories of constitutional law, Senator Connolly, the development of the trade power in Europe now is in the full process of evolution and we have to adjust or adapt ourselves to it and keep up with the changes which are taking place.

Mr. Lane: I could add one more point, sir. Really, this is one of the reasons why this mission is going over to Europe. It is to see how the Community deals with this whole question of bilateral agreements and how they envisage developing their trade relations in the future.

Hon. Mr. Pepin: This is not done on a theoretical line; this is done on an experimental one. Whatever the situation is this year, it is not the same as what it was last year and what it will be next year. So one of the purposes of the high level mission is to gather as much information as they can on how present leaders see this developing process.

Senator Grosart: I wonder if I could ask the minister to supply us, in due course, with a list of the current bilateral agreements with the existing Six, the Ten, and the fifty?

Hon. Mr. Pepin: Who are the fifty?

Senator Grosart: The total that you referred to, of those who have preferential agreements or privileged access of one kind or another to the EEC.

Hon. Mr. Pepin: Can we provide that Mr. Lane?

Mr. Lane: We have agreements now with Belgium, Luxembourg, France, Italy and the Netherlands; and among the acceding countries we have the bilateral agreements with Britain, Denmark, Ireland and Norway.

Hon. Mr. Pepin: But the senator is looking also for the agreements that exist between the EEC members, between them and the associate members and the countries with preferential agreements.

Senator Grosart: And, if possible, the terminal dates of those agreements.

Hon. Mr. Pepin: I am quite sure the commission could provide you with that. It probably would be a book—fifty pounds heavy.

Senator Grosart: Just the names.

Hon. Mr. Pepin: I thought you wanted the contents.

Senator Grosart: No.

The Chairman: The senator just wants the names and the terminal dates.

Senator Flynn: Would these agreements lapse because it is provided there that if they come in conflict with the general policy of the Community they are abrogated? Is there a rule of that kind?

Mr. Lane: Are you speaking of our agreements?

Senator Flynn: No. Take the agreement with France, for instance. Does it lapse because it is provided therein that if it comes into conflict with the policy of the EEC, then the policy of the EEC supersedes the terms of the agreement?

Mr. Lane: I wonder, sir, whether you are thinking of the treaty under which the EEC came into effect?

Senator Flynn: No. I was speaking of the agreement between Canada and members of the acceding countries.

Mr. Lane: In the case of all the agreements I have mentioned, they do not automatically lapse. There is a provision for either side to give so many months notice of termination.

Senator Flynn: And the notice of termination is given because there would be conflict between the agreement and the policy of the EEC generally.

Mr. Lane: That is right, sir.

Senator Grosart: It could be given for any reason.

Mr. Lane: In the case of the agreements with the existing members of the community there is probably no conflict because they would not be contravening the terms by entering into the association between themselves. It is really more that they have become outdated. The provisions are no longer relevant.

Hon. Mr. Pepin: As it stands now, it is a complex situation. You go to the Commission for certain types of agreements and you go to the member states for other types. For example, on science and technology agreements you go to the different member states. That is still the situation, but whether it will be the situation in two or three years' time I do not know.

Senator Connolly: You have to deal with it pretty well on an ad hoc basis, from what you are saying, and just have to watch it from year to year and day to day.

The Chairman: Mr. Minister, you might come back to this point.

Hon. Mr. Pepin: Yes.

7) We are also examining with other Commonwealth countries, especially the Commonwealth Caribbean countries, Australia and New Zealand, ways of minimizing the impact of British entry into the community in our own bilateral trade relations with them. As you know, there was a Canadian mission recently in Australia and New Zealand for that purpose.

8) On the market development front we are aiming to expand Canada's participation in European marketing significantly. We intend to increase the share of manufactured goods in our exports. In addition to intensifying exports already described, in late March we held a conference of all our senior trade commissioners from Europe which was aimed at developing new marketing thrusts in these countries.

The second phase of this operation was to get together with some 250 businessmen under the auspices of the Canadian Manufacturers Association and the Canadian Exporters Association, in order to strengthen our partnership for export with them and encourage them to give new impetus to market development efforts in Europe.

Mr. Chairman, I have just given the committee a number of examples of the activities we have deployed in recent times and will deploy in the future in order to enhance our position in the European market.

I might end up in a rather philosophical mood, referring to the three major options for the longer term which are offered to Canada.

The first option for Canadian trade is some form of association with the Community. This has been suggested in the press as a possibility on some occasions. Some people have asked, "Why not join them also, if everybody or nearly everybody else is doing so?" First, full membership is open only to European countries. Notwithstanding our eagerness to claim two "mothers-in-law" in Europe, we are not a European country. Also underlined is the fact that no developed country outside Europe and the Mediterranean has been offered an associated status. We have not been offered an associated status either by the community.

I would just remind ourselves too that four-fifths of our trade is with other parts of the world. I do not think we should rush too rapidly to that particular option. But since it has been referred to I thought I should cover it.

The second option which is mentioned in many places, and at times by prominent politicians, is the option of joining a North American bloc. Some people are saying, "Well, you know, maybe we should have our North American bloc, too, if everybody else is going to have one." I suggested one day that we should have a new slogan: "Un-bloc-ed" countries of the world unite! But that was more a facetious remark than a serious one.

A North American bloc might well bring great benefits to Canada over the long run, economically anyway. There may be some supporters of that option here. I am not sure. There is no doubt that there would be some difficulties in bilateral negotiations on special commodities or industrial sectors. Canada is and would be in a relatively weak bargaining position vis-à-vis the United States. There is already a tendency in many sectors for decision-making to move south of the border. The Canadian vulnerability to influences from the economy of the United States would increase in that kind of bloc. The difficulties we are experiencing now with the automotive agreement should be a cooling factor in some people's enthusiasm for a North American bloc. I speak for myself at this moment.

But anyway it seems to me that the most important argument against is that the economic integration would sooner or later necessitate the development of continental politics, which would lead, in my view—you may disagree with me, of course—to the erosion of the Canadian political sovereignty.

If more and more decisions in a common Canada-U.S. bloc—and some people suggest that Mexico should be added—if decisions were to be taken more and more often in Washington, as would appear to be the case, then, sooner or later, there would be a movement to have representation where the decisions were being made. Consequently, it would seem to me, political integration would sooner or later follow this kind of economic bloc-making. At least my reading of history is that either you go one way to political integration, which is, for example, the story of the Zollverein in Germany, or you go into a division. I do not know of many cases of economically close alliances that have remained that way. Do you, Senator Croll?

Senator Croll: I was wondering whether the argument that the decisions might be made in Washington for a Canada-U.S. bloc was any more valid than the argument that the decisions would be made in Brussels for that group. Is one more valid than the other?

Hon. Mr. Pepin: There are two differences. First, in Europe you have a number of entities, many of them of relatively similar size and economic power. In the case of a Canada-U.S. association, there is a big country and a small one. The balancing act would be much more difficult. The other difference is that the treaty of Rome indicates a direct political objective which does not exist I assume in the minds of most people talking about a common market between Canada and the United States. I have not heard anybody yet say that a much closer economic association with the United States should be followed by the political disappearance of Canada as a special entity.

Senator Croll: How far does the treaty of Rome go in that respect?

Hon. Mr. Pepin: It indicates that political integration is the objective.

Senator Connolly: When the delegation from the Council of Europe were here a little over a year ago they were almost insistent that political integration was bound to come. They were politicians, but they were saying that integration is coming. They said it has to come and, as I remember their statements, that the community will fall apart if it does not come.

Hon. Mr. Pepin: Just to finish on that subject, the third option, the one that I, at least, go for is a continued world-wide approach, for Canada, stepping up our efforts to diversify our trade and throwing all our weight behind the initiative aimed at freer world trade.

To me this is the only course that makes sense for Canada under present circumstances in terms of maintaining our identity and sovereignty to the maximum extent, in terms of spreading our trade risks and in terms of ensuring sufficient room for manoeuvre to develop Canadian resources and industry in accordance with our own national objectives.

Thank you very much.

The Chairman: Thank you very much, Mr. Minister, for a very wide-ranging and yet specific presentation.

I have asked Senator Cameron if he would lead the questioning, and I have received notification from Senator Grosart; of course, I shall recognize anybody else in due course, as we go along. I was interested in your remark with regard to consultations with the EEC on a continuity basis, and that you really regard Canada as being in an equivalent position to that of the United States. I trust that as the questioning develops somebody will touch on this because I feel it was a somewhat sweeping statement.

Senator Cameron: Mr. Chairman, at the outset I think we must congratulate the minister on the energy he has put forward in the last three years in trying to develop markets in different parts of the world. I have just followed his trail in Japan and China, and I saw the reference to «Typhoon Pepin» sweeping over Asia. I am wondering now if there will be one of those warm winds drifting over the European continent as a result of his travels there. At any rate, the initiatives taken by the Minister are absolutely necessary. When we look at the spectacular results of the development of the European Common Market and what might be called a rationalization of the economies of those countries, does the minister think that it is inevitable that we must in the same way rationalize our productive processes in Canada? Here I am thinking of another report which you are familiar with—the Science Policy report—where we are suggesting that we must expand our secondary industries to provide more jobs, and some form of rationalization must take place to enable us to compete.

I have just come from a meeting of a group of chemical producers who say that they need a market of 100 million people to get the economies of scale, and the only way we can get that is through some form of rationalization. How do you see that being applied in Canada—on a similar scale or on a modest scale—to the rationalization that has taken place among the countries of the European Community?

Hon. Mr. Pepin: I understand Adlai Stevenson said once that what we need today are new clichés. In this instance the old ones will do in the sense that it is only, having regard to the small markets we have, by specialization, rationalization and greater efficiency that the Canadian economy can live and progress under the third option that I referred to.

From that point of view I made some good speeches such as you have referred to—they were not well reported—on the necessity to protect the Canadian «common market.» Here we are with 21½ million people; this is our own little «common market,» and there we are doing our best to split it, as if it was not small enough already, by all kinds of interprovincial quarrels, «chicken and egg wars» and that sort of thing. So I have tried my best to make people aware of the necessity of keeping our common market in Canada as closely integrated as possible, and yet we are having trouble with that.

I agree with the implication of your question; it is only being extremely dynamic, intelligent and forward-looking that we will live well in this new world of trade which we have in front of us now. Personally I have kept repeating—and here I must be careful about the words I use—that we have to develop more specific Canadian institutions and ways of dealing in international trade. Let me give you a couple of examples of what I mean. Dealing with anti-combine attitudes, for example, we have accepted much too easily in Canada, in my view, the anti-combine philosophy that exists in the United States. Here we are in Canada trying to prevent the development of bigger companies when our companies are small by US standards. This is one instance where we have not developed a sufficiently Canadian approach. Let me give you another example; fortunately you have given me support—

Senator Connolly: Did you speak to the Minister of consumer and Corporate Affairs on that point?

Hon. Mr. Pepin: Let me give you another example. You suggest in your report on the Pacific that we should look in Canada at the development of trading corporations along the lines of those in Japan. We have not done that because there again we are taking the US approach. They have these big corporations. General Motors does not need any support from anybody to trade around the world. We have been reproducing in Canada the US pattern and I suggest it does not fit too well.

The difficulties are obvious. The Canadian Government cannot easily indulge in the formation of a trade corporation of the size of Marubini or Mitsubishi, because immediately the Canadian Government would be asked by other countries to which we export tremendous quantities of wheat or minerals to take the counterpart of that in barter form or bilateral sales form. So, as a government we should not and we will not be involved in the creation of governmental state trading type of trading corporations.

Senator Grosart: But we already have them.

Hon. Mr. Pepin: Where?

Senator Grosart: The Wheat Board.

Senator Flynn: And what about the Canada Development Corporation?

Hon. Mr. Pepin: I was just going to conclude that the way I see it we, as a government, should make sure that such corporations exist in the private sector, because thay have become a fundamental element of international trade today.

Senator Connolly: This is a big question, and perhaps we should not be asking you too much about it today. It may

well be something that we should have an opportunity of discussing again.

Senator McNamara: Reference has been made to the Wheat Board, but it is not an appropriate example because while the Wheat Board is a state trading organization for export they do not have the same power as the Japanese trading agencies have to deal in two-way trading.

Senator Grosart: It is still a Crown corporation, in effect.

Senator McNamara: We are operating in the interest of the producers.

Hon. Mr. Pepin: What is wrong with that as a formula, Senator Grosart?

Senator Grosart: My suggestion is that our Canadian problem is capital. If our private enterprise system cannot generate the kind of capital we need, then in the Canadian situation it would seem that it must come from the government; and if the government is going to provide capital then it is going to have an element of control. I see no reason why we should not have exactly that kind of corporation.

Hon. Mr. Pepin: I try not to be an excessive interventionist, but at the same time I am affected by what I see every day. When the Japanese Mitsubishi group came to Canada they indicated that 85 per cent of the people they had met during their trip had not been to Japan nor did they apparently intend to go. Then in the very next breath they told me they were tremendously impressed by the quality of the technology which they found in Canada at the second level of industry, the medium-sized industry. So there we are; we are not sufficiently organized for export purposes. There must be something missing when all of these manufacturers who, according to the Japanese, have relatively high technology are not in a position to export sufficiently.

Senator Flynn: Are you saying this as an alternative to the effect of the European Common Market on our export trade? You seem to be looking elsewhere first, and then to the EEC.

Hon. Mr. Pepin: I am saying that if we wish to live comfortably in prosperity under option 3 we will have to be extraordinarily intelligent, dynamic and aggressive because this will not be an easy world in which to deal. I am merely saying that we will have to mettre tous les instruments de notre coté—we will have to use all available methods in order to make our international position as strong as possible.

Let me give you another small illustration. A few days ago a Japanese group visited a number of companies specializing in fish. They came to a warehouse where there was a quantity of eels. The Japanese asked what the eels were doing there! I am merely reporting what I heard on that occasion. The manager of the warehouse indicated that the eels were too small to be sold in Europe or Scandinavia. Apparently, Scandinavians use large eels in their smorgasbords.

Senator Cameron: They certainly do.

Hon. Mr. Pepin: These eels were very small and they were not selling. If my memory is correct, there were 25 tons in warehouse. In Japan smaller eels are a delicacy, so the group purchased all 25 tons right off the bat. That sort of things make you think.

Senator Connolly: It is a matter of marshalling the potential and then using it.

Hon. Mr. Pepin: Since then, everyone is looking for small eels!

Senator Flynn: Mr. Minister, what is worrying me is that we are here to determine the effect of the enlargement of the European Common Market. You seem to be suggesting that the only solution is to sell a greater quantity outside of this market, to increase the export, is that correct?

Hon. Mr. Pepin: No, my views are easy to understand. I feel we should maximize our situation and we should not ignore any market or any method of promotion and marketing. This is what I am saying.

Senator Flynn: It is obvious that if we are the best in the world we will finally succeed.

Hon. Mr. Pepin: What I am endeavouring to say is that we could be pretty good and not be sufficiently aware of it. For example, the purpose of the science and technology agreements we have signed with Belgium and Germany is to gain more knowledge, and to find new opportunities for trade with different countries.

Thank you very much, Mr. Chairman, for indicating that my presentation was board, because the purpose of it is to give you the best possible impression of the different means we are using to maintain and expand our position in the European market. I am just suggesting that there are other methods that we are not using possibly because of "cultural" reasons.

Senator Flynn: What is the effect of the European Common Market as it is now, and what is the effect of the enlargement of the European Common Market? This is my point. The total of our exports to the United Kingdom and the European Common Market for 1971 was in the order of $2.4 billion. I realize the U.K. only represents about 50 million people, whereas the rest of the Common Market represents around 200 million people. What has been the effect of the Common Market, as it is now, in relation to our exports to this part of the world? Have they decreased since the Common Market was instituted?

Hon. Mr. Pepin: The Common Market enlargement is not in effect yet.

Senator Flynn: Yes, I am aware of that. I am merely asking what the effects of the institution of the Common Market itself have been.

Hon. Mr. Pepin: Mr. Lane may give us some statistical background on this matter. However, our exports to the Common Market in 1966 were $636 million. In 1971 our exports were $1.085 billion. Our exports have nearly doubled between 1966 and 1971.

Senator Flynn: Is that good?

Hon. Mr. Pepin: Somebody may feel it is good.

Senator Croll: How do you replace this? Is that not your job? You did not indicate how you were going to replace approximately 8 per cent of our total trade.

Hon. Mr. Pepin: The whole purpose of my exercise today is to indicate how difficult it is to assess in practical terms what the effect will be. The Europeans say, "Canadians are a bunch of crybabies; they worry all the time. They worried about the Marshall Plan and they worried about the Kennedy Round." They wonder why we do not exercise a bit of faith. In my presentation I endeavoured to show that there was a pessimistic approach to this matter, and I gave all the figures one would need in order to be pessimistic! I gave what I thought was an optimistic, realistic approach. I indicated that much of the losses could be made up in different ways, both in Europe and elsewhere. I tried to indicate that the drama was not as high as it is sometimes suggested.

Mr. Lane: The 4 per cent you have referred to is not trade which we would lose; it is trade which would face less favourable access terms.

Senator Grosart: You are referring to United Kingdom trade only?

Mr. Lane: Yes.

Hon. Mr. Pepin: You did not say that clearly enough. Would you indicate again what the 4 per cent represents?

Mr. Lane: The 4 per cent represents a percentage of our total exports to all countries which will face less favourable access terms when Britain enters the European Economic Community. In many cases items which make up the 4 per cent are already being sold in markets which do not enjoy the benefit of preference or where the tariffs are as high or higher than the EEC. As the minister has indicated, we hope that much of this 4 per cent will be retained.

Hon. Mr. Pepin: Mr. Lane, Senator Croll has asked whether we have an opinion to present to this committee as to how well we have been doing in the western European market in the last five years. What is your answer to this question?

Mr. Lane: Our exports to the European Common Market have doubled from 1966 to 1970. In fact, in the last few years they have grown much faster than those to Britain, where we have had all the benefits of the tariff preferences and the free entry.

Senator Flynn: Then why should we worry about the enlargement? If we have been doing well with the present Common Market, why should we do worse with the enlarged Common Market?

Hon. Mr. Pepin: We were doing relatively well in Great Britain, partly anyway, because of the preference arrangements we have, some of which we stand to lose.

Senator Flynn: We have done better with the Common Market in the last five years, but I understand we have done less well with the U.K. in the last four years.

Hon. Mr. Pepin: That is quite true.

Mr. Lane: That is correct.

Hon. Mr. Pepin: It is partly due to a lower rate of economic development in Great Britain than on the continent, which is one of the reasons for the U.K. joining the Common Market. Let me give you two figures which might be useful. Exports from Canada to the Common Market in 1966 amounted to $636.7 million. In 1971 this had increased to $1,085.9 million. The corresponding figures with respect to the United Kingdom are for 1966 $1,122.6 million and for 1971, $1,345.8 million. You will see from those figures that the rate of growth, as Mr. Lane pointed out, has been much slower for Great Britain than for the Common Market.

Senator Cameron: But in 971 there was a reduction of exports to the EEC.

Hon. Mr. Pepin: Yes.

Senator Cameron: We hope that is not a trend.

Hon. Mr. Pepin: That was because 1970 was a little abnormal, being a period during which the Common Market had tremendous industrial growth and during which we experienced quite a substantial increase in export of minerals in particular.

Mr. Lane: Yes, industrial materials.

Hon. Mr. Pepin: If I may emphasize further. Recent months have been difficult, as you know. Our overseas exports are not progressing now. Those to the United States are doing relatively well, being 15 per cent higher than last year, but in overseas markets for the first four months of 1972 they are in the order of 14 per cent lower than last year. The explanation is terribly simple. It is that the industrial growth in the EEC and Japan has slowed down. The increase in the European Economic Community is approximately 2 per cent if my memory serves me well. In some countries it is even lower than last year.

In 1970 exactly the opposite situation prevailed, with the Canadian economy growing rather slowly and the economies and industrial production in particular of the EEC and Japan expanding extremely rapidly. That is why our exports increased in the order of 16 or 17 per cent and the growth of our imports was less than zero, resulting in a surplus of $2.9 billion. It was considered to be very, very good at the time. Personally I worried about it, because the situation was abnormal. We now have another abnormal situation, but the other way around!

Senator Grosart: Just to clarify this, Mr. Chairman, may I ask the minister if I am correct in my assumption that over a longer term the situation as between our trade with the EEC and with the U.K. is roughly that, as a percentage of our total, trade with the U.K. has dropped from approximately 15 to 9 per cent, and that with the EEC has increased, but not as fast as the increase in the total market of the EEC?

Mr. Lane: Yes, that is generally correct, sir.

The Chairman: The EEC import market?

Senator Grosart: Yes, the total market.

The Chairman: Will you accept that?

Mr. Lane: In the early 1960's our exports to Britain were 17 or 18 per cent of our total exports.

Senator Grosart: I just want to get that clear.

Hon. Mr. Pepin: Essentially what you say is true. The fact that our exports to Great Britain as a percentage of our total exports is lower now than it was in 1961 makes it less painful for us to live with the U.K. entry than it would have been in 1961.

Senator Grosart: That is why we are less worried now.

Hon. Mr. Pepin: We are still worried, but in my presentation I attempted to put it into perspective. Depending partly on your humour, you will be either optimistic or pessimistic.

Senator Connolly: Mr. Pepin, as I understand the situation, the annual rate of growth in the GNP of the members of the Community collectively in the past five years has been approximately 5 per cent. The rate of growth in the American economy has been much less than that, perhaps 2½ per cent or 3 per cent. I wonder whether I am unduly optimistic when I say, without undervaluing the importance of the American market, that it seems to me that the next feasible, most promising market for Canada should be in a relatively developed economy. If the GNP of the European Community countries has been advancing, no doubt from a lower base, there should be very great opportunities for Canadian exports into that market as it develops perhaps to the level of the American ecomomy. Is this fallacious reasoning? Is there any sense to it?

Let us take an extreme example. It is a whole lot better for us to be looking for a market for our sophisticated products in Europe than, let us say, the Far East—by that I mean India, Malaysia, Indonesia or some of the African countries, which do not have the development that one finds in Europe. So the opportunities there, I should think, would be better as we become more industrialized and as our technology and our science develop. Could you comment on that? I hope it is not an unfair kind of question. It is the kind of thing that struck me as being important for consideration.

Mr. Lane: Certainly, Europe, which takes about half of our exports to countries other than the United States, obviously offers greater possibilities for diversification of Canadian trade than any other region of the world. But it seems to me that in allocating our resources we have to do it, in effect, on a cost-benefit basis. We have to put our promotional dollars into each area in such a way as to maximize the return in each, which can mean that a certain level of activity is appropriate and worthwhile in markets of the Far East, and one might want to put more resources into European markets. But there is a fairly precise distribution of resources that one can determine on the basis of experience and possibilities open to us in the different parts of the world.

Senator Flynn: Like newsprint. It is more advantageous for us to sell it to the United States than to try to compete on the European market.

Senator Connolly: I agree. I would think that, generally speaking, the more developed economies in Europe can absorb the kind of things we are interested in exporting, that are labour-intensive, that provide employment, that are sophisticated. Is that not so? Am I wrong?

Hon. Mr. Pepin: My view is that the export possibilities are unlimited. I have travelled a good deal in recent months, and that is the main thing that has struck me wherever I have gone. Some countries can pay for these exports more easily than others. There is unfortunately a non-equation between the need and the capacity to pay. That is a simple observation.

Canadian exporters, in general, look to the United States, and very often they stop there. When they start looking elsewhere, looking in depth, with aggressiveness and intelligence, they find all kinds of possibilities. And, of course, ça paye plus—it pays more to sell in Japan and Western Europe than in Africa and developing countries; but the job is a tougher one.

Let me take Japan—and I mention Japan because Japan is also, to the Western Europe, a very sophisticated, developed market. What we are witnessing now, with these companies coming here, and doing our job really, is that in less than a year we may have, simply because of the action of these five big corporations, an increase of—let us be a bit enthusiastic—$100 million of Canadian exports to Japan, again just because these five companies come to spend 15 days in Canada. That to me, seemed to demonstrate that there were opportunities for exporting into Japan which for some reasons were not pursued sufficiently aggressively by Canadian exporters. The same may well apply to Western Europe.

Senator Connolly: There is no substitute for good salesmanship.

Senator Croll: I do not think that is all that is involved.

Senator Connolly: It is not all, but it is a lot.

Senator Croll: It seems to me that we have the acumen, the capability, the knowledge, technical and otherwise, but we lack the combined approach which Japan and others have. Is it a good thing, and can you sit by and permit a recurrence of what happend to us a generation ago, when the Americans came in? We are now complaining about how much they own of this country and its industry. Can we allow Japan or anyone else to walk in and become so dominant in our foreign trade? Is it not your responsibility to see that it does not happen, instead of saying, "It is happening; I don't know what to do"?

Hon. Mr. Pepin: The particular area where the Japanese corporations are helping us are especially with respect to processed and manufactured products. When it comes to raw products and semi-processed minerals, Canadian exporters usually find their way fairly easily around the world.

Senator Croll: But, Mr. Minister, the west coast is not happy about what is happening with respect to Japanese trade. I do not know too much about it, except from what I read from time to time, but I am not happy about this business of the Japanese coming in and taking over almost

completely, for instance, our coal for a while, or other aspects of it. It is not something that we can sit by and watch happen without doing something now, rather than have to answer for it in years to come.

The Chairman: I do not think there is any doubt that the minister would agree with you, Senator Croll. The distinction you have to make is the difference between the resource industry and the manufacturing industry. The illustration which the minister was giving, as I understood it, was clearly related to the export of manufactured goods.

Senator Croll: Let me remind the minister that immediately after the war I recall a man by the name of C.D. Howe, to whom I had occasion to talk at that time. I said, "When does our depression start, C.D.?" He replied, "Dave, don't worry. It is not going to start. I am going to sell to every one of those countries." I asked, "How are you going to get paid?" He said, "For some of them, we will not get paid, but in the main I will get paid in time, one way or another, no matter how long we wait." And we waited, and we got paid in the main, as you know, and we did very well. That was an initiative in the department. Are we in any different position now? I do not think we are short of any money in this country. I am satisfied that your department is not short of brains, and you have done very well; but somehow or other we have not done well enough. Why?

Hon. Mr. Pepin: Are you talking still of Japan, or generally?

Senator Croll: Generally, in the course of your remarks you made two interesting comments. You spoke about the lack of trading groups particularly, and competition. If these things are in the way, why is not something being done?

Hon. Mr. Pepin: When answering Senator Grosart I also said that the Japanese corporations know the Japanese market better than Canadian corporations could ever know it. That is one factor. The second factor is that they appear to be finding ways of importing that our people have not yet been able to use. I am choosing my words. Another advantage is that they have an international facility that we do not have.

Perhaps the best way of making this clear is to give you an example. The last time a Japanese delegation was here, one company was looking for railway steel rails. I told the representative of that company that Sydney Steel sells rails to Mexico, but selling rails is always somewhat of a problem. I asked him if he had a market for them and he said, "Yes." So I asked him how he did it, and he said, "It is fairly simple: we sell the steel rails to developing countries and in return we get coffee, bananas, or whatnot". So, again, we come to the apparent lack of that capacity in Canada, at least to the same extent as the Japanese companies have it.

Senator Connolly: Salesmanship.

Senator Grosart: Mr. Chairman, I do not understand Senator Croll's worry about our performance in export markets. We are in the position that more than half of all the goods produced in this country are sold abroad. No other country in the world can match that. 52 per cent of our GNP was sold on foreign markets in 1970. I ask: What are we worrying about? We have the greatest record of penetration of world markets of any country in the world.

Hon. Mr. Pepin: You are quite right. But the moment we say "Why worry?", we are in trouble. We are a country of 21-½ million people which is so small an economic base in today's world that the British with 50 million people did not feel that they could do it alone. Obviously, we have to do marvellously. We have to be on the ball constantly. We must never accept that we have done well enough in the past.

Senator Grosart: Yes, but Senator Croll was asking why we have not done better. The fact is that we have done well. The other question, of course, is: Can we survive as one of the three or four left-overs from the blocs in the world?

Hon. Mr. Pepin: We will survive if we do better.

Senator Grosart: I doubt it. I feel we have to go with one of the blocs. I doubt that we can do it alone.

Hon. Mr. Pepin: What do you suggest?

Senator Grosart: I do not want to get into it now, but you mentioned the possibility of a mission going over in June to investigate the possibility of a bilateral series of agreements with the EEC. Well, that means getting into the bloc.

Hon. Mr. Pepin: No, not necessarily.

Senator Grosart: Yes, it does. Whether we are going into the bloc with complete access, partial access or preferential access—which is theleast you can expect from a bilateral agreements—that means we are going into the bloc.

Hon. Mr. Pepin: There is a whole range of options between being a member of the EEC and having good access to it.

Senator Grosart: Yes, I realize we can be an associate member or have preferential access, but that means we are getting into the bloc, and I hope we do.

Senator Croll: Are you suggesting a fringe benefit in the EEC is better than a North American bloc?

Senator Grosart: No, I am not saying that. i want both. If you look at the literature you will find they are not mutually exclusive.

Hon. Mr. Pepin: You want to be somehow associated in a special way with the Common Market and with the United States too?

Senator Grosart: Yes. There are some Commonwealth countries, and perhaps others as well, which already have preferential access both to American markets and to the EEC.

Hon. Mr. Pepin: Do you have any in mind?

Senator Grosart: Some of the Commonwealth Caribbean countries are in that position. I do not know exactly what their most recent form of access to the EEC is, but I know they are negotiating.

The Chairman: They are associates.

Mr. Lane: They are negotiating some kind of associate status. Those negotiations have not gotten under way.

Senator Grosart: They also have preferential access to the American market, as has Canada.

Hon. Mr. Pepin: I have a question to ask Mr. Lane which might be of interest to the committee.

Mr. Lane, have the Americans done better in the western European market than Canada has?

Mr. Lane: It depends on what years you look at. From 1966 to 1970 we were doing better than the Americans.

Senator Connolly: In absolute terms?

Mr. Lane: No, sir, in the percentage increase in our sales. In 1971 our sales, as you know, turned downward somewhat. We do not have the 1971 figures for the United States, so we do not know whether they experienced the same downward trend.

Hon. Mr. Pepin: The situation between Canada and the United States on the European market is quite different in the sense that the Americans have had their multinational corporations established in western European countries. We have some, but they do not compare in number and size.

Senator Cameron: You say that in looking at the figures we can take an optimistic or pessimistic view. I relate these figures to the job situation in Canada today. Certainly we have done well in some areas, but we have not done well enough. To use the jargon of technology today, we have to innovate.

My question, Mr. Minister, is what innovations are you introducing into our salesmanship approach to expand our markets and to capitalize on those areas where Canada has special advantages? For example, we have certain products—wheat, pulp and paper, and certain minerals—in regard to which I should think we would have an advantage over other countries.

Hon. Mr. Pepin: The best way of answering that, senator, is to look at the results of the science and technology missions we have had to Belgium and Germany.

With respect to the mission to Belgium a number of technological areas of common interest were identified. Just to give you four examples: in the field of construction there is wood, houses and prefabricated buildings; in the field of energy there is electrical transmission—already there is a project being carried on between Canadian Westinghouse and the Belgian counterpart called ACEC,—and I do not know what it stands for but it is a transmission company in Belgium; in the field of metallurgy there is an exchange of information and the possibility of co-operation in the development of difficult metals—as you know, the Canadian industry is quite advanced in non-ferrous metals and there are possibilities there; and the fourth item is computers—there is co-operation in the field of data processing and information systems. Canadians are quite advanced in some areas of the computer industry.

With respect to Germany, there is co-operation moves in the area of data processing, oceanography, environmental protection and Arctic science. The proposal for cooperation in a combined operation in the Arctic relates to information on shipbuilding, cargo ice-breakers, the possibility of Canadian-German cooperation in iron ore deposits on Baffin Island in the Arctic, and that type of thing. That is just an illustration of the effects of the scientific and technological agreements leading to identification of areas of common technological interest and possible trade.

Senator Cameron: These are possibilities which you are exploring, but how are you going to translate these discoveries, if you like, into dollars and cents trade patterns? For example, to make it specific, has the Government of Canada any plan to appoint a full-time minister to the EEC to explore all potential areas o expansion in the future?

Hon. Mr. Pepin: We have a minister to the EEC Commission. The point you want to make is that he is both ambassador to Belgium and ambassador to the commission at the same time. Is that what you meant when you said a full time one?

Senator Cameron: Has he enough power and authority to really do the job that has to be done?

Hon. Mr. Pepin: Oh yes. He has a very good group. Have you not been to the Canadian mission to the commission?

Senator Cameron: Not yet. We hope to cure that oversight.

Hon. Mr. Pepin: I think you will be impressed. Many people have been.

Senator Connolly: Do you think they will be impressed with us?

Hon. Mr. Pepin: Oh, I am quite sure they will be. The question you raise is: How do you go about establishing a new trend, a new dimension, an added dimension to Canadian export to Western Europe? The only answer I can give is by multiplying the sort of thing I mentioned. They were not only projects; they were reality. For example, the Westinghouse one is being negotiated now. I talked about wooden houses, which is something that is very real.

Senator Cameron: On that point ATCO Industries has an international market. Are they involved in this Campeau deal in Paris?

Hon. Mr. Pepin: No, ATCO is not involved in this one, but is involved almost anywhere else. In Algeria, for example, ATCO is doing very well. At present the ATCO is negotiating with the Soviet Union for a similar development.

Senator Cameron: I took them out ot see the plant when the parliamentary delegation was in the west. Why are they not involved? Are you giving any assistance to ATCO Industries to get into EEC?

Hon. Mr. Pepin: I think Mr. Southern will tell you that he has no better friend in the world than the Department of Industry, Trade and Commerce!

Senator Cameron: Good. It is suggested that one of the ways of getting into the European market is to establish

our own multi-national corporations. Is this realistic? Do you think we have the resources to compete on a sufficient scale with the Americans and others in the EEC, with multi-national corporations?

Hon. Mr. Pepin: I thought you would raise this question, and I have a list of Canadian companies established in Western Europe.

Senator Cameron: We would like to know.

Hon. Mr. Pepin: Let me give you some. Alcan is established in Belgium, Britain, Denmark, France, Germany, Holland, Ireland, Italy, Norway, Spain, Sweden and Switzerland; Bombardier Limited has some facilities in Austria and Sweden; Cominco in Britain, Germany, Portugal and Spain; Consolidated-Bathurst in Britain and Germany; Seagrams in Belgium, Britain, France, Germany and Italy; Inco, the International Nickel Company, in Belgium, Britain, Germany, Italy, Sweden and Switzerland. Then there are MacLean-Hunter, MacMillan Bloedel, Massey-Ferguson, Northern Electric, Northgate Exploration, Polymer, which is established in Belgium, Britain, France, Holland, Italy, Sweden and Switzerland, The Steel Company of Canada; Steinberg's is now in France; and Hiram Walker is in Europe too. These are some of the Canadian companies that are multi-national from the European point of view.

Senator Cameron: But what is being done to co-ordinate and multiply the impact of these companies? This again is where I think we must act in self-defence.

Hon. Mr. Pepin: What do you think we should do?

Senator Cameron: I am trying to find out. I am asking you.

Hon. Mr. Pepin: We give them all the informational and representational support that one can think of, or that they can ask for.

Senator Cameron: I know you are doing a lot, but it seems to me that we have to do more to get the kind of impact we need to solve our employment problems here in Canada.

Hon. Mr. Pepin: But this would not solve it. As a matter of fact, if they go and establish elsewhere in the world some people might think they are doing exactly the opposite.

Senator Cameron: It might indirectly though.

Hon. Mr. Pepin: I believe in it myself: I think multi-national corporations, for better or for worse, are here to stay. The only trouble is that we have not got enough of them in Canada.

Senator Grosart: Although the Americans are trying to bring them home.

Hon. Mr. Pepin: Some Americans are. There have been recent studies in the United States demonstrating that multi-national corporations create more employment in the United States.

Senator Grosart: There are two views. I have seen both sets of figures.

Senator Lapointe: Mr. Minister, you spoke about the unique nature of the impact on Canada. What is the difference with Australia, for example?

Hon. Mr. Pepin: They are in the same position as we are.

Senator Lapointe: So, is that unique?

Hon. Mr. Pepin: Except that their problem is a smaller one as they do not export as much manufactured products to the European continent as Canada does. Consequently they are not as hurt.

Senator Lapointe: Do you think some of them might think that in the near future the EEC, Japan and the United States will be able to provide all the manufactured goods the world needs?

Hon. Mr. Pepin: I hope not. Senator, the Canadian export of manufactured products is not in such a bad state as might be implied by your question. Way back in the early sixties, Canada had something like 12 or 14 per cent of its exports in manufactured products, but now it is up to 42 per cent; 42 per cent of Canadian exports are in manufactured products. I grant you that the automobile agreement with the United States has a lot to do with that, but even without the automobile agreement something like 20 or 25 per cent of Canadian exports is at the manufacturing stage, so we have progressed quite a lot.

The Chairman: In what time span?

Hon. Mr. Pepin: The 12 per cent was probably somewhere around 1962.

Senator Cameron: Could we have the list that you read of the Canadian companies operating in Europe inserted in the record?

Hon. Mr. Pepin: Certainly.

A SELECTED LIST OF THE LARGER CANADIAN-OWNED, CANADIAN INCORPORATED NON-FINANCIAL COMPANIES WITH INVESTMENTS IN EUROPEAN COUNTRIES

Alcan Aluminium Limited

Belgium
Britain
Denmark
France
Germany
Holland
Ireland
Italy
Norway
Spain
Sweden
Switzerland

Bombardier Limited

Austria
Sweden

Canada Packers Limited

Britain
Germany

Cominco Limited

Britain
Germany
Portugal
Spain

Consolidated-Bathurst Limited

Britain
Germany

Distillers Corporation-Seagrams Limited

Belgium
Britain
France
Germany
Italy

Domtar Limited

Britain
Italy

The International Nickel Company of Canada Limited

Belgium
Britain
Germany
Italy
Sweden
Switzerland

MacLean-Hunter Limited

Britain
France
Germany
Italy

MacMillan Bloedel Limited

Britain
Holland
Spain

Massey-Ferguson Limited

Britain
Denmark
France
Germany
Holland
Italy
Switzerland
Turkey

Northern Electric Company Limited

Greece
Turkey

Northgate Exploration Limited

Britain
Ireland
Spain

Polymer Corporation Limited

Belgium
Britain
France
Holland
Italy
Sweden
Switzerland

The Steel Company of Canada Limited

Holland
Switzerland

Steinberg's Limited

France

Hiram Walker-Gooderham and Worts Limited

Britain
France

Senator Croll: In answer to the question asked by Senator Lapointe about Australia, might I add this? Australia and New Zealand receive special treatment from Britain when they enter the EEC because of their great dependency. What special treatment or special consideration did we receive when our market was somewhat jeopardized?

Senator Flynn: None.

Hon. Mr. Pepin: Australia did not receive special treatment. New Zealand received some special treatment with respect to dairy products.

Senator Croll: Did not Australia receive special treatment?

Mr. Lane: No, senator, just New Zealand. This was because of the very high proportion of their exports that go to Britain, and because of this a special arrangement was worked out for butter. Perhaps Mr. Elliot could elaborate on that.

Mr. G. Elliott, EEC Enlargement Task Force, European Affairs Branch, Department of Industry, Trade and Commerce: The British gave certain assurances to New Zealand about the volume of their butter imports during the transitional period, and also agreed that at the end of transitional period the enlarged community would take another look at the situation respecting the dependency of New Zealand on the United Kingdom market to see whether this arrangement would need to be continued. With respect to cheese they made a similar arrangement, except that they are a bit more explicit about the fact that the arrangement would not continue beyond the end of the transitional period. They made no special arrangement at all with Australia, except that I believe quotas on one of the industrial products in their original list of twelve was of particular interest to the Australians, in the same way that wood pulp, newsprint, plywood and phosphorous were of interest to us.

Hon. Mr. Pepin: I do not think it would be fair to say that the British were not concerned about the Canadian position.

Senator Croll: I did not say that. I asked the question, and your answer is that they were concerned equally with ours, except that these were very special cases. Did not we get special treatment on pulp and paper?

Hon. Mr. Pepin: I am just referring to what they have been able to do to accommodate us to a certain extent with

FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

1972

THE SENATE OF CANADA

PROCEEDINGS OF THE STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 4

TUESDAY, MAY 30, 1972

Third Proceedings Respecting:

Canadian Relations with the Expanded European Communities

(Witness:—See Minutes of Proceedings)

25128—1

THE STANDING SENATE COMMITTEE
ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Bélisle	Lapointe
Cameron	Macnaughton
Carter	McElman
Choquette	McLean
Connolly (*Ottawa West*)	McNamara
Croll	Nichol
Eudes	O'Leary
Fergusson	Quart
Gouin	Rattenbury
Haig	Sparrow
Heath	Sullivan
Lafond	White
Laird	Yuzyk—(30).
Lang	

Ex Officio Members: Flynn and Martin

(Quorum 7)

Orders of Reference

Extract from the Minutes of the Proceedings of the Senate Thursday, March 16, 1972:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Aird, seconded by the Honourable Senator Connolly, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the expanded European Communities.

After debate, and–

The question being put on the motion, it was–

Resolved in the affirmative.

* * *

Extract from the Minutes of the Proceedings of the Senate, Thursday, April 27, 1972:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Smith:

That the Standing Senate Committee on Foreign Affairs have power to sit during adjournments of the Senate.

After debate, and–

The question being put on the motion, it was–

Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

25128–1½

Minutes of Proceedings

Tuesday, May 30, 1972.
(6)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 3.35 p.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Belisle, Cameron, Carter, Croll, Fergusson, Grosart, Lafond, Laird, Lapointe, McElman, McNamara, Quart, White and Yuzyk–(15).

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

Agreed–That the additional information, which has been received by the Committee from the Department of Industry, Trade and Commerce, be identified as *Exhibit "A"*, and be retained in the Committee's records.

The Committee continued its study of Canadian Relations with the expanded European Communities.

Witness:

Doctor Charles Pentland,
Political Studies Department,
Queen's University,
Kingston, Ontario.

At 5.10 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, May 30, 1972.

The Standing Senate Committee on Foreign Affairs met this day at 3.30 p.m. to examine Canadian relations with the expanded European Communities.

Senator John B. Aird *(Chairman)* in the Chair.

The Chairman: Honourable senators, you will recall that at our meeting last week the committee desired to have appended to the Proceedings some further material from the Department of Industry, Trade and Commerce. I have received it, but am a little concerned as to its bulk. It is rather sizable and is really not too good a printing job. I would prefer the committee to agree to have this material available to members rather than appending it to the proceedings.

Hon. Senators: Agreed.

The Chairman: Thank you very much.

Continuing our examination of the effects of EEC enlargement on Canada, the committee will hear today from an academic witness, Dr. Charles Pentland. Dr. Pentland is an Assistant Professor in the Department of Political Studies at Queen's University. Born in Montreal, with degrees from the University of British Columbia and a doctorate from the London School of Economics, Dr. Pentland has been working for some time on developments in western European political integration. His book on *International Theory and European Integration* is in the process of publication at the moment. We are very pleased to have you with us today, Dr. Pentland.

I suggest to the committee that a more satisfactory meeting results when committee members refrain from asking questions during the initial presentation of the witness. If you would kindly wait, therefore, until Dr. Pentland has finished his introductory remarks, I think the questioning could develop in a more coherent way, and we will produce a much more useful record.

Now, Dr. Pentland, we are indeed interested to hear your assessment of what Canada should do in the light of the enlargement of the EEC and, additionally, to hear any comments you might have about European studies programs in Canadian universities. Following your introductory remarks, Senator Yuzyk, an academic himself, will lead off the questioning.

Dr. Charles Pentland, Assistant Professor, Department of Political Studies, Queen's University: Thank you very much, Mr. Chairman. This committee has heard a great deal of expert economic testimony in the last three presentations which it has received. My own interest in Europe is slightly different. I look at it from the perspective of a political scientist, and in my introductory remarks I would like to concentrate on placing the phenomenon of the EEC's enlargement in a broader and I think more accurate perspective, that of political development.

It is perhaps a mistake for us, in trying to consider what we should do with respect to European expansion, to see it simply in economic terms. It is to a great extent a political phenomenon, closely related to many other political issues which concern Europeans at this time. Therefore, I will begin by examining how it is that we have come to this present perception of Europe as primarily and economic phenomenon. (Of course, when I say "Europe," I mean the present EEC and those countries which are about to join it). After discussing how we have arrived at this perception I will go on to deal with some of the paramount political issues. I shall try to show how in their resolution Canada will be affected, and what policy we might conceivably adopt to maximize our own position with respect to Europe.

Canadian images of post-war western Europe have gone through a number of changes since 1945. For many years I think Canadians tended to look upon Europe very much as a museum. It was the source of most of our ancestors and had a magnificent, if often regrettable, past. We tended to interpret Europe through old family ties, works of literature, art, architecture and through the historical writings of Europeans themselves. These historical writings, in particular, were written from a nationalist perspective, and this influenced not only Europeans in thinking about themselves but also those who attempted to understand Europe from outside.

Our main response to Europe consisted of tourism, economic aid and defence. Europe was an old place which was to be visited, aided and defended for what often seemed to be largely sentimental reasons.

This view has changed rather radically, I would say, beginning in the late fifties and on through the 1960s. Now I think our perception of western Europe is much more in economic terms. We now think of Europeans much more as the so-called "New Europeans" referred to by writers like Anthony Sampson.

We now see Europeans much more in the North American mould, as consumers, businessmen and technocrats, highly mobile people crossing boundaries without much concern for political symbols, and doing away with the dead hand of Europe's past.

We have very quickly accepted this new notion of Europe in our media and in our policy-thinking. Perhaps this is best symbolized by the persistence of our newspapers in referring to the EEC by its unofficial title of the ECM, the European Common Market, as if the market were the only thing that really mattered about European integration.

The Canadian response to this image of Europe has been to think purely commercial terms about competing for a market, developing new trade strategies to take account of this growing centre of power. Very clearly this has been the concern of this committee up to now.

What I am going to try to suggest today is that it is important to look at the bigger picture, to look at Europe as an emergent political system—in a sense as a political system already.

There has not been a great deal of Canadian interest in this phenomenon, except perhaps, for what it might tell us about the integration of our own country, or about the possible integration of North America by economic means. We have acknowledged this apparent parallel between western Europe and ourselves, but we have not had much of an interest in European integration as a political process for its own sake.

This is, I think, reflected in the present nature of European studies in Canadian universities. There are many courses in economics departments where one can find discussions of the Common Market, as a phenomenon of international economics, usually in the context of a course on international trade theories; but one rarely finds courses on the political aspects of western Europe as a whole. In fact, as I think Peter Dobell pointed out in his article in the International Journal, there is only one centre of European studies in the whole of Canada that is focused on the political aspects of the Common Market. That is at l'Université de Montréal. Yet it is my feeling that this political aspect of Europe is the most crucial one with which we are confronted in dealing with the problem of expansion. If we are to develop a rational, intelligent response to the EEC, we must consider expansion in the context of political developments in Europe.

I would like to look at what I think are the three main political issues in the emergent Europe: first, the question of supranationality; that is, the development of further political integration in Europe; secondly, the issue of structural change within Europe; the evolution of the EEC's institutions, and, thirdly, the question of Europe's place in the international system.

Before I begin, perhaps I should explain what I mean by "political" issues. I say that enlargement is part of a complex of political issues that are now engaging western Europeans. What I mean by a political issue is, basically, that it is a controversy, a debate about the future of the European political order—as distinct from Europe's economic prosperity or cultural development. That is, these are issues which concern the way rules will be made and enforced in the Community in the future, the distribution of political power within the Community, the adequacy of the institutions of the Community in solving its problems and in responding to public needs, and the way in which the Community will distinguish itself as a political entity from other entities in the international system. This is what I mean by purely political issues.

In the past, as I have indicated, these purely political issues have been largely overshadowed by spectacular events on the economic stage. I think it is still correct to apply to the EEC the expression which was so long applied to West Germany, that it is an economic giant and a political dwarf. More accurately, perhaps it might be said that the EEC is a political infant, in the sense that it has considerable prospects of growing into a giant, and that the political issues are starting to reflect this by the intensity with which they are discussed in Europe.

Another reason that Europeans are beginning to be confronted directly with political issues is simply that they have reached the limits of what is solvable by purely technical processes. That is, they have run out of relatively easy, less controversial issues with which to grapple. The EEC treaty set out a very specific program on integration in the economic sphere for 15 years ahead, laying down a series of deadlines at which certain barriers had to be removed, certain alignments made in external tariffs, and certain common policies formed. These were very specific tasks which it was possible to solve by a mixture of technical expertise and market-place bargaining.

Now the Europeans are up against what analysts have referred to as "high politics": issues of sovereignty, and of external policy. They must face these without the support of a treaty which lays down specific commitments in advance.

It is in this general political perspective that we have to see the enlargement of the EEC. I would now like to turn to the major issues that I suggested earlier, and show first of all how they are all related to the enlargement issue that is the concern of this committee; and, secondly, to point to their possible implications for Canada in the near future.

The first issue is that of further political integration within Europe, the issue which revolves around the possibility of Europe's becoming a supranational federation, a new state in international politics, abolishing or severely limiting the freedom of activity of its components parts.

Now, views in Europe, and indeed elsewhere, differ considerably about the likelihood of this federation actually emerging in the foreseeable future, as well as about its desirability. It should perhaps be pointed out that, contrary to some widespread views, there is no specific reference in the Treaty of Rome to political integration as a goal of the treaty's signatories. The closest that the treaty comes to a statement of this sort is in the preamble, where it uses the phrase, "establish the foundations of an ever closer union among the European peoples"—which you will recognize could mean almost anything. It is this phrase which was seized upon by those who were in favour of a European federation, to try to suggest that the whole point of the Common Market was the eventual abolition of national sovereignty and the emergence of a federal state. But there are many others who would take that phrase to mean simply that European nations as sovereign states should work more closely through traditional international techniques of co-operation.

It is fair to say, then, that if any consensus has existed at all on the desirability of Europe's becoming politically united it has been at a very general level which says nothing about the specifics of that eventual political form. It is now, I think, accurate to say that the views of those who dominated the early EEC, particularly the first Commission headed by Walter Hallstein, and some of the representatives of the smaller members of the Community—the views, which favoured supranationality, have now receded into the background. They have been, in a sense, pushed aside by the view that supranationality is both unlikely and probably undesirable.

What we are seeing at the moment is by all accounts a resurgence of the national actors in the EEC. There is a growing belief that, contrary to the early assumption, economic integration does not automatically and inevitably lead to political integration. Our last foreign policy white paper which, as I recall, makes a very strong suggestion that this process is inevitable, would perhaps be questioned by many Europeans.

Thus the belief that political integration is an inevitable process has gone by the board and the belief that it is desirable is now held, I think, by a minority of those who are influential in the Community. Therefore, what we are likely to be confronted with in the European Community in the foreseeable future is a mixed political system which is neither a conventional grouping of states making their decisions by normal international means nor a new single state, but a mixture of the two, something which is very much a new political animal. This is going to be a very messy and difficult political system for us to try to comprehend from the outside; it is difficult enough to comprehend for those on the inside. But, as anyone who has been in political life for a long time will recognize, messy arrangements have a disturbing habit of persisting and becoming institutions. I suspect we might have to accept a mixed political system in Western Europe for some time.

The effect of enlargement on this process, the decline of the supranational idea, has been very much to reinforce it. First of all, the major state which joined the Community in the enlargement, Great Britain, has never been one which has favoured further political integration or supranationality in Europe. The British idea of European integration was always one which bore very close resemblance to General de Gaulle's notion of a Europe of states making decisions by traditional international means, and certainly the French will have a valuable partner in the British in preventing increases of centralized power in Europe. Clearly this was the basis of the bargain which was struck between President Pompidou and Prime Minister Heath in May of 1971, which permitted the surging ahead of Britain's advance into the European Community. The other feature of enlargement that will further hinder integration is simply that there are a lot more states in Europe now and the decision-making process is likely to become more cumbersome, making it more difficult to arrive at the kind of consensus among the member states on which integration has been built in the past.

The implications for Canada, I think, are fairly clear. To deal with this mixed political system we are going to have to use a combination of techniques: dealing with the states individually and trying at the same time to build up a set of strong new links with Brussels and, perhaps, also with other centres of power in Europe. It should be pointed out that Brussels is by no means the uncontested institutional centre of the new Europe. There are institutions of the EEC in Strasbourg and Luxembourg and, perhaps there will be in Paris, if the French get their way and a political secretariat is formed in the near future. In any case we are not going to be able to deal with our trading partners in the traditional way; we are going to have to set up a whole array of new lines of communication with this rather shapeless community.

As to the issue of structural change, or the development of European institutions, I think there are two aspects which are worth considering: democratization and the problem of structural reform or streamlining. The issue of democratizing the European Community has been allowed to languish for some time. It has really only become important in the late sixties.

There are different views among Europeans as to what democratizing the Community means. For some it means giving the European Parliament control over the Community's budget, which it does not now have, and electing this Parliament rather than appointing it from national Parliaments. Since 1960 there has been a report on the table as to how this Parliament should be elected. It envisages fairly large constituencies electing 426 M.P.'s from all across the Community. Other proposals for democratizing Europe have been to exert more control over the executive Commission, either by electing the president of the Commission and having him pick the cabinet in the American style, or by having it selected out of the Parliament. The belief generally is that this Community is too important to be left to the technocrats and it must be under more direct control by the general public in Europe than it now is.

It is perhaps worth pointing out that it has now been agreed that over a period of seven years the Parliament will, in fact, obtain control of some of the Community's resources and some of its budget. This is being done by a two-phase process: Until 1974 the Parliament will be able to make certain amendments to the draft budget; after 1974 it will have under its control all expenditure not covered by existing financial negotiations or in the province of other Community bodies, as well as real influence on the administrative budget. However, this is still a very miniscule part of the Community's total budget; the 90 per cent of the budget which goes to the Agricultural Fund and to the Social Fund will remain outside the purview of Parliament for the foreseeable future, so that this is not as important a development as some European federalists like to think. Enlargement, I think, will also reduce the prospects for a rapid democratization of the Community. Once again, the British are singularly cautious about giving too much control to a supranational European Parliament.

If democratization does come about it will have the effect of changing the institutional balance in Europe quite dramatically. In the first phase of the Community, which ran up to about 1965, it was clear that the Commission was the leading edge of integration in Europe, taking the initiative in proposing policies to the Council, which the Council could then either act upon or simply return to the Commission for further action. In the second phase, which is really post-1965, the Council of Ministers, the intergovernmental forum, has really been the dominant body in the EEC. It is clear now that this intergovernmental decision-making model will be the one that marks Europe for some time yet.

If the EEC were democratized it would perhaps enter a third phase, which would possibly mean more checks and balances on Europe's decision making, and therefore perhaps also greater indecision, a greater inability to formulate quickly and intelligently common postures vis-à-vis the outside world. I am not sure that this is necessarily to our advantage. It is sometimes easier for a country to deal with a decisive adversary or bargaining partner than to deal with a vacillating and amorphous entity such as a democratic EEC might end up being. However, I repeat that this is not likely for a while in any case.

The other aspect of structural change and development that I should refer to is the rationalization of institutions within the EEC.

In a real sense, Europe is now over-organized in many ways. It consists of a proliferation of overlapping structures, very often with ill-defined functions. I could give you some figures on the growth of the European bureaucracy, which I think now numbers something like 6,000 people, which is about double what it was 10 years ago, the administrative budget having tripled in the same period. Naturally the enlargement of the Community will exacerbate this whole trend towards unchecked growth.

The Council of Ministers, which used to be able to make some of its decisions by a relatively simple 12 out of 17 qualified majority, will have to undergo horrendous computations, trying to make decisions on the basis of 43 out of 61 weighted votes, when the Community is enlarged to 10 members next year. The Economic and Social Committee will be increased from 101 to 153 members. The Commission itself in February, 1973 will increase from 9 to 14, to account for the new members. The Parliament also will increase from 142 to 208.

The general increase of membership in every body of the European Community, as well as the further proliferation of their ministerial departments, or directorates general (now numbering 18) and of committees, means that the decision-making process in the Community will become increasingly slow. It will become less and less easy for countries dealing with the Community to get a quick answer out of the Community and to know where to apply pressure most successfully in order to get it to make the decisions that might be desirable.

The third political problem with which Europeans are grappling is that of the Community's political identity within the international system. This again has two aspects: the first is membership, the aspect of future enlargement; the second concerns the form and the substance of the relations that this new entity will have with the rest of the world. Enlargement is only partly as a result of the economic logic of integration. To a great degree, like every other major growth of the Community, enlargement has required a prior political consensus and a sense of political necessity among the members. General de Gaulle's major lesson to all of us was that economic processes by themselves, and economic logic by itself, have distinct limitations. Those of us who believe that the growth and expansion of the Community are irresistible processes, would do well to look back a few years to General de Gaulle's career as a European.

The Europeans are continually in the process of making up their minds about which states might be acceptable in the Community and which states are not, and what the future European political system will look like on the map. If we look around the European continent we see very few potential members for the future. At the moment there are only two countries in Europe that have association agreements with the EEC which are intended to lead to membership. One of these is Greece, whose association has been suspended since 1967. The other is Turkey, whose possible membership is mooted sometime in the 1980s. Other countries have been considered as possible future full members of the EEC, among them Spain and Portugal, both of which, like Greece, really require changes of regime or of political thinking within Europe before they are acceptable. Then there are the European neutrals, including Sweden, Finland, Austria, Switzerland and possibly Yugoslavia, although this last seems rather unlikely. However, at the moment the prospects of any of the neutrals becoming full members of the EEC are rather remote, for obvious reasons.

Since full membership of the EEC is limited, by Article 237 of the Rome Treaty, to countries that are in Europe, and since those countries themselves are scarce if one eliminates eastern Europe from consideration, then clearly there are severe limitations on the future growth of the EEC as an entity.

The problem then really becomes how a Community of ten, perhaps a few more, might set up its relationships with the rest of the world. At the moment the major formal relationships are structured through association agreements with Third World countries. Where the EEC has most institutionalized its foreign relationships is in the councils of association that have been set up to regulate its economic exchanges with the countries of the Yaoundé Arusha Agreements. In both cases these African countries and the EEC have set up joint councils, which consist of the membership of the EEC, the membership of the African group, and representatives from the European Commission, to make policy in the context of this associated relationship. There are also joint Parliamentary Committees.

It is worth adding that as of January, 1971 the European Community has abolished all duties on imports from less developed countries, except for some agricultural products. The institutions thus reflect, and have in turn produced, close, complex and durable economic ties.

As far as its relationships with other trading partners are concerned, there is far less institutionalization. There are some trade agreements between the EEC and countries such as Israel; there are limited association agreements with the countries of North Africa; but as far as we are concerned, as well as the United States and Japan, there are no institutions of this kind and our trade is very much on an informal basis. I say "informal"; I mean simply that there are no organizations set up at present, no planned relationships among governments.

It is clear from the statistics of recent years, however, that the volume of trade between the EEC and all three of these major units—Japan, the United States and ourselves—is increasing dramatically. We are thus left in a problematic position, rather unclear as to how the future of the international trading system will develop.

We might interpret the growing trade flows between the developed countries as an indication that the fears about competing trade blocks—which have been so widely voiced in the last few years—are groundless; that we are going to see more and more trade between the developed countries and a greater degree of economic cohesion among them. It is worth pointing out that this particular scenario depends very much—at least, in my view—on persistent, steady economic growth in the already developed areas of the world. If growth begins to slow in Europe, Japan and the United States, as it seems to be doing, there will be increasing pressure on the decision makers in those countries to adopt more restrictive practices, more protectionist policies, than they already have adopted.

I am not myself very concerned about current protectionism in the EEC. I do not think it is the important thing that has prevented us from doing the trade we want to do with Europe. As has been pointed out in many publications, the EEC's general level of tariffs is the lowest of any major trading country or group in the world. After the last Kennedy Round of cuts of this year, I think it is something in the order of 7½ per cent on the average. That is 2 to 3 per cent lower than America or Japan. So the problem is not one of the present but conceivably one of the future. If economic conditions become tougher in Europe, then we may begin to be confronted with a more protectionist kind of EEC. It will be then that the economic equivalent of the conflict of continents that George Orwell talks about in "1984" might well become more of a possibility.

The implications of this for Canadian strategy are that we should look very closely at how we might align ourselves economically with this European group. There is, of course, the option of joining in a North American market, or perhaps the Connally variant of it. Ex-Secretary Connally of the United States at one time proposed a common market of those left out of the EEC—the United States, ourselves, Japan, Australia and New Zealand. This or a North American common market, would seem to me to be something which we ought to try to avoid at the present time.

The multilateral option, which appears to be the favourite of the government at this point, seems to me to be remarkable for the lack of specificity which it embodies. It seems to be merely a question of more of the same kind of policy which we are following already—with perhaps more enthusiasm, more vigour and more intelligence, but in a world which has become considerably different. We ought, then, instead to look very seriously at how we might become more closely integrated with this emergent European political system.

The Chairman: Thank you very much for your very wide-ranging discussion of this economic giant and political infant—was that the phrase you used?

Senator Yuzyk, would you be good enough to lead the questioning?

Senator Yuzyk: First of all, professor, we are very grateful to you for giving us this background and this information on the present situation in Europe. This has helped us in some ways to clarify our relations with the EEC, in that you have stated very clearly that the EEC is an evolving system, based on economic considerations paramountly; and, because of these economic considerations, the political factors naturally follow.

Our interest in dealing with the EEC is to find out with whom we should be working, who is the real spokesman for the EEC, particularly as the situation stands at the present time. You did mention that there is a Council of Ministers and also the Commission. Apparently the Commission, from your account, has been much more active and decisive than the Council of Ministers.

Since we are aware of what the Commission has been doing so far, and less aware of what the Council of Ministers has been doing, would you be good enough to explain, first of all, the relationship between these two, and how we should approach the EEC in dealing with it? Should we use both bodies here, or should we still rely paramountly on our individual approach, continuing to deal with individual members, as we have been doing so far? Should we continue along these lines, keeping in mind the possibilities in the future? The question I have asked is rather involved, but the whole European system is very involved.

Dr. Pentland: Yes, it is very involved.

It is difficult to know who the spokesman is for the EEC at the moment. In discussing the role of the Commission I tried to make the point that the Commission is very much on the decline at the moment as a political force. Its zenith came, I think, in the early sixties, particularly when it represented the interests of the Community in the Kennedy Round negotiations. It acted as the single negotiator then, you will recall. But since 1965 the Commission has been steadily on the wane. As you know, 1965 was the crisis brought about by the attempt of the Commission to try to make a leap forward in its powers vis-à-vis the national governments by appropriating to itself control of some of the financial resources of the Community. This led the French to boycott the Community for a year. Since then the Commission has really moved away from being a political body taking political initiatives towards being a body which is more a secretariat for a Community which makes its decisions by intergovernmental bargaining. So I would argue that the Council of Ministers has become a much more important entity since that time.

There are limits on this, because within the treaty it is very clearly spelled out that the Council of Ministers and the Commission have quite separate resources and roles. The Commission is the body which has the sole right of initiative in policy making. It is the body which proposes policy, researches it and then carries it out afterwards, when the Council of Ministers has made its decisions. The Council of Ministers, of course, disposes of policy proposals. It has the final say. Moreover, this situation cannot really change so long as the Treaty of Rome is in existence.

What is happening is that there is a challenge by many national governments, particularly by the French, to move outside the context of the treaty in many areas of policy-making.

I mentioned the political secretariat. The notion here is that there would be a body of experts based in Paris who would formulate policy for the Community, particularly common foreign policy, to be made on an inter-governmental basis—not on a supranational basis—and this policy in a sense would become the policy of the Community because the member states would simply adopt it and act as if it were. But it would not be made through existing Community channels as such.

What I am saying is that we are probably best off in looking at the Community as, primarily, a collection of national governments which make their decisions by formal inter-governmental bargaining, and, secondarily, as a community with a central authority which, for some purposes, when it is convenient to the national governments, will be allowed to represent the members. But foremost I think we are going to have to deal with the Council of Ministers and the separate national governments.

Does that answer your question, senator?

Senator Yuzyk: Yes, I think it does, except that there is the other aspect that we have our relations with these countries individually and we will have to continue those relations, I suppose, until we get some kind of recognition. So far I am not sure whether the Council of Ministers has ever taken Canada into consideration. Has it?

Dr. Pentland: It does not seem to have. I cannot find many references to us. In fact, the other day I was reading what purports to be one of the major political and sociological studies of Europe. To begin with, I thumbed through the index, but found no reference to Canada whatsoever. I think that is quite typical of the outlook of the EEC towards us at the moment. We have not made much of an impact on them. I am not sure it is entirely their fault.

Senator Yuzyk: Have we tried?

Dr. Pentland: I do not think so.

Senator Yuzyk: I do not think we have tried very hard to make any impression on the EEC, except in terms of trading and commerce.

Dr. Pentland: I would agree.

Senator Grosart: Mr. Sharp would not.

Senator Yuzyk: Do you think, therefore, that our chances would be a little better through the United Kingdom to make our voice heard at least?

Dr. Pentland: That is a difficult one! It conjures up President de Gaulle's notion of Britain as the Trojan Horse for the United States. Maybe we are going to clamber in there with the Americans.

Senator Grosart: It conjures up Mackenzie King, too.

Senator Yuzyk: Dr. Pentland, with respect to Canadian studies on the EEC, you mentioned that there was one centre in Montreal. Is that the only centre in Canada?

Dr. Pentland: To my knowledge that is the only centre which deals with European integration as a political phenomenon. There are centres for international studies which do deal with some aspects of it, according to the interests of those who are there, but this is the only one that I know of which has the EEC as its primary focus.

Senator Yuzyk: Considering that the roots of most Canadians are to be found in Europe, why is it that in other parts of Canada, particularly the eastern part of Canada, for example, in Toronto, there is not such a close interest in the EEC when it is so obvious that we do want to increase our trade with this Community?

Dr. Pentland: I cannot speak too much about the economists here. Perhaps they have been more active than we have in looking at the EEC, but the political scientists, you are absolutely right, have not been particularly active. I think it has to do with two tendencies that have overlapped in Canada. On the one hand we have been involved in Europe since 1945 as I said, very much from the point of view that, for partly sentimental and partly hard-headed political reasons, Europe was to be defended and given economic support. For one reason or another we were interested in Europe in that way.

Senator Yuzyk: You explained that very well in your opening remarks.

Dr. Pentland: This I think has been a declining interest in Canada since the late 1950s. On the other hand, our emerging interest has been in other areas of the world. We have become interested in Latin America and Africa particularly. So at about the time we were starting to develop international studies in Canada Europe was declining as an area of interest and it did not seem important to set up centres to study it. We had tired of it. That is the only explanation that I can arrive at. Then, when we did become aware of Europe again, it was foremost as an economic entity. So it was primarily the economists who became interested.

Senator Yuzyk: But we have been teaching European history in all the universities, even modern history, right up to the present day. Do you think these studies should be encouraged in some particular way?

Dr. Pentland: Yes, I think so.

Senator Croll: Was it the fault of the pupil or of the professor?

Senator Yuzyk: That is what we are wondering now.

The Chairman: You are going to get a biased answer here!

Dr. Pentland: I think you might.

Senator Yuzyk: Is the EEC not one of the largest trading blocs in the world now?

Dr. Pentland: It is the largest, actually.

Senator Yuzyk: Then Canadians had better pay attention to this.

Dr. Pentland: I should have thought so, but not simply as an economic phenomenon. This is what I am pointing out. It also has political potential. I would certainly argue that we have been extremely negligent in our academic community in looking at this political system. I can think of about half a dozen political scientists in Canada who are interested, more or less full time, in the EEC. That is a pretty small number.

Senator Yuzyk: How are these studies set up? Do the universities themselves take the initiative, or should the government fund some of these studies?

Dr. Pentland: I think that the universities have to take the initiative at the outset. Government can do all the funding it likes, but I think unless there is a basic interest in the universities and unless the idea spreads of its own accord, it is not going to get anywhere. I do not know if I am now cutting off some large

potential flow from the public purse, but I think it is incumbent on us to get going on this subject before the government should feel in any way obliged to do much about it.

Senator Lapointe: Do you think it is an exaggeration to say, as the past president of the Council of Europe said, that if the EEC does not give itself some political institutions pretty soon it will become a kind of defenceless giant, a kind of monster that just could not survive?

Dr. Pentland: Walter Hallstein used to say, and others with him, that European integration was a kind of bicycle–once it stopped rolling it would collapse. This argument had a very clear purpose to it; one had to keep the dynamism going and one had to keep the political commitment of the member states or else things would degenerate. But I am sure that Europe could survive as a viable economic entity without a great deal of political apparatus. I think it is well equipped at the moment to look after itself. Perhaps one area where it needs further development is in the formation of a common commercial policy. It has had a common external tariff since 1968, but it has not developed its own institutions to formulate and carry out a commercial policy vis-à-vis other states. But this is a fairly limited aspect of the total development of Europe, and it does not require a European parliament nor does it require more power for the Commission because the tools are there in the existing framework if the Europeans wish to use them. I think perhaps it would be overdramatizing to say that the EEC needs more than that to survive.

Senator Grosart: Dr. Pentland, I got the impression that you might be polarizing economics and politics rather more than would be realistic. Surely, in between there is an area caused by an overlapping, a very large area that ties them together? The Council of Europe is a very good example in as much as it deals with patents, migrant workers, aviation, national parks, criminal law, et cetera. They have committees on all of these things which are as much political as they are economic. Is this polarization realistic?

Perhaps I can make the question more specific. Do you not think it is possible that the co-operation in these other areas–including pollution, science and technology and so on–will bring about a degree of political cohesion without actually leading to political integration?

Dr. Pentland: It is possible, and I think we should recognize this as one important theory about how integration will develop. One of the problems is that we believed this too uncritically in the past; because we were able to co-operate in areas such as the ones you mention, which have a very high technical component, or in areas where most people agree that something needs to be done–pollution, for example–we believed that political union would come automatically.

Senator Grosart: But is that not the essence of political union, that people agree that something needs to be done about a particular problem?

Dr. Pentland: I agree, but the difficulty is getting people to agree on major political questions. It is easy to get people to agree on technical matters, but it is not so easy to get them to agree on questions concerning, for example, foreign policy or defence, where for one reason or another it is believed that the stakes are extremely high: physical survival or sovereignty or things that people believe in fundamentally. That is the sort of distinction that I would draw between politics and economics. I would certainly grant you that they overlap and that anything can become political when people disagree about it. I think that is fairly evident. But I do not think that there is any real evidence yet to show that a lot of co-operation on the type of committee that you mentioned leads inevitably to political integration. It may aid it, and indeed in the long run it may produce it, but we have not seen that happen yet.

Senator Grosart: But would you not say it is a degree of political integration? It is not a question of leading to eventual total integration. Even in Canada we do not have that yet, but we have a state and we have a division of powers. Is this what is going to happen there, and are we going to have a United States of Europe? I am speaking now of a situation where you will have central powers in these agreed areas and residual powers with the states. Do you see that kind of development coming about?

Dr. Pentland: I do not see this happening for a long time. Mind you, in one sense we have a system of that type right now. Certainly agricultural policy is made at the European level, and as you know there is a customs union, and there are a great many other forms of policy which are made at that level. But they are not made exclusively by central institutions without consultation with or consideration of national viewpoints. My definition of a single political community is one where this is at least possible in theory, but it is not even possible in theory in the Community at the moment. Studies which have been made of the Community, looking at all areas of decision-making, show that in no area is policy made solely by community institutions acting on their own, which would be the case in a centralized state or even a federal state with some centralized powers. There is no area of policy like that. Most policy is still made by national governments with perhaps some input from Brussels, or occasionally, as in the case of agriculture, mostly in Brussels with some input from national capitals.

Senator Grosart: Surely, the common tariff is a supranational policy of the Community? Perhaps you are a little pessimistic. Canada does not have agreement in this area and yet we have a nation, we have a political entity. We do have agreement in other areas. Is it not possible that you are a little pessimistic about political integration?

Dr. Pentland: Well, it is possible, by my definition. My definition is perhaps more demanding than yours or others' might be. Professor Halstein, the first president of the Commission, used to argue that Europe was integrated already, that it was a federation. This was in the early 1960s. He said this precisely for the reasons you have mentioned, namely, that it was making policies in certain areas.

The Chairman: I find Senator Grosart's point very interesting. What can change your pessimism?

Senator Grosart: The European flag.

Dr. Pentland: I would have to see some evidence that the major states which are now members of the Community were committed to supranationality. I do not see this in any of the policies of the major states at the moment. I do not see it in the French policy–that is very evident; or the British policy; the Germans are somewhat more ambivalent because Chancellor Brandt talked about political co-operation, meaning, I think, what the French mean, that the major powers will have to get together and create common defence and foreign policies. However, this is not supranationality. No single government will allow itself to be over-ruled by another government. Until you have governments who are willing to make this commitment and allow themselves to be over-ruled on certain issues, providing this situation does not last forever, then you have to be pessimistic.

Senator Grosart: You will never get that commitment. If this was a necessary requirement in the establishment of a political state, you would have no United States, Canada, United Kingdom, Germany, or Italy. What would you have? Existing entities have made no pre-agreement saying they would now become a supranational state. It merely comes about.

Dr. Pentland: Perhaps I should not have stated it that way. I did not mean they would make an open, prior commitment. However, they should at least indicate they are willing to give more power to the central authority, and the implication in giving that power is that they recognize that at some point they might well be over-ruled by that authority. I did not mean they would have to make an open, verbal commitment. But, they should be willing to give more central power to the Community.

Senator Grosart: It sounds a little like federal-provincial conferences.

Dr. Pentland: Yes, there are many parallels.

Senator Grosart: You spoke about certain countries, Greece, for example, whose membership is suspended, and Spain and Portugal who, under certain conditions, may come into the EEC. Are there membership qualifications, in terms of parliamentary democracy, in the EEC as there are in the Council of Europe, for example?

Dr. Pentland: There are, yes.

Senator Grosart: Is it in the treaty? It has been so long since I have read the treaty.

Dr. Pentland: No, it is not in the treaty, but the rule exists in practice. It has arisen in a number of cases, the most obvious ones being Greece, Portugal and Spain, where small members such as the Dutch, as well as parties to the left, have been most vociferous against accepting regimes of this sort. It is more a question of political atmosphere than a legal position.

The other issue like this which has arisen, of course, is Communist Party representation in the European Parliament. Up until 1969 there were no Communist Party representatives in the European Parliament. Now, the Italian Communist Party is represented as part of the Italian delegation. The French Party is not.

Senator Yuzyk: Who makes the decision regarding the parties, is it the state itself?

Dr. Pentland: Yes, the national Parliaments decide what kind of delegation they will send.

Senator Grosart: Mr. Chairman, could we obtain a list of the Yaoundé and Arusha countries?

The Chairman: Senator Grosart, it is in the article.

Senator Grosart: Are all of the countries listed?

Senator Yuzyk: Yes, they are all listed, as well as who obtains the Common Market preferences.

Senator Grosart: That is fine. You have used the phrase "democratization". Do you use this in the sense of parliamentary democracy? Surely these countries regard themselves as democratic already?

Dr. Pentland: They regard themselves as democratic, but there are many who regard the Community as undemocratic. The decisions of the Community are not subject to the normal controls which we would expect to find in national government decisions.

Senator Grosart: In other words, it is "one man, one vote" throughout the Community.

Dr. Pentland: Yes, this is one aspect. The other aspect is that the parliament would have budgetary control, which it does not enjoy now. All it has is a titular right to throw out the Commission, and the Parliament would never do this because the right of re-appointment lies with the national governments.

Senator Grosart: You have democratic states which are grouped together in an undemocratic Community, is that what you are saying?

Dr. Pentland: I think you could place that interpretation on it, yes.

Senator Grosart: Do you see any indication that the EEC pattern is exciting enough interest whereby analogous bodies might develop along these lines–specifically, an Asian economic community? Do you see any evidence of this?

Dr. Pentland: Well, of course, it has had some effect already. It is very clear that the Latin American Free Trade area, the Central American Common Market and a number of economic communities in Africa have been set up along the pattern of the EEC. They have taken their inspiration from Europe. Asia is, perhaps, the least active area so far, perhaps because of its size and diversity and the kinds of conflicts and power rivalries which exist. What is most striking is the lack of success of the common markets which have arisen in

imitation of the EEC, with the possible exception of the Central American Common Market which seems to be making a go of it, at least in terms of stimulating trade between member states. The Latin American Free Trade area is wobbly, and the various African markets are in much the same condition. They go from crisis to crisis, and there does not seem to be any growth inherent in them. Common markets are likely to be much more successful in highly developed economic areas, post-industrial societies where people are mobile and there is a great deal of indigenous capital available.

Senator Grosart: Canada-U.S.

Dr. Pentland: And Canada-U.S., unfortunately, is a good example.

The Chairman: Even if I interpret your pessimism incorrectly, I think you have made the case that the state of union of Europe may be at its peak to day and it will only fragment in the future. Is that a correct statement?

Dr. Pentland: I would not wish to put it that strongly. I am trying to argue that the present situation, which is an anomaly in terms of our political theories, might well turn out to be permanent. That is the point.

It is difficult for us to grasp a collectivity which is neither an international system in the traditional sense nor a state. The EEC is something in between, it seems to me, when considered by a number of criteria. We must start analyzing and accepting it as such, because it may well persist. Therefore, I do not think that the tendency to fragmentation is very great at all. I cannot see that it would be in the interests of any major member of the Community to leave that Community in the future. The economic benefits so far have been too great. Even France, after all, which many thought would be breaking up the Community during the mid-sixties, did not and, in fact, is one of the most highly committed states to the economic arrangements of the Community. Therefore in my opinion it has a fair degree of stability.

Senator Carter: Did I understand you to say earlier that you would not favour a North American common market?

Dr. Pentland: That is correct.

Senator Carter: Could you elaborate on that?

Dr. Pentland: I should begin by saying that this is a terrible dilemma for any Canadian who favours European integration. Here we are in Canada telling the Europeans to get together and when a similar possibility confronts us we say we do not wish to accept it.

I defend this by saying that there is a significant difference between a Community of six, or soon ten states of roughly equal economic and political power, and a system of the elephant and the mouse. There are obvious disparities, of course, between Germany and Luxembourg, but Luxembourg can overcome that by aligning itself with France, Italy or some other major state at a given time. In other words there are possibilities for a small state in a system of six or ten states which simply do not exist when 22 million Canadians are locked in a closet with 200 million Americans.

Senator Carter: The basic reason is that we are afraid of the Americans.

Dr. Pentland: Of being simply swallowed up by a massive economic power which knows and cares little about us.

Senator Carter: I think you said that the future of the enlarged European Economic Community would depend largely on economic growth. If the economic growth continues to a fair degree it could get along internationally as far as trade is concerned and there would be little risk of restrictions and protective measures.

Dr. Pentland: Yes.

Senator Carter: Do you foresee in the future that heavily industrialized countries in Europe, as in North America, including Canada, will have to restrict economic growth to safeguard the environment and relieve the strain on national resources? Will we have to restrain our standard of living somewhat in order to enable us to divert resources to the development of the third world?

Dr. Pentland: I think that would be a very desirable development. As to whether it will happen is another question. I am not sure that I am qualified to speculate in that regard. There may well be increased pressures on national governments to adopt such a position.

Senator Carter: Are the pressures not already there with the growing scarcity of resources for industrial expansion and the damage caused to the environment and the ecology?

Dr. Pentland: Well, of course, those pressures have two directions. One is toward the limitation of growth within the country. The other is to look outside the country for new sources of resources. The American interest in our resources is clearly a reflection of that.

However, I also think that the European Economic Community has become more outward-looking, partly because it is becoming aware that these resources are available in the developing world. Oil from the Middle East is an example.

Senator Carter: That is another point. I had forgotten that there is a scarcity of energy which will affect Europe in the same way as any other industrial nation.

Dr. Pentland: Very much so.

Senator Carter: Is that not a pressure with respect to resources which will only be deferred on a word scale for ten or twelve years?

Dr. Pentland: Yes.

Senator Carter: So that, eventually, taking a long look at it over a period of 20 years, is it not reasonable to assume that all these industrial nations will need to curb their industrial growth?

Dr. Pentland: Yes, I think that is a reasonable prognosis. My concern with regard to this process arises from the evidence at the

moment that the European Community is poorly equipped to deal with the types of political and social problems which will emerge in an era of no or slow growth.

Senator Carter: What will be the result of the tensions and strains which will develop when these pressures come to bear in that type of an in-between sort of structure, which is neither international nor a sovereign state?

Dr. Pentland: This may well lead to more emphasis on a common European social policy. There has been some development in this direction already, largely as a result of the Coal and Steel Community, which has as one of its effects the elimination of some of the less efficient coal mines in Europe. A European social policy has to be formed to help alleviate the condition of the workers who were thrown out of work by European industrial policies.

This kind of thing is likely to become the pattern for the future. I am not sure that the Europeans have paid sufficient attention to this possibility. You are quite right. There will be increased stress on existing institutions in Europe. Perhaps this will be an incentive for increased integration.

Many people however, are worried that it will make the EEC more in-turning and lead it to a "Europe first" policy which could have as one of its effects the exacerbation of some of our trade problems with it.

Senator Carter: Yes, it would lead to more troubles for nations such as Canada.

Dr. Pentland: Yes.

Senator Carter: What do you foresee with respect to the eastern European countries, such as Russia and the Balkan states?

Dr. Pentland: Do you mean in relation to the EEC?

Senator Carter: Yes.

Dr. Pentland: One of the attractions of eastern Europe for the EEC is precisely that it puts off for a while some of those decisions with respect to growth and the need for raw materials. The Soviet Union can serve as a source of raw materials for western Europe for a little while, as can other countries, such as Rumania. This is, however, a short-term solution. Nevertheless, the flow of trade between eastern and western Europe will become much greater in the next 10 years. As you will be aware, the Soviets now seem predisposed to recognize at least de facto, the existence of the Community as an entity. Mr. Brezhnev's recent remarks seemed to point to something of that sort.

I do not have the figures to hand, but I believe trade between eastern Europe, including the Soviet Union, and the EEC, is to the order of $6 billion a year and it is growing very rapidly (about 12% a year). The Soviets are extremely interested in the kinds of technology that are available in western Europe. I gather from the paper this morning that we are going to have a European security conference. I suspect that trade and technology are going to be one of the main items on that agenda. So a lot of things seem to point to a great deal more interaction between east and west Europe.

Senator Carter: What course do you think Canada should follow in the face of these possible developments?

Dr. Pentland: It is difficult to point to a specific policy here. My general position is that we ought to institutionalize our ties more closely with western Europe. Presumably we are going to have to compete with the raw materials supplying countries for European markets, and we may find ourselves, unless we are careful, out in the cold, because some kind of preferential arrangements will have been made between the EEC and the Soviet Union and the EEC and other eastern European countries.

The Chairman: Perhaps, Senator Carter, you would like the witness to develop that word "institutionalize" a little?

Senator Carter: Yes.

Dr. Pentland: I have been throwing that around rather casually. What I really mean is simply that we should decide whether we want a formal trade agreement which sets up certain kinds of preferences, such as Argentina has been negotiating with the EEC, for example; or whether we want to have an association agreement of the kind which is permitted under Article 238. It could not be an association agreement which leading to membership, as is the case with Turkey and Greece, but some other form. The treaty is fairly flexible on that. In an association agreement we would presumably be meeting with the Europeans on a one-to-one basis, our people negotiating with the Commission. In any case we have to think about what institutional form our contacts should take.

Senator Lapointe: Do you think the United States would prevent us from doing that?

Dr. Pentland: They probably would try. I am not sure whether they could succeed, although I suspect they might make life fairly uncomfortable for us in some ways, as they showed they were capable of doing last August. I think the United States would quite rightly interpret this as a challenge to their relationship with us. It is nonetheless a challenge that we perhaps ought to make in some way or other.

Senator Fergusson: I have been looking at the article in *The Economist* containing the list of countries which might be eligible for association in 1975. Many of them are very small countries. It seems strange, in view of the fact that Canada has been represented at many trade fairs in Europe and must be known. Surely, they must have had more representation in some of these small countries, because they could not afford to be represented like that? Why is it that the European Common Market, apparently, is not interested in us at all? Is it because we do not produce the sort of things they would like to have? Is it because our products are not suitable for them? Why do they ignore us when they are considering feeding in these little countries which have fewer products and certainly could provide a much smaller market?

Dr. Pentland: Of course, the gist of most of these association arrangements is that these countries can provide certain kinds of tropical products which the EEC requires, foodstuffs of various kinds. I think you are right. We, with the exception of pulp and paper, do not produce a lot of things that the EEC cannot produce itself or get elsewhere. So to some extent we are suffering from the kind of economy that we are.

But my major impression is that we have not tried to compete very hard. We seem to have said, "We really do not produce very much that we can sell to Europeans, so let us not bother trying."; whereas we may well have been able to compete with some of their products.

Senator Fergusson: What about our trade fairs? A lot of money has been spent representing Canada at trade fairs. Have we not shown things that are of interest, or are our products not good enough?

Dr. Pentland: I cannot really comment on that because I am not too familiar with the details of our products or marketing techniques.

Senator Fergusson: I understand the EEC has set up missions in Tokyo and Washington. Do they plan to set up missions in other countries?

Dr. Pentland: I have not seen any evidence that they do. They certainly have no intention of setting one up here, as far as I can see.

Senator Fergusson: I was wondering if any were being set up in any other countries, not just those two large ones.

The Chairman: Would it not be in Canada's interest to persuade them to do so?

Dr. Pentland: Yes. With the formation of our own embassy in Brussels devoted to the EEC, this may be something we can press for, as a logical exchange.

The Chairman: May I add a supplementary to Senator Fergusson's question? Do you think the announcement by the Minister of Industry, Trade and Commerce before this committee a week ago, about the task force, makes any sense, or is it too little too late?

Dr. Pentland: I think it makes a great deal of sense. It is not yet too late to begin developing our relations with the EEC. And the more information we have available to us on the European situation the better. In a sense we have always used the too little too late argument with respect to Europe, and as a result we have found ourselves at even more of a disadvantage.

Senator Cameron: Mr. Chairman, I apologize for coming in late and for missing part of the presentation. My question relates to what Senator Carter was asking about the depletion of energy resources and the effect of the tremendous industrialization. The most knowledgeable scientists are forecasting that at the rate we are going we will run out of the major sources of supply in 30 years. The European Common Market seems to be an attempt to make a more rational utilization of resources within a given area. We will probably have to do that too. But there are other factors which might upset the apple cart. For example, Borlaug, who is the father of the green revolution, pointed out that about two-thirds of the people of the underdeveloped countries are dependent on the products of the green revolution, and these are not disease resistant varieties of crops, so if a disaster hit them we could have starvation on a scale that we have never before seen.

I am wondering if the EEC has been setting up any machinery to look into the aspect of a possible natural calamity and what steps should be taken to counteract it? I cannot be as pessimistic as some scientists. I believe we will get some new forms of energy and new means of control—we can do a lot in 30 years—but it seems to me that the planning of the EEC which, to me, is one of the sane pieces of evidence of international corporation we see today, should be concerned with that aspect. Have you any evidence that they are giving thought to this aspect of relationships with other trading blocs or other countries?

Dr. Pentland: Do you mean the problem of environment within Europe, or the possibility of some crisis with respect to the green revolution in the underdeveloped countries which the EEC should respond to?

Senator Cameron: What is happening in the burning up of our energy resources in this country here is certainly happening over there, so we must find some alternative sources. I mentioned the matter of food as one of the related problems which, it seems to me, the EEC should be concerned with in its long-range planning.

Dr. Pentland: Of course, the EEC has been trying for 15 years to develop a common energy policy, but it has so far really not accomplished a great deal. One of the main bases for this policy was to have been nuclear energy. As you know, the Euratom organization emerged just after Suez, which many people felt had shown that Europe could not rely on externally supplied oil for its energy requirements. Well, Euratom has been a bust as far as its major original goal is concerned that of developing a European nuclear industry; it has failed completely, for several well-known reasons. The major component in Europe's energy supply continues to be oil; I believe it supplies 60 per cent the total need. North Sea natural gas is going to take some of the pressure off this, but, by and large, Europe is still greatly dependent on external sources for its energy. I believe over 50 per cent of its energy is imported.

The crisis which occurred when the oil-producing countries raised their prices on two consecutive occasions provided a new stimulus to the EEC to develop its own energy policy, which would mean, in part, looking at new energy sources available within Europe and also trying to develop a stronger common front vis-à-vis suppliers from outside. That is not really long-range planning in the sense that you mean it, because it is really only putting off the day of reckoning. I think you will find more long-range planning in other European bodies such as the Council of Europe which has more freedom and less political influence at the moment—perhaps more freedom because less political influence! The Council can enter into long-range studies on the environment. Europeans are

quite aware of the problem, but I do not think the EEC has really responded in a positive way.

Senator Cameron: So, your answer is that at the moment they have not set up any effective machinery to look at this aspect?

Dr. Pentland: The environmental problem or the fuel problem, no. It is being done, as I say, nationally within Europe and within other organizations, but not, as far as I know, in the EEC as a major function.

Of course, the other side of this—I do not know whether this relates to your question about the green revolution—is that the EEC has become a considerable aid-giver in the last ten years. I believe it is No. 2 in the aid-giving area now and gives in the order of $2 billion a year in official flows, $5 billion if you include private flow. A good deal of this is of course French aid of private investment for former French colonies in Africa, and that total includes bilateral and EEC—administered assistance.

Senator Cameron: Really, what I was getting at is the no-growth point that Senator Carter was making and how this could come about. If three out of four people living in the world today are in the under-developed countries of Asia and these areas—and this is the area where the green revolution is feeding them today—if there were a natural disaster you could achieve no growth in a hurry, and it would have an effect on the developed countries such as those represented in the EEC.

Dr. Pentland: Yes.

Senator Lapointe: Do you feel that Canada should try not to be classified as part of the North American trading bloc, or is it useless?

Dr. Pentland: It may prove useless, but we should try. It is to our advantage to make the Europeans aware of us as an economic entity separate from the United States. I do not believe they are very much aware of this at the moment. I am not terribly optimistic about the possibilities, but certainly we should have ourselves represented in Brussels with our own ambassador to the EEC and have a representative of Brussels here in Ottawa. This would be a significant start.

Senator Lapointe: Do you feel that the United Kingdom has not shown enough concern for the effects of its entry into the European Community on Canada and other Commonwealth countries?

Dr. Pentland: Well, I feel there is a difference as far as Canada is concerned. I do not think the U.K. should have been particularly concerned about the effects on us, because I do not think the immediate effects on us are as great as many of us like to believe.

I do feel Britain did have more of a responsibility to show concern for New Zealand, where there was a clear case of economic dependency on one or two major commodities.

The Chairman: And it did, in fact, show that concern.

Dr. Pentland: Yes, it did. Also, I think this was a reflection of New Zealand's own efforts. The man who is now Prime Minister of New Zealand, I believe, was the representative in Brussels at that time, and he made himself very evident during the negotiations.

I really do not feel we should have expected Great Britain to do a great deal for us while she was negotiating entry into the EEC.

Senator Lapointe: Because Great Britain thought we were strong enough to stand on our own?

Dr. Pentland: Yes, and I think they were right. We can't expect favours from Britain or the EEC.

The Chairman: Are there any other questions?

Thank you very much, Dr. Pentland. It has been a very stimulating afternoon.

The committee adjourned.

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FOURTH SESSION—TWENTY-EIGHTH PARLIAMENT

1972

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable ALLISTER GROSART, *Deputy Chairman*

Issue No. 5

WEDNESDAY, JUNE 21, 1972

Fourth Proceedings Respecting:

Canadian Relations with the Expanded
European Communities

(Witness:—See Minutes of Proceedings)

25130—1

THE STANDING SENATE COMMITTEE
ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Bélisle	Lapointe
Cameron	Macnaughton
Carter	McElman
Choquette	McLean
Connolly (*Ottawa West*)	McNamara
Croll	Nichol
Eudes	O'Leary
Fergusson	Quart
Gouin	Rattenbury
Haig	Sparrow
Heath	Sullivan
Lafond	White
Laird	Yuzyk–(30).
Lang	

Ex Officio Members: Flynn and Martin

(Quorum 7)

Orders of Reference

Extract from the Minutes of the Proceedings of the Senate Thursday, March 16, 1972:

Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Aird, seconded by the Honourable Senator Connolly, P.C.:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the expanded European Communities.

After debate, and–

The question being put on the motion, it was–

Resolved in the affirmative.

* * *

Extract from the Minutes of the Proceedings of the Senate, Thursday, April 27, 1972:

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Smith:

That the Standing Senate Committee on Foreign Affairs have power to sit during adjournments of the Senate.

After debate, and–

The question being put on the motion, it was–

Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

25130–1½

Minutes of Proceedings

Wednesday, June 21, 1972.
(7)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 10.20 a.m. this day.

Present: The Honourable Senators Cameron, Carter, Connolly (*Ottawa West*), Fergusson, Flynn, Grosart, Heath, Lafond, Laird, McNamara, Sparrow and Yuzyk. (12)

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

Due to the unavoidable absence of the Chairman, the Deputy Chairman, The Honourable Senator Grosart, took the Chair.

The Committee continued its study of Canadian Relations with the expanded European Communities.

WITNESS:

Mr. Forrest Rogers,
Financial Adviser,
Bank of Nova Scotia,
Toronto, Ontario.

At 12.00 noon the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Wednesday, June 21, 1972.

The Standing Senate Committee on Foreign Affairs met this day at 10.15 a.m. to examine Canadian Relations with the Expanded European Communities.

Senator Allister Grosart (*Deputy Chairman*) in the Chair.

The Deputy Chairman: Honourable senators, it is my privilege to introduce to you our distinguished witness, Mr. Forrest L. Rogers, Economic Adviser to the Bank of Nova Scotia. Mr. Rogers has been asked to appear before the committee because he has very close recent experience in problems of Canadian-EEC relations and is, in fact, just back from a trip to Europe where he spent some time in Brussels brushing up on the current situation.

Mr. Rogers has been with the Bank of Nova Scotia for over 25 years. He has been economic adviser to the bank since 1962 and is a graduate of the University of Toronto in political science and economics. I must say that is a very good course; I graduated from it in 1927. He is a member of the National Executive of the Canadian Institute of International Affairs and a director of the Canadian Council of the International Chamber of Commerce. Mr. Rogers is editor of the *Monthly Review*, with which I am sure all honourable senators are familiar, it being one of our very distinguished financial periodicals.

As honourable senators are aware, we have heard preliminary viewpoints from the Secretary of State for External Affairs and the Minister of Industry, Trade and Commerce representing the official view. Dr. Pentland gave us some insights from the academic side. I will merely say that I have asked Senator McNamara to lead the questioning. I would suggest that we withhold questions until Mr. Rogers has finished his opening statement. Then, if honourable senators will indicate to me, I will keep a list and call on you in order.

I am sitting as Deputy Chairman because Senator Aird, unfortunately, for reasons completely beyond his control, is unable to be here. He has been summonsed to stand by as a witness in a very important case before the courts, but he will be with us at our next meeting.

Mr. Rogers.

Mr. Forrest L. Rogers, Economic Adviser, Bank of Nova Scotia: Senator Grosart, I was pleased to receive an invitation to take part in discussions with your committee. I have been quite interested in some of the things you have done in the field of Canada's international relations. Your report with respect to relations with Japan I thought was a real contribution, bringing together some of the relevant thinking. Also I have had some connection with the Parliamentary Centre for Foreign Affairs, which has added to my interest in your work.

I should say in starting that I come to you not really as an expert on Canadian foreign affairs or relations with Europe in the sense that some of the specialists in the Department of External Affairs and others could claim that type of expertise. I am an economist, concerned with a broad range of Canada's economic interests. Our bank has a national organization and also a very large international business, because of which rather early in my work with the bank I took a great deal of interest in the international side, our trading problems, exchange rate problems and so on. I have, of course, been very interested both in what has been going on in Europe and in the broad problems of international trade and finance with which we are now faced. It is from this point of view that I speak to you.

I have really only two major lines of thought to advance, one of which could be termed a moving out from the view put forth by Mr. Sharp and Mr. Pepin with regard to the importance to Canada of a multilateral and non-discriminatory world trading system. Within this rather traditional and general notion, however, I put a little different emphasis on the facts of our present trading position and what this means to us than was the case with the previous presentations. This is true also of what I consider to be our major trading interests in the years ahead.

The other line which I should like to pick up is one which I do not think appeared in your previous hearings. That is to consider our relations with Europe in the perspective of the serious problems which face the world's trading and monetary system. In this context it is my feeling that there tends to be a fair degree of wishful thinking with regard to our relations with Europe and other countries, especially the U.S. There is a reluctance to face up to the essential inter-dependence of all the major countries in the operation of the international system.

I attended meetings in Europe recently at which the problems of thy international monetary field were discussed. One of the formal presentations was made by Bill Butler, economist for the Chase Manhattan Bank, and unfortunately it was his last such contribution because he passed away very suddenly a day or two later. But the key point which he put so succinctly was that in facing the big international monetary questions these days we are not in a game in which some win and others lose. If we fail to achieve co-operation among the major countries all of us can lose. In my opinion, this put the notion of inter-dependence very well. It is a note which we should always keep in mind when considering these relationships.

I said I would touch on the question of our trading position in the context of our interest in a multilateral, non-discriminatory system. When considering our present trading position, the key aspect which must be kept in mind is the high proportion of our trade and business relations which is with the United States. You all know that this is due to the basic effects of geography and business patterns built up over a long period of time. It is important also to

note, however, that even in recent times the U.S. market has generated very strongly growing demands for the type of production found in Canada, both finished goods and industrial materials. An important reason for this is that access to the U.S. market has been relatively easy and, in fact, in some ways made easier, by tariff reductions and the existence of inflation in the United States. In this situation we have, of course, experienced the tremendous growth in trade in the field of automobiles and parts. This tends to distort the directional pattern of Canadian trade as a whole. But even if you knock that out, the fact is that the rate of growth in our exports to the U.S. has been substantially greater in recent years than that to all overseas countries, and greater also than that to the EEC. Another aspect of this, again leaving out automobiles, is that our growth in exports to the U.S. has included a high proportion of manufactured or finished goods. I think this needs emphasis in thinking about our relationship with Europe.

In looking ahead and trying to sort out forces at work, it seems to me that you have to recognize that in the U.S. there is a major effort now to get over the problem of inflation and to strengthen U.S. competitive capacity. There have been exchange rate adjustments to help this process. This is going to come into the picture and make the market conditions rather more competitive than they have been.

Even when you take account of this, however, you have to recognize a couple of important facts. One is the growing energy crisis in the US and a scarcity of other basic materials that we produce. Also, I think, if you could assume that trading channels remain relatively open, there could well be further good growth in exports of finished goods from Canada to the US.

So, all in all, it seems to me that there are very good reasons why our exports have moved so well to the US. The tendencies in this direction, I think, are likely to remain strong in the period ahead, and in general I think it would be foolish not to try to take advantage of this in thinking about our trading interests.

What about looking more directly at Europe in all of this? Obviously there is a desire to build up sales in any other part of the world, to try to diversify our markets and diversify the nature of our trade. But having said this, it seems to me that it is really nonsense, in the light of what I have been saying about our relations with the US, to talk about preferential deals with Europe.

Very briefly again, there are problems in this matter of preferences which even affect our trade with the Caribbean area, which you have looked at in the past. And there is one further point in this connection, without developing it: if you take note of the new currency or exchange rate arrangements in Europe which go by the fancy name of "the snake in the tunnel," if you can imagine us with the Canadian dollar trying to fit into the tight kind of arrangements they have set up there, it does not make sense at all. I think the idea of formal association arrangements with Europe is a red herring, a poor avenue to start thinking about.

If you look at some of the facts of the trading position, we have done very well in exports to the fast-growing EEC, the six countries there, but we have not done quite so well to the slower-growing UK market. The UK is just going into the Common Market. In both of these markets there has been some progress in enlarging sales of finished goods, but not nearly as encouraging, even in relative terms, as what has happened in the US. In absolute magnitudes, of course, the quantities do not compare at all.

The major gains in Europe have been in basic materials. The key reasons for this do not really rest all that importantly on the lack of sales effort. You can talk about this and say there should be more effort, but it seems to me that the more important factors are the much better terms of access and conditions of demand in the US market; businessmen respond to where the market forces are most attractive.

When you talk about terms of access to markets, there was some discussion in your earlier sessions about tariff levels in the EEC. As I understand it, a much bigger problem so far as access to the European market is concerned lies in non-tariff barriers. There have been preliminary discussions and studies of this problem, hoping to do something about it in GATT. From what I have been able to make of the information brought out on the subject, and from my own observations, I believe this is a much more important problem than the tariff levels.

What I am trying to say is that there are many factors you have to take account of in looking at how well companies can do in the market. Of course, another thing is that in the European market there is the matter of different languages, different cultural backgrounds, marketing patterns, and so on, and it is a much tougher job to start selling in that kind of market than it is in the more familiar North American climate.

With respect to sales opportunities for the years ahead, I am not sure that the growth in Europe is going to be all that fantastic following upon UK entry into the Common Market. This may well bring some added stimulus to growth generally, but the basic population trend in Europe does not have the kind of growth that we have had, and still will have, on this continent, and I am not so sure that productivity gains in the next 10 years will be anything like as great as they have been in the past.

If you are looking at basic growth patterns as an element in relative export prospects, I would be inclined to rate prospects in the US at least as great from that point of view, and probably greater than will be true in Europe.

As I said, after you have taken account of these basic market factors, any effort to enlarge our sales or to lessen barriers to European markets would be helpful. In a direct sense, thus, we have an interest in lessening the barriers to make sales in Europe. In this regard, in fact, our interests are very much parallel to those of the United States in trying to minimize preferential aspects and trade barrier aspects to entry into the European market; and, of course, agriculture is a special case in point.

In a broader sense also, we have an interest in softening the pressures towards polarization of economic interests generally, that stem from the desire for integration in Europe, on the one hand, and the great growth of Japan on the other. But in Europe it is the integration side that is important.

Finally, from a very broad point of view, we have as much interest as any country in the world in there being "rules of the game" for trade and financial matters. It is within this kind of

pattern, of rules of the game and of non-discriminatory trading conditions, that we can best hope to build up our sales abroad and have the best chance of reasonably fair and stable trading conditions.

Let me just say a word or two more in this broad kind of way about the international monetary side of things. I think there is a short term context in which to look at this and a longer term context. In the immediate picture, the big problem is the continuing U.S. payments deficit; or to put it in a fairer and broader way, it is a world payments imbalance that we are faced with. It is clear that a good many factors contributed to this imbalance, including the impact of the Vietnam war in a very broad sense, and major shortcomings of American economic policy. On the other side there have been a lot of longer term structural market changes.

While one could say a lot more about the origin of the problem, the fact is that last year the problem had to be faced and, as you know, important remedial actions were taken. In the first place, the U.S. authorities were forced to do something about their own economic situation. Secondly, there were the long discussions that led in December to the so-called Smithsonian agreement, which included a realignment of the major exchange rates of the world, plus an agreement to work together to modify and improve the international monetary arrangements for the longer term.

In the nature of the decisions made–that is, to include exchange rate changes as a crucial part of the remedy for the world payments imbalance–it was going to take quite a long time before the readjustment or correction of the imbalance would occur. In fact, in the jargon that develops about these kinds of things, many of the experts have been talking about a J-curve as the way to describe the response to these exchange rate changes. The important point on this is that in the first few months–maybe as long as six or seven months–following an exchange rate adjustment you will get an unfavourable reaction to the exchange rate changes simply from price effects. It is only after that sort of period is past that you get into the upsweep of the J, or the period of improvement. And all our experience of recent years is that even once you get to the stage of getting the favourable responses to exchange rate changes, it still takes a long time, as long as a couple of years.

I think there are grounds to hope that we have gone past the six or seven months when the basic trade position of the United States goes through its worst period, and we can now look forward to a gradual improvement occurring. It will still be a long time, however, before we move to a kind of balance, or even a moderate surplus in the United States position in current and basic capital flows. Meantime, some kind of balance in exchange markets must be maintained by assuring confidence that the exchange conditions will be maintained, that the countries will work together, that in fact capital flows and so on will produce a balance. In addition, there must be an appropriate pattern of interest rate relationships to ensure that there is enough return flow of short term money to the United States to offset the continuing basic deficit that goes on for a time.

In February and early March there was a pretty rough patch when interest rate relationships were not as favourable as one would want, and when confidence was eroding rather discouragingly. However, after that conditions were straightened away, and we have been getting enough of a short term capital re-flow to the United States to balance the continuing basic deficit in their accounts, and by and large exchange markets have been relatively stable.

There is one other point that I think could be brought up in this regard. During the winter the United States was hoping to get what were called trade concessions from Canada, Europe and Japan. There was a great deal of debate on this. In fact we did not do anything. The Europeans and the Japanese did do a little bit, but not a lot. Essentially, in a broad context the reason for trying to make such adjustments was to soften the obvious interim problem, and to make the basic exchange situation a little less vulnerable than it would otherwise be. Unfortunately, we did not get very much help on this side.

Senator Connolly: When you say "we", do you mean the United States?

Mr. Rogers: No, I was referring to the world system generally. That is the context in which I have been trying to look at the problem.

Coming back to the European role in this broad picture, it seems to me that one first requirement is to have a reasonably co-operative attitude and approach from the European countries to whatever kind of exchange market upsets may develop. In February and March when, as I mentioned, we were having some exchange market difficulties, one of the problems was that there was some uncertainty as to what the attitude of major European governments was to the whole Smithsonian agreement, and to United States policies. In the end there were some meetings of the Group of Ten, and it was decided to make a statement that they were working together. In fact, some adjustments were made in monetary policy in both Europe and the United States, and we have since then come into a much better exchange market situation. The key point I want to bring out is that it is very important that Europe continue to play a role in this area, and I believe the hopes of this score are pretty good as things look at the moment.

A second point with respect to Europe's position is that it seems to me that the European countries have to play a very significant role in the longer term discussions about what sort of modified long term arrangements there are going to be for the international monetary system. One of the problems here is that the Europeans are reluctant to have trade questions–especially the question of preference within Europe and with countries around them–brought into the monetary discussions. It seems to me, again from a broad point of view, that you just cannot leave these trade questions out of the picture.

In a very similar way, I believe we have to look at the new European efforts to get currency integration, or the so-called snake in the tunnel arrangement. It will be important that Europe pursue these arrangements in a manner that does not upset or vitiate the workings of the broader international system.

It is all very well for them to try to work out arrangements that will facilitate their integration process, but it is not going to be good for them or for the world if they upset the necessary broader arrangements. On this score there are some real dangers, because the EEC countries, in my view, have embarked on this process of

monetary integration in the hope that progress there will be, in a sense, showy; it will stand out as something meaningful being done, and this will force a process of more political and economic integration. So quite a lot, in terms of the hopes for wider economic and political unification, is riding on the monetary integration plans. But in fact, if you do not get the progress towards more economic and political unification, it seems to me that it is very unlikely that the monetary integration steps can work. So there is a problem there.

There are almost certain to be pressures–just within the common market countries and particularly if you include Britain in the mix–making the monetary conditions in various countries diverge. In fact, in the past two or three days, we have had the first indication of some of this developing, because with the threat of a dock strike in the United Kingdom there has been real pressure on the pound sterling, and there has thus had to be support from Germany, France and Belgium, in the markets, for the pound sterling. The key point is that monetary conditions can diverge as the result of all kinds of factors which may enter one country and not others.

In addition, all of these countries are going to be responding to whatever is happening in the other parts of the world and particularly in the United States, and the influences emanating from the United States may not affect these individual countries all in the same way. So I think there are almost bound to be pressures on the currency system that they are trying to set up.

Then, beyond this, there is this problem of trying to work over a period of time towards the longer range international monetary arrangements. Up to now, it has been pretty difficult even to get the process of official negotiations going and to decide on the forum in which negotiations are to be carried out.

In this part of the world, we tend to hear quite a bit of criticism of the United States–much of it in fact from Americans–for dragging their feet on these discussions. But in fact the Europeans are no more champing at the bit to get going on the negotiations; and in the longer run it may be the Europeans who tend to drag their feet more than the Americans on this.

Within the whole area of the international monetary arrangements, of course, there are a great many technical questions; and it is just not sensible to try to go into those in any detail here. If you want to talk about them a bit, we could.

However, it should be noted that workable solutions to many of the technical questions will hinge on the willingness of European countries to take a bigger share of responsibility for the way the system works than has been the case in the past. The United States has been the key country in the system up to now. The United States dollar has been the crucial currency in the world. It now looks as though this can no longer be. How do you build a system in which you have a greater sharing of responsibility, and a system in which the United States dollar is not the pre-eminent currency that it has been? Again in a very brief way, the hope is, from a broad international point of view, that the arrangements will be worked out through the International Monetary Fund, that the IMF will come to be a more truly international body than it has been, and that the special drawing rights that were set up under the IMF will become the central currency factor in the international system. To achieve any of this, the European countries have to play a big role.

As I suggested before, moreover, if the system is going to work out, at times the European countries may have to give this a pre-eminent place in their set of priorities, putting it ahead of their own efforts to secure regional monetary integration in Europe.

Having talked around some of these broad questions, I should like in concluding, to suggest one or two implications for Canadian policy. In particular, what I would argue is that in examining these questions and in talking about them in international meetings we have a big stake in putting quite a bit of pressure on the European countries. It is more important at this stage of affairs on the international scene that we put pressure on Europe rather than on the United States. In most of the questions that are really important to us, at this stage of history, the interests of the United States run very much parallel to ours. But the European interests do not. It seems to me that what we ought to be doing–in a diplomatic, tactful way–is to keep pressure on Europe to play its role in the international field and to do the things that will make the international system work.

Mr. Chairman, this may have been longer than I had intended.

The Deputy Chairman: Thank you very much, Mr. Rogers. I am quite sure, from the interest shown, that it was not too long. You have opened up many new avenues of questioning and have certainly placed our terms of reference in a much wider context than we have been looking at them so far. Senator McNamara.

Senator McNamara: Mr. Chairman, first of all, on behalf of the committee, I would like to thank Mr. Rogers very sincerely for his very lucid presentation this morning. If I may say so, I think his language and presentation were more or less in terms quite easily understood by people like myself, more so than some of the more academic witnesses who have been before us.

Mr. Rogers, most of our committee realize that as a trading nation Canada is probably being confronted with one of the most difficult situations in our history, not only as related to American policies but also in relation to the enlargement of the EEC. For this reason, we are so serious in this investigation to welcome the opportunity to have witnesses like yourself–economists, financial advisers–come before us with their views, other than just the official view presented to us by government people.

Coming to questions, to me the main problem that Canada as a trading nation–and, I emphasize, as a trading nation–is confronted with is the extent to which we should become associated, directly or indirectly, with the enlarged European Economic Community. I know that we cannot become eligible for full membership, but there are other types of association that we could consider. Many feel that we should direct our thoughts towards making an independent effort to become very directly associated with the enlarged Community.

Do you consider such a step by Canada to be desirable, or is there a possibility that we might to some extent destroy the very friendly type of co-operative relations we have in trading with our largest customer, the United States, by taking independent action? Are we better to press to become associated directly as a nation

with the enlarged Community, or would we do better by more or less remaining in the North American boat and endeavoring jointly with the Americans to expand our trade in that area?

Mr. Rogers: With reference to the question of association, I just cannot see how we can envisage any type of formal arrangement, certainly not as long as we support a multilateral, non-discriminatory system. There are rules for establishing common markets or free trade areas and so on. One of the problems confronting the world now is that Europe seems to be stretching these rules pretty far. Basically, however, I just do not see how we could expect the United States to sit calmly by while we attempt to establish anything in the nature of a significant special arrangement with Europe. This applies also, or will apply as we move a little further on, to some of the proposed special arrangements for countries in the Caribbean. I just do not think the United States will stand idly by and see some type of preferential arrangement established between the Caribbean countries and Europe.

Politically, therefore, I find it very difficult to see such a development taking place. I had attempted to argue in a general way that at this stage it seems to me much more helpful for us to press as hard as we can to maintain the multilateral system as much as possible. To do this we should, in a sense, support the United States, or take a similar line to theirs, in an attempt to minimize the preferential discriminatory aspects of the Common Market. If the European countries are to achieve integration and a common market, they must have an element of discrimination, but there can be matters of degree. It now appears that the international system would work better if we could minimize the elements of discrimination.

In my opinion, the United States took the real initiative in obtaining the agreement of the European countries and Japan to institute another round of trade discussions next year. It is hard to say just what will come out of this. In my opinion, a major motivation was to attempt to minimize these elements of discrimination in Europe. Only by such a process does it seem to me that we can minimize the pressures towards polarization around the world. If, in fact, we can hold such discussions, Japan will also be involved and we will be proceeding in a manner which will fit Japan into an international system. If Europe, however, presses more in the direction of considering its own interests, and there is an untidy situation internationally, Japan will be forced to become rather more interested in centering on Asia and establishing its own sphere of interest there. In such a world we would be thrown more into the arms of the United States, which we do not desire.

The solution is not for us to work for a special deal or type of association with Europe, but to endeavour to keep Europe within an international system. Maybe this is a little idealistic and may not work out very well in the end, but I think it is the basis on which we must work.

Senator McNamara: You made reference in your presentation to the growth of the Community and its productivity. There is, however, some feeling that due to the rapid increase it may be entering a period of recession. Is it not the case that in that event they will become more restrictive in their trading policies? Using Japan as an illustration, it is thought that they will become, not so much from the tariff point of view, but from that of purchasing, very restrictive in their treatment of countries such as Canada.

Mr. Rogers: I was not speaking in terms of a recession or an actual decline in growth. In fact, one of the encouraging aspects from the shorter term point of view is that in Europe they seem to have turned the corner in their business trend. They have experienced a modest recession, but they seem to be recovering from it. There are hopes that Japan is also approaching that point, although the position is not quite so clear there. In Germany, in particular, they seem to have started expanding again and the U.K. has been showing a better growth pattern recently. So, from that point of view it looks encouraging.

Of course, the U.S. economy is moving ahead. Therefore one of the main dangers at the time of Nixon's measures last August, as to whether in fact the world was going to head into a real slow-down or recession and thereby accentuate protectionist tendencies all around, seems to have been avoided, at least for the time being.

On the growth side I was referring to what might be the underlying growth trends. One of the arguments advanced for us paying a lot of attention to Europe and making some type of deal with them is that this is one of the most rapidly growing economic areas, and the market prospects, should therefore be very good. This has been true in the past, but I am not sure that the growth in the enlarged Community will be so outstanding in the next 10 years. I think it will be substantial as long as the international system is functioning reasonably well, and there will be growing market opportunities for us within it, but it will not be in a completely different order from the type of growth we are likely to experience in North America.

Senator McNamara: Along the same lines, Mr. Chairman and Mr. Rogers, it creates difficulties for me to envisage just how trading relationships will develop between the enlarged Community and countries such as Canada. In the past, even with the ten, each of the ten more or less independently conducted their own trade arrangements. Now the Council of Ministers and the enlarged Community may cause them to become more centralized.

Do you forecast that the countries such as Canada will be able to deal with Germany, Italy and other countries more or less separately, or will we also have to make either diplomatic or trade representations through the Council of Ministers to ensure that we are not discriminated against in one of the individual countries?

Mr. Rogers: I was really intrigued with some of the evidence you received from Dr. Pentland on the kind of messy situation in these kinds of matters. I think this is a good way of describing it. I think that Canada and Canadian representatives will have to continue to go to the individual countries and talk to them, and they will have to go to Brussels, to the commission.

You try to figure out which one is the important one for a particular issue with which you are concerned. When it comes to actual trade negotiations, if, in fact, we proceed on the further round of general trade liberalization that is proposed, it will be representatives from the commission who will do the talking.

They then, in turn, may have to take account of what people in the individual countries are saying. But the formal discussions have

to be with the commission. One of the people whom I have met among commission officials is the man who has headed their trade negotiations, and I have never myself run across a tougher sort of debater and negotiator. Maybe you have, having been more involved in this kind of game.

If you are talking about formal negotiations, that is where you would have to go. But if you are really concerned about the market for a particular product, you might have to go to the individual country. This is probably going to be the case for quite a long time, I think.

Senator McNamara: I have one more question. It is related to some of my own experience in trading matters. I would like to have Mr. Rogers' opinion on a financial matter. In the last decade, one of the instruments which Canada has used very successfully in negotiating sales of grain—which, as you know, I have been interested in—has been in extending government credit on normal commercial rates to many of these countries—not western Europe, but Poland, Czechoslovakia, Bulgaria, Yogoslavia, and other areas such as China. As salesmen, we have found it very beneficial. It gave us tools which we did not have before to compete with United States give-away programs. Do you think there is a possibility that by extending credit on commodities such as grain, or other raw materials, there is an instrument here which we can again use with some success in western Europe?

Mr. Rogers: I do not know. You would know better than I about the grain side, by a long shot. In general, I do not think that credit is a very serious problem in areas, apart from grain, in the European market.

Senator Connolly: That is, in western Europe.

Mr. Rogers: Yes. That is an important distinction.

The Deputy Chairman: It is nice to hear it from a banker.

Mr. Rogers: In a very general way, there have been some new and interesting developments on the credit side. I should make it clear that although I am an economist with a bank and have to know something about finance and credit, I have had no experience as an operational banker. So I have some limitations on that score. Nevertheless, one of the interesting things that has happened, in my view, is the development whereby the Export Development Corporation will work out joint credit arrangements with the banks, essentially involving the banks taking short-term maturities of a credit and the corporation taking longer terms.

This seems like a fairly simple kind of arrangement. I have been surprised at how long it has taken for this to really emerge in Canada.

Senator Carter: Mr. Rogers, if I understood you correctly, running through your presentation this morning were two themes. One was that Canada, as a trading country, looking to the future, should not overlook the possibility of continued growth in the American market for Canadian goods, including manufactured goods, as it has done in the past. The second was that Canada's future world prospects, including the Common Market, should be assessed in the light of the fact that there is a tremendous need for co-operation on the part of the older countries in the world to overcome the problems with which they are faced. In other words, we all sink or swim together unless we co-operate.

I would like to come back to the first theme, about the American market. I have two questions on that and a few questions on the other. Is it not our problem that we have too many eggs in the American basket? Our efforts now are directed to finding other baskets, and that is why we are reaching out to the Common Market.

Mr. Rogers: On this point, it seems to me to be only sensible to do everything we can to diversify and obtain markets in other parts of the world. But having said that, I still come back to the facts of market conditions, as I tried to state them. The markets that have developed most readily for us have been in the United States. Within that, there has been a very encouraging diversification in terms of a wide range of basic products, and the gradual emergence of quite a range of manufactured, finished, goods sales. In that kind of sense, within the one market there has been diversification.

Another point of significance here, it seems to me, is that you can tend to overrate the business of benefits of diversification by area, because, in a very broad sense, as I was arguing in the other part of my presentation, we sink or swim together. If, in fact, the United States moves into a rather poor business trend, and by so doing has an upsurge of protectionism, this is going to affect other markets around the world, and our prospects in those other markets are going to be damaged, along with those to the US. In a sense, you may be chasing a phantom in looking for benefits of diversification in this way. There can of course be problems of a political nature when so much of your trade is with one country; you are dependent on not just economic forces, but there can be political elements enter in, and the United States authorities may take steps that are not in our interests. In that kind of circumstance we just have to do the best we can with it. I would not rate this problem nearly as high as the general economic considerations that enter into all of this.

Senator Carter: With our present balance of trade, our lopsided trade with the United States vis-à-vis the rest of the world, do you think that makes us vulnerable at present, and that if we continue in that direction we will become even more vulnerable as time goes on?

Mr. Rogers: I do not really think so. It could be true, of course, if one could build up a case that the United States was going to be entering an era of very slow and discouraging growth, maybe similar to what the United Kingdom has gone through for some years. With so much of our trade and sales effort focussed towards the United States, if it were a slow-growing market this would create something of a problem for us. But this is not the way that this proposition is usually put; in the way it is usually phrased I think it is greatly overdrawn. I just do not rate this as the kind of problem that some people seem to.

Senator Carter: I turn to the need for interdependency on the part of all the trading nations and the need to co-operate. I presume

the greatest need to co-operate is to find some means of developing a better system of exchange rates, clearance of balance of payments, or integration of currency. You mentioned the balance of payments versus the exchange rate. Does the exchange rate depend mainly on the balance of payments, or are there other factors that are as important?

Mr. Rogers: That is a nice question. Essentially, the exchange rate has to bear a relationship to the flow of trade and payments being made, but at any time you can get all kind of expectations entering into the market. This will for a time have quite an influence. These expectations may arise out of economic events, or may arise out of political events and how the market interprets them.

Senator Carter: So far as exchange rates are more or less dependent on ideas and whims of people, speculation and expectations, how is it possible to develop any kind of system that will eliminate that factor, or even make allowance for it?

Mr. Rogers: You cannot eliminate this. This is a problem that arises essentially in the shorter term. In the longer term, basic trade and payments flows are really the significant influence. In the shorter run, the problems here are similar to those of monetary management within a country. You have authorities of the various countries attempting to discourage unreasonable expectations that are appearing in the market. Or, to turn it around, you are trying to create an atmosphere of confidence that market conditions, interest rates and so on, are reasonable and will be maintained.

There is this whole question of flexibility of exchange rates, and we have now in the international area moved into a set of rules with wider bands around established parities as the way these things are done. This gives a little more scope for management and for maintaining confidence in the established exchange rate situation. However, we have yet to test how the new band works, and it may be that the band is wide enough now in itself that the swings that may occur within the band may lead to unsettlement and unsettling expectations. I do not personally think this will be the case, but we have to go through a period of actual experience to see how this works.

Senator Carter: This is one of the problems that I find difficult to figure out. The United States is such a vast market for the other countries of the world, in relation to the other countries of the world, that it is to the advantage of every other country, including Canada, to have an exchange rate in their currency lower than the United States. Obviously, if you had that, where every other country has an exchange rate lower than the United States, you would immediately put the whole thing out of kilter.

Mr. Rogers: It has been out of kilter for essentially this kind of reason.

Senator Carter: I am wondering whether we should not have some other criterion apart from balance of payments.

Mr. Rogers: You cannot. The exchange rate is just the price that gets established on the flow of payments out and receipts in. Like any other kind of market situation, you cannot divorce it from the factors that are in the market.

Senator Carter: If you neglect that, you will have two choices. You can either let it float on the world market in proportion to what your international trade is, or you can peg it, and then you have to control your trade within those limits.

Mr. Rogers: Yes.

Senator Carter: Which do you prefer?

Mr. Rogers: That is a nice question. We could take a long time on that. Very briefly, I think our primary interest is in the international rules of the game. At the moment the international rules of the game, as I indicated, are for pegged rates with a wider band around them than used to be the case; 2 1/4 per cent on either side of parity is what was agreed at the Smithsonian meetings last December. I think most of the time we ought to be able to live with that kind of regime, and it ought to be an objective of our policy as soon as possible to get within the rules of the game.

In addition to the establishment of a peg with a wide band around it, there is now a recognition that it ought to be possible to change parities by smaller amounts, and more frequently than used to be the case under the original rules set up under Bretton Woods. Secondly, there is, shall we say, a general understanding that transitional floating is within the rules of the game; that is, when you get into the kind of circumstance that Canada has occasionally, where it is very difficult to operate the pegged system, it is in the rules that you can move to a float for a transitional period until it is possible to re-establish a pegged rate. These kinds of rules are such that we ought quite readily to be able to live by them. The problem, though, once you get on to the floating system, is to make the political decision where the peg should be. This is particularly true in light of the view you are expressing, that countries generally seem to want to have their rate relatively low in terms of the United States dollar.

Senator Carter: The United States wants the opposite; she wants a favourable balance with the other countries.

Mr. Rogers: I think you cannot do that. There are some pretty difficult questions about the structure of payments, and particularly about how large a flow of direct investment capital from the United States to other parts of the world is appropriate in the interest of a world system. We worry about it in our own particular context, but you can worry about this in a general world context. Having said that this is a problem we have to try and sort out over a period of time, you still should be working towards a system where the United States is in a balance with the rest of the world. They are obviously way out of balance, and the real problem now is to get the United States back to a balance.

Senator Carter: I have one last question, Mr. Chairman. In view of this mutual inter-dependence, that we all sink or swim together, why are the major nations so reluctant to co-operate?

Mr. Rogers: By and large, this is a problem of trying to live with one country that is so much bigger and more productive and richer than other countries. We have had a system built around the predominant size of the United States and the very widespread use of United States dollars in the world; and it worked very well. I have not brought in all the facts that one could put into this. We now have a system where the United States is not nearly so predominant in terms of productive power and where the United States dollar cannot play the kind of role that it has played in the past. That is because there are $60 to $70 billion of short term liabilities, short term dollar liabilities, and the United States has only $12 billion of short term liquid assets–and the "bank" just will not run in the world now with this kind of situation. From these two elements, you can see that you have to work towards arrangements whereby something else is the centre of the system. As I tried to argue, you have to have a system whereby other countries share more of the responsibility for the running of the system.

Senator Carter: Thank you.

Senator Cameron: Canada is in the position at the moment of looking for a new industrial strategy for the next ten or fifteen years, and this strategy is concerned with providing a maximum number of jobs, reducing unemployment. This obviously means expanding our markets, and so on. Most people would go along with the idea that we should cultivate as large a trade with the United States as possible, that it is a desirable thing to do. But we have to examine that potential against the facts.

If you examine the history of President Nixon's public career, it has always been highly protectionist. Then we had that international disaster from Texas, Mr. Connally, coming into the picture, with his almost cruel pushing of the United States position against the interests of everybody else. This has created a climate that is bound to have long-range effects. But this new economic policy of the United States is not isolated. On the other side, you see their position vis-à-vis big tankers coming down the west coast, and they say, "We are going to do this whether you like it or not." So we have a climate created by the United States saying, "We are going to do this whether the rest of you like it or not." That is not very good for international co-operation.

Against that, you have the natural reaction of the people of the European Economic Community. They are being forced to be equally tough. Where does that leave a small country like Canada? We are trying to make arrangements formally through the EEC for expanding our markets; but do you not think that we must follow up every opportunity, and look for more opportunities, on an individual basis, to get markets wherever we can get them?

You said a moment ago that we could not blame the lack of sales on lack of effort on the part of our commercial people. This may be right, but we are in a climate where Canada, if she is to maintain her standard of living, has got to find markets wherever she can. Does that not involve, one, making whatever deal we can with the EEC; two, making individual deals wherever we can–in other words, being realistic and not idealistic?

Mr. Rogers: You put the question very well. There is a real problem for us and other countries in the world to cope with elements of the United States power, both economically and politically. For us, it is the toughest job in the world, because we are so close to them. I do not want to minimize that there are problems. We have to be on our toes and think all the time about ways to cope with this. Other countries in the world feel the same way.

This is a kind of problem where we may be on the road to patterns of solution. There is a discussion about trying to work for international rules dealing with the operation of multinational companies. That is one aspect of it. Other things may develop in time. Probably, it is more effective to try and cope with these kinds of things in company with other countries than to try to do it ourselves.

That general kind of view is what really leads me to argue for continued support, as strongly as we can, for the multilateral approach and to support the multilateral institutions–the IMF, GATT, and so on.

In the end, because of differences between Europe and the United States, this may not work very well, and we will always have difficulties.

One of the toughest things to face is that, while we are coping with United States power we have to keep in the back of our minds that, if we take steps antagonistic to the United States interests and if the Europeans do likewise, the United States will react and turn inwards and the end of this kind of game is that we are all going to be worse off. The problem is to try to figure out ways to cope with the power, whereby we all prosper reasonably well.

There are other aspects of the way you have raised the question which cause me to react. Personally, from a broad sense, I would not characterize Mr. Connally as "a disaster". I think that he created some discouraging kinds of personal elements in what went on. He aroused for a time rather disturbing pressures around the world. Nevertheless, in a sense he was the embodiment of a U.S. move to face up to the shortcomings of its internal economic position, and he also stated very effectively the United States case in the world. Whether or not we liked it in other countries, I think we are all better off at this stage of the game for his having put it the way he did.

You will find in surprising places around the world a rather cooler assessment of Connally, now that he has retired from the scene, than was previously the case. In my opinion it is worth putting this on the record, because I feel that there is a widespread sentiment in this country of irritation with the United States and Connally's treatment of us which has some relationship to what went on. My view, however, is that as Canadians we have been too reluctant to face up to the problems of the United States and, as a result, those of the world.

The Deputy Chairman: Senator Cameron, may I follow up your very interesting question as to whether our posture in favour of a multilateral, non-discriminatory system is realistic? "Idealistic" is the way you put it. Could I ask Mr. Rogers to give us just a thumbnail sketch of the state of the art as it is today, compared to that at the end of World War II? Has the world made progress in this direction?

Mr. Rogers: We have made tremendous progress and there are good reasons to hope that this will continue. However, it will be more difficult in a world in which we must have more sharing of responsibilities than it was when the United States was more predominent and was pursuing an enlightened policy as a major country.

The Deputy Chairman: Our policy has been termed a boy scout policy by some, but you think we are on a winning course?

Mr. Rogers: Yes. Could I add one other note with regard to this? Cynics will talk about all the shortcomings of the multilateral rules and say that we already have GATT, but countries do not live up to it. I would argue, however, that it is still better to have rules which operate over a fair part of what goes on and may be broken once in a while, than to have no rules at all. On that basis I think we are a long way ahead of our position of 25 years ago.

Senator Cameron: Maybe I was too hard on Senator Connally. If he had not done it, some one else would have in time.

Mr. Rogers: The U.S. position is still essentially the same.

Senator Cameron: Yes; the way he did it created a very unfavourable climate, but that is by the way.

The next point of concern to me is the application of the DISC program. Apparently we cannot yet assess what are likely to be its effects. Again being realistic, we can only assume that it will not be the best thing for Canada.

Related to that is the reason for the establishment in Canada of so many subsidiaries by the Americans. It was not because of any goodwill towards us, but a means of entering the European and, in particular, the U.K. market and obtaining preferences there. Now those will be phased out. Does that mean that within a year or two they will gradually close down some of the subsidiaries that were established here in order to gain entry to the United Kingdom market, which will no longer exist and which will again in the short run have serious consequences for us?

Mr. Rogers: This opens a wide area of discussion. As a first, very quick answer, I do not consider that this is a very serious problem in the sense that you have put it forward with regard to companies being dependent upon the British preference and now accordingly having to phase out. This has become a rather minimal part of the whole operation of this type of company. It was important in the 1930's, but it has become less and less significant as time has gone on.

Your question raises an interesting aspect of why American direct investment has moved into other countries. It is in large part because of tariff structures which have built up. In the old days our own tariff and the British preferential system were major elements in encouraging American companies to enter this country in the first place. Our tariff is still a factor in their existence and the problems we discuss of too many of them and so on.

More recently this has been an element in the flow of American direct investment to Europe, where a preferential tariff system is being established from within which one can operate much better than from without. The Europeans in many ways are just like us in complaining about these foreigners coming in and achieving control of industry. They take steps to discourage this but, at the same time, they maintain the tariff system which basically encourages it.

One of the advantages which might occur if, in fact, we can further reduce all tariffs, particularly those around the preferential European market, is that there might be less distortion of capital flow.

Senator Cameron: I agree with you; the picture has changed since these subsidiaries were established.

We are concerned with finding out, or anticipating if we can, what will probably be the result. Obviously again this is being idealistic. We must accept some form of multinational agreement. Some prominent Canadians declare that we should have a 95-cent dollar vis-à-vis the United States dollar as soon as possible. That sounds fine, but again being realistic, if it is going to be so good for us, it is obvious the other people will also do something about their currencies. So we are back again to square one.

First, do you see any prospect in the immediate future of a 95-cent dollar? Secondly, if we do arrive at that point, what will the others do?

Mr. Rogers: I do not see any immediate prospect of a 95-cent dollar. Secondly, as far as a particular country is concerned, we will say as far as Canada is concerned, there are current factors in the market, as we discussed it with Senator Carter, that basically determine where things will go. However, the current picture may contain elements which the authorities consider to be temporary. This has to be an element of judgment. Then the authorities may have a view that in a certain type of situation, such as now prevails, Canada's growth over a period of years would be better with a certain level of dollar than some other level. This has clearly entered into Canadian thinking concerning the appropriate rate. The trouble is that this is a matter of judgment, and we continuously endeavour to assess elements into the future. You have this element of wanting to lean on the side of having a lower rate rather than a higher rate. In the past we were able to get by with a number of countries having a lower rate than they probably should have, because the US could finance that kind of system. They no longer can do that.

You can argue, in fact, that a particular country in the end may build up a lot of difficulties for itself and may get a lot of unfavourable results from having too low a dollar. It is not at all clear that the benefits run all one way, as far as the country itself is concerned. But then, in the end, you are thrown back to the fact that an exchange rate is not just the concern of one country; it is an international concern. That is why you say that the rules of the game are important.

By and large, I think that one would hope that the central body, namely the IMF, would, in a sense, be the arbiter. When you are trying to sort out, as we are now, what is an appropriate kind of rate, surely quite a bit of weight should be given to what the IMF thinks is an appropriate rate.

If that is not, as things turn out, a good rate – if, for example, – this is completely hypothetical; I do not mean to imply anything in terms of decision-making–we chose $1.02 at this stage, plus or minus

two and a quarter, and six months from now it looked as though this was too high a rate, the rules now anticipate that you make changes, and you can drop it down, say, three or four points and go ahead.

I do not think that we in this country have quite absorbed this sufficiently. I recognize that as a practical matter it is very difficult to figure out economically what an appropriate peg is, the world being in the state that it is; and politically, especially after the episode between Connally and Benson in December, it would be most difficult to choose $1.02.

Senator Sparrow: You mentioned earlier in your remarks about bringing pressure to bear on the EEC. I understood it to have a broader outlook on trade. What type of pressures would you be referring to that Canada could bring to bear?

Mr. Rogers: Well, we have, in fact, been bringing some pressure to bear on them. I think that both Mr. Sharp and Mr. Pepin, in their visits, have impressed upon them their concern about the trade side, and they have said something of this in public. As far as I am aware, very little if anything has been said in public by official Canadians that the Europeans should really be playing a role in the international scene, in the way that I have tried to phrase it.

I put this criticism in the context that politicians have to take account of public opinion as they read it. There is a high degree of anti-American thinking on the part of the Canadian public these days, and politicians have to take this into account. But in terms of our long-term interest, it seems to me that it would be much better if our official spokesmen were making some loud noises about Europe and what it should do, rather than always making noises about the United States. We should not cut out putting pressure on the United States, but I think there ought to be a much bigger flow towards Europe.

Senator Sparrow: A change in emphasis.

Mr. Rogers: A change in emphasis. This is in the kind of public noises that you make. I do not know how important they are, but I think they are important in trying to develop a notion of what is required in our long-term broad interests. Beyond that, as far as private international discussions are concerned, I do not know for sure what sort of views are expressed by our officials when they go to the Group of Ten monetary discussions, and so on. I get the feeling, though, that they are relatively kind towards Europeans, where I would argue that it is better to make noises and push at them.

Senator McNamara: Discussions with GATT and the Kennedy Round tariff negotiations are all part of this pressure.

Senator Heath: I am grateful to Mr. Rogers for distinguishing some of the chickens and the eggs in this problem. I have been finding this most confusing. I wondered if he could comment on the Eurodollar. This seems to be a very interesting hydrid, or sport, if you like, in terms of a common currency for Europe. Where is the Eurodollar going, or has it been, or has it a future?

Mr. Rogers: Firstly, the Eurodollar is not really as mystical as it is often made out. The Eurodollar is just a US dollar which is outside the United States. I think that is the simplest way of looking at it. It is held outside the United States. This market has grown tremendously because, in a sense, it is the freest market for money in the world, or has been. It has provided a very helpful financial adjunct to the great growth in international business, a lot of it through multinational companies, but not all of it. I think the market is likely to continue to be very important.

The rate of further growth will obviously depend on how well the world international trade and financial system is working. It would tend to be limited if, in fact, the United States were to come into such a favourable payments position that it could remove some of the restrictions on outflows of funds from the United States. It would tend to be limited by this; but the market would not be closed off, by any means by this. The market would also tend to be limited if, in fact, the system does not work very well and countries find themselves compelled to introduce more and more exchange controls of one kind or another that limit the freedom of movement of funds in the market.

This has been happening to a degree. An example is that a few months ago Germany imposed a reserve requirement, or, in effect, greatly increased the interest cost of borrowing by German companies in the Eurodollar market as an alternative to borrowing within their own market. This kind of control obviously tends to have a limiting effect on the Eurodollar market. If you had growth in this kind of control, the market would be seriously affected. I am trying to outline some of the factors that are involved here.

There is one other general problem, and that is that I think it is clear that the existence of this very free market tended to add quite a lot to speculative flows of money when the world exchange situation was unstable. As soon as it became clear that exchange rates of certain currencies were out of line, were likely to change, or the market thought there would have to be change, the existence of this very free market meant that large amounts of funds could be moved very quickly in order to back up this bet, the gamble that this would happen.

There has been discussion about co-operative central bank action to try to deal with this problem. I think that central bank efforts, prepared to have the sort of operational considerations ready to put into place if this kind of situation develops, would be a good thing. We have moved in that direction. It really is not in being at this stage, but I think it would be desirable if this were brought about.

But this is only a kind of secondary problem. The basic problem here is in the actual level of exchange rates and the readiness with which they change. It is only when the market comes strongly to feel that a certain currency is out of line that there is a problem. The first line of defence here is that countries generally should be prepared to make sure their rates are at an appropriate level and change when change is necessary, and that they pursue policies that lead to confidence in the way they can maintain a rate. If this kind of situation is secured, then the speculation problem is not very important. However, this is hoping for perfection, and I think almost certainly there will be cases where the market will come to a view that a rate will have to change. I therefore think it would be

good to have arrangements in place to minimize as much as possible the speculation problem.

The Deputy Chairman: Honourable senators, Mr. Rogers has a getaway deadline, and we are getting very close to it. Shall we take one more question?

Senator Carter: Could Mr. Rogers tell us whether there has been any integration of currencies inside the communist bloc, Russia and all her satellites around her? Have the satellite nations integrated their currencies?

Mr. Rogers: In a sense they have, but it is such a controlled system that it is not very meaningful. A good deal of trade is essentially on a barter basis, so in terms of what we think of this they do not have integration.

Senator Carter: It is not parallel to the integration of the currencies for the European Economic Community?

Mr. Rogers: No.

The Deputy Chairman: Honourable senators, I think you would wish me to thank Mr. Rogers for coming here today. I am sure I speak for all of us when I say that he has certainly broadened our horizons in the matter we are discussing, that of Canadian-EEC relations, present and future.

Mr. Rogers, we are grateful to you for insisting on our looking at this matter in a much larger context than perhaps we might otherwise have done, and for making as clear as you have the close inter-relationship between monetary and trade policies. In our general discussions I think we tend to zero in rather on possible trade advantages or disadvantages, forgetting a relationship to other fiscal and monetary policies that may be involved. Again, on behalf of the committee I thank you for coming, sir. I might say, honourable senators, that Mr. Rogers came in from Quebec City this morning by place and has to get away at one o'clock on another plane. We appreciate his giving us his time. I know it has added considerably to the important input that we need in addressing ourselves to this very important question. Thank you very much.

Mr. Rogers: It is a pleasure to be here.

The committee adjourned.

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STANDING SENATE COMMITTEE

ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

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