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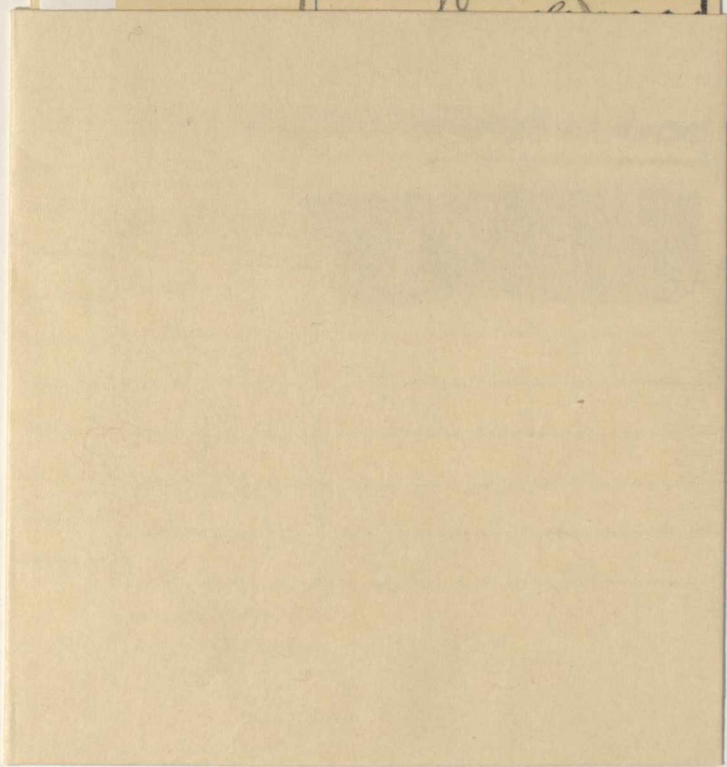
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Report of The Standing Senate Committee on
FOREIGN AFFAIRS

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

Deputy Chairman: The Honourable Allister Grosart



CANADA

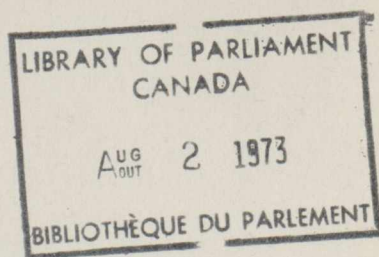
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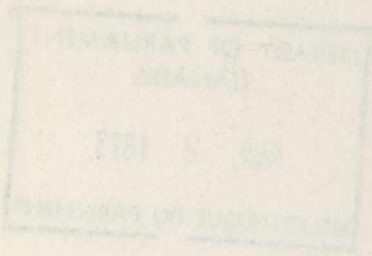


1973

Canadian Relations

with the

European Community



Report of The Standing Senate Committee on

Published under authority of the Senate by the Queen's Printer for Canada

Available from Information Canada, Ottawa, Canada

Member of the Honourable J. G. ...

Report of the Honourable ...

MEMBERSHIP OF COMMITTEE

(As of June 27, 1973)

THE STANDING SENATE COMMITTEE
ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Croll	Macnaughton
Bélisle	Deschatelets	McElman
Cameron	Lafond	McNamara
Carter	Laird	Sparrow
Connolly (<i>Ottawa West</i>)	Lapointe	van Roggen
		Yuzyk—(18).

Ex Officio Members: Flynn and Martin

(Quorum 5)

Note: The Honourable Senators Choquette, Eudes, Fergusson, Gouin, Haig, Heath, Lang, McLean, Nichol, O'Leary, Quart, Rattenbury, Sullivan and White also served on the Committee.

ORDERS OF REFERENCE

(Fourth Session—Twenty-eighth Parliament)

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.

* * * * *

(First Session—Twenty-ninth Parliament)

Extract from the Minutes of the Proceedings of the Senate, Wednesday, February 14, 1973:

With leave of the Senate,

The Honourable Senator Aird moved, seconded by the Honourable Senator Molgat:

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

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 said subject in the preceding session be referred to the Committee.

After debate, and—

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
EUROPEAN COMMUNITY

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I. INTRODUCTION: THE IMPORTANCE OF THE COMMUNITY TO CANADA

The decision of the Committee early in 1972 to examine Canada's relations with the European Community (EC) was based on the belief that not enough attention was being given in Canada to developments in Western Europe and their potential impact on Canada's position in the world community. Although the Government's 1970 foreign policy paper on Europe had called for closer cooperation with Western European countries, it appeared to the Committee that the importance of the growth and development of the European Community justified a comprehensive inquiry by the Committee at this time.

This is not to imply that the Government has been inactive. In 1971, when British entry was appearing more and more likely, an EC Enlargement Task Force was set up in the Department of Industry, Trade and Commerce to assess the impact of enlargement on Canadian trade. A series of visits by Government Ministers to the EC headquarters and the national capitals of member states has taken place over the past two years to bring a broad spectrum of Canadian interests to the attention of the Community. In addition, these visits have had the result of making the Canadian Government better informed about the Community. There have also been several exchanges, or visits, of senior officials between the Community and the Canadian Government. Canadian negotiators worked closely with the British, in particular, during enlargement negotiations in order to try to safeguard Canadian interests as much as possible and succeeded in organizing special access arrangements for certain important export products. Instructions were communicated to Canadian Ambassadors in Western Europe to alert Community members to Canadian interests. Yet the Senate Committee was persuaded that more must be done at all levels of both the public and the private sectors to make Canadians more aware of the Community and more aware of the potentialities for Canada in the development of closer Canadian-EC relations.

The Committee's first concern was to inquire to what degree Canadian interests are involved in the development of the Community. Canadian dependence on international trade is well-known; 20 per cent of the Canadian gross national product (GNP) and 50 per cent of all goods produced in Canada (exclusive of services) are exported. Even before enlargement, the importance of the EC in trade terms to Canada was clear. With the inclusion at the beginning of 1973 of the U.K., Denmark and Ireland, the Community now constitutes by far Canada's second largest trading partner; in 1972, the Nine accounted for 12.4 per cent of total Canadian exports and for more than 45 per cent of all Canadian exports not going to the United States. If Canadian industrial development is to prosper, Cana-

dian exports to these important Community markets must be expanded. The existing commercial, cultural and linguistic ties which Canada has with Western Europe should facilitate this task. Enlargement has, moreover, brought the European Community physically to within 20 miles of Canadian shores—the distance separating Canada's Ellesmere Island from Greenland, an overseas extension of Denmark.

The Committee was impressed by the statement of the Minister of External Affairs, Mr. Sharp, that enlargement and, in particular, British entry, would throw a greater "burden of adjustment" on Canada than on any other country outside the enlarged EC (2:7; 1972).¹ A 1971 study has estimated that over \$600 million worth of Canadian exports to the U.K. would be affected after a transitional period, by more difficult access conditions into the British market due to loss of a zero tariff or a preferential tariff arrangement; this included such major export items as wheat, aluminum, lead, zinc, barley, tobacco and linerboard. For \$450 million of this \$600 million, Canada loses not only the existing preferential arrangement but faces "reverse preferences" which the U.K. grants its new Community partners behind the Common External Tariff (CET) wall. For 90 per cent of a total of about \$300 million of agricultural exports to Britain, Canada will face the highly restrictive Common Agricultural Policy (CAP) of the Community. Further, the conclusion last year of a free trade area in industrial goods between the EC and the non-applicant countries of the European Free Trade Association (EFTA)—Austria, Norway, Sweden, Iceland, Portugal and Switzerland²—will give these countries a competitive advantage in the Community markets and place Canadian products at a disadvantage.

Convinced that the enlarged Community and its future development are of prime importance to Canadian interests, the Committee therefore turned its attention to an examination of the nature of the Community, its institutions, its accomplishments, its shortcomings, the questions it is facing, its limitations and its potential.

The Committee sought to examine how Canada can increase its ties, commercial and others, with the Community. What measures can be taken to bring the importance of the Community to the attention of Canadians—so many of whom already have links of origin, language and culture with member states in the EC? How can Canadians and Community members alike be made aware that if trade polarization takes place around the major world trading entities of the United States, Japan and the EC, Canada would be an "odd man out" or would become part of a North American economic and trading regional bloc?

Paralleling these inquiries, the Committee also looked at a range of Canadian-Community relationships, intergovernmental, business and personal with a view

¹ This, and similar subsequent notations, refer to the issue and the page number of the Proceedings of the Standing Senate Committee on Foreign Affairs during the fourth session of the 28th Parliament (1972) and the first session of the 29th Parliament (1973).

² It is probable that Finland will conclude a similar agreement with the EC.

as to how they might be improved, expanded or strengthened. The strengthening of Canada-EC relations will depend on the extent to which the Community and its members can be persuaded to see how relations with Canada might relate to their national interests, and how Canadians in turn can be persuaded to recognize new opportunities in the European Community. On both sides it must be, in the final analysis, a question of mutual interests.

II WHAT IS THE COMMUNITY? WHERE IS IT GOING?

One of the witnesses during the Committee's hearings, Professor Charles Pentland of Queen's University, described the Community as "an economic giant and a political dwarf" (4.6; 1972). It is, in effect, a complex animal to comprehend and not much has been done until recently to explain it to the Canadian public.

The European Community is the melding into one economic unit of the national economies of nine nations in Western Europe—Belgium, Denmark, France, Germany, Italy, Ireland, Luxembourg, the Netherlands and the United Kingdom. Each member country has retained its national institutions, characteristics and identity. By the Treaty of Rome the original six-member Community began operating in January 1, 1958, and Community institutions were established to formulate and administer the common policies of the member states.³ Membership in the Community expanded from six to nine at the beginning of 1973 with the inclusion of Denmark, Ireland and the United Kingdom.

Until the present, the primary concern of the Community has been in the economic field, although for many in the Community the ultimate goal is political unity. In economic terms, its achievements have been very real. Tariffs between member states have been eliminated and a Common External Tariff imposed on all goods imported from non-member countries no matter where they enter the Community. A Common Agricultural Policy has been progressively introduced which not only supports farm prices and subsidizes production in certain areas, but acts as an important social instrument in the hands of the central administration for unifying the Community. Legislation has been adopted concerning the free movement of goods, labour, services and capital between member countries. The present goal for 1980 is to change this common market into a single market by the transformation of the customs union into a full economic union and by the adoption of a single currency for all member states. This involves the working out of a common strategy for the industrial, regional, technological and social policies of the Community member states, a process in which progress so far has been slow and difficult, affecting as it does so many of the traditional national ways of life.

The successful establishment of the customs union has resulted in impressive growth rates for the member countries. Between 1958 and 1970 the gross product of the Community increased by 90 per cent (as compared to 61 per cent for the

³ See Appendix "A" for a brief description of the Community institutions and the two other Communities which these institutions serve—the European Coal and Steel Community and the European Atomic Energy Community.

U.S.), and the average real income per capita of the citizens of the Six more than doubled. The annual production figure for the Community for 1971 has been given as about \$700 billion, as compared with over \$1,000 billion for the United States. But since the Community is relatively a larger importer than the United States (importing close to 10 per cent of its gross product, whereas the figure for the United States is only 4 per cent), the enlarged Community has emerged as the world's largest trading entity. In fact, it constitutes an import market fifty per cent larger than the United States.

In international trade terms, however, the growth and success of the Community has raised the threat of trade bloc confrontation between the United States, Japan and the Community. Developed industrialized countries outside the EC see dangers to world trade liberalization in the vast increase in intra-EC trade (rising from 35 per cent to 50 per cent between 1960 and 1970), in the Common External Tariff, in the protective Common Agricultural Policy and from the increasing network of preferential trading arrangements (often discriminatory to non-member countries) which are being made by the Community. These latter range from free trade agreements with the non-member industrialized nations of Europe to preferential trade agreements with former colonies in Africa, the Caribbean and elsewhere. If access to this vast and expanding market is not open on reasonable terms to exporting industrialized countries, the risk of retaliatory protective measures on their part becomes more likely. The economic power of the Community, therefore, imposes on it a heavy burden of political responsibility which it does not appear to be in a position to assume and which it may not yet be able to discharge.

The Community has had a significant impact on Europe, not only in economic terms, but also by bringing a new sense of security and by contributing to a psychological transformation. World War II left Europe fragmented and divided by deep national scars. On the broader international scene the confrontation of the two superpowers—the Soviet Union and the U.S.A.—had the effect of making the middle-sized and smaller states of Western Europe feel powerless. The success of the Community has changed this, providing a new European spirit, a revival of self-confidence, a strength of purpose and an independence of thought, enabling Europe to resist, if it wishes, the gravitational forces of the super-powers and to stand on its own.

It is not yet clear what implications this will have for the post-war idea of an Atlantic partnership which Canada has traditionally supported. The Community's successful existence has meant that it is hardly conceivable now for the nations of Western Europe, in many cases historic enemies, to go to war against each other again. This sense of unity was assisted by a solidarity of purpose vis-à-vis Eastern Europe within the framework of the Atlantic Alliance. Now that the "Communist threat" is being perceived differently, will EC solidarity necessarily depend on an Atlantic framework?

While the Community's permanent institutions, especially the Commission and the Council of Ministers, have been adequate to the task of administering and

directing the "economic giant" up to this point, there is general admission that some innovations and changes in structure and decision-making are essential to deal with the problems of tomorrow, including those relating to external as well as internal issues. As several Committee witnesses have pointed out, the Community has reached the limits of the technical phase of its development, notably in implementing such measures as the elimination of internal tariff barriers among member states. The first elements of the specific programme laid down in the EC treaty of Rome have been achieved. Moreover British membership, without which real European union could be considered incomplete, is now an accomplished fact.

Bigger and more complex problems lie ahead. At its October summit meeting, the heads of state or government of the member states:

set themselves the major objective of transforming, before the end of the present decade the whole complex of the relations of member states into a European union.⁴

In particular they re-affirmed their determination to achieve economic and monetary union by 1980.

If the Community is to go ahead with this rather specific and severe deadline, it will obviously be face-to-face with the basic question of how to reach this goal within the limitations of the present decentralized structure. The effective harmonization and integration of separate national policies of the Nine concerning fiscal, monetary, budgetary questions and questions of industrial strategy would appear to necessitate considerable centralized planning and decision-making at the Community level. Yet such policies are at the very core of each member state's powers, jealously guarded as attributes and instruments of national sovereignty as well as being integral elements of domestic politics.

Witnesses before the Committee in Ottawa and in Brussels agreed that nationalism in Europe today appears to be more rather than less vigorous than several decades ago and that there is a parallel decline in the supranational idea. As Mr. Schaetzel the former United States Ambassador to the Community said, "The political dream, the idea of a federated supranational Europe . . . is not here and there is no prospect that it is going to be here soon." (I:14; 1973). Dr. Pentland observed that the resulting system for quite awhile will be "a new political animal . . . neither a conventional grouping of states . . . nor a single state but a mixture of the two" (4:7; 1972).

Canadians, aware of their own constitutional problems under the Canadian federal structure and of the current difficulties in finding a new formula for the sharing of powers with the provinces in certain areas of jurisdiction, can feel a sympathy and understanding for the Community's dilemma. Yet Canada is already an operating federation, a common market, a monetary union enabling the free movement of goods, capital and people from province to province. The central powers are clearly set out by the constitution and the federal government possesses

⁴Clause 16 of the official communiqué of the Community's summit meeting Paris, Oct. 19, 20, 1972.

monetary and fiscal powers as well as residual powers which enable it to exercise a centralized directing economic authority.

On the other hand, the present Community system appears to involve a more horizontal sharing of powers, a much more pragmatic, tentative process. In effect, instead of a conventional transfer of competence from the member states to the central institutions as envisaged by the early architects of the Community, there is now a joint exercise of sovereignty involving in the legal sense only a limited dilution of national sovereignty. Through common decision-making at the Council of Ministers level or at the level of the Permanent Representatives, or through inter-governmental bargaining at the level of the Commission and national officials, a coordinated exercise of national and Community power takes place. Decisions made can become a standard for future national action. In addition, there appears to be a growing body of support for the concept of "federal fidelity" in law, by which an obligation is thought to rest on the member state by virtue of the Treaty of Rome to preserve a degree of faithfulness or uniformity with Community decisions in the drafting of national laws.

In regard to the coordination of foreign policies of the member states, a similar process of inter-national rather than supra-national decision-making is likely to evolve. The communiqué issued after the Summit meeting of the Nine in October, 1972 urged further progress in the coordination of foreign policies and intensified consultations by the foreign ministers. They were directed to meet four times a year, in addition to any meetings of Community institutions in which they might participate, in order to try to formulate common positions on international questions. While it has proved possible to work out a coordinated foreign policy viewpoint of the Nine at the Conference on Security and Cooperation in Helsinki and at the United Nations, the present level of cooperation among the member states has been achieved only on relatively peripheral foreign policy issues. In areas of commercial policy where the Commission has a clear-cut responsibility to administer the Common External Tariff, the Community must speak as one voice at international conferences such as at the forthcoming GATT multilateral trade talks.

The slow-moving progress toward integration is almost unconsciously propelled by a process of political osmosis which results from the constant co-determination by the member states of what is happening both at the Community level and in the other member states. Whether it will be an adequate process for the achievement of the difficult goal of full economic union or whether the goal itself will provide an impetus for closer forms of integration is still unclear. Mr. Schaetzel described the process toward gradual Community integration as:

a kind of glacial force which is moving it along and may well be moving the people in it along despite what they want to do. (1:14; 1973)

But he concluded that the big question will be whether there will be "enough political will and enough momentum in Europe" to surmount the resistant nationalism which the Community will face.

The other wider problem with which the Community is grappling is what sort of society it will become. One of the Community Commissioners, Mr. Finn Gundelach, posed these questions in Brussels to the Committee:

Will the Community remain a formalized economic unit administered by skilful bureaucrats in Brussels? An advanced mercantilist society concerned only with technology, export sales and growth rates?

Or will the Community gain 'a human face' and be concerned with broad human and social dimensions, in addition to economics, in the life of its citizens?

Will the Community become an inward-looking protectionist grouping concerned mainly with economic self-sufficiency?

Or will it be a liberal outward-looking society thinking and acting responsibly in world terms?

Will it, in the words of the October Summit Communiqué, be able 'to make an original contribution commensurate with its human, intellectual and material resources.'

These are fundamental questions with which the Community leaders and the heads of governments are concerned. Having completed its initial stage of development, and aware of its own potentialities, the Community seems hesitant to go forward with no precedents to guide it and no clear-cut integration mechanism to direct it. Undoubtedly national objectives will often be at variance with Community objectives and sacrifices and compromises are inevitable.

It is the Committee's view that the Community can develop 'a human face'. The Summit Conference in October 1972 revealed a general and deepening awareness that not only should Europe play a contributing and responsible role in the world but that it should be defining a new European social consciousness. The same theme was stressed by the President of the Commission in his programme for 1973. This will undoubtedly mean that the Community will pay greater attention in the future to social and regional policies, to such matters as the quality of life, environment, employment and living and working conditions.

Whether these social concerns will coincide with a liberal and outward-looking policy in the Community's foreign and trade relations is not yet clear. If the protection of the European worker should become an overriding concern, this could conceivably lead to protectionist barriers against outside countries' goods. On the other hand, the Committee notes that the Community in its Summit communiqué acknowledged its international responsibilities "to be open to the world and for progress, peace and cooperation".

III CANADA-COMMUNITY RELATIONS

A. Intergovernmental relations

(i) *Pursuing the Dialogue*

The Committee has noted with interest that Canada, along with the United States and Japan, was identified in the Summit communiqué last October as a country with which the Community "is determined . . . to maintain a constructive dialogue."⁵ Yet given the complexities of the Community's decision-making process, it is difficult to know where or how to approach this dialogue in order to present the Canadian viewpoint most effectively.

The question is whether input in the separate national capitals which may be translated into decisions by the national ministers at the Council of Ministers is more or less effective than input at the Commission headquarters in Brussels. There is, in addition, the important role of the Committee of Permanent Representatives to consider. It has been said that these latter are the real technocrats in Brussels, and that nine out of ten questions that have cropped up in recent years have been settled by these Ambassadors of the member states in Brussels without their ministers having met to consider the problem.

In its hearings the Committee found an interesting difference of viewpoint as to whether the Commission or the Council of Ministers should be considered the more dominant and influential body. It agrees with several of its witnesses that a combination of techniques—known commercially as 'double-banking'—is necessary to further Canadian relations with the Community. According to Professor Pentland, it is a matter of "dealing with the states individually and trying at the same time to build up a set of strong new links with Brussels . . ." (4:7 ; 1972) Often it may be a matter of judgment as to where the power resides on the particular problem of concern. Mr. Sharp reported that during his visit to Europe last year he visited both the ministers of the major countries and the Commissioners at the Community headquarters and Mr. Gillespie the Minister of Industry, Trade and Commerce, has recently done the same.

It is clear that since the interests of the individual member states are inevitably reflected in decisions at the Community level, the substance of subjects of concern to Canada must be developed with the member states themselves.

In the national capitals it is important to ensure that ministers are aware of Canadian policies on EC matters as well as on Canada-member states relations. In addition, systematic discussions on the issues with officials in each member state alert them to the background of the Canadian attitude on relevant issues

⁵ October Summit communiqué, Clause 12.

coming before the Council of Ministers. The identifying of Canada, along with the United States and Japan, in the October communiqué was undoubtedly due to the instruction from the Department of External Affairs to all Canadian missions in the Community last year directing them to make timely and simultaneous presentations regarding Canadian interest in developing relations with the EC.

Whether the presentation of a Canadian viewpoint is made in Brussels at the Commission level or in the national capitals, or both, in the Committee's opinion the matter of correct timing is of obvious importance. Once a decision has emerged from the complex decision-making machinery, it would seem to be almost impossible to change it.

It was evident to the Committee at an early stage in its inquiry that a separate Canadian Ambassador accredited solely to the Community would be necessary if Canada's relations with the EC were to be pursued as forcefully as possible. Although there has been a Canadian mission accredited to the Community for several years, the Canadian Ambassador to Belgium has been dually accredited to the Community as well. The Committee was pleased therefore when the Government appointed separate ambassadors to the two posts and last December named Mr. J. C. Langley the first full-time Canadian Ambassador to the Community. The ambassador, who impressed the Committee as being capable and experienced, is assisted by an able staff of eight officers. In addition, the Committee was pleased to learn that the Canadian Wheat Board has opened an office in Brussels.

(ii) *Consultative Arrangements*

The Government's 1970 foreign policy paper on Europe recommended "as a matter of some urgency . . . the development of appropriate consultative arrangements" between Canada and the EC. During the past two years there has been a series of Canadian ministerial and official visits to the Community intent on promoting Canadian interests.

In June 1972 an interdepartmental delegation of senior officials from Ottawa went to Brussels to explore among other things whether Canada-Community relations could be strengthened through the development of new arrangements for consultations. The Committee recognizes that regular consultations with the Community have merit.

There appear to be several types of consultative arrangements which might be appropriate:

- a) a committee at the ministerial level patterned after the Joint United States-Canada Ministerial Committee on Trade and Economic Affairs or the Canada-Japan Ministerial Committee.
- b) a joint committee ('commission mixte') composed of an appropriate mix of ministers and officials (depending on the issues under discussion) and set up under the terms of an economic agreement between Canada and the Community.
- c) a more informal but regularized consultative arrangement along the lines of those established between the United States and the Community. These

meetings led by the U.S. Undersecretary of State for Economic Affairs and the EC Commissioner for External Trade were set up by "gentleman's agreement" to take place on a regular semi-annual basis along fairly structured lines and intended to deal with short-term access problems and trade irritants between the two parties.

The establishment of a joint ministerial committee poses almost insuperable difficulties for the Community. No such arrangement has been worked out with any country and, until a much higher level of political integration has been achieved, the Community has no mechanism for designating a national minister to represent the other national ministers in discussions with a minister from a non-member country. Nor would the Community be ready to delegate the necessary authority to the Commission such as to make it and its members valid negotiators. Attractive, therefore, as a joint ministerial committee appears at first glance, the Committee has had to recognize that the Community has not yet developed to the stage where this would represent a feasible consultative arrangement.

A joint committee of ministers and/or officials between the Community and Canada may eventually be the most satisfactory arrangement for consultations. However, as Community agreement to the establishment for such a forum is, in practical terms, dependent on the conclusion of a bilateral agreement to give it substance, such an agreement (which is discussed below) may take several years to negotiate. The Committee urges the Government to seek the establishment of such a joint committee and to press for an economic co-operation agreement with the Community which would give substance and structure to such consultative arrangements.

The informal "gentleman's agreement" type of consultations undertaken semi-annually by the United States and the Community does not fully meet Canadian requirements. There is no Canadian official with political status comparable to the U.S. Undersecretary of State for Economic Affairs. Further, it might be questioned whether a Canadian Cabinet Minister should meet an EC Commissioner, a quasi-official, in regular consultations.

Pending the achievement of a long-term economic co-operation agreement with formal arrangements for consultation, it is the Committee's judgment that the Government, faced with these difficulties, has found an adequate technique for consultations in arranging meetings of ministers and officials as appropriate in Brussels or Ottawa. This does require, however, on the Canadian side, a persistent and insistent programme for advocating Canadian interests. The Committee's endorsement of the present informal consultative practices is predicted on two considerations:

- a) continued effort and pressure to achieve a broad economic co-operation agreement with appropriate consultative arrangements; and
- b) in the interim, continuous initiatives by the Canadian government and an imaginative search for ways of developing new links with the Community.

(iii) *A Canada-Community Agreement*

With British entry, Canadian preferential trade arrangements with the United Kingdom have been automatically terminated by the British (although still retained by Canada). While Canada has existing bilateral trade agreements with the other Common Market countries except the Federal Republic of Germany, they are limited in scope and now largely out-of-date. Even though certain trading authority remains with the member states of the Community, the evolution toward a common commercial policy in the Community means that these bilateral agreements become less and less relevant.

It would be appropriate for Canada to have a separate agreement with the Community to ensure that the EC will differentiate clearly between Canadian interests and those of the United States. Although some Europeans (and even Canadians) had previously assumed that the Community's view of the United States would more or less apply to Canada as well, surely this idea is now discredited. Canada's interests and viewpoints coincide with those of the United States on some issues, but differ distinctly on others, in agricultural as well as industrial and resource exports

a) *A Preferential or Non-preferential Agreement?*

In considering what type of agreement Canada might seek, the Committee has concluded that it would be unwise to seek a preferential agreement with the Community. In fact, the Committee was advised in Brussels that Canada would not be successful if it sought one. As several witnesses pointed out, the intent of the Community is to make Europe a cohesive unit. The whole thrust is European, a concept which they feel would be negated by granting further special relationships around the world. (They make an anomalous exception of former colonies). Moreover, the Community has shown itself unwilling to allow efficient Canadian agriculture to jeopardize the Community's high cost heavily subsidized agricultural structure, which has for them an important political and social connotation. Finally the Community would be unlikely to upset its relations with the United States by offering a preferential relationship to Canada.

It would also be unwise of Canada to seek such an arrangement, in view of the importance of its export trade with the United States. The Committee agrees with the realistic assessment of Mr. Forrest Rogers, Financial Adviser to the Bank of Nova Scotia, who stressed "the high proportion of our trade and business relations which is with the United States." When asked if Canada should seek a preferential arrangement with the EC, he replied that he just did not

see how we can expect the United States to sit calmly by while we attempt to establish anything in the nature of a significant special relationship with Europe. (5:9; 1972)

Mr. A. F. W. Plumptre, Canadian representative on the High Level OECD trade talks in 1972, brought out clearly that a preferred arrangement with the Community would discriminate against the United States, Japan and other impor-

tant trading partners with whom Canada had in total an export trade in 1971 of \$15.2 billion. By contrast, Canadian exports in the same year to the nine Community countries amounted to about \$2.5 billion. Mr. Rogers and Mr. Plumptre both observed that projected growth rates for Europe in the next decade were not as high as those for the United States or Japan. Further, the United States buys 85 percent of all Canada's fully manufactured exports: Mr. Plumptre concluded:

What I am obviously emphasizing here is the degree of exports which we put at risk if we discriminate against the United States. (2:7; 1973)

There was a suggestion by one Canadian witness that Canada might go beyond seeking a preferential relationship with the EC and try to gain some sort of associate relationship which would resemble the free trade area the Community has recently formed with Austria, Sweden, Iceland, Portugal, Norway and Switzerland. Apart from the same objection which can be made to a preferential trading arrangement, such an option is not open to Canada because such Community arrangements are accessible under the terms of the Rome Treaty only to European states.

On the basis of these arguments, it is the Committee's judgment that the conclusion of a preferential agreement or associate arrangement with the Community is not in the best interests of Canada.⁶

The Committee agrees that "if any one country has a built-in interest in a truly multilateral system, Canada does." (1:14; 1973)

More than 20 percent of Canada's gross national product stems from its export trade, compared to under 9 percent for the Community and only 4 percent for the United States. Canada's interest clearly lies in world trade liberalization.

At the forthcoming multilateral trade talks under the GATT which are scheduled to open later this year in Tokyo, Canadian policy should be to press persistently and firmly for further reductions in tariff barriers, agricultural restrictions and non-tariff barriers. The Committee is firmly of the opinion that the best procedure for Canada is to urge substantial reciprocal reductions of barriers of all kinds, not only by the European Community, but by the other major trading entities as well.

b) A Comprehensive Economic Cooperation Agreement

Instead of pursuing a policy of seeking a Canada-Community agreement on a limited trade basis, the Canadian Government has recently sought to negotiate a comprehensive agreement covering broader areas of economic cooperation. In the continuing talks concerning such an agreement, the long-term prospects for trade in energy and resource materials, including the processing of nuclear fuels, are being discussed. Also included are potential non-tariff barriers such as government procurement policies, countervailing duties, coastal shipping

⁶ A survey of the existing EC agreements with non-member countries is set out in Appendix "B".

regulations, export subsidies and concessional financing. Additional items in the discussions have been consumer protection, copyright laws, protection of the environment, standards and quality control and the industrial application of science and technology.

Given the movement toward economic integration among the Nine, it is appropriate to seek to establish a framework for cooperation on a Community-wide basis. Many of these subjects are outside the jurisdiction of the GATT, but could become important ways of furthering mutual interests. Such an agreement would complement the GATT, not substitute for it.

Concerning this Canadian initiative Mr. Sharp has stated that while Community representatives may not necessarily be in a position at this stage to pursue all these subjects, "There is no question that the dialogue is well and truly launched." The Europeans generally, he said, have been open to the Canadian proposal, the objective of which is "to reinforce bilateral relations with the member countries of the Community through creating an appropriate framework linking Canada and the EEC as such."⁷

The Committee endorses the Government's conception of a comprehensive economic non-discriminatory cooperation agreement. Such an 'umbrella' agreement, if concluded, would provide broad scope for co-operation on economic issues of mutual interest beyond the possibilities of a regular trade agreement. Although the European Community is understandably preoccupied with internal problems associated with the membership of three new countries, Canada is itself having to make major adjustments due to British entry. On this basis, the Canadian concept merits serious consideration and the Committee hopes this initiative will be pursued vigorously by both sides.

(iv) *Provincial Government Contacts*

The Committee notes the increasing interest being shown by provincial governments in developing new contacts with the Community. Several provinces have maintained provincial representatives for a number of years in some Western European capitals. But a new impetus has been given by British entry into the Community to the development of closer contact, particularly in investment and business fields at the provincial level. It will be important to develop ways of coordinating these increasing federal and provincial activities, if they are to be fully effective.

Premiers of several provinces have recently made tours of national capitals of the Community seeking investment for their provinces' economic expansion. Provincial trade missions including businessmen and manufacturers have actively sought the larger markets they need in Western European capitals. The Committee considers that such increasing contacts will give further momentum to the development of closer Canada-Community relations.

⁷ "Canada, the EEC and the United States," speech to the Canadian Institute of International Affairs, Toronto, 18 November 1972.

(v) *Head of Government Level Contact*

It is in Canada's interest to reiterate to Western Europeans, in the clearest terms, that there are two North American countries and that there are many significant differences between the two, including the basic political systems. Canadians need to have the importance of the European Community to Canada dramatized at home. The series of recent visits by Canadian Cabinet Ministers and provincial leaders to the Community and the member states, and the visits to Canada of Commissioners of the Community and European ministers have been valuable and necessary. But inevitably these developments have not had a noticeable public impact, nor have they given Canadians in general an indication of a Government priority in relations with Western Europe.

The Committee is convinced that an official visit by the Prime Minister to the European Community and, if possible, to member states is of vital importance in the continuing development of Canadian-Community relations.

In December 1972, the Prime Minister visited London, to talk about Canada and the Community. The visit highlighted the importance the Canadian Government was giving to British entry and underlined Canada's interest in evolving closer economic and trading relations with the Community. In the Committee's opinion this was a useful reflection of the Government's new policy commitment but only the beginning of a necessary policy thrust. It is worth noting that since taking office, the Prime Minister has made various formal visits in Asia, to the Soviet Union and to the United States. Aside from his recent visit to the United Kingdom, he has made no formal visit to any of the member states in the Community.

It is the opinion of the Committee that a Prime Ministerial visit to Brussels would not only serve to maintain and accelerate the momentum toward closer relations with the Community and its member states but would vividly illustrate to Canadians the potentialities of such a relationship. At the same time, since improved Canadian relations with the Community are dependent on the development of substantive industrial and economic relationships with the individual member states, it is highly desirable that a head-of-government visit to the Community headquarters in Brussels be linked to visits to European capitals of member states.

B. Business and Investment Contacts

The Government's 1970 policy paper on Europe recommended "closer ties between Canadian and European business and financial groups", but the Committee considers that, on the whole, Canadian business circles have to date been slow to appreciate the opportunities and the potentialities of the European Community. Only now when British entry is a reality are there signs of increased awareness of these European markets.

There appears to be a reluctance on the part of Canadian businessmen to penetrate Community markets. This may be due partially to unfamiliarity and

distance. The natural business and economic axis in North America runs north and south. Some exporters are slow to cope with foreign languages, with largely unknown local conditions, with complex currency exchange rates, with metric specifications and with more complicated transportation, customs and shipping procedures. There has been a natural propensity for the closer and more accessible American market.

Yet the Committee is convinced that Western European markets offer Canada the most important prospect for diversification of its exports, particularly of semi-processed and manufactured goods. There seems to be general agreement in Canada that successful industrial strategies involve the identification of specialized fields of manufacturing, and the concentrated development of lines sophisticated, often technologically advanced products. In order to prosper, such industries will require economies of scale and longer runs unavailable in the small Canadian domestic market. Sizeable markets of a developed consumer-oriented kind are essential; the populous (253 million) enlarged Community is such a market.

Looked at positively, Canadian businessmen would appear to have certain advantages over many other competitors outside the Community at the moment; advantages such as close cultural and linguistic ties with many Western European countries due to past links and to more recent immigration patterns; traditional existing business connections with the U.K. which could now serve as a launching pad inside the Community; and a recognition that Canada already has competence and specialized know-how in certain fields of advanced technology. Canadian exports to the U.K. will enjoy a five-year advantage over American, Japanese and other non-Commonwealth competitors since the full impact of the CET will only replace the mainly lower preferential tariff after a transition period of five years. In addition, because of the revaluation of the European currencies in relation to the U.S. and Canadian dollar, Canadian exports are now more competitive in Europe.

It is worth noting, however, that Canadian subsidiaries of multinational companies to date have not been used by their parent companies as the instrument for expanding operations into Europe.

The Committee would like to see more attention given to facilitating Canadian business contacts with Europe through the development of export partnerships or consortia among various small Canadian firms to handle the particular marketing, transportation, warehousing, and distribution problems arising from exports to the Community. This can result in increased efficiency and decreased costs.

In addition to the pursuit of the traditional direct export sales techniques, the Committee notes that there are other possibilities for increased penetration of Western European markets. These include the establishment of subsidiary firms within the Community border, an acquisition of participation in an established European firm, the concluding of joint venture arrangements, or the securing of licensing arrangements under which the Canadian product would be manufactured in Europe in return for a license fee and royalties. In these cases, although the product is manufactured abroad, there are direct benefits to Canadian firms which

not only receive fees for the technology or know-how but in most cases will supply key Canadian-made components. Indeed joint enterprises would facilitate the future expansion of trade with the Community. Companies with Canadian links are more likely to import familiar Canadian products than those from another source.

Even more important in this regard may be a new, less familiar but growing investment technique which could involve private economic and industrial interests in both Canada and in the EC countries in longer term joint production and joint development ventures involving capital sharing and technology trade-offs.

Through the NATO Industrial Advisory Group, Canadian businessmen have access to information concerning high technology projects undertaken by that organization, and have the opportunity to bid on such contracts. The Committee has been told that as a matter of practice, such Canadian bids have been in conjunction with American firms. Canadian firms might look into the possibility of entering into consortia instead with European companies bidding on the same projects. Europeans might welcome the technological input from Canada and certainly this would provide a basis for further expansion of Canadian business contacts in Europe.

Another aspect of Canada-European business co-operation which should not be overlooked is the conclusion in Canada of licensing arrangements with European firms. A recent example, although at a provincial government level, involves a rapid transit system developed in Germany. In this case the Province of Ontario is granted the rights and royalties if the West German technology is used elsewhere in North and South America.

The Committee considers that the role of Canadian trade associations in helping to publicize and promote the possibilities of trade with Europe is important in the whole process of developing closer relations. In many cases, associations have been involved directly in seeking to project the interests of their firms abroad and, in conjunction with the Government, have supported promotional missions to Europe. Their contribution and participation add strength to the whole effort.

Originally the United Kingdom was the major source of development capital for Canada, although vast capital inflows from the United States have since displaced it as the primary source. However substantial financial and investment ties still exist between Britain and Canada. In spite of post-war dependence on American capital sources, Canadian borrowers have, in recent years, begun to look more frequently to Europe for funds and as a major market for Canadian security issues. Several provincial governments have also turned to Europe's money markets in search of development capital for provincial projects.

Canadian attempts to find an alternative source of capital is important in the long-term as well as in the short term. Although European investment in Canada cannot compare with the massive figure of post-war U.S. investment which represents 80 per cent of all non-resident investments, in recent years

there has been a distinctly higher rate of European investment which now represents 16 per cent of the total and has been accompanied by a slight reduction of the U.S. percentage.⁸

One of the major advantages to the Canada-Community investment relationship will lie in the sizeable Canadian investment in the United Kingdom. It is clear that London will become the financial centre of the expanded Community. The existing financial ties should provide key opportunities in both the UK and other Community financial centres for Canadian investors to accelerate the trend, noted since 1968, of increased Canadian investment in the EC.

Canada has been thought of in Europe as mainly a supplier of resource-based exports in a basically untransformed state—metals, minerals, forest and agricultural products especially. If Canada is to change or modify this European assessment and become an acknowledged source of semi-processed and manufactured goods, it must come about not only by Canadian exporters paying more attention to European markets but through imaginative Canadian investment initiatives such as joint venture techniques within the Community.

C. Trade Relations

In general terms, Canada's exports to this expanding Community markets have not kept pace with competitor nation's exports. While the absolute level of Canadian exports to the Six has risen in the past 15 years, (from \$422 million in 1958 to \$1.1 billion in 1972) Canada's share of this market has declined. In contrast, other world trading nations such as the United States and Japan have increased their share, often dramatically, and have followed the trend in increased export of manufactured and semi-processed goods while Canadian exports to the Community continued to concentrate on primary products. In the past year, 1972, Canada lost its traditional surplus balance of trade position with the Six and had a trade deficit of \$22 million.

With the U.K., Canada's major market in the enlarged Community, exports have increased at an even slower rate (\$728 million in 1958 to \$1.3 billion in 1972) than to the Six despite the advantage of the preferential tariff. In 1972 Canada still had a surplus trade balance with the U.K. of \$360 million, but this figure has been declining in the last few years.

(i) *Agricultural Products*

From a Canadian point of view one of the most difficult features of the structure of the European Community has been the protective Common Agriculture Policy and market organization. With British entry, the adverse impact of this policy on Canadian agricultural exports will be considerably extended. The CAP has the effect of stimulating often inefficient production within the Community, removing the competitive advantages of imports and at times subsidizing

⁸ 1969, the last year for which figures are available.

Community exports to third countries. While still a net importer of cereals, the Community has become a net exporter of wheat and barley, the two cereals in which Canada is most vitally concerned. Some forecasts suggest that by 1980 the Community will be a net exporter of all cereals. In particular grain production is expected to increase significantly in Britain.

On the whole, Canadian agricultural exports to the EC have done less well in the period from 1958 to 1970 than American agricultural exports—a growth of 70 percent as compared to 188 percent. Agricultural products accounted for slightly more than one-fifth of total Canadian exports to both the EC and the UK in 1971 (10 percent or \$192 million to the EC and 13 percent or \$300 million to the UK). Mr. Pepin, the then Minister of Industry, Trade and Commerce, told the Committee that he estimated that 90 percent or \$270 million of Canada's agricultural exports to Britain would be affected eventually by the highly restrictive CAP which will be progressively applied on the UK market. (3:8; 1972)

The effect of increased wheat production in Europe on Canada will probably be mitigated because of the continuing need in Community markets for high quality Canadian-type wheat, but it is possible to anticipate an almost total loss of the Canadian feed barley market as a result of increased production and some potential changes in the CAP regulations. This, as valued in terms of the 1971-72 crop year, would mean a loss of \$80 to \$85 million annually in net returns to producers in Western Canada plus another \$35 million lost to the handling and transportation industry. Exports of Canadian tobacco, cheddar cheese and apples to the United Kingdom market are also likely to suffer adverse effects.

There is unlikely to be a radical change in the Community's agricultural policy because of its social and political significance in each member country. However, there appears to be a growing awareness in certain Community countries and in the Commission itself that the CAP has had unwelcome results in some areas and has aggravated economic and financial difficulties. While Canadians recognize the political importance of the CAP to the Community, a more satisfactory arrangement for Canada would be for the Community to adjust or replace its existing agricultural price support programs by more direct arrangements of supporting farmers' incomes, thereby doing away with the emphasis on subsidies for export production.

At the GATT multilateral trade talks, Canada should set forth its case plainly against the damaging effects of the CAP. The Committee hopes there is a basis for limited optimism that the Community will come to these trade talks prepared to make some modifications in the CAP.

(ii) *Primary Materials and Manufactured Goods*

Although Canada did less well than its major rivals between 1958 and 1970 in capturing its share of the burgeoning Community market, gains were made primarily in exports of Canadian primary products. By 1970, 48 percent of total Canadian exports to the Six were primary products—this figure rises to 63 percent if agricultural products are included. Almost one-half of the value of Canadian

exports to the UK (\$700 million of a total of \$1,480 million) was in metallic and other minerals and their products, including nickel, copper, aluminum ingot, iron ore, zinc, asbestos and molybdenum. Forest products made up another 20 percent or \$250 million worth.

In contrast, as a proportion of total Canadian exports to the UK and the Six, the percentage of manufactured goods has been small and has tended to fluctuate. In 1972, 8.5 percent or \$111 million of exports to the UK and 14.9 percent or \$165 million worth of exports to the Six were in finished goods.

The rate of growth of Canadian semi-fabricated and manufactured exports has increased between 1958 and 1970, but at a slower rate (234 percent) than that achieved by all developed countries including Japan and the United States (327 percent) and was much below the over-all growth rate in EC imports of manufactured goods (377 percent) during this period.

It is clear that Canadian selling in Community markets has not been aggressive enough. For example, comparison of Canadian and Japanese sales on the West German market between 1960 and 1970 reveals that whereas in 1960 Canada had 2.1 percent of the market to Japan's .07 percent, by 1970 Japan had captured almost 2 percent and Canada's had dropped to 1.7 percent. The Japanese exports were 80 percent manufactured goods, no mean feat when it is recalled that many of these goods are directly competitive with domestically produced German goods as well as with the products of other member states.

With the U.K., in 1972 Japan increased its sales by 66 percent, mostly in highly processed goods as cars, photographic equipment, television sets, motorcycles, tape recorders, etc. In the same year, however, Canadian exports to the U.K. actually decreased due to a loss of sales in processed goods such as aircraft and parts, automotive products, communications equipment as well as in primary products such as metal ores and wheat. Beginning this year, certain Canadian secondary industries exporting to the U.K. will be affected significantly as the special preferential advantage is being removed. This is especially true of certain chemical products and textiles where the CET is high at 15 percent.

The Community markets for sophisticated manufactured goods are increasingly competitive but they are nevertheless substantial. In addition to the \$17 billion intra-Community trade in manufactured goods, in 1971 the EC imported \$10 billion worth of finished goods. Canada's share was only one percent or \$98 million. Obviously a more vigorous and concentrated effort is needed to penetrate with Canadian manufactured goods the marketplaces of the world's largest buyer and seller. Particular efforts will have to be made to balance the expected decline in Canadian exports to Britain of most manufactured goods due to the loss of the Commonwealth preferential tariff.

(iii) *Adjustments Resulting from U.K. Accession*

As was noted above, Canada has retained the preferential tariff arrangement for British imports, although the U.K. was obliged to drop the Commonwealth

preference on joining the Community. The Canadian decision has an obvious and positive effect for the Canadian consumer on prices of British-made goods. However, if the Community objected strongly to this decision which gives an effective export advantage to one member of the Nine, the Canadian Government might consider dropping this preference in return for more favourable access for specific Canadian products facing serious difficulties.

During the enlargement process of the Community, the Canadian attitude remained a positive and constructive one and was recognized as such by the United Kingdom. But, as has already been stated, it is estimated that one-half of all Canadian exports to the United Kingdom (\$1.3 billion worth of goods annually) will be affected adversely by British entry. Negotiations have already begun between the Community on the one hand and Canada, the United States, South Africa and Australia on the other to determine (under Article XXIV:6 of the GATT) what compensation, if any, these trading partners are due as a result of Community enlargement. The Committee expects the Government to press the Canadian case for compensation vigorously, and hopes that the Community will be urged by the United Kingdom to respond to Canadian claims with an attitude as positive and flexible as Canada's has been regarding enlargement. The most recent Community policy decision regarding these claims does, in fact, appear to recognize the validity of the Canadian position.

(iv) *Government Efforts to Improve Trade*

The relatively disappointing Canadian record in Community markets has been due at least partly to a lack of governmental participation in the identification and promotion of these potential markets. Fortunately in the past two years this situation has changed. Perhaps the adverse implications of Britain entry and the shock of the August 1971 United States measures have provoked greater efforts. In a conscious promotion of closer economic and commercial relations with Western Europe the Government has focussed attention on these markets in a variety of ways. A substantial concentration of its trade commissioner service is now working in Western Europe; missions on science and technology were sent to Belgium and Western Germany to foster exchanges of technology, information and expert personnel and science and technology agreements have been signed with those countries; trade and industrial missions including Canadian businessmen went to several Western European countries; the Government participated at major European trade fairs; a programme was set up to bring European buyers to Canada to see Canadian industrial capabilities and products at first hand; a programme was instituted which enables the sharing of risks of costly bidding on contracts abroad with Canadian exporters as well as exhibiting at specialized trade fairs abroad.

The Committee notes with approval that several provincial governments have also become increasingly involved in supporting and promoting business contacts in Western Europe. Contact at a ministerial level between the provinces and the federal government should ensure that through exchange of information,

these governmental support programmes remain a positive complementary effort and avoid needless duplication.

The Committee considers that these government trade promotion programmes are vitally important in the international trading world. Individual businesses can rarely push into these highly competitive markets alone: it would appear essential that government programmes supporting the efforts of trade associations and of individual business co-operate to the fullest in penetrating Community markets. In addition, if there is to be an increase in Canada-Community joint production and joint development ventures as referred to on page 19 there will be an onus on the Government to help identify, by means of economic intelligence work abroad, the potential areas of interest to Canadian investors.

IV AN INTERPARLIAMENTARY LINK

One of the highlights of the Committee's trip to Brussels was its meeting with the group of members of the European Parliament under the chairmanship of the British Conservative M.P. Mr. Peter Kirk. The meeting produced a stimulating and useful exchange of ideas and opinions.

It is not easy for outsiders to gauge the degree of influence which the European Parliament presently holds with the Community. It has no law-making powers nor any direct veto over the Council of Ministers. It has the right, as yet unused, to dismiss the full Commission by a vote of censure with a two-thirds majority, but it does not have the power to appoint a new Commission.

There are increasing signs, however, that Parliamentary influence over legislation is expanding. By greater use of oral and written questions put to both the Commissioners and the Council, Parliament is seeking to keep a close watch on Community developments. The Commissioners faced with a more outspoken Parliament may have to defend their legislative proposals in person more energetically. Moreover by 1975 Parliament will acquire limited budgetary powers with control over the administration and information items in the budget amounting to some 4 or 5 per cent of the total.

Since enlargement a new spirit of reform seems to have seized the European Parliament. It was given expression by Mr. Peter Kirk in his maiden speech in January 1973:

Without an effective Parliament, our Community is in danger of strangling in bureaucracy or drowning in apathy . . . The more we have examined the situation, the more astonished we are at the latent power which this Parliament could have, if only it would use it. We hope to play our part in this through things like questions, budgetary control and other measures . . .

The power we have may be a negative one . . . But it is a real power just the same and there for the asking . . . Initiatives are there to be seized. We can and must seize them . . .

Our policy is simple—power to the Parliament, . . . Power over the Commission, first because that is implied in the treaty but we must examine our relations with the Council as well.

The first major development of the present session was the decision to make a 60-minute Question Period a regular part of the European Parliament.

Whether the European Parliament becomes a directly elected body—a sort of supranational Parliament—or evolves along other more pragmatic lines, there is little doubt that its influence and responsibility in Community affairs will increase. With this in mind, the Committee believes it would be desirable for the Parliament of Canada to seek to establish some form of regular parliamentary link with the European Parliament.

At present the only such established parliamentary link the Canadian Parliament has with most Western European parliamentarians is through the North Atlantic Assembly. Although some discussions are going on concerning an extension of its competence, this body remains primarily concerned with NATO affairs. Reflecting the importance of Canada's relationship with the United States, a parliamentary link with the U.S. Congress has been in existence since 1959. Canadian parliamentarians maintain contact with their French counterparts through the Canada-France Parliamentary Association and with British parliamentarians in a larger forum, through the Commonwealth Parliamentary Association.

There has been since 1969, contact with the Consultative Assembly of the Council of Europe with visits being exchanged more or less on an annual basis. The Committee has concluded that the relative importance of the Council of Europe and the European Parliament should be faced squarely. Several witnesses before the Committee did not doubt that the Community would move in the direction of a more powerful Parliament, and that as it gained in power and effectiveness there would be a decline in the influence of the Consultative Assembly of the Council of Europe.

A clear impression was gained by the Committee in Brussels that some European Parliamentarians were actively looking for a basis for organization of formal links with their counterparts in the capitals of their major trading partners, including Canada. In the Committee's opinion, it is desirable for the Canadian Parliament to take the initiative. Delay could result in the build-up by the Community of a network of parliamentary links with third countries' parliaments, leaving the members of the European Parliament with far less inclination or time to consider such links with Canada. A regular formal link would serve to promote, at the level of elected representatives, a continuing dialogue on interests and outlook between Canada and the Community.

Following the Committee's meeting with the group of European Parliamentarians in Brussels, the Chairman, together with the Chairman of the House of Commons Committee on External Affairs and National Defence, issued an invitation on behalf of the Speakers of both Houses of Parliament to the European Parliament to send a delegation to Ottawa in the autumn of 1973 to meet with representatives of both Houses. The Committee sees this as a first step in the development of a regular link between the two Parliaments.

V. CLOSING THE INFORMATION GAP.

(A) A Community Information Office in Ottawa

One aspect of Canada-Community relations which the Committee examined was the desirability of and need for a Community mission in Canada. The Ambassadors of the member nations stationed in Ottawa are neither authorized nor qualified to speak on matters involving Community affairs. Mr. Schaetzel considered that it was "in the self-interest of the Community" to have active diplomatic relations with countries such as the United States, Japan and Canada and that "it is a burden which should not be placed on the nine ambassadors who are accredited to the Canadian Government". (1:9; 1973). However, the Committee recognizes that at present some member states in the Community are strongly opposed to the transfer of political authority in external affairs to a Community representative abroad. This is a difficulty which would make the establishment of a diplomatic mission in Canada a controversial issue at the moment.

This problem, however, would not prevent the setting up of an Information Office in Ottawa. Already the Community has offices in other centres such as Washington, Geneva and Tokyo, with the educational information function of explaining the Community and its objectives. The Committee considers that such an information role is badly needed in Canada. There has been some contact at the University level, notably the Centre d'Études et de Documentation Européennes in Montreal and the University of Waterloo which receive Commission documents. A limited information function has been performed by the Centre d'Études. However, no Community publications tailored to Canadian needs exist; the Washington office's publications are naturally focussed on US-Community problems. The Community has, it is true, sent speakers to Canada, but this has been an infrequent and under-publicized development. The Canadian public is generally unaware of the importance of the Community to Canada.

While in Brussels, the Committee informed the Commission that it considered the absence of a European Community Information Office in Canada a lack on the Community's part. It is in the Community's interest to explain its trade, economic and monetary policies in Canada if there is to be an effective dialogue. The response to this suggestion in general appeared to be favourable at the Commission level. One senior Commission official suggested the possibility of such an office in Canada by 1974 although he reminded the Canadians that much necessary Community information work within the member states still needed to be done. On the whole, Community officials were conscious of the importance of promoting their image in the world if international cooperation were to be achieved. It is clear that

such an Information Office could also be of benefit to the Ambassadors of the EC member countries resident in Canada.

The Committee urges the Government to press the Community to establish such an Information Office in Ottawa at the earliest possible date as part of a necessary increase in communications between Canada and the Community.

The Committee would have preferred to have held further and more detailed meetings on this matter with the Community officials before making a recommendation. In fact, an invitation was issued to the Commission by the Committee Chairman in early April to send officials to Canada to discuss Community information activities. Unfortunately the Commission was unable to act on this invitation within the timetable required to complete the Committee's report. However the Committee hopes that such Community information representatives will be able to come to Canada in the autumn and the Committee would be glad to see them then. At that time the Commission officials should also talk to the Canadian Government concerning this recommendation.

(B) Exchange Visits

(i) to the Community

For a number of years, the Community has organized and sponsored a programme under which young people from all countries come to the Commission to work for 5 months as internes (stagiaires) as a means of becoming better informed about the Community from the inside. The Community program calls for 400 internes annually, of which 30 to 40 places are designated twice a year to candidates from 100 non-member countries, the remainder being for persons residing inside the Community. Each non-member country is eligible to have one paid interne per year and two or three non-paid candidates. Canada has placed only one interne over the entire period of operation of this programme; the United States, by contrast, has had 16 Americans participate in the past ten years.

The Committee believes that this major gap in Canadian participation can and should be speedily remedied. The Government should see to it that advantage is quickly taken of this opportunity for placing Canadians regularly.

(ii) to Canada

Consideration should be given to the initiation by the Canadian Government of a European visitors programme. The United States leader grant programme is a model which might be of interest. Under this programme, leaders or potential leaders of foreign countries are invited by the Department of State to visit the United States for approximately a month's time, subsidized by the Government. The objective of this programme is that informed and influential persons including political figures will be able to convey back to the Community or their countrymen a more accurate assessment or understanding of the United States based on the observations and experiences of their visit. The key to the whole leader grant pro-

gramme lies in the selection of potentially influential persons. Under the U.S. scheme more than 80 grants have been awarded in the last 12 years to European Community officials, nearly half of whom now hold senior positions within the Community. (To illustrate the significance of the programme, it should be noted that 124 members of the British Parliament and 12 of 16 members of the present West German Cabinet, including the Chancellor Mr. Brandt himself, were brought in past years to the United States as potential leaders under these grants.) In 1973, the United States mission to the European Community will send fourteen visitors to the United States from the Community and the international press corps accredited to the EC. The cost for a 30-day visit is estimated at about \$2,100 per person.

The Committee suggests to the Government that it look carefully into the possibility of a similar type of programme between Canada and the EC Commission in particular, in order to broaden the areas of understanding, as part of a larger arrangement for inviting potential leaders from countries of importance to Canada.

The Committee is aware that the Department of External Affairs already has a programme which brings journalists and "opinion-formers" to Canada from foreign countries. Western Europeans have benefitted from this plan but no Commission officials have ever been involved, nor does it extend to active politicians. The suggested 'visits programme' would be in addition to this existing programme and to departmental and agency schemes for exposing foreign officials to Canada on a functional basis, as the Canadian Wheat Board's program has been doing with evident success for almost two decades.

The Committee learned that the United States gives a small grant annually to the College of Europe in Bruges which covers the cost of an American professor on the staff. This small European college, founded in 1949, offers post-graduate courses with special emphasis on European integration in law, economics, politics and social science. The Committee believes that the possibility of a Canada Council grant for a similar purpose should be explored. Alternatively, the Academic Relations section of the Department of External Affairs might consider supporting such an endeavour.

Similarly, the Committee noted that the U.S. Mission in Brussels helps select Europeans for an American private foundation which grants yearly exchange fellowships in order to provide periods of travel and observation for citizens who have already demonstrated leadership potential in their respective countries or professions. Under this Eisenhower Exchange Fellowship scheme, three Europeans (in addition to persons from other continents) have spent 6 to 8 months of consultations, travel and on-the-spot assignments in the United States during the past three years. The Committee wishes to draw attention to this as a worthwhile project.

The administration of a 'visits programme' to Canada from the Community would undoubtedly be handled by the Canadian Mission to the European Com-

munity and might involve the appointment of an information officer to undertake a much fuller programme than is now possible, to service the news media and act as the Mission's liaison with the E.C.'s Press and Information Services.

C. Other Canadian Programmes related to the Community

The Committee was surprised that so little attention appears to be given to the European Community in Canadian university and academic circles. Dr. Pentland stated that the Centre d'Études et de Documentation Européennes in Montreal "is the only one that I know of which has the EEC as its primary focus" (4:10; 1972). Since it operates in French, the majority of English-speaking Canadians are not in a position to derive benefit from it. Although the Committee was informed of individual academics concentrating on European studies, Dr. Pentland's assessment appears to be accurate. In universities across the country there are centres for area studies for Asia, Africa, or Latin America. Europe has been ignored presumably because its cultures and traditions are both more accessible and better known in Canada. However, the European Community is a complex institution, difficult to understand, developing rapidly, and with increasing ramifications for Canadian and world interests. If curricula are determined by any criterion of relevance, the EC and the European environment in which it is developing merit considerably greater attention than they have been receiving in Canadian universities.

Increased Canadian participation in the above-mentioned Community interne programme should be directly linked to institutions deciding to offer a special programme of contemporary European studies, and would be of immediate benefit to them in developing specialized competence among their staff.

The Committee commends the idea of a Conference on Canada-EC Affairs scheduled for mid-October 1973 in Ottawa under the joint sponsorship of the EC and the Canadian Institute of International Affairs (C.I.I.A.). This meeting will bring to Canada prominent Community officials and representatives. The benefit will undoubtedly work both ways—serving to alert Canadians to the achievements and the difficulties of the Community and to communicate to the Europeans the special problems facing Canada internationally. The Committee also commends the C.I.I.A.'s plan to arrange a study visit of the Community for a group of Canadian business leaders in March of 1974.

The Committee considers that Canadian media coverage of the Community has been generally inadequate and unsatisfactory. Only with British entry has a modest attempt been made to assess the economic significance of the Community for Canada. Radio and television have remained generally aloof although the Committee was recently informed that the CBC is preparing a modest programme on the Community for this autumn. There is much scope for editors, writers and broadcasters in Canada to try to close the information gap concerning the Community and its activities for the vast majority of Canadians.

The Government's 1970 foreign policy paper on Europe emphasized the importance of intensification of information and of cultural activities with Western Europe. The Committee endorses this policy emphasis, notes the appreciable increase in quantity and quality of Canadian cultural programmes in Western Europe in the past two years (art exhibits, orchestras, choirs, ballet groups, etc.) and considers this should be a continuing development with a more intensive information activity being directed at the Community itself.

CONCLUSIONS AND RECOMMENDATIONS

of the

REPORT

of the

STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

concerning

CANADIAN RELATIONS

with the

EUROPEAN COMMUNITY

INTRODUCTION: The Importance of the Community to Canada

The Committee's attention has been drawn to evidence that the European Community (EC) is of increasing importance to Canadian interests. With the inclusion on January 1, 1973, of the United Kingdom, Denmark and Ireland, the Community constitutes by far Canada's largest foreign partner. In 1972 the five member countries accounted for 22.4 per cent of total Canadian exports, of more than 45 per cent of all Canadian exports not going to the United States.

Not only does it impose a greater burden of adjustment on Canada than any other country outside the enlarged EC.

II. WHAT IS THE COMMUNITY? WHERE IS IT GOING?

Although for many in the Community the ultimate goal is still uncertain, the primary objective with the advent has been to the common market. In economic terms this involves the free trade area between member states. The successful negotiation of negotiations which has resulted in impressive growth rates for the region. The number of member countries has risen from 6 to 12 in the past decade of the Community's existence by 50 per cent (as compared to 40 per cent for the United States). The Community had in 1974 an annual production figure of about 1700

SUMMARY
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I. INTRODUCTION: The Importance of the Community to Canada

The Committee's examination has strengthened its conviction that the European Community (EC) is of increasing importance to Canadian interests. With the inclusion on January 1, 1973, of the United Kingdom, Denmark and Ireland, the Community constitutes by far Canada's second largest trading partner. In 1972 the Nine member countries accounted for 12.4 per cent of total Canadian exports, or more than 45 per cent of all Canadian exports not going to the United States.

British entry imposes a greater 'burden of adjustment' on Canada than on any other country outside the enlarged EC.

II. WHAT IS THE COMMUNITY? WHERE IS IT GOING?

Although for many in the Community the ultimate goal is political unity, the primary concern until the present has been in the economic field. In economic terms the achievements of the EC have been remarkable. The successful establishment of the customs union has resulted in impressive growth rates for the original six-member countries. Between 1958 and 1970 the gross product of the Community increased by 90 per cent (as compared to 61 per cent for the United States). The Community had in 1971 an annual production figure of about \$700

billion as compared with over \$1,000 billion for the United States. But since the Community is relatively a larger importer than the United States (importing close to 10 per cent of its gross product whereas the figure for the United States is only 4 per cent), the enlarged Community has emerged as the world's largest trading entity. In fact it constitutes an import market 50 per cent larger than the United States.

The growth and success of the Community has raised the threat of trade bloc confrontation between the world's major traders, the United States, Japan and the Community. Developed industrialized countries outside the EC see dangers to world trade liberalization in the vast increase of intra-EC trade, in the Common External Tariff and particularly in the highly protectionist Common Agricultural Policy and from the EC's expanding network of preferential trading arrangements (often discriminatory to non-member countries). These latter range from free trade agreements with non-member industrialized states of Europe to preferential trade agreements with former colonies in Africa, the Caribbean and elsewhere.

The economic power of the Community imposes on it a heavy burden of political responsibility which it does not appear to be in a position to assume and which it may not yet be able to discharge.

The Community is not a conventional grouping of states, nor a single new state, but a mixture of the two. The idea of a federated supranational Europe has declined. The sharing of decision-making powers between the member states and the Community institutions is a complex coordinated exercise in sovereignty. Although there appears to be a gradual movement towards integration, the big question may be whether there is enough political will, statesmanship and momentum to propel it against nationalist opposition.

The current internal debate over the future character of the Community poses the choice between an advanced mercantilist society concerned primarily with technology, export sales and growth rates or a more open 'human face' Community concerned as well with broad human and social dimensions; an inward-looking protectionist grouping of states concerned mainly with economics or a liberal outward-looking society, thinking and acting responsibly in world terms.

It is the Committee's view that the Community can develop 'a human face' and define a new European social consciousness. It is to be hoped, however, that its concern for the betterment of European citizens will not lead to protective barriers against outside countries' goods and that the Community will, as the Summit meeting urged, acknowledge its international responsibilities.

III. CANADA-COMMUNITY RELATIONS

A. Intergovernmental Relations

Since the Community is above all a trading entity, Canada-Community relations have naturally been concerned principally with questions of trade. But

Canada has no trade agreement with the Community, no regular structure other than the Embassy for consultations, nor is there a clear channel for "a constructive dialogue" between Canada and the Community as called for in the Summit Communiqué.

(i) *Pursuing the Dialogue*

Given the complexities of the Community's decision-making process, the question is whether input in the separate national capitals which may influence the decisions at the Council of Ministers level is more important than input at Commission headquarters in Brussels. There is, in addition, the important role of the Committee of Permanent Representatives to consider.

The Committee agreed that a combination of techniques, a system known commercially as 'double banking', is necessary. It is a matter of systematic consultations both in the national capitals and with the Commission in Brussels.

The Committee considers the appointment last December of a Canadian Ambassador accredited solely to the Community a positive step toward improvement of the Canada-Community dialogue.

(ii) *Appropriate Consultative Arrangements*

The Committee has examined the alternative possibilities for regular, institutionalized consultative arrangements between Canada and the Community. There were three possibilities:

- a) a committee at the ministerial level patterned after the Joint United States-Canada Ministerial Committee on Trade and Economic Affairs or the Canada-Japan Ministerial Committee;
- b) a joint committee ('commission mixte') comprising an appropriate mix of ministers and officials depending on the issues under discussion and set up under the terms of an economic co-operation agreement between Canada and the Community;
- c) more informal but scheduled consultations along the lines of those already established between the United States and the Community. These latter meetings were set up by a 'gentleman's agreement' and are conducted on a semi-annual basis by the U.S. Under-Secretary of State for Economic Affairs and the EC Commissioner for External Trade.

The Committee has concluded that although a joint committee of ministers and officials between the Community and Canada will eventually be the most satisfactory consultative arrangement, its establishment is dependent on the conclusion of a bilateral agreement. Pending the achievement of such an agreement, it is the Committee's judgment that the present informal technique of arranging, as appropriate, meetings by ministers and officials in Brussels and Ottawa comes closest to fulfilling Canadian requirements at this time.

However, the Committee's endorsement of these present informal consultative practices is predicated on two considerations:

- a) continued effort and pressure to achieve a broad economic co-operation agreement with appropriate consultative arrangements; and
- b) in the interim, continuous initiatives by the Canadian Government and an imaginative search for ways of developing new links with the Community.

(iii) *A Canada-Community Agreement*

The Committee has concluded that Canada should not try to seek a preferential relationship nor any special association with the Community which would be discriminatory to other Canadian trading partners. The Committee considers the Government's concept of seeking a comprehensive non-discriminatory economic co-operation agreement with the Community to be a valid one.

Some of the subjects to be discussed in the course of negotiations relate to long-term prospects for trade in energy and resource materials including the processing of nuclear fuels. Other subjects of discourse are copyright, consumer protection, protection of the environment, standards and quality control, the industrial application of science and technology as well as government procurement policies, countervailing duties, coastal shipping regulations, export subsidies and concessional financing. Such an "umbrella" agreement, if concluded, would provide a broad scope for co-operation on issues of mutual interest beyond the possibilities of a regular trade agreement.

(iv) *Provincial Government Contacts*

The increased interest being shown recently by provincial governments in developing new and closer contacts with the Community countries of Western Europe will give further impetus to closer Canada-Community relations. It will be important to develop ways of co-ordinating the increasing federal and provincial activities, if they are to be fully effective.

(v) *Head of Government Level Contact*

It is important to emphasize to the members of the Community that Canada and the United States are two North American countries with many significant differences including the basic political systems. **In this regard the Committee is convinced that an official visit by the Prime Minister to the European Community and, if possible, to member states is of vital importance in the continuing development of Canadian-Community relations.** Such a visit would also serve to draw the attention of Canadians to the Community.

B. Business and Investment Contacts

On the whole, Canadian business circles have been slow to appreciate the opportunities and potentialities of the European Community. Only now when

British entry has endangered the traditional U.K. trade have Canadians begun to develop a real awareness of these European markets.

The Committee is convinced that Western European markets offer Canada the most important prospect for diversification of its exports, particularly of semi-processed and manufactured goods.

The efforts of Canadian exporters could be facilitated by the development of export partnerships or consortia among various small Canadian firms to help handle marketing, transportation, warehousing or distribution problems.

In addition to the traditional export sales techniques, the Committee notes that there are other ways of penetrating European markets, including the establishment of subsidiary firms within the Community borders, the participation in an established European firm, the conclusion of joint venture arrangements or the securing of licensing arrangements under which the Canadian product would be licensed in Europe in return for a license fee or royalty.

It is also of interest to note the new techniques of engaging economic and industrial interests in Canada and the EC in long-term joint production and joint development ventures involving capital sharing and technology trade-offs.

The Committee considers that such enterprises will undoubtedly play a major role in the future expansion of Canadian trade with the Community. Companies within the Community with Canadian links are far more likely to import familiar Canadian products than those from another source.

Since 1968 Canadian borrowers have begun to look more frequently to Europe for funds and as a major market for Canadian security issues. European investment in Canada, both direct and portfolio, has increased strongly in recent years. Both trends are positive factors in future Canada-Community cooperation. One of the major advantages to a closer Canada-Community investment relationship lies in the existing Canadian investment links with the United Kingdom.

Looked at positively, Canadian exporters and businessmen would appear to have certain advantages over many other competitors outside the Community at the present time. If Canada is to change or modify its traditional role in Europe as a supplier of resource-based exports and become an acknowledged source of semi-processed and manufactured goods, it will have to come about through the efforts of Canadian exporters as well as by imaginative investment initiatives such as joint ventures on the part of Canadian investors.

C. Trade Relations

In general terms Canada's exports to the expanding Community markets have not kept pace with competitor nations' exports. Canada's share of this rapidly growing market has declined.

(i) Agricultural Products

One of the most difficult features of the EC for Canada has been the protective Common Agricultural Policy, not only from the point of view of imports

but also in relation to competition in third markets. The gradual application of the CAP in the United Kingdom against Canadian agricultural products going to Britain will affect 90 per cent of this \$300 million trade.

(ii) *Primary Materials and Manufactured Goods*

Although Canadian exports of primary products to the Six made striking advances between 1958 and 1970, semi-fabricated and manufactured exports increased at a slower rate than the average of other developed countries. As a proportion of total Canadian exports to the U.K. and the Six the percentage of manufactured goods has been small. (In 1972 14.9 per cent to the Six and 8.2 per cent to the U.K.)

A more vigorous and concentrated effort is needed to penetrate the sophisticated Community consumer markets with Canadian manufactured and semi-finished exports. Particular efforts will need to be made to balance the expected decline in Canadian manufactured exports to Britain due to loss of the preferential tariff.

(iii) *Adjustments Resulting from U.K. Accession*

Canada has not yet abandoned its side of the preferential tariff arrangement with the United Kingdom which Britain was obliged to drop on entry into the Community. The Canadian decision has an obvious and positive effect for the Canadian consumer on the price of British-made goods. However, if the Community objected strongly to this decision which gives an export advantage to one member of the Nine, **the Government might consider dropping this preference in return for more flexible access conditions for specific Canadian products facing serious difficulties.**

The Committee expects the Government to press vigorously the Canadian case for compensation under Article XXIV: 6 of the GATT and hopes that the United Kingdom will urge the Community to respond with an attitude as positive and constructive as Canada's has been regarding enlargement.

(iv) *Government Exports to Improve Trade*

The Committee considers that the various government promotional programmes have helped focus the attention of Canadian exporters on Community markets. In cooperation with trade associations and individual businesses, Government participation appears to be an essential support in bringing the Canadian sellers and the European buyers closer together. If there is to be a significant development of joint production and joint development ventures with business interests within the community, there will be an increasing onus on Government to help identify, through economic intelligence work abroad, the potential areas of interest.

IV AN INTERPARLIAMENTARY LINK

There is little doubt that the influence and responsibility of the European Parliament in Community affairs will grow. **The Committee believes it would be**

desirable for the Parliament of Canada to seek without delay to establish some form of regular parliamentary link with the European Parliament.

V CLOSING THE INFORMATION GAP

The Committee considers that the Government should press the Community to establish an EC Information Office in Ottawa at the earliest possible date, as a way of bridging the serious information gap about the Community in Canada and as a funnel back to Brussels regarding Canadian interests and viewpoints.

The Committee would like to see an increase in the number of exchanges between Canada and the Community. In particular it has noted that Canada has placed only one interne (stagiaire) during the entire operation of the Community-sponsored programme for bringing students to its headquarters.

The Committee urges the Government to see that advantage is quickly taken of this opportunity for Canadians to participate in the Commission interne program.

Consideration should be given by the Canadian Government to the initiation of a 'visits programme' by which Community officials or potentially influential politicians in the Governments of the EC member states, would be offered study visits in Canada. On the basis of their observations and experiences, they would be able to convey back to the Community or to their countrymen a more accurate assessment or understanding of Canada.

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V. CLOSING THE NEGOTIATIONS

The Commission ... the ... of ... in ... the ... of ...

Consideration should be given to the ... of ... in ... the ... of ...

The Commission ... the ... of ... in ... the ... of ...

(iv) Conclude Enquiry in Japan Trade

The Commission ... the ... of ... in ... the ... of ...

IV. AN INTERPARLIAMENTARY LINK

There is a ... of ... in ... the ... of ...

STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

APPENDIX "A"

The Institutions of the European Community.

The major Community institutions are:

- The Commission,
- The Council of Ministers with its important adjunct the Committee of Permanent Representatives,
- The European Parliament and
- The Court of Justice.

A. THE COMMISSION

Since enlargement the Commission consists of thirteen members, two each from Germany, France, Italy and the United Kingdom and one each from Belgium, the Netherlands, Luxembourg, Denmark and Ireland. The centre of the Commission's activity is the Berlaymont building in Brussels.

Each member of the Commission is responsible for one or more of the main Community activities: legal affairs, economic & financial policy, external relations, industrial affairs, research and technology, agriculture, development aid, antitrust policy, atomic energy, social affairs and regional policy. The Commission takes decisions by a simple majority vote and is responsible as a group for its actions.

Under the Commissioners an administrative bureaucracy now numbering about 7,000 is divided into departments known as Directorates-General, each responsible to a Commission member. Preparatory work on any proposal is done in the relevant Directorate-General and then presented to the Commission.

Commissioners are appointed by the member governments for four-year renewable terms. The president and five vice-presidents hold office for two-year renewable terms. The present Commission began their terms in January 1973:

<i>Commissioner</i>	<i>Responsibilities</i>
ORTOLI, François-Xavier (France) (President)	Commission secretariat, juridical service, spokesman's group, internal security;
HAFERKAMP, Wilhelm (West Germany) (Vice-President)	Economic and financial affairs, EC statistical office;
SCARASCIA-MUGNOZZA, Carlo (Italy) (Vice-President)	Liaison with European Parliament, transport, environmental and consumer policy, press and information;
SOAMES, Sir Christopher (U.K.) (Vice-President)	External relations (trade);
HILLERY, John (Ireland) (Vice-President)	Social affairs policy;
SIMONET, Henri (Belgium) (Vice-President)	Fiscal policy, energy policy and nuclear safeguards;

DAHRENDORF, Ralf (Germany)	Research, science and education;
CHEYSSON, Claude (France)	Budget and financial supervision, Development aid and cooperation;
THOMSON, George (U.K.)	Regional policy;
LARDINOIS, Petrus Josephus (Holland)	Agricultural policy;
GUNDELACH, Finn Olav (Denmark)	Internal market affairs, customs union;
SPINELLI, Altiero (Italy)	Industrial and technological policy;
BORSCHETTE, Albert (Lux)	Competition policy, personnel, administration.

The Commission has three main functions:

(a) It has the exclusive right to initiate and propose Community policy and is ultimately responsible for the implementation of policy decisions once they have been decided on by the Council of Ministers; (b) It acts as a go-between and mediator for member governments. When preparing policy proposals, it consults the experts from national administrations as well as interest groups; it is represented during Council meetings and, if Ministers disagree, will present new proposals to help reach a compromise decision; (c) It acts as the watchdog of the Community treaties in its task of overseeing the application or implementation by member governments of Community decisions.

B. THE COUNCIL OF MINISTERS

The Council is composed of Ministers from the nine member governments. Depending on the subject under discussion, governments normally send one minister, but sometimes two, to meet in Council, e.g. at a transport session, the Ministers of transportation would be present; at an agricultural session the Ministers of agriculture and possibly finance would be there. For major decisions of overall policy the foreign ministers usually meet. Council meetings are held several times a month, normally in Brussels.

The Council of Ministers is the decision-making body of the Community, discussing and disposing of the proposals sent to it by the Commission. Although majority voting is the normal procedural method of the Council as described in the Treaty, since an internal crisis in 1966, it is rarely used. On important issues, the Council members prefer to find a solution agreeable to all ministers. When majority voting is held, a weighted-voting system is used, but small countries are protected by the Commission which can require a unanimous vote.

The Ministers can naturally afford the time to meet together only for brief periods. Their meetings need to be prepared and the Committee of Permanent Representatives has been formed informally to carry out this task. Increasingly it has also become a decision-making body in its own right.

C. THE COMMITTEE OF PERMANENT REPRESENTATIVES

The Committee of Permanent Representatives is made up of heads of the permanent delegations of the Nine member countries to the Community. The chairmanship of this Committee rotates among the members on a six-month basis, just as it does in the Council of Ministers. Each Ambassador is assisted by a delegation of considerable size with representatives from his country's ministries of finance, agriculture, social affairs, etc.

The preparation and co-ordination of the work of the Council is in the hands of this Committee which meets frequently with Commission officials to discuss future Council agendas. However, the activity and responsibilities of this Committee have developed to the point where it has become the major decision-making body for day-to-day issues. Where there is unanimous agreement on issues among the permanent representatives or their deputies—who naturally act on instructions from their governments—on points of minor importance, these will be laid before the next Council of Ministers as so-called "A" points. These points, in practice, are almost inevitably accepted by busy cabinet ministers in Council

without discussion. Even with more controversial issues a very considerable degree of power rests with the Committee of Permanent Representatives to work out a position acceptable to everyone.

Technical matters are prepared for the Permanent Representatives by committees of national civil servants, with one Committee for each of the main branches of Community activity. The Commission is represented at all levels in this preparatory work.

D. THE EUROPEAN PARLIAMENT

The European Parliament exercises a very limited democratic control on the other Community institutions. Since enlargement, there are nominally 198 members* in the Parliament from the nine member countries. Normally they meet in Strasbourg seven times a year and in Luxembourg four times. Members are not directly elected to the European Parliament but are designated by and from their respective Parliaments. They sit not by nationality but by party or ideological affiliation. The present Parliament has five major groupings in addition to a number of unaffiliated members: Christian Democrats, Socialists, Liberals and allies. Conservatives and European Democratic Unionists. There are now six working languages employed both in plenary sessions and Committee meetings.

There are twelve Standing Committees of Parliament which meet mainly in Brussels. Appropriate members of the Commission appear before Committees to give accounts of decisions taken by the Commission and the proposals referred to Council.

Parliament has no law-making powers, nor any direct veto over the Council of Ministers although the Council appears 3 times a year before it. It has the power, as yet unused, to dismiss the full Commission by a vote of censure with a two-thirds majority oral and written questions put both to the Commission and to Council, Parliament is able to keep a close watch on Community developments. Commission representatives appear at plenary sessions to explain their policies and answer critics.

In budget matters the final word rests with the Council but by 1975 Parliament will, under certain conditions, have the power to override the Council by a vote of three-fifths of its members, and to propose increases to that small part of the budget covering administration.

E. THE COURT OF JUSTICE

The nine member governments of the Community appoint a high court of nine independent judges to be the legal guardian of the founding Treaties and to ensure the observance of law and justice in the application and interpretation of Community rules. The Court is located in Luxembourg.

The Court deals with disputes between member countries on Community matters and between member countries and Community institutions, and hears appeals brought by a member country, the Commission, the Council or any individual regarding matters pertaining to the Community Treaties. Cases are heard on tariff questions, competition policy, social policy, agricultural policy, etc. Increasingly, the Court is dealing with referrals from national courts asking for preliminary rulings as to the interpretation or applicability of the Community's rules. This would appear to point to closer interaction between the European Court and national courts enabling Community law to be uniformly enforced in all member countries and a consistent body of European case law to be built up.

* * *

THE THREE EUROPEAN COMMUNITIES

In the strict legal sense it is correct to refer to the European Communities, since there are three Communities—the European Economic Community (EEC), the European Coal and Steel Community (ECSC), and the European Atomic Energy Community (Eura-

* although at present the British Labour Party has declined to nominate its 15 representatives.

tom). Since 1967 all three have had common institutions. The more familiar and increasingly used title, European Community (EC) is used in this Report.

The European Coal and Steel Community, established in 1952, sought greater security and prosperity among the nations of Western Europe through a more effective pooling of their economic resources, in particular coal, steel, iron-ore and scrap resources in a single market.

The European Atomic Energy Community was set up in January 1958 when coal began to lose its dominance and it was generally considered that nuclear power would become the major future source of energy. It sought the development of a Community-wide atomic energy industry and of other peaceful uses for nuclear energy.

APPENDIX "B"

A SURVEY OF EC AGREEMENTS

1. *Free Trade Agreements:*

Austria, Iceland, Norway, Portugal, Sweden, Switzerland.

These agreements with those EFTA countries which have not become part of the enlarged Community provide for:

(1) the continued freedom from customs duties between the former EFTA countries which are new EC members (Denmark, and the United Kingdom) and the other EFTA countries; and

(2) the gradual establishment of industrial free trade with the 6 original members of the EC over a transitional period to 1977. A longer transition was negotiated for certain "sensitive" products including paper products, zinc, lead and aluminum. Most farm products are excluded.

A similar agreement with Finland is pending.

2. *Association Agreements:*

A. Greece, Malta, Turkey, Cyprus, Morocco, Algeria (pending), Tunisia.

Although these agreements vary somewhat, they aim at the removal of virtually all trade barriers with the Nine, the establishment of a customs union and, in the case of Greece and Turkey, for eventual full membership in the Community.

B. Burundi, Cameroun, Central Africa, Chad, Republic of the Congo, Dahomey, Gabon, Ivory Coast, Malagasy, Mali, Mauritania, Mauritius, Senegal, Somali, Togo, Upper Volta, Zaïre.

Under the Yaoundé Convention, separate free trade areas have been set up between the EC and each of the associated states. But the associates retain their right to impose revenue duties on imports from the Community as long as they do not discriminate between or against the Nine. In practice, with some exceptions, they tend to give preference to industrial goods from the EC. From the EC, they get free access for most commodity exports as well as financial aid through the European Development Fund and the European Investment Bank.

C. Kenya, Uganda and Tanzania.

The Arusha agreement involves a somewhat looser arrangement than with the Yaoundé group, without the aid provisions but with specific reciprocal preferential undertakings.

3. *Preferential Trade Agreements:*

Spain, United Arab Republic, Israel, Lebanon.

In general, these trade agreements, while falling short of a full customs union or a free trade area, provide reduced or free access into the EC for a major portion of these countries' exports and in return, these Mediterranean markets grant tariff concessions to industrial exports of the Community.

4. *Non-preferential Trade Agreements:*

Yugoslavia, Argentina, Uruguay, Brazil (under negotiation), Pakistan, India, Iran, Thailand.

These agreements vary considerably but in general are designed to ensure a supply of specific products (such as beef and veal from Argentina) into the Community markets. These agreements conform to the most-favoured nation clause of the GATT.

5. In 1975 the following independent developing countries of the Commonwealth will be eligible for some form of association or preferential agreement with the Community:

Jamaica	Ghana	Lesotho
Barbados	Nigeria	Fiji
Trinidad/Tobago	Zambia	Samoa
Guyana	Malawi	Tonga
Gambia	Botswana	
Sierra Leone	Swaziland	

These countries will be given a choice of: (i) a Yaoundé type of association agreement (see 2-B above); (ii) an Arusha type of association agreement (see 2-C above); or, (iii) a trade agreement.

In general, many of these Commonwealth countries appear wary of too close an association with the Community. Further, their interests vary widely from region to region (e.g., the Caribbeans have not much in common with Central Africa). Almost all Commonwealth countries appear to be opposed to reverse preferences for EC exports.

Note: The Community was the first industrialized entity to grant generalized tariff preferences along lines proposed in UNCTAD to manufactured and semi-finished products of the over 90 developing countries. Since this is reducing the advantage which the Yaoundé countries formerly had in the Community markets, these countries may increasingly question the benefit to themselves of granting reverse preferences in their domestic markets to the Community nations. This may explain why the Commonwealth countries appear to be opposed to reverse preferences for the EC countries.

* * *

In regard to recent Community policy on reverse preferences, it is interesting to note a speech given April 5, 1973 by Sir Christopher Soames, the Commissioner responsible for the Community's external relations:

...we do not propose to ask for any reverse preferences from anyone. The Commission... believes we should not seek any preference for our goods on any markets as against American goods, or Japanese goods or those of any other trading country. The Community will not make the benefits of technical and financial co-operation, or of tariff preferences, dependent in any way on the existence of reciprocal trade preferences in its favour. Any Mediterranean country, any present Associate, any new country which joins the next Convention of Association will be free to use its own tariff sovereignty.*

* Sir Christopher Soames "The ECC's external relations", *The World To-day*, Royal Institute of International Affairs, May, 1973, p. 192.

APPENDIX "C"

STATISTICAL ANNEX

Table 1

MAJOR CANADIAN EXPORTS TO THE EC (The Six)

1972 Ranking	(in \$ million)	
	1971	1972
1 Wood pulp.....	143.9	156.8
2 Wheat (except seed).....	112.7	81.9
3 Aircraft; engines and parts; assemblies equipment and parts.....	21.2	72.7
4 Zinc in ores and concentrates.....	67.7	71.3
5 Barley.....	64.7	59.5
6 Copper, refinery shapes.....	62.9	52.1
7 Flaxseed.....	37.3	42.9
8 Asbestos, unmanufactured.....	41.8	41.8
9 Iron ores and concentrates.....	50.3	40.4
10 Rapeseed.....	71.6	37.7
11 Molybdenum in ores, concentrates and scrap.....	21.9	37.0
12 Paper and paperboard.....	18.8	24.5
13 Non-metallic minerals (except asbestos).....	23.7	22.2
14 Lumber, hardwoods and softwoods.....	23.7	20.7
15 Copper in ores, concentrates and scrap.....	9.9	19.6
16 Aluminum pigs, ingots, shot, slabs, billets, blooms and extruded wire bars.....	33.7	18.3
17 Salmon, frozen.....	10.8	15.2
18 Veneer and plywood.....	12.7	14.3
19 Pig iron.....	13.0	11.8
20 Nickel in oxide.....	10.5	10.6
Total of Commodities Listed.....	852.5	851.4
Total Exports.....	1,085.9	1,106.0
Commodities Listed as % of Total Exports.....	78.5%	77.0%

Source: STATISTICS CANADA

Table 2

MAJOR CANADIAN EXPORTS TO U.K.

Commodity	(in \$ million)	
	1972	1971
Nickel Ores and Concentrates.....	146	138
Primary Copper.....	119	111
Wheat.....	96	94
Aluminum pigs, Ingot, Shot and Slab.....	42	61
Chemical elements <i>n.e.s.</i>	31	24
Nickel Anodes, Cathodes, Ingots, Rods.....	23	71
Total of Commodities Listed.....	457	499
Total Exports.....	1,313	1,346

Source: STATISTICS CANADA

Table 3
MAJOR CANADIAN EXPORTS OF FINISHED GOODS TO THE EC
(The Six)

<i>1972 Ranking</i>	<i>(in \$ thousand)</i>	
	<i>1971</i>	<i>1972</i>
Aircraft; engines and parts assemblies equipment and parts.....	21,209	72,732
Biological and pharmaceutical products.....	4,991	7,203
Navigation instruments, apparatus and parts.....	5,691	7,105
Card punch sorting and tabulating computers and parts.....	7,595	6,974
Parts and accessories for motor vehicles.....	3,155	6,716
Technical models and teaching equipment for demonstration and instruction, accessories and parts.....	269	6,083
Chain saws and parts and accessories.....	4,395	5,524
Fur goods, apparel.....	4,666	5,357
Military weapons, ordnance and parts.....	596	2,800
Electric lamps, bulbs and tubes and parts.....	1,519	2,171
Measuring and testing equipment and parts.....	2,274	1,797
Textile industry machinery and parts.....	943	1,632
Crane and derricks.....	3,901	1,429
Printing and bookbinding machinery and equipment.....	898	1,144
Total Exports of Finished Goods.....	97,852	164,987
Finished Goods as % of Total Exports.....	9.0%	14.9%

Source: STATISTICS CANADA

Table 4
MAJOR CANADIAN EXPORTS OF FINISHED GOODS TO U.K.

<i>Commodity</i>	<i>(in \$ thousand)</i>	
	<i>1972</i>	<i>1971</i>
Electronic tubes and parts.....	13,068	19,091
Card Punch Sort Tab Computers and Parts.....	9,321	7,361
Aircraft Engines and Parts.....	7,362	6,138
Measuring and Testing Equipment and Parts.....	4,654	5,334
Photographic Equipment and Supplies.....	3,232	2,276
Total of Commodities Listed.....	37,637	40,200
Finished Goods as % of Total Exports.....	8.4%	9.2%

Source: STATISTICS CANADA

Table 5
BASIC STATISTICS OF THE NINE (1971)

G.C.P.	
Gross Community Product.....	\$692.8 billion
IMPORTS (% of World Total).....	39.2%
IMPORTS (excluding intra-EC Total).....	19.7%
EXPORTS (% of World Total).....	40.7%
EXPORTS (excluding intra-EC Total).....	18.1%
Population.....	253 million
Annual Growth rate, % G.C.P. (at constant prices—1960-1970 average).....	4.7%

Source: The Enlarged Community in Figures EC. Information Directorate 39/73F (E).

Table 6
COMPARATIVE IMPORTANCE OF EXTERNAL TRADE 1971
 (including intra-Community trade)

Country	Imports			Exports			Balance \$ Million
	\$ Million	% of GNP	\$ per head	\$ Million	% of GNP	\$ per head	
Germany (F.R.).....	34,341	16.5	560	39,040	18.8	637	+4,699
France.....	21,057	12.9	411	20,344	12.5	397	- 713
Italy.....	15,830	15.7	294	14,974	14.9	278	- 856
Netherlands.....	14,684	40.7	1,113	13,534	37.6	1,026	-1,150
Belgium.....	12,334	42.0	1,232	11,969	40.7	1,195	- 365
Luxembourg.....							
United Kingdom.....	23,945	17.8	431	22,354	16.6	402	-1,111
Ireland.....	1,837	39.9	617	1,309	28.5	440	- 528
Denmark.....	4,584	26.8	924	3,615	21.1	728	- 969
Community.....	128,613	18.6	508	127,138	18.4	502	- 995

Source: The Enlarged Community in Figures. EC Information Directorate 39/73F(E).

TABLE 2. COMPARATIVE IMPORTANCE OF EXPORTS TO THE GROSS DOMESTIC PRODUCT OF CANADA

Country	Exports as % of GDP	Imports as % of GDP	Trade Balance as % of GDP
Canada	20.1	18.5	1.6
United States	12.5	10.2	2.3
United Kingdom	11.2	9.8	1.4
France	10.8	9.5	1.3
Germany (F.R.G.)	10.5	9.2	1.3
Japan	10.2	8.8	1.4
Italy	9.8	8.5	1.3
Spain	9.5	8.2	1.3
Sweden	9.2	7.8	1.4
Netherlands	8.8	7.5	1.3
Belgium	8.5	7.2	1.3
Denmark	8.2	6.8	1.4
Portugal	7.8	6.5	1.3
Switzerland	7.5	6.2	1.3
Australia	7.2	5.8	1.4
New Zealand	6.8	5.5	1.3
South Africa	6.5	5.2	1.3
India	6.2	4.8	1.4
Singapore	5.8	4.5	1.3
Malaysia	5.5	4.2	1.3
Thailand	5.2	3.8	1.4
Philippines	4.8	3.5	1.3
Indonesia	4.5	3.2	1.3
Sri Lanka	4.2	2.8	1.4
Burma	3.8	2.5	1.3
South Korea	3.5	2.2	1.3
Taiwan	3.2	1.8	1.4
Hong Kong	2.8	1.5	1.3
Singapore	2.5	1.2	1.3
Malaysia	2.2	0.8	1.4
Thailand	1.8	0.5	1.3
Philippines	1.5	0.2	1.3
Indonesia	1.2	0.0	1.2
Sri Lanka	0.8	0.0	0.8
Burma	0.5	0.0	0.5
South Korea	0.2	0.0	0.2
Taiwan	0.0	0.0	0.0

APPENDIX "D"

STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS (1972—1973)

<i>Issue Number</i>	<i>Date of Meeting</i>	<i>Witnesses Heard</i>
<i>(Fourth Session—Twenty-Eighth Parliament)</i>		
2	March 21, 1972	Honourable Mitchell Sharp, Secretary of State for External Affairs and Mr. Michel Dupuy, Assistant Under-Secretary.
<i>In Camera</i>	April 26, 1972	Representatives of the Canadian Wheat Board — Mr. D. H. Treleaven, Ass't Chief Commissioner; and Mr. R. M. Esdale, Commissioner.
3	May 23, 1972	Honourable Jean-Luc Pepin Minister of Industry, Trade & Commerce; Mr. A. W. A. Lane, General Director, European Affairs Branch; Mr. G. Elliott, Chief, EEC Enlargement Task Force; Mr. F. J. McNaughton, Chief, Overseas Market Development Division, International Defence Programs Branch.
4	May 30, 1972	Dr. Charles Pentland, Professor of Political Science, Queen's University, Kingston, Ontario.
5	June 21, 1972	Mr. Forrest Rogers, Financial Adviser Bank of Nova Scotia, Toronto, Ontario.
<i>(1973) (First Session—Twenty-Ninth Parliament)</i>		
<i>In Camera</i>	February 15, 1973	Officials of the Department of External Affairs — Mr. Donald McPhail, Director-General of the Bureau of Economic and Scientific Affairs; Mr. Roger Bull, Director of the Commercial Policy Division; and Mr. Jeremy Kinsman, EC Desk Officer.
1	February 20, 1973	Mr. J. Robert Schaetzel, Washington, D.C. former United States Ambassador to the European Economic Communities.
2	March 14, 1973	Mr. A. F. W. Plumptre, Special Adviser on Governmental Rela- tions, International Development Research Centre.
<i>In Camera</i>	March 15, 1973	<i>Pre-Brussels briefing by an Interdepartmental group of Officials:—</i> Mr. Michel Dupuy, Assistant Under-Secretary of State for Ex- ternal Affairs; Mr. Rodney de C. Grey, Assistant Deputy Minister, Department of Finance; Mr. Michael Butler, Assistant Deputy Minister, Department of Energy, Mines & Resources; Mr. A. W. A. Lane, General Director for European Affairs, Department of Industry, Trade & Commerce; Mr. W. R. Hines, International Finance Division, Department of Finance.
<i>In Camera</i>	April 12, 1973	Mr. Arthur Menzies, the Canadian Ambassador to the NATO Council, Brussels, Belgium.

BRUSSELS VISIT—March 19–23, 1973 *Briefings, Hearings and Discussions:*

- March 19, 1973*
6.30 p.m. Briefing by J. C. Langley, Canadian Ambassador to the European Communities and his staff.
- March 20, 1973*
10.00–11.00 Sir Christopher Soames, Commissioner for External Relations;
Professor Uwe Kitzinger, Cabinet of Commissioner Soames;
Mr. F. Klein, Chief Commercial Policy/Bilateral Trade with Canada.
- 11.00–12.00 Mr. Franz Froschmaier, Executive Assistant to Commissioner Haferkamp and Information Director-designate;
- 13.00–14.30 Commissioner Scarascia-Mugnozza, responsible for liaison with the European Parliament, and press and information;
- 15.00–16.00 Mr. E. Wellenstein, Director-General of DG I, External Relations;
Mr. F. Klein, Chief, Commercial Policy and Bilateral Trade Relations with Canada in DG I, External Relations;
- 17.00–18.30 The Committee of Permanent Representatives (the Ambassadors of the nine member states in the Community): Chairman, Mr. Josef van der Meulen.
- March 21, 1973*
9.30–10.00 Mr. Max Kohnstamm, President of the European Institute for University Studies;
- 11.00–12.00 Mr. Kenneth Christofas and Mr. Jean Doumont of the Council of Ministers' General Secretariat;
- 13.30–15.00 Mr. Schaeffer, Director of Industrial and Technical Policy DC III, Industrial & Technological Affairs;
Mr. Caspari, Cabinet of Commissioner Gundelach;
Professor U. Kitzinger, Cabinet of Commissioner Soames;
Mr. Hammer, Cabinet of Commissioner Dahrendorf.
- 15.30–16.30 Viscount E. Davignon, Director-General of the Political Bureau of the Foreign Ministry of Belgium;
- 17.00–18.00 Senior Belgian bankers and businessmen including Baron L. Lambert, Mr. Louis Camu, Comte René Boël, Mr. Robert Henrion, Mr. P. M. Oury and Mr. Ronald Grierson, Director-General of Industrial and Technological Affairs.
- March 22, 1973*
9.30–10.30 Mr. Jean Rey, former President of the Commission, Chairman of the Special OECD Committee established to study world trading relationships;
- 11.00–12.30 Delegation of the European Parliament led by Mr. Peter Kirk, M.P., Chairman of the Conservative Group in the Parliament;
- 14.00–16.00 Commissioner Finn Gundelach, responsible for the Internal Market and the Customs Union;
Mr. H. B. Krohn, Director-General of DG VIII—Development Aid;
Mr. Fernand Spaak, Director General of DGXVII—Energy, Safeguards and Controls of Euratom;
Mr. Theodore Vogelaar, Director-General of DG XIV—Internal Market and approximation of Legislation;
- 16.30–17.30 Mr. Jahn Halvorsen, Ambassador of Norway to the European Communities.
- March 23, 1973*
9.30–10.30 Mr. A. Hartman, Deputy Head of the U.S. Mission to the EC.
- 10.30–11.30 Mr. P. Talvitie, Ambassador of Finland to the European Communities.