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CANADA, THE EEC AND THE UNITED STATES

A Statement by the Secretary of State for External Affairs, the Honourable Mitchell Sharp, to the Canadian Institute of International Affairs, Toronto, 18 November 1972.

I am grateful for this opportunity to speak to you briefly about Canada's economic relations with the EEC and the United States....

The reference to Canada in the EEC summit communiqué is no accident. It is visible evidence of the success of a campaign of persuasion to which the Government has devoted a good deal of effort in the past two years particularly. The campaign has been conducted at the level of officials on a continuing basis; and... it involved a good deal of work, travel and persuasion for me and for my colleague... the Minister of Industry, Trade and Commerce.

We were conscious that, from both the political and economic point of view, the emergence of the new Europe raised questions of the first importance. For the purposes of today's discussion, I am setting aside the political considerations. But the economic stakes alone justify the most careful reflection. By 1980, the imports of the enlarged EEC from the outside world could soar to \$130 billion. Canada -- the world's fourth exporter after the EEC, the United States and Japan -- must take the Common Market very seriously. The ten countries already form what is by far the world's largest trading unit; they imported over \$70-billion worth of goods from the outside world last year. Of these \$70-billion worth, over \$2,000,700,000-worth of goods came from Canada. They represented 17 per cent of our total exports and about half of our exports outside North America, making the EEC our second-largest trading partner by a considerable margin.

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

It has not been easy to assess the cause of our difficulties in this category of exports to the EEC. Access has been a problem for a number of products, including some of interest to Canada. But this problem should not be exaggerated. By and large, the common tariff of the European Community is low. In spite of protective policies in the agricultural sector, the Community remains a large agricultural importer. Other world traders have done very well in this EEC market. Certainly the Americans have with their export of sophisticated manufactures to the EEC, although they have been helped by their massive investment in Western Europe. Much of the difficulty probably lies with our industrial structures and trading habits themselves. We can't sell too well what we don't make, obviously. For this reason, we are thinking about our general policies toward the EEC very much in terms of policies on which we are working in other areas: energy policy, investment policy, industrial policy generally -- including policy on secondary industry and policy on research and development -- and other related policy studies. Our success in realizing our own potential could well be related to some extent to the EEC's success in doing the same thing. We should develop a degree of interest in this expanding but difficult market in keeping with its potential and with what we are doing, say, in the United States market.

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

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

In recent years, we have also been trying hard to develop closer economic relations in the field of sophisticated manufactured goods. We have sent technological missions and trade missions to Europe. We have had some good results. But now I think that we shall begin to get better results. I don't know if the Europeans have had the political will in the past to make the effort necessary. They may have been inhibited by reservations about the degree to which Canadian interests were nationally distinct, and about our wish to co-operate in the future.

The Government decided several years ago that it was necessary to have no doubt in European minds on these points. Furthermore, the Canadian case had to be presented with particular persistence and force because the Europeans were understandably preoccupied with the task of internal consolidation. We had to rap firmly but politely on the table to get their attention. We had to make plain, to take only one example, that, with Britain's entry into the EEC, over 40 per cent of our 1971 exports to Britain -- trade valued at more than \$1,300 million -- would face more difficult entry. We wanted to explain that we had no quarrel with the British decision, which was for Britain to take; on the contrary, we rejoiced in the success of the EEC. But the parties to the enlargement had to understand that the burden of adjustment thrown upon Canada was greater than that placed upon any other country outside the enlarged Community. There were other issues as well. We had, above all, to change the attitude -- which for a variety of reasons had been common in the EEC countries -- that the view they took of their relations with the United States would do more or less for their relations with Canada.

In all this, we have had an encouraging measure of success. In June, a mission of senior officials held discussions with all the member countries of the EEC, as well as with Britain, Ireland and the EEC Commission. The mission found that the Europeans recognized the unique impact enlargement of the Community was going to have on Canada and welcomed Canada's constructive, matter-of-fact approach to British entry. The Europeans generally were open to a Canadian proposal that Canada and the EEC should examine the long-term development of relations, including the possibility of concluding a bilateral most-favoured-nation (MFN) agreement between Canada and the enlarged Community. There were useful discussions of what would be involved in bringing up to date the various bilateral trade and economic agreements Canada already had with member countries, to take account both of the enlargement of the Community and of its internal consolidation. The Europeans were assured that the Canadian objective was to reinforce bilateral relations with the member countries of the Community through creating an appropriate framework linking Canada and the EEC as such. The mission emphasized that what Canada had in mind would complement the GATT and other multilateral institutions, not substitute for them. It was also recognized that, since the Community was still evolving, any agreement negotiated in present circumstances would have to be flexible enough to accommodate itself to future changes in the powers of the Commission itself.

It was in part because of careful efforts like this that, when the European summit meeting took place in the autumn, the question of the EEC's relations with countries outside the Community was on the agenda. And because we had worked hard to prepare the ground, the European leaders affirmed in the summit communiqué that they wished "to maintain a constructive dialogue with the U.S.A., Japan and Canada and the other industrialized Community partners, in an outward-looking spirit and the most appropriate form". If the summit had taken place, say, two years ago, I very much doubt that it would have seemed natural to the leaders of the EEC countries to single out Canada in this way along with the United States and Japan.

I am happy to say that the constructive dialogue mentioned in the summit communiqué is continuing. A delegation of senior EEC officials will begin a four-day round of talks with their Canadian counterparts in Ottawa next week. These talks will provide an opportunity to review certain world economic problems, like inflation. They will also provide for further examination, in considerable detail, of the substance of Canada's relations with the EEC. While the talks remain exploratory in nature, it will provide some indication of how thoroughly the matter is being pursued if I list some of the subjects we have said we want to discuss. They include the possibility of negotiating a bilateral MFN agreement with the Community itself, the modernization of agreements relating to goods in transit, the question of state-purchasing policies, of countervail, cabotage, export subsidies, concessional financing, security of supplies of energy and raw materials, copyright, consumer protection, protection of the environment, standards and quality control.

These are not the only subjects we have mentioned, and the representatives of the Community will not necessarily be in a position at this stage to pursue even subjects I have listed. But there is no question that the dialogue is well and truly launched. And there is no question that it proceeds from a clear understanding on the part of the EEC Commission and of the EEC governments that the problems posed for Canada by the enlargement and consolidation of the Community merit serious and separate consideration.

Let me now turn to our relations with the United States. Here I think the present state of play may be somewhat clearer, because the Government's position has been placed on the record with considerable care in recent weeks and even days.

To begin, I hope that, if you have not done so already, you will obtain a copy of the special issue of *International Perspectives* that appeared on October 17. This issue was entirely devoted to my article entitled "Canada-U.S. Relations: Options for the Future". The article represents some of the main assessments and conclusions of a series of studies that had been in progress for about a year in the Government, to which both my Cabinet colleagues and officials of the Department of External Affairs contributed. If you wish to acquaint yourselves with the Government's basic approach to Canada-U.S. relations, I urge you to read this article.

The studies on which the article is based were begun in the mood of questioning that followed the announcement of President Nixon's new economic policy in August 1971. I shall try to summarize the main lines of its argument. In the face of the inherent pull of continental forces, the article identifies three options for Canada in the future development of our relations with the United States. They are:

- (a) Canada can seek to maintain more or less its present position in relation to the United States with a minimum of policy adjustments;
- or (b) Canada can move deliberately towards closer integration with the United States;

or (c) Canada can pursue a comprehensive long-term strategy to develop and strengthen the Canadian economy and other aspects of its national life and in the process to reduce the present Canadian vulnerability.

The first option -- maintaining the present position in relation to the United States with a minimum of adjustment -- would involve pursuing the same general trade and industrial policy to which we are accustomed. There would continue to be a large degree of laissez-faire in our economic policy. The multilateral, most-favoured-nation approach would continue to rule in trade policy. We would go on trying to get better access to United States markets, to maintain some form of special relation with the United States. Industrial development would continue to be export-oriented to a considerable degree. Exports generally would still be dominated by commodities and semi-processed goods. No doubt we should continue trying to diversify our exports while avoiding so far as possible any greater degree of dependence on United States markets. We should try also to obtain more employment in Canada through a greater degree of processing of Canadian commodities. But this would be essentially a pragmatic option. We should deal with the issues as they arose, and not concern ourselves greatly about where the broad tendency of our policy was leading us, or whether the various parts of our policy were guided by a single sense of direction and purpose.

How well would this option work for us in practice? That would depend on the relative success we had in maintaining our position in United States and other markets. The costs of this option would vary accordingly. But suppose we take an optimistic view. Suppose the United States does not turn protectionist, and suppose an open world-trading system brings Canada success in other markets as well. We might pursue this option for some time with apparent success. But the fact is that the continental pull has a momentum of its own. Therefore there is a risk that, in pursuing this purely pragmatic course, we should be drawn more and more into the United States orbit. And remember, even this is on optimistic assumptions. In appearance, we should be following a policy intended at least to maintain, if not improve, our present relative position. But in fact, we might be falling behind.

The second option would be closer integration. This could mean many things. It could mean more arrangements like the Auto Pact, confined to particular industries. These arrangements, we know, have advantages. But they create difficulties too. They could put us at a bargaining disadvantage both with the United States and with other trading partners. We might come to the conclusion that something more extensive was necessary -- a free-trade area or even a customs union. Either of these would lock us permanently into arrangements with the United States that, in themselves, might appear to be to Canada's material advantage. But would they increase our independence?

In fact, were we to pursue this option, we might be forced to the conclusion that the only way we could compensate for the overwhelming economic power of our partner would be to opt at the same time for some form of political union. In this way, we should seek to obtain maximum direct influence over the economic decisions that affected us.

I have pursued the logic of this option to the point where its difficulties will be plain to you. It has undoubted attractions in material terms. There is a sort of parallel in it to the movement towards European unity. But the parallel breaks down on examination. There is a world of difference between the internal balance which can result from economic and political union of a number of European societies, which positively desire to overcome old enmities through union, and the internal balance which would result from the union of two North American societies, one of which is so immensely powerful that the other must struggle to maintain its distinctiveness.

And all of this is without asking whether either Americans generally or Canadians generally would want union. I should not try to predict what the reaction might be in the United States. In Canada, I should expect almost any form of closer integration to arouse more opposition nowadays than proposals of this kind have in the past; and I should expect the opposition to come from all parts of the country.

The third option would be to decide that, over time, we should work to lessen the vulnerability of the Canadian economy to external shocks, especially those from the United States. Our purpose would be to recast the Canadian economy to make it more rational and more efficient as a basis for Canada's foreign trade. The basic nature of the economy would remain unchanged. The option would mean encouraging specialization, rationalization and the emergence of strong Canadian-controlled firms. Our domestic base, a prosperous nation of 22 million, should be adequate to produce efficiency in all but the most complex and capital-intensive industries. We should still depend for a great deal of our national wealth on our success in exporting goods and services. But we should deliberately broaden the range of foreign markets in which we could successfully compete. We might also find that Canadian firms could provide a higher proportion of our domestic needs -- not because we were deliberately trying to reduce our dependence on imports but simply because they were the most competitive suppliers. There would be no question of retreating from our fundamentally liberal trading policies into protection, or of abandoning the most-favoured-nation principle in trade agreements with the United States or other countries.

This option would require close co-operation of government, management and labour. It would require, as well, the close co-operation of all levels of government. Since the option involves a deliberate strategy, some degree of planning would be involved. But, considering the wide range of government involvement in the economy already, I doubt whether this option would radically alter relations between government and business. Working out the required consensus between the Federal Government and the provinces would require close consultation, but I see no reason why this need lead to friction. On the contrary, the basic harmony of federal and provincial objectives in industrial development could widen the area of federal-provincial co-operation.

Much the same could be said of the cultural dimension. The kinds of policy instrument required to support an independent and flourishing national culture already exist. What may be necessary is the extension of policies that have already proven their worth to sensitive new areas created by the age of mass communication.

These, then are the three options. Now that you know what they are, I can make some general comments on them.

First, options are not policies. They provide a framework within which policy decisions can be taken. They can give a basic orientation to policies. But they are not policies themselves. Within the limits of any one of these options, quite a wide range of different practical measures could be adopted. Depending on circumstances, quite different policy "mixes" could be consistent with the option in question. All the option gives you is the sense of direction in which you want to be heading.

Even this may overstate the case. There is a real difference between the first option on the one hand and the second and third on the other. The first is not really a strategy at all. It is reactive. It involves waiting on events. It means facing individual issues as they arise, and deciding these issues on their own merits, not in relation to some larger purpose. In this sense, it does not pretend to tell you where you are going. The second and third options, by contrast, involve choosing a goal, acting rather than reacting, and judging individual issues in relation to the goal chosen. In the case of the second option, the goal would be integration with the United States in some form; in the case of the third option, the goal would be an economy and culture less vulnerable to the continental pull.

All three options are, of course, abstractions. Like all abstractions, they tend to simplify complex matters. But the distinctions they draw between the various courses open to Canada are basically valid and useful. None of these options is a straw man, set up only for the sake of being knocked down. Nor is this a case of three alternatives, of which two are plainly unacceptable extremes and the third merely a compromise with no virtue other than the fact that it is a compromise. On the contrary, each option has a perfectly respectable argument that can be made for it. Each has to be thought through in its own right. And you will find that the article on Canada-United States relations tries to pursue the logic of each option in a detached and dispassionate way; it gives a fair picture of the implications in all three cases.

The Government has given these options careful consideration. The published article on Canada-United States relations in fact represents the distillation of a number of discussions in the Cabinet and studies by officials. This process has been going on for the better part of a year. The Government's conclusion is quite clear: our choice is Option Three. We believe that Option One, the pragmatic option, runs a serious risk over time of weakening Canada's relative position. We believe that Option Two, the option of integration, is unacceptable for a variety of reasons. In the Government's view, the best choice for Canada is Option Three: to pursue a

comprehensive long-term strategy to strengthen the Canadian economy and other aspects of our national life and in the process to reduce the present Canadian vulnerability.

The third option, then, demands some additional comments. To begin, let me repeat: an option is not a policy: it only gives a sense of direction to policies. Some of these policies already exist. Others remain to be worked out in the mutually-supporting fields of fiscal and monetary affairs, trade, competition and foreign ownership, science and culture. Under Option Three, we shall have a permanent test for each policy instrument we devise; what will it do to strengthen our economy and reduce its vulnerability? And we shall be compelled to examine each policy instrument in relation to the others, because each will be intended to support and reinforce the others. The proof of the pudding will be the kind of industrial strategy we pursue, the kind of energy policy we adopt, and so on. But the result will not be anything it would be sensible to call "Canada's United States policy". The emphasis of the third option is on Canada -- on decisions that have to be taken in this country by Canadians -- rather than matters to be negotiated with the United States. Deciding about Option Three means deciding what sort of Canada Canadians want to have. To borrow the language of the foreign policy review, it means ensuring our continued freedom to develop in our own way through a judicious use of Canadian sovereignty.

Thus the option is in no way an anti-American option. It implies no hostility to the United States. It assumes continuing friendship. Its object is to lessen Canadian vulnerability over time. This means two things: that, especially in an age of interdependence, it will be impossible to make Canada totally invulnerable to continental pressures and unrealistic even to try; and, second, that whatever success we have will be achieved not overnight but over time. So there will be no sudden break in the pattern of Canada's relations with the United States. Nor, even in the long run, will the relation cease to be unique in the world in its closeness and complexity. It is entirely consistent with this option that Canada and the United States will go on being each other's best customer by a wide margin. There may even be particular areas of our exports where the United States market will become relatively more important than is the case even today. But this will not be a factor of increased dependence; it will be a factor of the competitive success of export-oriented Canadian firms too well-established to create fears of increased Canadian vulnerability. The economic relation between Canada and the United States will continue self-evidently to be a special relation in its scale and intimacy, but perhaps less so in the sense of demanding special arrangements to ensure that it functions well.

This, then, is how the Government proposes to approach Canada's relations with the United States. Obviously I have been speaking about a complex process that could only unfold over a period of months and years. Many policy decisions will be involved. Some of these decisions have already been taken; others are matters for a relatively remote future. But some are matters of immediate concern. I think you can count on seeing this reflected in the program the Government presents to Parliament at the opening of the new session.

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