

# Statements and Speeches

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## CANADA/UNITED STATES RELATIONS

A Speech by the Secretary of State for External Affairs, the Honourable Allan J. MacEachen, to the Winnipeg Branch of the Canadian Institute of International Affairs, January 23, 1975.

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Before taking up my subject, I should like to take, if I may, a brief look at our overall approach to external relations. This will help to put our examination of Canada-United States relations in its proper perspective.

As all of you know, in 1970 the Canadian Government carried out a comprehensive review of foreign policy, the first such examination since the early postwar years. One of the most important conclusions of the review is that foreign policy is an extension abroad of domestic policy. The objectives of foreign policy must be relevant to Canadian national needs and interests if it is to attract the support of the Canadian people.

Linked with this conclusion are two major points of concern. One is the question of maintaining national unity, an essentially internal problem but with important external implications. The other is the very complicated problem of living distinct from but in harmony with the world's most powerful nation, the United States. This problem is obviously external in nature, but it has very important implications for the Canadian domestic scene. It involves our sovereignty and independence. A considerable degree of interdependence between Canada and the United States is inevitable -- and, indeed, mutually beneficial. But the problem is to manage the relationship in such a way as not to undermine Canadian national identity and independence.

Some basic facts (and I shall not go beyond basic facts) of our situation reveal the magnitude of the problem for us. Canada/United States bilateral trade *per annum* amounts to about \$40 billion. The United States provides the market for 67 per cent of our exports and supplies 69 per cent of our imports. Canada takes 21 per cent of United States exports and supplies 25 per cent of United States imports. The United States market absorbs up to 35 per cent of all the goods produced in Canada. In contrast, Canada buys less than 2 per cent of all goods produced in the United States. By the end

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of 1971, United States investors controlled 27 per cent of the assets of all non-financial Canadian corporations. In some key industries, the United States control is over 75 per cent. Canadian direct investors in the United States own less than one-half of 1 per cent of United States corporate assets.

It was figures of this kind that had been with us for a long time that had brought home to us the need to reconsider our relations with the United States in order that we Canadians might determine where we should be going. And this process got under way at the beginning of the Seventies. The economic measures adopted by the United States in August 1971 gave special urgency to this need. Consequently, we undertook a comprehensive reassessment of Canada-United States relations.

We considered three options:

- (1) maintenance of the *status quo*;
- (2) closer integration with the United States; and
- (3) strengthening of the economy and other aspects of national life in order to secure our independence.

The decision was taken to adopt this third alternative, usually referred to as the Third Option. With it we have chosen to develop a comprehensive, long-term strategy intended to give direction to specific policies and programs, which will reduce Canadian vulnerability to the magnetic pull of the United States.

Before I discuss what steps we have taken so far to carry forward this decision, I wish to deal with some of its implications. They have been discussed on previous occasions, but their importance merits repetition. This policy does not entail protectionism or isolationism. On the contrary, it really means a greater involvement for Canada in the rest of the world. It is definitely not anti-American. The decision to adopt the Third Option was taken in the knowledge that our links with the United States represent our most important external relationship. The effect is to strengthen these links, by developing policies that contribute to Canadian maturity and self-confidence, and thereby remove those irritations in Canada that could, if not dealt with, manifest themselves in anti-American feelings.

But what have we done so far to reduce Canadian vulnerability to continentalism? The logic of the situation suggested that we

should diversify our interests and deepen our relations with other countries, especially with those that, by virtue of their own power, could help to serve as counterweights to the pull of the United States. Canada does not have global responsibilities in the same sense as the United States, but we do have world-wide interests and a growing capacity and need to promote these interests. We have, accordingly, sought to strengthen Canada's relations, particularly with Europe and Japan.

There have been substantial contacts between Canadian and Japanese political leaders and officials across a wide range of fields -- agriculture, science and technology, atomic power, minerals and energy. In 1973-74, our foreign ministers met twice, while in 1974 our prime ministers met in Paris and in Ottawa. The objective of all these activities was set out in the communiqué issued at the end of the last prime ministerial meeting in Ottawa in September. The prime ministers agreed that "Japan and Canada would make constant efforts to cultivate, expand and enrich further their co-operative relationship in political, economic, cultural, scientific and technological and other diverse fields, thereby placing the relationship on an even broader and deeper basis".

Europe is the other principal centre of gravity with which Canada hopes to strengthen relations. A concerted effort is being made to develop relations with the member countries of the (European) Community and also with the Community as a distinct entity. Since 1972, there have been many exchanges at all levels between Canada, the Community and its member countries. These culminated in the visit of Prime Minister Trudeau to Paris and Brussels in October 1974. He will be returning to other European capitals in March of this year. One objective is to broaden and deepen our bilateral relations in as many fields as possible with these countries. Another objective is to negotiate some form of contractual link between Canada and the Community. For our part, such an arrangement would constitute recognition of Canada as a distinct political, economic and social entity in North America. Links with the Community having a potential for development would help greatly to meet our objective of diversifying our involvement abroad.

But, having said all this, I must insist on one central point: our effort to diversify our relations means that we seek not to supplant but to supplement relations with the United States. Indeed, it is obvious that relations with the United States will remain the most important that this country possesses. Our purpose is to strengthen Canada in order to create a more balanced, a more reciprocal and thus a healthier relationship between two independent partners.

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What we have witnessed since the early Seventies has been the ending of one era and the beginning of a new period in Canada/United States relations. The change involved the ending of the "special relationship" between Canada and the United States. What are the factors that produced this change and what are the distinguishing characteristics of these two phases in Canada/United States relations?

The earlier period began with the Second World War and continued to the early Seventies. It saw the United States and Canada thrust to the forefront of the world stage -- the former as the leader of the West and the latter as an important military and political ally and economic power. This was the period of close political and military co-operation, and increasing economic and cultural interaction. Co-operation in defence was marked by a series of agreements running from the 1940 Ogdensburg Agreement, which established the Permanent Joint Board on Defence, to the 1958 North American Air Defence Command Agreement, which established an integrated anti-bomber defence in response to the Soviet threat. In the economic field, the pull of continentalism was magnetic. There occurred that phenomenon with which we are all too familiar -- the rapid expansion in United States control and development of Canadian industry, particularly in the extractive industries like mining and petroleum. The cultural penetration of Canada through television, radio, films and publishing during this period was also heavy.

But, while United States influence on so many aspects of Canadian life was growing during this period, changes in the international environment, within Canada and especially Canadians' perceptions of their national identity and independence, were also occurring. These developments were eventually to lead to a change in relations with the United States.

This new feeling of being Canadian is reflected very sharply in the economic field. The issue is our economic independence. I have already cited figures showing the degree to which we are dependent on the United States in trade and investment. A cross-section of various polls taken in Canada in 1972 indicated that 88.5 per cent of Canadians thought it important to have more control over our economy and that two of every three Canadians considered the then level of American investment in Canada too high. This growing preoccupation with the economic vulnerability of Canada was greatly increased with the introduction of the United States economic measures of August 1971. Although they were global in impact, their effect in Canada was great, in part because of the high concentration of our trade with the United States and the affiliated structure of

our industry. Clearly, no country concerned with its independence could accept passively a situation in which it found itself so exposed to a major and unexpected change in the terms of its economic relations with a powerful neighbour.

In the economic [*sic*] field, there emerged a renewed concern for the development and preservation of our national cultural identity. Canadians became increasingly disturbed by the pervasive influence of American cultural penetration. At the same time, we witnessed a burgeoning of activity in all the arts -- theatre, literature, ballet, painting, and sculpture, films and music -- that has been unparalleled in our national history. Winnipeg is one of the leaders in these cultural developments. They are a marvellous manifestation of the "Canadian fact", and of our determination to establish our cultural identity and independence.

In the defence field, continuing improvements and technological changes in nuclear-missile and radar detection systems tended to cause the Soviet bomber threat to North America to recede. Consequently, the momentum towards more closely integrated and structured defence arrangements abated and the relative importance of the Canada/United States defence relationship levelled off in the late Sixties. Although circumstances are changing, Canada remains committed to co-operation with the United States, and to our NATO obligations and to the policy of collective security.

In the field of foreign affairs, Canada launched certain new initiatives. We moved to recognize China. In the new atmosphere of *détente*, we extended the range of our relations with the Soviet Union and Eastern Europe. And, as I have already indicated, we sought new openings to Japan and to Western Europe. We also took fresh initiatives in dealing with such global problems as marine pollution and the law of the sea. In those various ways, Canada responded to new realities in the international environment and to new perceptions of our national interest.

There have also been certain changes on the American side affecting Canada-United States relations of which we must take note.

The early Seventies witnessed a major change in United States foreign policy, a shift from global leadership to a more diminished role in the international community. President Nixon's address to Congress in May 1973 on United States foreign policy for the 1970s took note of this change. He said:

"The American people had supported the burdens of global leadership with enthusiasm and generosity

into the 1960s. But, after almost three decades, our enthusiasm was waning and the results of our generosity were being questioned. Our policies needed change, not only to meet new realities in the world but also to meet a new mood in America. Many Americans were no longer willing to support the sweeping range of our postwar role. It had drained our financial and especially our psychological reserves."

In short, President Nixon indicated that the time had come for others to share a greater portion of world leadership.

His statement also reflected the growing feeling of Americans that United States policies should serve more immediate and domestic interests. This feeling applies to Canada as well as to other nations. In the United States, a view was taking hold that the "special relationship" has worked too often to Canada's advantage. It is maintained that it has involved accommodations to Canada that are no longer tenable in the light of current economic realities and in the light of the changing United States leadership role.

Linked with this change in external posture are changes in the domestic scene. (I am talking about the United States.) There is increasing public concern with domestic issues as opposed to foreign problems. The long preoccupation with Watergate has passed and the United States Administration and Congress have begun to concentrate upon a broad range of domestic problems. Their priorities seem to lie in the direction of reinvigorating the economy, combating inflation, and re-establishing a sense of purpose and direction in the country. Faced with serious economic problems at home, it is almost inevitable that the Americans will tend to calculate their national interest more narrowly in their foreign economic relations. The economic measures of August 1971 furnish one notable manifestation of this attitude. In addition, Canada cannot forget that certain of the American domestic economic problems have, in our increasingly-interdependent world, Canadian dimensions. Energy, natural resources and the environment are but three areas in which American efforts to meet their own needs can obviously impinge on Canadian interests. Consequently, the American preoccupation with their own domestic difficulties has important implications for Canada, particularly at a time when we are defining our industrial and foreign investment policies.

The fact is that, in both Canada and the United States, there has been a growing awareness that the special relationship no longer

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serves either of our best interests. What is being developed is a more mature relationship. It is one that permits us to maintain close ties, to co-operate fully on bilateral and multilateral matters, is of mutual benefit, and yet leaves each country free to pursue its national interest consistent with its international obligations.

It is plain that Canada and the United States have entered on a new period in their bilateral relations. It is one in which the emphasis is on a clear-eyed appreciation of the national interest and in which there is no room for false assumptions or illusions. Each government will have to make hard decisions in line with its own perception of the national interest -- decisions with which the other may find it difficult to concur.

On the oil-export issue, we feel we have demonstrated our willingness to assist the United States as far as possible consistent with our own national needs. There were strong objections from some quarters in the United States that American interests were being abused. But we could not be expected to sacrifice our own needs to meet the oil-consumption requirements of the United States. I might add here that, at least with respect to the oil-pricing issue, recent United States action would appear to have gone a long way towards removing this irritant. Similarly, Canada's desire to develop mineral resources at its own pace and to encourage further processing before export is not necessarily in accord with American interests, which appear to tend towards the rapid exploitation of known resources, accelerated exploration of new resources and increased imports of resources in their raw form.

Yet the two countries are becoming increasingly interdependent and the issues between them accordingly greater in number and complexity. In these circumstances, relations are likely to become more, not less, difficult. As interaction increases, conflicts of interest and differences of view are bound to develop. Both governments are becoming increasingly involved in a wide range of domestic social and economic activities many of which turn out to have foreign-policy implications. For example, two years ago federal financial assistance was extended under the DREE program to the Michelin Tire Corporation to locate in Nova Scotia. This was regarded in the United States as an attempt to subsidize an export industry, and as a consequence the United States applied countervailing duties on this Canadian export. This is a striking example of how a domestic program, in this instance one designed to remedy regional economic disparities, can become an issue in our relations with the United States.

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Although this new period in our relations with the United States will be complex and at times difficult, our approach to it should be positive. The fact is that, fundamentally, the relationship is a healthy one. We must remember that Canada and the United States continue to share similar views, and co-operate closely, on a whole range of important international issues. Our perceptions of what the new political and economic international environment requires have many points in common. Also we are each other's best friend by choice and circumstance, and we shall remain so.

To respond to this new situation, there is a new pattern developing in the management of our relationship, which, in my view, will help to promote harmony and is in keeping with the new character of that relationship. It consists of analysis of the particular national interest to be served, followed by consultation, discussion or negotiation with a view to reaching a mutually-acceptable settlement of the particular problem. One of the most important ingredients in this process is that of regular consultation and discussion.

In this connection, I want to emphasize the importance of advance consultation. It seems to me that the sensible way of doing business is to notify the United States whenever possible of our intentions in advance of our taking major decisions on matters affecting United States interests and, where appropriate, to provide an opportunity for advance consultations. Naturally, we should expect the United States authorities to treat us in the same way whenever they were about to take action that would affect our interests. This practice corresponds to the more mature and complete stage that our relationship has now reached. It would help to diminish fears and misunderstandings on both sides. In short, it is an important way of keeping our relations with the United States in a healthy condition.

I should like to discuss briefly one outstanding issue between Canada and the United States that shows how our new relationship should be managed. It concerns a project of particular interest to this province -- the Garrison Diversion.

The Garrison involves, as you know, a huge complex of canals, dams and reservoirs designed to irrigate some quarter of a million acres in North Dakota with water from the Missouri River system. The problem for Canada arises from the fact that, as currently envisaged, the return flows from the irrigation project will drain primarily into the Souris flowing northward into Canada and also into the Red River. The potential consequences of this are serious. We

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should be faced with increased flooding and with the prospect of large-scale pollution that would cause damage to health and property in Canada. Because of this, Canada has raised objections to the project on the basis of the Boundary Waters Treaty of 1909, which provides that neither country will pollute waters flowing into the other to the injury of health or property.

Since 1969, the Governments of Canada and the United States, as well as the governments of Manitoba and North Dakota, have exchanged information and held numerous discussions on this issue. We have particularly welcomed working closely with the government of Manitoba on this subject and have appreciated the continuing support and participation of the Manitoba authorities in our dealings with the United States. I think this issue provides an excellent illustration of federal-provincial co-operation in dealing with an international problem.

At the technical level, the enormous amount of information exchanged has meant that the Canadian authorities have been kept fully informed on all technical aspects of the project, including its timetable and progress. The United States side has been kept fully informed of the technical analysis that supports the Canadian case against the project. At the political level, the various exchanges have kept each side fully aware of the other's intentions, strategy and concerns.

What has been the value of this practice of regular consultation and exchange of information? It has allowed a fluidity of approach to the positions of both sides that has meant that the hardening of positions on considerations not central to the issue involved has been avoided. It has also precluded the kind of conflict that can arise when positions are taken on the basis of misinformation. The tactic of confrontation at the political level has been avoided. The political position of both parties depends on answers to highly technical questions of water-quality, water-management and agricultural techniques. If confrontational tactics had been indulged in, the whole issue could have escalated to the political level long before the essential technical work had been done and a political deadlock with little room for manoeuvre could have resulted. It is also worth noting that those portions of the project that directly affect Canada have not, so far, been constructed.

Another kind of issue on which progress has been made with the United States is the problem posed by the United States Trading With the Enemy Act, and in particular the United States Cuban Assets Control Regulations administered under the Act. This act, which can deter Canadian companies that are subsidiaries of United States

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firms from conducting normal export business with Cuba, clearly has extraterritorial effect. You will be aware of the recent cases illustrating this problem. Although Canada is not the only country affected, the extent of United States business in Canada makes it a particular factor in Canada/United States relations. Clearly, Canada cannot accept extraterritorial application of the laws of any other nation.

This problem has been discussed periodically by successive Canadian and United States Governments without a resolution satisfactory to Canada. If consultation is to be used in this instance as I think it should be, it would be our objective that the outcome would be that the companies doing business in Canada would not be deterred by United States law or by corporate policy made in the United States from doing normal export business. Indeed, I have initiated discussions with the United States authorities with a view to finding a satisfactory solution to this problem.

You will be aware that amendments to the Auto Combines Investigati Act are currently before the House of Commons. When passed, these amendments will enable the Restrictive Business Practices Commissi to issue directives prohibiting Canadian companies from obeying foreign laws and orders.

It is our hope that this will solve a large part of the problem. What is needed, in addition, is a change in United States law and practice so that Canadian companies will be able to pursue normal export business in a manner consistent with Canadian law and polic

To sum up, we are in a new stage in our relations with the United States. These relations are fundamentally sound but there can be no doubt that this new phase will be more difficult and complex. Hence the need for careful management of our relations by both parties is greater than ever. It is for this reason that I want to conclude with a strong plea for the merits of the consultative approach. For Canada, it is, after all, the only sensible way to conduct business with the United States, the first among all our partners.

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