

STATEMENT DISCOURS

SECRETARY
OF STATE
FOR EXTERNAL
AFFAIRS.

SECRÉTAIRE
D'ÉTAT AUX
AFFAIRES
EXTÉRIEURES.



87/17

Notes for an address by the
Right Honourable Joe Clark,
Secretary of State for
External Affairs, to the
Commonwealth Club

SAN FRANCISCO

March 20, 1987

OTTAWA

March 24, 1987.

Many Californians will be aware that the American Ambassador in Tokyo has, for some years, been the former Chairman of the Senate Foreign Affairs Committee, Mike Mansfield, of Montana. Anyone who has heard him speak on the subject of Japan-USA relations will know that he has coined a phrase which has become legend:

"The relationship between the United States and Japan is the most important bilateral relationship in the world - bar none!"

I am an Alberta neighbour, and admirer of Mike Mansfield, but want to challenge that statement. The most important bilateral relationship for the United States is not with Japan but with Canada!

Let me point out some facts:

- The United States exports to Canada more than twice what it exports to Japan, yet you bought almost ten percent more from Japan last year than you did from Canada.

Between 1982 and 1986, when all USA overseas sales grew by less than two percent, sales to Canada grew by forty-five percent.

- Canada is your largest export market taking fully twenty percent of USA exports.
- Fully one quarter of American foreign investment is in Canada and has contributed to a substantial USA surplus in services for decades. Last year it was \$8.3 billion.
- Canada is the only country between you and the Soviet Union over the Pole and we have shared formally in the defence of the Continent and Europe since the Second World War.
- We are a stable, reliable, continental supplier of your vital energy needs. Last year, your own PG&E marked the 25th year of uninterrupted delivery of clean, Alberta natural gas to this very city. Indeed, last year, Canada supplied

about 21 percent of California's natural gas needs.

- Each year, more than seventy million persons cross our border and you have never needed a passport to come to Canada.

One of the reasons that so many Americans see Japan as a more important partner for the United States is because the Canada/USA relationship is so close you take it for granted.

We don't, because a neighbour ten times our population is hard to ignore.

But you do - and I come today - with respect, as we Canadians say - to say you stop taking Canada for granted, because our friendship is as important to you as it is to us, and it has reached a point where some critical decisions have to be taken.

Just so there is no danger of my being misunderstood, let me remind you that one of the principal criticisms, in Canada, of our government is that we are too friendly with the United States. Before his election as Prime Minister, Brian Mulroney said that his attitude, in a controversy, would be to give the United States the benefit of the doubt. That benign undertaking ignited a genuine hullabaloo - but it has been our practise as a government, and it will continue to be.

Assume, for the sake of argument, a different attitude on the part of Canada. Assume we refused to cooperate in northern warning systems against potential Soviet attack. Assume, as a matter of deliberate policy, we confiscated American investment in Canada, or instituted visas and long cross-examinations for every fisherman or tour bus that crossed our borders. Assume that, instead of supporting you in Libya and helping your Embassy hostages out of Tehran, we used our position as your neighbour to put the worst possible interpretation on your every domestic controversy and international initiative. Assume, for the sake of argument, that your neighbour, along 5000 miles of strategic border, was some country other than Canada - any country other than Canada.

A dichotomy in our relation is that your every action is front page news in Canada, but our vital interests are barely noticed here. Of your neighbours, you pay far more attention to Nicaragua than to Canada. Let me say that we do not want the kind of attention you give Nicaragua.

And we recognize that it would be within your power to respond punitively and forcefully to any of the Canadian actions I have just hypothesized. It would be within your power, but not in your interest - profoundly not in your interest. Your interest, as ours, is in building upon the genuine friendship that flourishes on both sides of the forty-ninth parallel, and there is a unique opportunity to do just that.

Your President, and his Administration, have demonstrated a genuine interest in improving relations between Canada and the United States. President Reagan has taken tangible actions - some of them of historic consequence. In the last week alone, your officials agreed to a change in reporting trade statistics that will end a deep bias against Canada - and President Reagan has announced unprecedented action to fight the acid rain that we believe is so lethal to Canada and, indeed, to the USA.

The President has also - consistently, and most recently in the State of the Union address - personally encouraged the pursuit of a new trade agreement between Canada and the United States. At the leadership level, in both our countries, the atmosphere has never been better for making real progress together.

But presidents and prime ministers can't make history alone. They need the active support of citizens who share their conviction. For relations between Canada and the United States, the next ten months will be crucial.

One reason is trade. We have launched an historic initiative to negotiate a new trade arrangement between our two countries - to further reduce, or eliminate the tariffs that remain; to find better ways to deal with the rush of new non-tariff barriers; to expand our access to one another's market; and, not incidentally, to provide a model of trade cooperation to a world imperilled by protectionism.

We have launched that at a time when protectionism in your own country is becoming more pronounced. We have persisted despite tariff and countervail actions, by the United States, which have generated anger and anxiety in Canada, and resulted in economic consequences which are harmful to us both. A year ago June, you imposed a tariff on cedar shakes and shingles from Canada, an unbound item under the General Agreement on Tariffs and Trade. The result, in your country, is that the price of logs has gone up, and the price of shingles has gone up; but there is not one iota of evidence that employment in your shakes and shingles industry has gone up. You struck out at us - and you hurt us - and you hurt yourselves. In our country, there were two results. People who don't like the United States had a new excuse to attack you, and all your works, including the trade negotiation with Canada. And we, left with no other response, imposed our own retaliatory tariff, on other unbound items, which we removed last month, because they hurt us as much as they hurt you.

The lesson here is not the futility of tariffs. The lesson is that, even with the best will by governments, there are pressures in both our countries that can frustrate, and potentially defeat, initiatives which would bring great benefit to us both. If you believe in better trade relations with Canada, or better trade relations with the world, you cannot take these current negotiations for granted. You cannot assume they will succeed because they are sensible. They need active support in every state and region in your country as well as in your White House.

I mentioned the trade statistics earlier. Let me add two comments about them.

The old system of reporting was wrong, last year, in the order of eleven billion dollars. Your preliminary statistics reported a Canadian surplus on merchandise account of twenty-three billion dollars; the accurate figure is closer to twelve billion dollars. But the true figures never catch up to the false ones, and your government has now agreed to changes that will give a true picture from the beginning.

My second point is that our surplus on merchandise trade is nearly balanced by your surplus on services. Until 1983, that resulted in an overall U.S. surplus on current accounts. In 1986, Canada had a current account surplus of four billion dollars - that represents only two percent of our total bilateral trade for 1986.

A trade negotiation is not really about balances - it's about volume and variety. Of course a 170 billion dollar trade deficit is alarming to you, but only four billion of that deficit comes from trade with Canada, and your quarrels with other countries should not blind you to the advantages of improving the best trading relationship that you have. We have new opportunities, in our mutual interest, to strengthen permanently the economies of both our countries, and to break the trail for other countries, in the GATT negotiations, in the way we deal with new issues, like services, and trade-related investment. In addition, a success here would be a signal to a world increasingly threatened by protectionism - a signal that there are better ways than barriers to meet the modern challenges of trade. Canada and the United States did that before, when the world was gripped by depression. Half a century ago, a trade agreement between President Roosevelt and Prime Minister King set the basis for what became The General Agreement on Tariff Trade - the GATT - set the basis, in other words, for the prosperity the world has known ever since. And they did that in darker days than these.

Canada is not asking for some kind of exemption, some kind of license to poach in the US economy. We know that you have a real concern about your skyrocketing trade deficit. We know the political pressures to attack this problem with protectionist measures in Congress. But you didn't build the strongest economy and the highest standard of living by hiding your talents behind artificial barriers. You built that enviable record by being better - by being able to compete. Sure, the world is changing. The response is not to hide from it and turn inward as too many in both our countries advocate. History has taught us that that approach is the road to disaster. History has taught us that a major cause of the Great Depression was a world-wide surge of protectionism. Frankly we are alarmed when we count the number of protectionist bills lined up in Congress for action or watch the development of your trade bills. That's one of the reasons we initiated these negotiations. We want a clear set of rules. We both need a system to ensure that neither country is penalized. A system that will ensure a fair and impartial method of resolving disputes under agreed rules. If our two countries cannot work out a deal in these two areas - two countries with the largest trading relationship and probably the closest ties of any in the world - your country will have little or no chance of working it out with the rest of the world. The window of opportunity is open now for our neighbouring nations to conclude an historic pact. A pact which could set new rules in new areas of international trade. A pact which could pave the way for international

agreements. It would be tragic to see this chance pass by because the apostles of protectionism carried the day, either in the United States or Canada.

For our part, this is not an isolated initiative. I sat late into the night in Punta del Este working out the language of the Declaration launching the Uruguay Round - insisting particularly that it cover trade in agriculture. The Mulroney Government is giving a new high priority to trade across our western ocean, to Asia and the Pacific. The Prime Minister led trade delegations last year to Japan, Korea and China, and we have opened new trade offices in Osaka, Shanghai, Bombay and New Zealand. We were determined to bring the best out of the Canadian economy, and so have replaced the Foreign Investment Review Agency (FIRA), and the National Energy Program (NEP), and registered three consecutive reductions in our national deficits. Those are other elements of the strategy of economic strength, of which the trade initiatives are part. Naturally, any initiative in trade must include our best efforts to improve our access to our largest trading partner.

Our relationship, of course, goes well beyond trade. We are the two North American partners in the North Atlantic Treaty Organization and, two years ago, signed an agreement launching cooperation in the North Warning System, on this continent. As all governments do, we face fiscal restraint, including on defence expenditures. But even in that context, we have increased our commitment to Europe by twelve hundred troops, taken the decision to procure a state-of-the-art low level air defence system for our forces in NATO and re-equipped the Canadian air group with the CF-18 fighter aircraft.

Since 1958, NORAD has given both Canada and the United States an integrated command structure providing for early warning of air attack, air defence, surveillance of space and early warning of ballistic missile attacks. The NORAD agreement, embodying this unique cooperative arrangement, was renewed for a further five years at the March 1986 Washington meeting between the President and the Prime Minister.

We are now embarked on the first thorough review of Canadian defence policy in sixteen years, to identify the best way we can defend ourselves and our allies and our values, in an age when the success of arms control negotiations might actually increase the cost of defence. The question is not whether we meet our commitments in NATO and North America, but how we do that most effectively.

That review, and our cooperation, become even more important as we draw nearer to progress in the Geneva negotiations. Mr. Gorbachev has removed the linkage between Intermediate Nuclear Force and Strategic Defence Initiative, and Mr. Reagan submitted a detailed draft treaty on Intermediate Range Missiles. Complex questions remain - of verification; the accounting of other weapons; the location of weapons that might remain. But there is real progress - and, if that leads to changes in the configuration of nuclear missile deployment in Europe, it has two inescapable consequences for our two countries. First, in conventional arms, we will face either the cost of building up our conventional forces in Europe, or the urgency of negotiating Warsaw Pact reductions that result in better balance. Second, with reductions in intermediate range missiles, the strategic importance of bombers and cruise missiles increases. That, in turn, increases the importance of Canada's north and focusses attention on the need, and expense of preventing attack there. So factors that lead toward a more secure world increase the obligations of NATO's partners on this continent.

Realizing some of these consequences, Canada has both increased our military attention in our north, through the modernization of the North Warning System, and asserted our sovereignty over our land and ice and territory. We are building the world's largest ice breaker, so we can exercise the dominion we claim in our northern waters. We've extended our base lines, and indicated our willingness to defend our claims, if challenged, before the International Court of Justice. We've initiated discussions with your authorities to seek an agreement that respects our sovereignty, and your security interests. I hope that work succeeds, because this question is important enough to us that, if discussions fail, we will take the question to the International Court.

Let me take a moment, in conclusion, to express our satisfaction of the fact that progress is being made in another essential dimension of our relations - our respect for the environment. We have, in Canada and the United States, a lot of environment, and for most of our national lives we have assumed that our air and our lakes and our wildlife were a constant. We know better now. The Rocky Mountains, in my home province of Alberta, are scarred by early mining operations that affected the water flow, that led to drought and crop loss in our green lands. Lakes in the beautiful Muskokas of Ontario are dying gradually, victims of acid rain. In the far north, where the ecology is often fragile, the traditional foraging grounds of the caribou and the livelihood of the natives who hunt them are threatened by various proposals for development.

Years ago, our two countries established the International Joint Commission to deal with problems relating to transboundary water flows, and that has worked remarkably well. Since 1979, there has been growing concern about the transboundary effects of acid rain. The problem was seen with different urgency on different sides of the border, and a former Canadian Government broke off discussions in frustration. Prime Minister Mulroney renewed those talks on acid rain with President Reagan. The first tangible result was a joint report by two envoys, Drew Lewis and Bill Davis, which spelled out how we can start the joint reduction of acid rain emission. In Canada, we have been acting to reduce by 50 percent our 1980 acid rain emissions levels by the year 1994. In Washington, on Wednesday, the President announced specific new measures, including seeking 2.5 billion dollars of new funding, to fight the emissions in your country. Mr. Mulroney called the President's announcement "welcome news for Canada" - and it is an indication that, at the leaders level, there is an indication that, at the leaders level, there is a determination to work together constructively across the wide range of issues - economic, environmental, our common defence of freedom - which make the relationship between Canada and the United States the most important bilateral relationship in the world - bar none.