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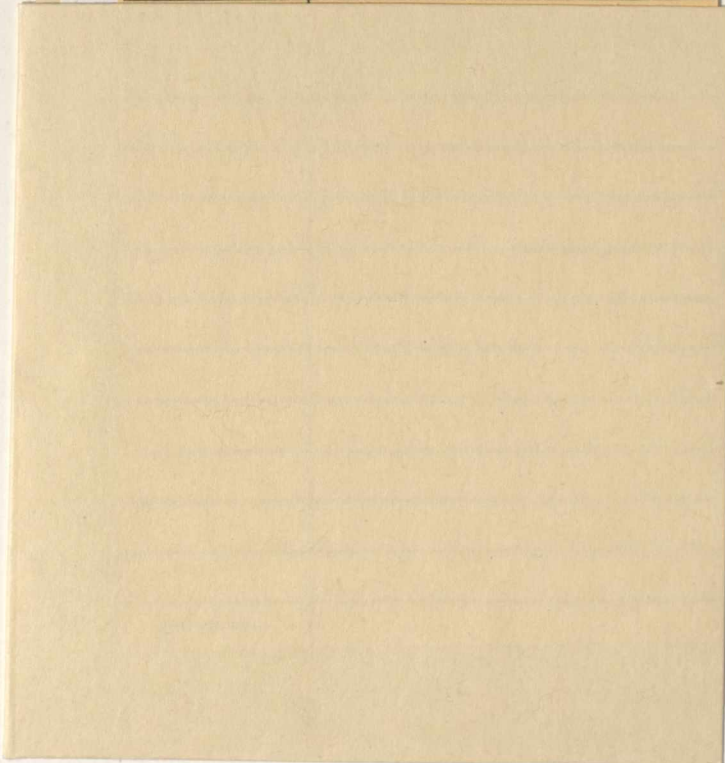
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FIRST SESSION—TWENTY-NINTH PARLIAMENT

1973

THE SENATE OF CANADA
PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 1

TUESDAY, FEBRUARY 20, 1973

First Proceedings Respecting:

**Canadian Relations with the Expanded
European Communities**

Note: During the past session, four Proceedings were printed
respecting this subject.

(Witness:—See Minutes of Proceedings)



FIRST SESSION—TWENTY-NINTH PARLIAMENT

THE STANDING SENATE COMMITTEE
ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*
and

The Honourable Senators:

Bélisle	Macnaughton
Cameron	McElman
Carter	McNamara
Connolly (<i>Ottawa West</i>)	Nichol
Croll	O'Leary
Deschatelets	Rattenbury
Lafond	Sparrow
Laird	van Roggen
Lapointe	Yuzyk—(20).

Ex Officio Members: Flynn and Martin

(Quorum 5)

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Order of Reference

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.

Minutes of Proceedings

Tuesday, February 20, 1973.

(3)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 10.30 a.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Bélisle, Cameron, Carter, Connolly, Flynn, Grosart, Lafond, Lapointe, Macnaughton, McNamara, Rattenbury, Sparrow and Yuzyk. (14)

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee; and Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade.

The Chairman welcomed to the Committee meeting His Excellency Marcel Rymenans, Ambassador from Belgium to Canada.

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

Witness: Mr. J. Robert Schaetzel, Washington, U.S.A. Former United States Ambassador to the European Economic Communities.

At 12.45 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Tuesday, February 20, 1973.

The Standing Senate Committee on Foreign Affairs met this day at 10.30 a.m. to examine Canadian relations with the expanded European Communities.

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

The Chairman: Honourable senators, before opening the proceedings, may I say how very pleased we are to welcome to this meeting the Ambassador of Belgium, His Excellency H. E. M. Rymenans. Thank you, Mr. Ambassador, for coming.

We are very pleased to welcome to the meeting this morning a distinguished American expert on ECC affairs, Mr. J. Robert Schaetzel. Mr. Schaetzel recently retired after spending the past six years as US Ambassador to the EEC. During these six years his position was made more challenging by the increasing controversy and friction between the Community and the United States. But in Brussels, I am told, Mr. Schaetzel had a reputation as a tireless and effective worker in sorting out these difficulties and in trying to improve the dialogue between the Europeans and the Americans.

Although he has left Brussels and also has left the American Government after 30 years of service, Mr. Schaetzel is still very much concerned with ECC matters. He has been commissioned by the U.S. Council on Foreign Relations to write a book on what American policy to the EEC ought to be, and he is simultaneously working under a grant by the Ford Foundation in areas related to the EEC. Because he is so well informed in this field, Mr. Schaetzel is in demand as a lecturer on EEC matters, so we are very grateful that he could fit in a trip to Ottawa en route to Chicago tomorrow to speak to the Chicago Council on Foreign Relations.

Mr. Schaetzel, our usual procedure is to ask the witness to make a brief introduction, after which the senators would like to question you. Senator Macnaughton, whom you have already met, will be the lead-off questioner today, and the chair will recognize the various senators as they indicate their desire to question you. You are very welcome, sir, and thank you very much for being here.

Mr. J. Robert Schaetzel, former United States Ambassador to The European Economic Community: Thank you, Mr. Chairman. As I said to your minister, Mr. Sharp, a few moments ago, and to your chairman, I was glad to do this when Mr. Dobell approached me, but I also became grateful after I got into it for two reasons: first I might not otherwise have read your proceedings of 1972, which I found very instructive and encouraging; and secondly,

I might not have had the advantage of the perspective that this occasion gives me to free myself, to some extent, of the obsession of concentration on American-Community relations, which I would suggest, at the moment is a rather unwholesome exercise.

I would also, if I might, commend this committee for what you are doing, and I only wish that the American Congress would engage in a similar enterprise to try to find out what is going on and where it is all leading.

I should like to make one other point, if I may, having read your record and having thought about the problem, a point that came up frequently among the witnesses appearing before you, which is the degree of common interest which Canada and the United States have in relation to this new phenomenon.

What I intend to do in these opening remarks, Mr. Chairman, is to make a few observations based on my reading of your 1972 record; and then, since you have cast me in the role of an expert, which is a very dangerous and largely unprofitable role, I shall be glad to answer questions, and I shall try to be clear on something which is terribly important. I say this because I am afraid you may ask me questions, the answers to which may carry a great deal of obscurity. I say this because it may involve the difference between my personal views and American policy, which do not necessarily coincide. Therefore I shall make some effort in this regard, but if you have any doubts, please ask me, because we have enough obscurity in this world without my contributing further to it.

From your record, honourable senators, you are puzzled, as, indeed, are most of us, as to what the Community is, what it wants to be and what it might become. If it gives you any satisfaction, the Europeans do not know either. There is a point Mr. Sharp made that I would underscore, and that is about the political content and the political impulse behind the Community. This was its original incentive; this really is what the whole process is about today; and to ignore this is to ignore something which is fundamental to any comprehension of the whole process of European unification.

In economic terms, the reality of the Community is its size and the influence that size brings to bear for good or ill. It is manifestly an imperfectly organized body, and it does not fit any political framework with which any of us is familiar. It is obviously much better organized in some areas than others, for instance, in its capacity to carry on trade negotiations.

Another point which struck me as I was going over the record of your proceedings—is the approach indicated by your ministers who were before you, and by the flavour of the questions which you have asked. It seems to me your attitude is open, it is interested, and it has a guarded optimism about it. I would certainly urge this point of view, if you can sustain it. This is not characteristic of the United States at this time, and I think that to have lost this approach is a great pity.

As I understand it, the objective of your enterprise is to determine what the Canadian approach should be to this enlarged Community. One could as well substitute a common set of problems, and we are examining the "United States" because we have common interests and same set of issues.

One of the most interesting phenomena or characteristics of the Community today is what I refer to as the short-term issue, the next year to 18 months, a period which I think is crucial. We can deal with this later if you wish. This is the period in which the Community will be evolving, taking on its new identity. I agree entirely with what Mr. Sharp said when he was before you, so I will not repeat that. I shall make another footnote to my own approach: I have been much criticized in the United States for criticizing the United States; I was criticized in Europe for criticizing Europe; so, at least, I have equally bad relations in both areas. I gave a notorious speech in Bonn about three years ago in which I warned Europeans of the kind of trouble they were getting into with the United States, and I told them that they ought to be more attentive to the side-effects of actions which they were taking quite innocently.

I would go, therefore, to several points: one is that the European Community today, and I think over the next period of time, is an inner-directed body. It is caught up in any number of problems related to its further development. For instance, the October summit led to a fantastic agenda of work for the Community institutions. Each of the member states is confounded by domestic political, economic and social issues. They are like so much of the rest of the world, including, I gather, even Canada, where we have more problems than we are able to command.

In its dealings with Canada, the United States and Japan, it would be my conclusion that the Community approach is essentially made up of two components: passivity and a degree of defensiveness. The Community as it is presently organized, and because of the problems I have indicated, is a body which has the capacity to react, or to block, but it does not have the capacity to take the initiative. I would say it is not dissimilar to our American Congress. I agree with the testimony of Mr. Rogers, which I found most impressive, that there is every argument to be made to try to persuade the European Community that it has a responsibility to take the initiative, but it will not.

There are real dangers in this situation, of which I am sure you are aware. Firstly, we inhabit a dramatically changed world which is highly inter-dependent and which, at the same time, is caught up in a new, almost emotional impulse of nationalism which could not be

more contradictory to the nature of our economic, security-minded world. In a sense it seems to me it is a world adrift. I come to Canada, talk with Mr. Sharp and am reminded of all kinds of things. I got into this business in 1945 and all kinds of things were being done in the period of the late 1940s and the 1950s to construct a trade and payments system; Canada was playing a tremendous role in these affairs at that time; and there was the whole optimistic mood surrounding all of our endeavours. The framework was created, but we have now lost confidence in ourselves; the framework is being eroded. I do not see anyone in charge.

What I fear—because I have a rather low opinion of the capacity of governments to gain control of situations which get out of hand—is that if, in this complicated world, things really become unhinged it could be impossible to put them back together again. This obviously leads to the whole problem of trade conflict.

The other day Mitterand said during his campaign that the trade war had already begun between the United States and the Community. In any event, it would be my judgment that if trade difficulties lead to trade war, and if in turn to a further deterioration in finance and defence, there would be no way of controlling this process. These risks are obviously enhanced by the mutual ignorance which, in my own country, is very high indeed vis-à-vis the Community. I say "mutual" because there is a degree to which Europeans today fail to understand the United States. There is a common impatience; there is a pre-occupation with short-term issues; and there are generally very short tempers.

The problem regarding Japan has come up in your proceedings, and I am particularly pleased to see the attention which Canadians, in general, but particularly the Canadian authorities are giving to the dangerous game we are playing with Japan, and the fact that there is latent in the situation either overt or covert collusion between the United States and the European Community against Japan. It would seem to me this is one of the most unfortunate developments that could occur.

I said before that what seems to me to be at stake at this particular moment is the multilateral trade and payment system from which we have benefited for over a quarter of a century, a system made up of rules and institutions, of co-operation, and a process of consultation. I submit we are moving more and more towards a regime of anarchy, and this could easily spill over into the areas of both politics and defence.

Sometimes I have the feeling, as I look upon these trade disputes, that a fire has broken out in the neighbourhood and the men in the firehouse are busy painting the place and cannot decide who is going to go to the fire; they would rather talk about who started it.

Finally, if I might be allowed a moment of presumption, Mr. Chairman, I would like to remind this body again of the unique contribution that Canada made in the postwar period to the foreign economic policy, on which I was brought up—what was accomplished would never have been accomplished in the absence of the Canadian contribution—and of the role that Dana Wilgress played. You might very well ask: Why Canada?

It seems to me there are a number of reasons, and one, on which you have a far better knowledge of the stake that Canada has in the international economic system, than I, is the extent to which your gross national product is dependent upon trade. Another is the fact that you have a natural relationship with the European Community. You are in an enviable position in that you are relatively disinterested, and you are not in an adversary relationship with the Community, although you may be with us. Also, you have the unique position of having both the Atlantic and Pacific Oceans on your shores. You have a feeling for Japan which, certainly, Europeans do not have and which, to a large degree, my own countrymen do not have. You also have an interest, which has been demonstrated by what you have done, in the Third World. Therefore, you come to these affairs with excellent credentials—in fact, with unique credentials. I ask the final question: Who else? So, as these proceedings are a catalyst in your own country, perhaps Canada can be a catalyst in these difficult affairs.

Thank you very much, Mr. Chairman.

Hon. Senators: Hear, hear.

The Chairman: Thank you very much, Mr. Schaezel. Perhaps you will gather from your reception—and certainly from my experience sitting in this chair and listening to opening statements—that your statement has been exceptional. You have been very direct and frank; and what we most appreciate is the expression of your own opinions. I was extremely interested to hear you put the problem in the time context of 18 months to two years; and you have indicated that this may be, I do not like to use the word “crisis,” but a crisis-oriented time.

As I indicated at the outset, we will now proceed with questions, and I call upon Senator Macnaughton.

Senator Macnaughton: Mr. Chairman and Mr. Ambassador: On behalf of all here and the Standing Senate Committee on Foreign Affairs, we certainly wish to thank you, firstly, for coming, and, secondly, for speaking so frankly and clearly to us. Whether you are right or wrong is unimportant to us at this stage, as long as we can get ideas and can draw upon your experience and judgment.

Being a member of the, I suppose, Establishment, so-called, although a very small one, I do get *Fortune*. In the November issue you discoursed at length, and I do not wish to misinterpret you, but there is one paragraph that seems to summarize your thesis. It is fairly short but fairly pungent, and reads as follows:

The drift toward mutual hostility threatens to retard the growth of world trade and to complicate reform of the international monetary system. Most important of all, it could weaken the common cultural, economic, and defense interests that link the nations of the Atlantic community.

Perhaps I am asking the last question first, but in view of the forthcoming trip that we are lucky enough to be making to Brussels, could I draw upon your experience? If Canadians are so politically conscious, if we have a unique position, could you tell us where we, as Canadians

going to Brussels, can make the most effective approaches to influence, not only the EEC policies by contact with the Commission, by contact with the Council of Ministers, by contact with the Committee of Permanent Representatives, but what is the best way for us or for Canada, if you wish, in dealing with the EEC to achieve our long-range national objectives and also resolve our short-term trade problems?

Mr. Schaezel: That is a large question, senator. I will try to answer two parts of it, and if it is not satisfactory to you, please come back. I think the first part is what you should try to do when dealing with the Community institutions in Brussels. The second part is, how does one handle these specific issues Canada has with the Community, which are not dissimilar from the problems which confront us in other countries.

In my opinion, one of the major tasks, which relates to what I said before about the inner-directedness of the Community, is first to sort of knock at their door and make them aware of what is going on elsewhere, and, I think, particularly in the advanced countries. In saying this I do not intend to be quite as critical as I sound. I was referring to a number of matters which are before the European Community institutions and the member governments. These are such that one can forgive them for not taking up other matters outside this particular agenda. It has been my experience, that governments have a very limited span of attention. They are capable of picking up, perhaps at most, half a dozen issues, generally fewer, which they will handle with a certain amount of concentration. Everything else receives what might be called passing, indifferent and superficial attention. This is one of the problems before the European Community today one we experienced in our own government. I think over the last several years the preoccupation with Vietnam, China and Russia allowed practically everything else to go by the board, so that this axiom of the span of attention is very important. I am making this point at some length just to say that your trip and the fact that you will be seeing the people there will have the important value of making them aware of another major country which has interests in things which they are doing which affect you and the international system. So that the mere fact of your being there will be a valuable exercise; and I think particularly, as the Chairman says, in connection with this mutation, this evolutionary stage of the Community, when they are beginning to make up their minds as to the direction they will take, it has that value.

Beyond that, I will mention only one major point. It goes back to my remark in the opening statement that the peril facing the international trade and payments system arises from many sources, not merely from the Community. We are making our contribution, the Japanese are making theirs, but it is basically that people are now using legal arguments to justify their actions, pointing the finger at the other person and not paying much attention to the pressures on the system. I think I would argue that it is coming to a point where one could even envisage its collapse.

Now, as your proceedings indicate and as I think your self-interest would dictate, you have an extraordinary interest in the preservation of the system and, in fact, in its improvement. I would hope that you ladies and gentlemen when you are there might not so much argue with them, but say what you want to question them regarding the kind of system they envisage and where they want the world to go. These are questions they really have not answered.

This goes to another point, which is the preferential system the Community has backed into. They are imaginative in terms of rationalizing what they have done, but it seems to me not to go to the point at all.

Turning now to your second question: What does one do about the specific issues? I think you must use all the instruments at your command, at the command of your government and at the command of your society. The European Community is a highly pluralistic phenomenon. There is no one place where we can go, as in dealing in a totalitarian society perhaps we could, but it is the opposite of that. Authority is distributed in the most extraordinary way. The decision-making process is very difficult.

There are a few points which seem to me important. The first is to get at problems before they have crystallized, because once the Community makes up its mind, and does it through a decision ratified by the Council of Ministers, to undo that is almost impossible. It is not unlike the American system, in which by the time a bill has gone through the Congress and become law, to change it becomes something requiring heroic qualities. Therefore, I return to the time when policies are being formulated and the identity of the Community is being struck. However, even on the specific issues you have, this point of getting at them very early indeed is important.

I have emphasized the pluralistic character of the Community. Certainly I would argue, and have argued both officially and unofficially in the United States, that the Commission is a critical body in relation to all these economic issues within the competency of the Community. I am not at the moment attempting to make fine judgements as to the importance of the Council of Ministers, the permanent representatives and so forth. I am merely saying from my experience, both in Brussels and earlier in the government dealing with this body for perhaps 15 years, that the Commission will tend to be not the lowest common denominator, but the highest common denominator of policy.

The staff of the Commission is a really uniquely competent body. I would like to make a footnote here, just for historical purposes. We live in a world of rhetoric, in which tags are applied to things. The Brussels Community is frequently referred to as a bloated bureaucracy. It has 7,000 people. I had a study made of this. There are about between 1,200 and 1,500 of what we would call officials as contrasted with secretaries, translators, supporting staff. You could take 7,000 people and hide them in our Health Education and Welfare department and for 12 months you would not even find them. So this is a small body, and I would say, within the extraordinary

limits they have to work, a very effective body; and they are people well worth working with on these specific issues.

Beyond that, as the preceding testimony you took indicated, you deal with all the sources of strength and decision-making. This would mean the permanent representatives. I am delighted that Jim Langley now has the position of being your discreet, in one sense of the term, ambassador to the European Community for Canada. He and your permanent delegation there will obviously deal with what has to be done, which is to work with the permanent representatives.

It is an institution of the Community, not anticipated in the treaty, which has become extraordinarily important. It is probably one of the hardest-working bodies and at the same time, one of the most insular bodies that I have ever run into. These people are totally pre-occupied with the day-to-day work of the interstices of the Community program.

Then there are the member governments. We found, in our experience, that this becomes a very subtle business indeed. It is a subtlety which has escaped many of the people in Washington from time to time. Somehow the notion exists that you can do the Community job by lining up the ministers in the capitals and, then everything will be done. I think the record shows that you can have a lot of exceedingly friendly conversations with the ministers in the capitals, in which they will assure whoever they see that, "We love you very much indeed and, frankly, we will do everything we can for you"; but somehow it never works out once they come together. This is an aspect of politics which I have to admire, but I do not know how many times one can be fooled by this into thinking that you can do community business in this fashion.

Nonetheless, there is something that can be done in the capitals. That is the systematic discussion of the issues, the persuasion or attempted persuasion of the merits of the argument, to create an attitude, so that once a matter comes within this peculiar institutional process, the Council of Ministers, there will be people who understand the case. This is a most complicated kind of operation. It is, a part of the democratic process. It requires a very sophisticated approach.

One final suggestion I would make: that this should not be left to governments. This Community, with all of its complexities, is, as is any democratic society, subject to pressure groups, whether business, labour, or members of the intellectual community.

Again, Canada has special assets here in the fact that you happen to have colonial backgrounds which tie you to two of the major member states. You have a tie into the Community which on the cultural and the general level ought to be another asset which should be employed in this very complicated business.

You can look at the complexities in two ways: they can repel you; or, they can attract you. I hope you elect the latter point of view.

Senator Macnaughton: Thank you very much for that most interesting answer. I understand the Community has a mission in Washington, which I presume tries to keep in contact with the various forms of the U.S. system, and that Canada has failed to have a similar mission from the Community here. What do you think our chances would be? How effective do you think the mission in Washington is or has been?

Mr. Schaezel: Well, I think the mission in Washington is very important. I had urged this on the Europeans, and had encouraged my own government in every possible way to keep pushing, to make this as important an activity as it can be. The reasons are very simple. If you are living in a sea of ignorance, in which mythology dominates, in many cases one of the major problems we officials have is to get the facts right. Thus we are frequently accused of representing both European and American interests. This is not a happy situation in which to be. One has to do this just to try to keep the record straight. Therefore, I would say an obligation falls on the Community to do something about this problem, and this goes directly back to why you people are engaged in the enterprise you are. That is, you are concerned about ignorance; you want to find out about what is going on; you want to lift the level of Canadian knowledge on this vital matter.

However, in my view, the European Community has a responsibility to do this itself, and if they have the ambitions to which they subscribe, they cannot escape this responsibility. Therefore, I would keep all possible heat on the Community by saying "We feel you have an obligation to us to establish in Ottawa a mission which will meet the problem of explaining yourself to us and being a channel of communication".

I will now be quite personal about the matter. One of the luxuries of being a private citizen—I wonder why I did not become one before—is to be able to say things I otherwise could not. One of the real problems here is the jealousy of the member states of the Community in seeing matters slip through their fingers. This applies particularly to foreign ministries who value the channels, the relationships they have established over the centuries which are diplomatic in character.

Now, I have all due respect for the nostalgia that goes with this, but with greater emphasis on economics, with the degree to which nationalism in certain senses is no longer a viable force, there is an anachronistic quality here. But in any event, the foreign ministries hold to this. I cannot speak of the Canadian diplomatic community. I know something about the community in Washington, and most of the European ambassadors are good friends of mine, whom I have known for a long time. A number of them, but not all of them, would say that they are in no position to handle the Community business with the United States Government. The Belgian ambassador in Washington, who is an exceedingly competent man, is now the senior person, because the Belgians are in the chair during this six months' cycle. I think the last thing that he would like to do is to have

to go in and argue a case, involving the Community, of a quasi technical character with the American authorities.

As a consequence, you need a mission founded on the competencies of the Community, which can do two things: the task of informing the United States, or of informing Canada; and being a channel for communication back. But it is the sensors that the Community have, the antennae that they have vis-à-vis the United States, which cannot be duplicated by the American or the Canadian representative in Brussels. So I would argue, in the first instance, that this is in the self-interest of the Community. It should be done by a Community office, and it is a burden which should not be placed on the nine ambassadors who are accredited to the Canadian Government.

What do you do about this? Well, first of all I would insist that they have an information office here. You can begin at that particular level, which does not raise some of the diplomatic, protocol and national sensitivity problems. This would be consistent with what you are about and with what I would assume the Canadian interests to be.

The problem, to make it a little more specific, as far as the Europeans are concerned, is that the French—other governments also, but primarily the French—have been exceedingly resistant in giving the Community *qua* Community any responsibility of this nature. They have been dragged along each inch of the way. The Belgians, in point of fact—not just because their ambassador is here—have taken the lead with Mr. Hamel doing all they could to get a full ambassadorial position established in the United States.

This battle within the Community goes back to a whole series of issues at the heart of the process of European integration. Some of those issues are: What is the Community? Does it have a political future? Is it a political entity? Is it supra national? Is it confederal or federal? Within this spectrum the French are manifestly on one side. Any pretention on the part of the Community that it is an important political body rather than a technocratic institution is something which they will fight and will continue to fight, I assume.

Therefore, the commission can have active diplomatic relations with unimportant countries. The United States, however, is, unfortunately, important; Canada is important; Japan is important. Thus, by definition, the greatest resistance applies to establishing diplomatic missions with countries which are important; those relations must be reserved to the national states.

In summary, this is an evolutionary process in which I would be inclined to be as aggressive as possible. I do not think an outcome other than having a modest diplomatic mission, say, in Ottawa or Tokyo, is in the interests of the Community, of the member states of the Community, or the countries concerned. I think it is indispensable. You people would be in an admirable position to do so in the course of your travels.

Senator Macnaughton: Mr. Chairman, I realize I must conserve time for other members of the committee, but

I think I am right in saying that government policy is decided by the government. It may be criticized, interpreted, or sold by senators and members of Parliament. That is our system.

Jumping now to the European Parliament, I understand there are twelve standing committees and that these standing committees discuss major sections of Community policy. My question is: Inasmuch as we are Parliamentarians going over there who, presumably, will meet parliamentarians from this European Parliament, what influence on the Community do the European Parliamentarians have at the present time? How effective is their influence?

Mr. Shaetzel: That calls for a highly subjective judgment, but—

Senator Macnaughton: That is the purpose.

Mr. Shaetzel: I would agree with what I believe to be the consensus—and if you have not already gotten this you certainly will and that is that it is a highly ineffective body in parliamentary terms. It has ambitions. The treaty calls for direct election of the Parliament. It has limited powers. It has the power of over-kill in that, as you know, it can take an action which would force the resignation of the Commission. That is essentially the wrong target, but, in any event, that is the one real authority it has. Thinking in terms of our democratic institutions, this is a largely powerless body. It does have certain useful functions now and is bound to have more useful functions in the future. As a consequence, it is well worth spending time with them.

The big issue which surrounds this subject among the Europeans is the path that should be taken to achieve a more responsible Parliament within the European construction. It has been referred to as responding to the need for the Community to acquire political legitimacy. At the present time the Community is an undemocratic body. The Commission is an appointed body; the Council of Ministers operates in secrecy, presumably. Actually, their discussions are in secret, but the proceedings are immediately known, so they lose both ways.

There is a frustration in Europe which one can sense. It is just not right to have decisions of such profound consequence in the economic, social and political life of 250 million Europeans made by a process which is manifestly undemocratic. The pressures are such that, in one way or another, they will move in the direction of a more powerful Parliament. The central issue is whether this comes by direct election of the Parliament or by way of the budgetary process or appropriations, which is the normal way that parliaments in the British inspired systems have acquired authority.

It seems to me that the game is very much coming down on the latter side; that is, as Peter Kirk, the imaginative and able head of the British delegation has been proposing to take full advantage of the explicit and implicit powers which the Parliament now has. In other words, "Let's fully use what we have and with that more power will come our way." The process has begun in

connection with the budget of the Community, which over a period of time will see the Parliament acquiring increasing authority in this area. I feel that that is the road down which they will go, with direct election of the Parliament coming later.

The argument against direct election seems to me to be overwhelming. At a time when there is general public doubt—at least in my country, but I think also in Europe—over the whole political process, to have people standing for office for which no one will know what in the world they are standing for or what they are supposed to do, or how it affects the individual, I think would result in having few people going to the polls. This would be a dangerous course and, I gather, one which they will put off for the time being, I think wisely so.

In a sense, your question, your inquiry and your trip come at an interesting time. They are now trying to decide where they should go, what they should do, and what techniques they should apply which will result in greater power and a more democratic institution.

Because you are members of a parliamentary system talking to people who are trying to find a way in a unique political system, now is the time to talk to them and begin to explore with them the type of questions you have just put to me. That is exactly what I had been trying to do and, in a very small way. We got some of our people from the Congress who have been concerned with the legislative problems in the United States, such as Congressman Bolling and Congressman Fraser, to go to Europe where they met with some Europeans who were concerned with the same issues. These discussions took place on the grounds that what is at stake is not merely the Community nor merely the relations between Canada, and the Community or the United States and the Community, but rather what is going to happen in terms of a completely fascinating, intellectual problem and how can a peculiar institution such as the Community gain political legitimacy.

Senator Macnaughton: There are all sorts of questions on economics, trade and goodness knows what, but I think I have utilized enough of the committee's time.

Senator Flynn: I should like some clarification on the last question posed by Senator Macnaughton. The European Parliament groups not only the member countries of the EEC, but, if my memory serves me right, there are 17 countries represented at Strasbourg.

Mr. Schaetzel: No, sir. I think what you are referring to is the Council of Europe, which is a body that also meets in Strasbourg, as the European Parliament does. The European Parliament, now with its nine countries, will have 198 members.

Senator Flynn: It is different from the Council of Europe?

Mr. Schaetzel: It is. It is an understandable source of confusion, since they meet in the same place and have similar titles. The European Parliament has interesting characteristics. I would be astonished if in the next year or two this does not become a most lively body, making a much more important contribution. One aspect, which

is not true of most interparliamentary groups, or any other as far as I know, is that they sit according to parties; they have their normal spectrum going from left to right, or right to left, whichever is your political preference; they are chopped up in that way and begin to have some kind of feeling as political groupings rather than national groupings. This is still somewhat superficial.

There is a piece of literature on this subject. I do not know whether you are familiar with it. I would fix the date at about the summer of 1971, when *Punch* had an article on the European Parliament, which was a mixture of wonderful humour, insight and optimism, something one rarely sees. If your staff could track that down, I would by all means include it in the literature you read, because it is well done and gets information across in a rather painless way, which I am always looking for.

The Chairman: Senator Flynn's question is a very interesting one, and I should like some further clarification or comment from you, which necessarily must be a subjective one. If, in fact, the European Parliament does gain in power and becomes a more operative and effective body, will that be equated by an equivalent decline in the Council of Europe?

Mr. Schaezel: I think the answer to that is, yes. The Council of Europe is already in decline. The objective evidence, for instance, is that Congressman Hays and some of his colleagues who have been associated most intimately with the North Atlantic Assembly, and have from time to time been drawn into activities of the Council of Europe, have really decided to either cut that out or at least play a very minimal role, which means that their sense of the situation is as I have described it.

Senator Flynn: Would that not be sad? Would you not suggest that if the Council of Europe loses its authority or its importance the result will be a more closed EEC?

Mr. Schaezel: No, sir. The Council of Europe really came into being upon the initiative of Mr. Churchill in the aftermath of the war, when there was a fluid situation and the feeling, "We have been working together. Let's do something." At that stage in European history I think the Council of Europe was serving a very useful function, and it has continued to serve useful functions in a number of areas. They have a whole series of detailed studies of issues from biology to pollution, and so forth. The point is that they have been overtaken by events; another phenomenon has come along.

The Council of Europe really provided a political choice. You can have the classical co-operation among national states in areas of common interest, or, as the Schuman Plan in 1950 proposed, you go towards the goal of some form of European unity and integration, and the transfer of certain sovereignty in discrete areas to a new institution. The Europeans have elected the latter. Up until last January the British were still staying with the former political conception. The six nations had moved toward the other conception, and finally the British were persuaded; so you now have a clear election

of the course towards some form of integration. That automatically means the decline of the other institution. You can say that it is a pity, but life is made up of this process of change, whereby some things are discharged and others grow.

A Community of nine, with 250 million people going down a certain course, poses problems of a very acute nature for those countries which, for a variety of reasons, choose not to be a part of this process. These are the neutrals primarily; to some extent the Mediterranean countries, which lack the political traditions and institutions that allow them to fit into this machinery. It does seem to me, in philosophical terms, that the fact a new problem is created by change does not mean that you should remain where you were, even if it were possible. However, the Nine clearly elected this other course, and that is why I say, doing nothing beyond reporting a fact, one can envisage the decline of the Council of Europe.

Senator Bélisle: I read your article, Mr. Schaezel, and I thought it was very good. I noticed that you used the word "adrift," and this morning you said that you felt the world was coming adrift. If these communities are coming adrift, are they coming adrift more amongst themselves than from the Atlantic Community? Is there a reason for drifting apart? Is it not because they are becoming too nationalistic economically? You referred in your article to the farmers and the lobbying the farmers are doing.

Mr. Schaezel: That is a kind of porcupine question; there are a number of points in it. Let me try to pick them up. What I was getting at in the article, and what I was trying to get at today when I talked about a world adrift, was describing a world which is coming unanchored from the framework that has been laboriously put together, beginning in the immediate post-war period with the Bretton Woods instruments, the International Trade Organization, GATT and so on. I described some of the characteristics of the system. That is the economic area.

I think it is coming adrift in another sense, which is not before us, but I am quite prepared to talk about it. It seemed to me, as one involved in foreign affairs, that the world had certain characteristics, up to fairly recently, in which there was a pre-eminent United States—economically, militarily, being self-confident and assuming responsibilities. I am not here saying whether it was good, bad or indifferent, but it was a fact of international life. There was a certain degree of stability, made up of the trade and payments system, of the role of the United States, which the United States recognized; of a confrontation between the East and the West, on which again I am not expressing any value judgment; it had a kind of clarity to it. This meant that there was something to which everyone could relate: "This is the world; it is the system, it works or does not work, but at least we know it." I would argue, without going into detail, that each of these three elements has now dramatically changed and so there is an uncertainty about where we are, where we are going, who is in charge, where we want to be, what we want to preserve, and what we

want to put in its place. That is what I meant by "a world adrift."

My second point is this. You are absolutely right in your reference to nationalism. I think it is a most extraordinary phenomenon, we live now with a total contradiction. It is a world which is manifestly interdependent economically and in a security sense, yet everyone is behaving as if we were going to march smartly back to the 18th century, which is ludicrous. I have a certain sympathy for the less developed countries which have emerged from colonialism, who want to have a national identity. In many cases in Africa, the totally artificial boundaries are the result of just colonial accidents, nonetheless they have this drive for nationalism. I can understand it. I cannot understand it amongst the advanced countries, but it exists.

Therefore, we live in a world both adrift and in which we face a total anachronism, which is exceedingly difficult for anyone who wants to make sensible policy.

Your third question asks what this means in so far as the Community is concerned. Europe is caught up in the same absurd anachronism. That is, they want a Community and they want all that goes with a Community; on the other hand, nationalism becomes more vigorous. It is not that I have anything other than affection for the young generation, including my daughters. But I would say this, it is like some of the youth now—not all—who want everything that comes with our affluent society. On the other hand they do not want the affluent society nor do they want to try to change the affluent society so that it would not have the defects it now has. This is a little like the situation that exists in Europe; it is an analogy which is very loose but which might be applied to Europe. It might be said that they have certain desires to be able to speak with a single voice. Mr. Heath was eloquent on this during his recent visit to Washington. The summit meeting in October professed all of these various things which the Community should do; but cannot be done without sacrifice, without change. Nationalism is something which has a built-in resistance to change and to the achievement of what they want. This is the problem of the European construction. Something has to give. They are getting to the point where they can no longer have it both ways, and there will have to be some further erosion of nationalism if they wish to achieve their objectives. Now, the objectives can give. In other words, they can end up with a Community which will be something more or less what they have now, which will go on indefinitely—I do not think that it, as such, will fall apart—but they are on a kind of plateau now in which it would be rather difficult to move on to the other objectives they have set for themselves.

Senator Zuzyk: May I ask a supplementary question? We are discussing here the weaknesses within Europe. I think you mentioned in your article that there is such a thing as NATO and the NATO Assembly, and that all or most of these are members. Do you not think that that is still a force that will at least keep them together and also be a bridge for us to better relations and better understanding?

Mr. Schaezel: Yes, sir, I do. There are two points here: one is, what keeps them together; and the other is, how we keep together with them? NATO and the OECD are a means for keeping together with them. However, their obligations to NATO and the OECD, in which they are represented as national states, really encourages the nationalism we have just been discussing and in a way work against the Community spirit.

Take a problem before the OECD—in the field of energy, for example. The EEC is represented there by officials from the member governments with the Commission in a subordinate capacity; but in a sense the performance of the member states, now nine, in the OECD tends in general to be as though the Community did not exist rather than as if it did exist. That is the anachronism of that activity. Obviously, in NATO the issue is less important, because the Community has no responsibility whatsoever in the strictly defence or military side of NATO. There is an overlap, as one has seen in connection with the preparations for the proposed conference on European security and co-operation, in which there was the problem of the Community, as a community, in preparing a position, then, as a European caucus, in NATO, refining that position, and then as NATO deciding what NATO was going to do. All this suggests, it seems to me, that when the world dies with a whimper, it will be because it has got itself so tangled in bureaucratic tape that it can no longer move; and this certainly seems to be more or less the direction in which the Europeans are moving.

On the other hand, there is just a final point. These institutions—NATO and the OECD—are very important, they are the hopefully strong bridge across the Atlantic, for you and for us, which allows a continuing dialogue to go on, not only among executives but also among parliamentarians. Everything should be done to strengthen this.

The problem of strengthening NATO and the OECD is partly what we do about it. In other words, we have to be serious, we have to make the most effective use of these institutions, because of the responsibility we carry.

The second point is that Europeans have to begin to make sense. What that means, as far as OECD is concerned, which in economic terms is the more important body, is that they have to begin to say, "Yes, we are a Community". In various areas they will not have to have the Community representative sitting behind them, on a lower chair, but have him up there as the spokesman on those areas in which the Community has responsibility. As I say, this takes an act of statesmanship and vision, of which they have not shown much evidence yet.

The NATO matter is in the future; dependent on what the Community does in the field of defence. I think they will get into the defence business. I do not think it will come immediately, but it will begin before long. This will continue to pose problems. The European caucus of NATO has been really quite successful, more successful than most people thought. It should be encouraged by you and by us, and not looked upon as creating a group within a group and, therefore, being a very bad thing. It

should be looked upon as a part of a developing Europe, and we should not be apprehensive about it but recognize that NATO itself is flexible, it is a commitment and the institutions are a means to an end. The end is what is set forth in the Treaty and our mutual security interests, and not the organization.

Senator Yuzyk: The only other thing that I would add to this is that the North Atlantic Assembly last November did deal with this problem. Most of the European countries were concerned about it. I think that the fact that the headquarters of NATO is in Brussels means that we can have close relations, and we are in a position to work out some of our problems. Certainly, we did discuss the fact that the United States and Canada are on one side of the ocean, and that ocean does not necessarily mean that there is a gap between us, but that we have to work for common aims, economic aims as well as social and cultural aims.

Mr. Schaezel: I agree, sir.

Senator Bélisle: Mr. Chairman, when the Treaty of Rome was formulated, one of the long-term political aims was political federation, but it seems to me now that they are backing away from that. In visiting Europe now it seems that they are becoming more nationalistic and less objective with that aim. Is that your opinion?

Mr. Schaezel: Yes, sir. I think that is true, and to try to understand why it is so, what it means, and where it is all going in the future, is a task that many of us have set for ourselves and are trying to understand. I am trying to write about it, and it is not easy.

Really, one can come out in many different ways on this. On the one hand, it is possible to be dismayed by the extent to which the enthusiasm has lagged, and the fact that they seem to be moving, as your question suggests, more in the direction of the preservation of nationalistic interests. One can say that this is the harbinger of the future and that whatever the dream was it was a false one and is not to be realized.

But there are other views. I think Monnet would certainly take the view, as the father of the European movement, that these are things which move very slowly.

Just before I left Europe I was talking to a number of my friends, people with whom I have worked on these matters for 15 or 20 years. They make the point, which is very important, that this is a process in which you have about a hundred years' scale at least. We are not talking just about tomorrow, the next decade or the decade after that; but of a vision; of a very long-term process.

Another point I should like to make is that in something as historic as this—and it truly is historic, because there has been nothing in the last hundred years which has been as politically innovative as what the Europeans are trying to do—this is intellectually a terribly difficult task, and some of the difficulties they are encountering are difficulties which should have been anticipated. It is very easy to talk about supranationality in a community and European unity, if you are just talking; but once you get down to the realities of it, that

is a different matter. They have now gone through the easy phase, which is the elimination of barriers, particularly in the field of the movement of goods and services; but once they begin to get to the creative stage, which is financial and economic unity, or try to do things in regionalism or social policy and on to that, then that gets very serious indeed and that means that you are cutting into the political and economic life of the member states. Anyone who is at all informed—as you people certainly are—with the political process, knows that once you get beyond the stage of rhetoric, you then run into real obstacles which are very hard to overcome; and that is where they are today. The big question is not, I think, so much that this resistance exists or that the nationalism exists; it is whether there is going to be enough political will and enough momentum in this movement in Europe so that these barriers can be overcome one by one, not immediately but in a continuing process.

Frankly, I happen to be somewhat optimistic about this. They have survived a crisis. I have argued that they have really survived a ten-year internecine war. The point of departure of that war was the veto of the British entry in January, 1963. If you like, the end of it was January, 1973, when the British came in. Now, the Europeans really were fighting an internal and essentially unproductive war over whether the British should or should not be in and what kind of Community it should be. It was really a Gaullist war.

That, for the moment, is out of the way. They still have all kinds of problems, a number of which your question has suggested, but in my uninhibited optimism it seems to me that the fact that the British are in will mean a release of energies for them. At least, I think that many of the British, although not all of them, will see this as a release of the energies which have been dying in Britain since the end of World War I, which I think has been a tragedy for the world because of what the British have done and can do.

The other point is the sheer ventilation of the Community which occurs when new members come in. Any bureaucracy suffers from just sitting. I came out of a bureaucracy, and I think they have to be shaken up periodically. This bureaucracy, which they have had now for 15 years, is going through a traumatic change because of the entrance of new members, because of new people on staff and in the Community; as a result they are now being shaken up by this process. So it is a period of great movement, and that is why I stressed in my opening remarks the importance of this period when the Community has to find itself. In finding itself it may very well overcome some of these hurdles which you identified in your question.

The October summit was an interesting meeting because it laid down a remarkable agenda of work for the Community institutions and established the most severe deadlines, according to which half of the agenda is supposed to have been disposed of by July 1 and the other half by the end of the year. This agenda is being taken very seriously by the Commission, and I would as-

sume by the member states, but whether they meet all of these deadlines is a different question.

However, in sum, I would say that you are right. The political dream, the idea of a federated supranational Europe which would be here tomorrow—which President Kennedy thought he saw on July 4, 1962—that obviously is not here, and there is no prospect that that is going to be here soon. It is a longer process; it is a less dramatic process; the problems are more severe. At the same time, I would submit that there is a kind of glacial force about this which is moving it along and may very well be moving the people in it along despite what they want to do.

Senator Bélisle: Thank you.

The Chairman: In the interests of equal time, we will move along to the other questioners. Senator Grosart.

Senator Grosart: Thank you, Mr. Chairman.

Mr. Schaezel, you have given us some excellent advice on how to go about getting what we want from the EEC. Our trouble seems to be that we don't know what we want. Could you give us some advice on that? It is sometimes said that we are perhaps the only industrialized country in the world at our level—Australia might be another—which does not have some kind of preferential access to a market of a population of 100 million. Should we be seeking some kind of overall, formal relationship with this particular trading bloc known as the EEC, or should we continue to nibble away at our problems on an *ad hoc* basis?

Mr. Schaezel: Well, I anticipated that question from the proceedings here before, sir, and that is an easy one to answer. You should not seek a special relationship, and even if you did, you would not get it. Do you want more?

Senator Grosart: Yes, more on both "why not's".

Mr. Schaezel: Well, first on why you should not want it. It seems to me—and I am no expert on the Canadian economy—that if any one country has a built-in interest in a truly multilateral system, Canada does. This, I think, is what Mr. Rogers pointed out in his excellent testimony. The markets which are really important, whether you like it or not, are the United States on the one hand and Japan. Neither will have any special association with the EEC. So that I would say that a forecast of your national economic interests suggests that you have perhaps the most profound interest in the preservation of a multilateral system which is under such pressure now. Perhaps if this collapses we will have a different world, and then we can come back and discuss this at another hearing.

Senator Grosart: Has it not collapsed?

Mr. Schaezel: It has not, but I say that if it does—and, as I suggested earlier, I am apprehensive about the direction in which we are moving—then we can come back and hang this room in black and discuss the alternatives. Maybe we will live in a world of special arrange-

ments with one another, but I do not like to contemplate it, and I am not prepared to, I think, yet.

Senator Grosart: But, surely, that is what we have? We have 60 nations with special bilateral relationships with one another through the EEC. I agree we have this stake in multilateralism, but where do we wind up if everybody else is going bilateral?

Mr. Schaezel: Well, let us get the thing sorted out. First of all, you have the nine states, and that really is a movement towards unity which is not only accepted under the GATT. They are moving towards unity and they are behaving as a unit and no one of us can object to that phenomenon.

Now, for the others states, the neutrals, which have negotiated their arrangements with the Community, this again, in my view, will meet the test of the GATT as a free trade area. Agriculture is excluded. Even in the analysis made in our Department of Commerce—which is not inclined to be the most friendly of institutions in looking upon American relationships with the Community—it is unable, in looking ahead five years, to make a projection that there is going to be a great cost to us, and they talk in terms of \$200 million. \$200 million is almost a statistical error when you make that kind of forecast, given the volume of trade.

For the rest of these countries, which are basically among the most deprived and the poorest among the less developed countries—particularly in Africa and some of the Commonwealth countries in the Caribbean and elsewhere—this becomes a philosophical problem, a problem of policy and not a problem of economic reality. Neither you nor we are really going to suffer much from these arrangements. Furthermore, in the generalized preference scheme which the Community has worked out in manufactured goods for the less developed countries—and down that path when we are able to do the same—we can eliminate the discriminatory aspects of most of these arrangements. Therefore, what is one left with in terms of a practical problem? It should be broken down into two parts. The first is: What is the economic problem? And the second is: What is the philosophical and theoretical trade policy problem? I think both are important.

On the economic side, I really do not see any of us being much damaged by what they have done. The free trade arrangements with the neutrals, on our analysis, do not seem to be doing us all that much harm. In fact, so far as Africa is concerned, our trade with the African states has gone up more than has that of the Community, so we cannot make an economic case there at all. The Mediterranean situation is a little more difficult because there we have had citrus problems, and we will continue to have those with Spain and with Israel, and to a lesser degree with Turkey and Cyprus; but I think these are special areas.

I indicated that this issue has been blown up. We have \$20 million worth of trade in citrus products with the Community, so we are arguing about \$2 million and this is \$2 million as against \$9 billion. So what are we taking about?

Perspective here is of some importance. I think it can be put in perspective, and the central point is the one I referred to earlier when I was asked by Senator Macnaughton about what you should do when you get to Brussels. I think you can fairly ask, "What kind of system do you want?" This problem which we are now discussing, and which is a theoretical question of foreign economic policy, of the system, is the one which is doing the greatest damage in the United States on the part of the Community. They are feeding the fires of protectionism among everyone, among liberals and the protectionists, this building of a new empire system encompassing 60 or 70 countries, depending on how you do your sums. The Community insensitivity to this import, and the implications of their policy for people in my country, the ones who are trying to fight the battle for good policy, could not be more serious.

During the visit of the Ways and Means Committee to Brussels a year ago, this was by far the most important issue that came out of the four days' discussion. Agriculture and everything else paled in comparison. The real problem was: Where are you going? What are you trying to do? And how do you repair the damage being done to the system, the undermining of multilateralism and the most favoured nation clause? It is the apparent indifference to the policy issue and the failure to suggest an alternative and the insensitivity to the impact of this which has been extremely serious and promises to be more so.

Senator Grosart: Where would you see us on MFN vis-à-vis the Community?

Mr. Schaezel: I think one of the horrors of this whole thing, and it has a kind of Kafka-esque quality to it, is that your relations and our relations and our conversation now indicate the degree to which we are talking about entirely the wrong issues. We are talking about tariffs at a time when tariffs are becoming of less and less importance in the whole gamut of economic relations which either bind us together or bring us into conflict with one another.

The sentiment in my own country vis-à-vis the Community is hostile in large part because of the tariff issue—with the preferential arrangement and agricultural policy certainly entering in—but trade issue is the heart of the matter and that is setting the whole tone of our relationship. Yet there are many other matters which now are, and in the future will be, of infinitely greater importance. Quite clearly, one issue is the whole field of non-tariff barriers, the other devices countries use to interfere with the efficient movement of goods and services. Another question is this: What kind of monetary system do we want to put together? Are we going to move towards control of capital movements? Are we going to encourage or discourage investment? What is the role of the multinational corporation, which is a new phenomenon of the last 10 to 20 years? What are we going to do about energy and about pollution? What are we going to do in relation to the less developed countries? And, finally and most important from our standpoint—and I submit that it is from Canada's too—

is the whole question of international investment. What kind of investments? What returns on investment? What will be the climate for investment? Unfortunately, we are being skewered on this tariff issue, and the tragedy of this, to me, is that it is the wrong issue and it shows every sign of being handled badly. If it is handled badly, it is going to be impossible to deal sensibly with the other issues.

This is one of the few areas in the field of foreign economic policy in which it seems to me that you could get together a number of reasonably responsible Americans, Europeans and Canadians, and they would not have much difficulty in saying what the answer is.

Now, saying what the answer is does not mean we are going to get it. The answer to this problem of preferences vis-à-vis the less developed countries and the developed countries is soluble by two courses of action which, in our own self-interest, we ought to pursue. One is a generalized preference scheme with safeguards that would open all of our markets to less developed countries who must be able to sell labour-intensive goods. The other is to work in the direction of industrialized free trade in 10, 15 or 20 years—I do not care how many years—but at least you have an objective. If we were to agree on an objective of eliminating this particular barrier in both areas, then the problem is solved, and it is solved as an issue because then the good guys can go against the hostile guys and say, "Sure, we have a problem now, but we are on a road along which the problem will be solved in 10 or 15 years." So this kills off the essentially irrelevant, but nasty and destructive argument. If you ask me, "Do you think we are going to do that?" speaking for the United States, I would say at the present moment, "No."

Senator Grosart: Surely, there is a contradiction here? You say, on the one hand, that our interest is in freer multilateral international trade. So, we have to be worried about barriers because that is what the argument is all about. I do not care whether they are tariff or non-tariff; one is a substitute for the other. We have made some studies of this recently, and this is the conclusion to which we come. If a nation cannot achieve these restrictions on inflow of trade by formal tariff it does so by a non-tariff barrier.

Since 1961 Canada has been losing its share of the EEC market. We have put it down to the fact that the EEC has raised the tariff all around in certain European markets. So we have to be worried about it. It is a nasty argument. But of course, it is a nasty argument when you wind up fighting a war. All arguments are nasty. But, surely, this does not mean we should not be engaged in the argument?

Mr. Schaezel: I did not make myself clear. In the whole range of foreign economic issues, I was trying to get the tariff issue in some perspective. I am not saying we should not do something about it; but this is not the totality of our problem, by any means.

Senator Grosart: That is right, but we are trying to zero in on the problems regarding this market.

Mr. Schaetzel: That is correct. As far as the Community is concerned, by almost any measurement which has been made by the OECD or by our Department of Commerce, they have the lowest level of tariff protection of any of the major entities—which includes the United States, Japan, and certainly Canada.

Senator Grosart: In some categories.

Mr. Schaetzel: I am talking about non-agricultural protection in the tariff area.

They also have a tariff structure which, by sheer accident, happens to be fairly benign in that it has very few peaks and valleys. The reason is very simple. When the Treaty of Rome came into being they had to average the tariffs, which meant they had to smooth it out. They ended up with a structure which, in economic terms and in which an economist looking at the peculiar form would say: "It is not a bad structure at all," as contrasted to the United States which has some very high tariffs and, obviously, some very low tariffs. So, their level of protection is $7\frac{1}{2}$ to 8 per cent, and it does not have peaks and valleys.

In the area of agriculture it is very different. I submit, and many Europeans feel they have a very bad agricultural policy. It is an aggregate of six bad agricultural policies. It is political in its origin, and it is perpetuated for political reasons. Many Europeans feel there are internal forces in Europe which are going to modify this policy, not because of what you do, or what we do, or what we want; but they have to change it for their own sake because it is too bloody expensive. It is hard on the consumer, and it is increasingly expensive for countries which need many resources for other purposes. To put out \$5 or \$6 billion a year on an expensive system which also places, through high prices, an enormous charge on the consumer, which over a period of time, becomes intolerable. So they will have to change their system, but it will come about only over a period of time.

What does one do about this? You say that your trade has fallen off. As I read the testimony from your experts—and I am not one—I am struck by the fact that a number of them have said there are opportunities, and there are things that ought to be done because of Canadian deficiencies, or the failure to follow up; and this cannot be laid at the doorstep of the Europeans.

I say to you the same thing I said in my own country—and I was struck by the essentially constructive, objective analysis by this committee and by the people with whom you talked: Look at yourselves rather than looking exclusively at the Europeans. You have done this much better than we have. We are caught up in a trauma in which everyone else is responsible for our problems. There are only a few people who look at it differently. One was Peter Peterson—and you know what happened to him! Perhaps there is something wrong with what we are doing. I have a suspicion, and it is totally un-American, that this is true.

I think all of us have some responsibility not to hold the Europeans responsible for all of our problems; for some of which they are responsible, but for many of

which we are responsible because of what we are not doing.

Senator Grosart: You are quite right; we have looked at this. It is a bit like sex today: it has become a spectator sport, and we are not getting into bed with the problems.

If we are not to be greatly concerned about the tariff or non-tariff situation, if we are not to seek a formal relationship, what are we looking for, or what should we be looking for?

Mr. Schaetzel: It seems to me that it is of the utmost importance to do several things. Your question helps to bring some of the threads together. One is to try to increase the Community's sensitivity to its international obligations. It is big. It has been referred to as a dinosaur with an enormous body but a very small brain. Therefore, I think it is a question of keeping the pressure on and keeping them aware of the impact of what they do or do not do. Obviously, one way is to move to international negotiations, accelerated negotiations, and in the financial area, to move as quickly as we can to international negotiations for the further reduction of tariff and agricultural restrictions and non-tariff barriers. Once again, the problem may be more with the United States than the Community or Canada. But nevertheless, that is the direction in which we should move. It seems to me that the fundamental answer is to seek every opportunity for further liberalization in every area. For instance, take the tangential question of environmental measures. Our responsible person, Mr. Russell Train, has made every effort to keep in touch with the Community. We are only just now moving into this area, and we are feeling our way. We do not know what the policies ought to be. Let us try to adopt policies which will not put up additional barriers to international trade. Let us try to adopt the same standards in an endeavour to handle this issue in a way which will give us liberal rather than protective results. This seems to me to be very sensible: In many of these other areas, whether environment, energy, or through the gamut of these, we continually have a choice of whether we will give a further push toward nationalism and protectionism, or move toward a liberal solution.

I repeat, one of the points that is so interesting to me in relation to the Canadian situation is that you can afford to be in the forefront of liberalizing, while looking out for your own interests. This is a nice position in which to be, because many others have to do it as a kind of act of religious faith. That is one of the problems in the United States, that we are so minimally involved in international trade that we can afford to be extremely stupid and reckless, yet we are so big that we can do enormous damage to the system. As I say, you are in a different position; your interests and good sense happen to run together and I bless you for it.

Senator Grosart: So you are saying that we should remain as an outside suppliant, which is what we are.

Mr. Schaetzel: I would say: Do your thing; try to continue this trend in Canadian policy, which is to push all possible levers in the direction of the further liberaliza-

tion of international economic relations and the strengthening of the institution. It seems to me that that is what you have done in the past. It is in your self-interest to do it, and I think you should continue.

I did not elaborate on the second part of your question. You probably wish I had stopped when I had just given you a yes or no answer.

Senator Grosart: Not at all, because you are coming around to exactly what I expected you would.

Mr. Schaetzel: I said that even if you decided to seek a special relationship, you would not achieve it, and I am convinced that you would not be able to negotiate it, so you would spend a certain amount of effort in a pointless exercise.

First, the treaty, as you know, does not permit you to become a member of the Community. If you were to seek some preferential arrangement, your primary interest being in agriculture, I cannot see how that would work. To have such an arrangement would tear the bottom out of their agricultural policy, which they are not about to do. I do not believe they would do it in the industrial area, because your tariffs are considerably higher than theirs. They have a thing on reciprocity, and I see no sign whatsoever that they would give that up. Finally, with regard to, not merely your relations with us, but their relations with us, they would be out of their minds to go down that road and further inflame their relations with the United States, which already are not a model of international decorum.

Senator Carter: I would like to follow up the question raised by Senator Belisle with regard to the world going adrift and the institutions upon which we have relied for so long coming unstuck. I believe Mr. Schaetzel himself spoke of those who desire the benefit of affluence, but not the affluence which produces the benefit. Before we go to Brussels and ask where they want to go and what they wish to do and so forth, should we not ask ourselves that question and come to some conclusions? Just asking the question implies that we have made up our minds and wish to carry on in the same old comfortable way, finding devices that will justify the impact on others. Surely, we really need a total new philosophy, one that is worked out in the world context, rather than in that of the United States, the Economic Community, Russia and Japan—which, after all, have a population of less than one billion, probably only 20 per cent of the world's population. Should this 20 per cent continue exhausting 80 per cent of the world's energy resources and fouling up the atmosphere? This must come to a halt sooner or later and, in my opinion, probably sooner, within 10 or 20 years. In addition to that, the type of system which we now have within the borders of Canada involves the lowest 20 per cent of the population having 6 per cent of the wealth while the upper 20 per cent has 38 to 40 per cent. The figures are more or less identical for the United States. We are therefore perpetuating this gap and, on the world scene, perpetuating it between the "have" nations and the "have-nots." Should

we not, first of all, come to some conclusions with regard to the mess we are in and what we are prepared to do, before we go over there and ask them what they are going to do?

Mr. Schaetzel: I find your question very congenial, because it expresses very well my concerns, both in terms of this widening gap between the poor and the rich, which is not merely a moral question. It seems to me it is a situation that is inherently unstable, in view of the increasing demand for raw materials and energy. I do not see how we can live with that dichotomy. I agree with you that we ought to know the kind of world we wish to live in. I was hoping to suggest earlier that it seemed to me that we all of us in the Western world, are now faced with a very gross choice. That is, we can go down a road which we began to go down, which was to create a system of rule of law in international affairs and in which we had made some progress in the economic area but not much elsewhere; or we could revert to a form of anarchy. In my opinion a five-power balance of power system, which has been suggested by President Nixon and Mr. Kissinger, while I do not know what it means or what they intend it to mean, nevertheless I find completely contrary to the first formula.

In short, it is a question of whether we wish to have a world built on accepted rules. This would involve something else, a procedure for determining the facts.

Allow me to add a footnote to that. I refer to the visit of the Ways and Means Committee to Brussels, because it is probably our most important Congressional committee, as you know, and it was the first time it had ever been out of the United States. I believe they shared some of the same concerns as you with regard to whether travel is recreational or serious. Therefore, they were nervous about going, but I have not the slightest doubt as to the value of the trip for them and for the Europeans. The point of this footnote is that one of the feelings they came away with was that it was almost impossible to agree as to the facts—the impact of the border tax, for instance, as a non-tariff barrier, and what was actually happening in terms of the flow of trade. In other words, at each juncture it was not only a question of arguing about a situation in which each agreed on the issue; they did not even agree on the facts themselves. There must be, therefore, a system for identifying the facts, which each side agrees to accept as part of any process of mediation or arbitration of disputes. We must also increasingly codify the trade laws. The Community argues that the Mediterranean agreements, are consistent with the provisions of the GATT and, if this ultimately comes to a vote in that body, they have the votes to put it through. This is one way to destroy the institution which they profess to admire, by bending the interpretation of its provisions to the extent that they become totally meaningless. We are also guilty of this and, I suppose, everyone is. There is always a "Philadelphia lawyer" to be hired to help with a case. In any event, we not only need to improve this system of trade law, but must have a sense that the law is important to our national interest, which means strengthening the institutions as well.

Neither the IMF nor the GATT has been strengthened by recent events. They have been eroded by recent events; and I think one has to go back and take a look at that.

You have asked a question which I shall answer—I hope it is the course which Canada will follow. It is the direction in which I would hope the United States would go, but I think it is tending to go in the other direction. That is, to try to select areas which are not the most sensitive; in which there is a secondary or tertiary political and economic national interest, and to say, "This is something we will put into the international hopper. We will be guided by the system; we will agree on the rules; we will be bound by a decision which is made on a democratic basis." It would be a strengthening process, to move in that direction. But, as I say, it cannot be done on the most vital interests. We are just not at that stage. Nationalism is too strong. Interest groups in Canada and elsewhere are too strong.

You are certainly right. Unless you are going to engage in an almost rapporteurial function of just asking questions to get answers, it is obviously useful, in carrying on a discussion with the Community, to have some notions of where you want to come out, without obviously trying to impose these views on them. There should be a conceptual framework against which you can carry out your inquiry.

Senator Carter: The balance of trade is very important because it affects our monetary system, our rates of exchange, and so on. Can we hope to get out of this bind as long as we are worshipping the gross national product as our economic be-all and end-all of existence? Can we have both? Can we not forsake one? Can we have it as long as we insist that our main objective in Europe, in the United States and Japan is to get a bigger and better GNP?

Mr. Schaezel: The Club of Rome started this ball rolling. I think a useful function has been performed, without necessarily agreeing with the analyses or conclusions. Nonetheless, they are now bringing to the fore a discussion in which we all should engage, both within our countries and among ourselves, as to where are we going, whether we have been essentially sacrificing ourselves and future generations on the altar of just economic growth.

Sicco Mansholt, who is a great European and most recently the president of the Commission—he has just resigned—was obsessed by the Club of Rome and by the question you have just raised. Initially, he was interested in zero growth. I think subsequently, in the refinement of this—I do not want to speak for him—my sense of the evolution of his thinking was to begin to emphasize the question of quality.

I would have hoped that what we were struggling for was a mixture of continued growth, which we must have because of needs and aspirations and growing population, with a greater emphasis on quality. That is really a guess about what the emphasis on environment is all about. We are no longer just content with a chem-

ical plant which will create a certain margin of profit, but a chemical plant located—Where? What are its emissions? What is the product? What is the waste quality of the product? And so forth. This is obviously introducing quality into quantity and profit.

It is absolutely astonishing for me to think back. I was born in California, and one of my grandfather's close friends was John Muir, who was the man responsible for beginning the park system and who is referred to as being the great naturalist of American history. One can think of the years during which the Sierra Club and the Audubon Society worked on this whole issue; and then all of a sudden it exploded. Suddenly within a few years, the environment has become something which no one can stand up against, whether it is the executive branch or the Congress or the business community. This, to me, indicates that there is a profound change going on, at least in the United States, in a very unthoughtful way but moving towards quality as contrasted with quantity. The young people, God bless them, are in the forefront of this.

Senator Cameron: Mr. Chairman, arising out of Senator Carter's question about the GNP and the work of the club of Rome, I think probably it is in this area that some of these answers will be found. It is a matter of interest that some of us tomorrow morning will be meeting with representatives of the club of Rome on the OECD, right here. So I think that is one of the profitable areas to be explored. My first question is: Early in your very fine presentation you said that when governments find things getting out of hand, they are not very effective at putting them back together again. If governments are not going to do it, who is going to do it?

Mr. Schaezel: The thrust of that particular observation, senator, is to try to avoid letting things get out of hand, because if I had confidence in governments being able to get at the situation when it was rapidly going down the slope, I would be a little less worried about its happening. Therefore, this was really aimed at trying to get at things before they reach that stage.

The answer to your question as to how, if they do get out of control, you control it again, I would despair of, because if you had very strong international institutions, they might play a role; but you do not have them. To be very personal, and to make a general observation, I do not think that history—or, at least, our particular period of history—is blessed by the most impressive group of political leaders that the West has ever had. In any event, you do not see around those kinds of towering figures we fortunately had during the war and post-war period who were able to move in, who made remarkable decisions and carried the public with them.

I just happened to be reading again a book written by a man named Jones, who, in recounting the critical period of the Marshall Plan, points out, as I think we know, in the immediate aftermath of President Truman's death, the unbelievable courage of this man who saw a situation and threw out an idea, and who, against overwhelming opposition, carried the day. I do not see around

people of courage, of political skill, of vision and willingness to try to lead; and, therefore, I am worried by the leadership factor.

The third thing that worries me, which is rather different, is that rightly or wrongly in the war and post-war period of the world seemed, but perhaps was not, a lot simpler. The tasks that we had, of recovery, of economic development, of confrontation between the monolithic communistic world and the West involved rather simple problems and presented somewhat simple solutions.

The revisionist historians say we were wrong, we did not understand the problem, we did the wrong thing, and so forth. In that regard I say: Thank God they were not in charge. It seems to me that if you analyze the problem and do something about it, that, in an imperfect world, is about the only way you can sensibly behave. We are in this situation, as I described earlier, of almost infinite complexity which has created another problem—a problem with which you gentlemen are more familiar than I—that of the extent to which the public in general is repelled by complexity. A congressman friend of mine sent out a questionnaire to his constituents with respect to various issues on which he wanted their advice. He made it quite clear that he would not be bound by that advice. The response that he got was: "Take your questionnaire away! I sent you there to handle those problems, not to bother me with them. I have enough bothering me now."

People are simply overwhelmed now, because of the means of communication, with problems running from the household on through to the international scene. So all of these come one on top of the other. This leads me, as a person who came out of the interstices of a bureaucracy, to say that I do not want to run the risk of having problems get out of hand, I am very apprehensive, from my experience, of anyone or any institution being able to put it right again.

Senator Cameron: Just two questions. You made a remark that there is almost evidence of collusion between the United States and the EEC against Japan. Yesterday Prime Minister Tanaka made a statement that he was very worried about what has happened recently and its effect on Japan. The devaluation of the U.S. dollar by 10 per cent and the upward revaluation of the yen by 16 per cent, in effect overnight, imposes a 26 per cent barrier against Japanese exports. This seems to me to be the kind of explosive issue that is on the verge of getting out of hand. Japan is certainly not going to sit under that. We little people in Canada are almost facing the same thing in our negotiations with the United States, vis-à-vis a number of issues. What is likely to happen in this area?

Mr. Schaezler: This worries me exceedingly. I am not an expert on Japan. I have been identified with Europe. However, I was sufficiently interested in it that I asked my department to send me to Japan, and I did go there a little over a year ago. I felt that I could not do what I was doing, or at least what I was supposed to be doing, with any confidence at all without having some further understanding of that aspect of the equation. There is

no doubt that the manner in which—again speaking as a private citizen—we have handled our relations with Japan has been deplorable. It is not because the number of things Japan has done have not created incredible problems for us and for Europe, nor, I gather, to some extent for you. However, that is not an excuse for the situation in which we now find ourselves. I am greatly concerned by the disinterest of the Europeans in Japan. It is almost total disinterest. I was at a Bildeberg meeting last March at which all of the American delegates tried to inject the Japanese issue into the conversation and almost without exception the European reaction was akin to the way in which you pat a small child on the head at a party with the hope he will soon go away and not bother you any more—"Yes, I know," sort of thing. There is a lack of any engagement in this issue. The attitude is: "It is not our problem. Japan is a long way off. On top of that comes fear and apprehension. If you put ignorance together with fear you really have a witch's brew. One sees now the near hysteria with Phillips and the Dutch in terms of some of the electronic goods coming into the European market. There has been a very rapid statistical increase in the flow of goods. However, statistics can lie; they start from such a low base.

What I meant by my remark is that in addition to this: given the American problem with the Japanese and the really fantastic trade deficit that we have—of \$4 billion, together with European ignorance and apprehension, without doing any more than judging the situation from a distance—I am not speaking from any private information—this is the raw material from which collusion can take place. It is the type of situation in which we say, "Let's get together and work out something which will bring the Japanese problem under control"—and it does not really make any difference whether or not you do this; it is whether the Japanese think you are doing this in light of the situation just described—then you run the high risk of worsening a political problem which is already severe, and which seems to me to threaten all of our interests in the Pacific and on the world level.

Senator Cameron: I was just using that as an illustration as to how it has blown up. We have problems galore, and we are going to have more.

My final question is probably quite a simplistic one. I am a great believer in what I call the inventory system. In other words, you look at a problem, list the pros and cons and the potentialities. I am sure this must have been done in the EEC. Somebody made an inventory of the goods which are in exchange between the countries; someone else made an inventory of the tariff and non-tariff barriers, and so forth; and we get this total picture. You illustrated it by showing how a small deficit of \$2 million in your citrus fruit trade against a \$9 billion trade program can distort the whole picture. Does this suggest that one of the answers for the EEC and world trade would be the creation, to begin with, of an EEC equalization fund, ultimately to be a world equalization fund, to adjust some of these things that would be very

hard to sell to the people back home but which could be met if they were compensated, whether they be citrus growers, wheat growers or hog producers, up to a point, from some international equalization fund? Is this too simplistic an approach to this problem?

Mr. Schaezel: I see what you are getting at. I am somewhat daunted as to how one would do it. I would try to extract from your question a suggestion, a philosophy, an approach. It seems to me that the demand placed on all of us—the Community, the United States, Canada, and, particularly, Japan—is to try to see the problem whole. One of the difficulties with Japan, for instance, is the extent to which they make a minimal contribution to the defence area. The United States defence contribution to their security is significant. This puts salt on all of these economic wounds as far as the United States is concerned. The Community, to take another case, in its effort to see the problem whole, is much more responsible vis-à-vis the less developed countries than we are. I thought a bit about drawing up some kind of balance sheet in which you take politics, psychology, defence, economic factors, and so forth, to see where you are standing. This, first, could give a perspective. Once you begin to get perspective, then, it seems to me, you could ask: How do you react to other people's very sensitive problems? There is an almost total absence of any generosity of spirit now. If you contrast this situation with the post-war period, you will see a striking change. There is a narrowness, a nastiness about international relations which is exceedingly discouraging.

If you had a balance sheet and a state of mind, for which you would not keep close, daily-entry books, then one country could come and say: "We have a horrible problem with the citrus lobby; it is very active and it is very important. There is not much trade. Can't you do something?" What the Community did in this area was really quite generous. It dealt with about 80 or 85 per cent of the problem. However, it was as though one was going to the dentist once a week for months in which the pain of getting that tooth temporarily fixed was really much worse than finally having it fixed properly.

There are some things which ought to be responsive to quiet diplomacy, when we have enough confidence to say, "We have this issue. Is there anything we can do about it?" If you begin a process of solving problems rather than worsening them—which is basically what we are now doing, or dramatizing them—and then put on top of that something that has been implicit in our discussion but which I should like to make explicit, which is to search for areas of co-operation, you can change the tone of international affairs; this can be done if you begin to put some emphasis on those things in which you are working together rather than always turning the spotlight on those things which are going wrong, and which will always go wrong. I would say what you are suggesting is the right conceptual approach, but I think it has to be less mechanistic.

Senator Rattenbury: I had three questions, but Mr. Schaezel has already answered most of what I wanted

to put to him, because his remarks have been very far-ranging. There is one question to which I would like an answer. A few years ago I was a member of a parliamentary group which stopped off in Brussels en route to Amsterdam. We were briefed by permanent officials of the EEC, which we found most interesting. I was struck with the number of times I listened, privately in social conversation rather than officially, to officials saying what a great thing it would be if the United Kingdom became a member of the EEC. The reasons given did not refer so much to trade as to the expertise that would come with the entry of the United Kingdom, and the fact that it would bring within the Community an international currency of a stature that was needed. Do you agree with those remarks?

Mr. Schaezel: I do indeed. I think the British have this enormous talent for government. If one might employ a loose metaphor, they are less the inspired Gothic architects than they are the skilled craftsmen. Their whole development from the year 800, I suppose, has been a highly pragmatic response to situation. This has been a process not without conflict, but substantially without the kinds of civil wars that have marked other societies. It seems to me this is a special talent. The way in which their civil service operates, the relationship between the civil service and the politicians, the civility about the country and the way they go about things, all lead me to think, as I have thought for a very long time—and this view is shared by many Europeans—that have an intellectual contribution that grows out of the people as such and their experience, which is precisely what the Community needs.

As I suggested before, this is a political experiment; they are trying to do something nobody has done. Mr. Heath said in one of his speeches in Washington that it is not going to be a United States of Europe, because it is not modelled on the United States' experience, any more than our experience was modelled on anybody else's. They are really ploughing an entirely new furrow, and it is in that sort of way that I think the British can make an important contribution.

Quite apart from that level, how do you make it work in practice? One of the major points of the October summit was the realization by the heads of government that it does not work very well, and they said, "This is one of the major problems. We have got to have recommendations on how to make it more efficient." In many cases they are prevented from doing what they want to do because they cannot make the machinery work. Man, with all his deficiencies, ought to be just good enough to solve this kind of problem. It is an area in which I think the British can make a real contribution.

The second part of the question relates to their financial role. I talked to my European friends, a number of whom happen to live in England, when I was there in November. I wanted to find out more about what was going on in the country, which obviously confronts many difficult economic, social and internal problems and then, Ulster. What they all refer to is the efficiency of The Street, the whole field of financial and other related international services. They play here from strength, and

it is a contribution the British ought to be able to make to the Community's further development, and one which I trust they will make.

Each member really ought to do what it can within this remarkably interesting and complex Community. The problems England faces are clear to all of us. They must deal with a number of incredibly difficult internal matters to get a sufficiently strong base to make their maximum contribution to Europe. Even the political workmanship task is one in which, to some extent, is minimized by the weakness that now unfortunately curses the country. I am optimistic enough to think they will come out of this.

Senator Lapointe: What was the reaction at the highest level after publication of your article in *Fortune*; and could you have written the article if you had not been retired?

Mr. Schaezel: That is a very good question. The answer to the last part of the question is "No," at least unless I wanted to be immediately "retired," when the answer could have been "Yes". The answer to the first part of the question is a little hard. I talked to the editors of *Fortune* to find out what reactions they had got, and they had gotten a great deal of interest from it, almost all favourable. They said the only critical comments were from people who were picking up pieces of it. I do not think it is the favourite reading material of some of my ex-colleagues in the government, but that is not what I was trying to do. What I was trying to do in the article, as I am sure you appreciate, was to introduce a slight shock treatment. I was trying to generate interest, trying to get people to think about the problem in a slightly different way, rather than write a sophisticated article. It started out being twice as long as it is, and was cut back. The purpose was to get at a particular group, really businessmen, to try to get at what I thought their interests were, to get them to think about a much larger issue, which you people are here to address yourselves to.

Senator Lapointe: Were Mr. Nixon and Mr. Kissinger a little ruffled by your saying they did not know much about the Common Market? Did you hear from them?

Mr. Schaezel: There is no question as to the degree of ignorance about the European Community in the United States. It is almost total. I have had many humorous experiences on this by which, if I were subject to extreme personal humiliation, I would be submerged by now.

Even the Europeans really do not know. They have run polls, and found that about one-third of the Europeans cannot name the members of the Community. So it is a complicated body which very few people understand.

I would say not only this administration in the United States, but the previous administration, really did not have a very high level of information on what the EEC was. It is not a question of whether you like it or do not, whether it fascinates you or whether you think it is a good thing—which I certainly do—but it is just to

understand it, because it is so important. It is one of the major developments in the world, it is of consummate importance to the future of the world and it seems to me that one has to know something about it.

Within the United States government, if I were teaching a course on this subject, most of the senior officials would fail. One can excuse this to some extent by two things. One is the distraction of other urgent problems, which we have certainly had, domestically and internationally. Secondly, as I have done in the past, I would put a good deal of responsibility on the Europeans. They have not tried to explain what they are doing.

I answered this in part when I talked about the responsibility to have missions which carry on this particular task. It is not a burden which ought to be put on the normal diplomatic establishments. I have argued that when the foreign ministers, or the heads of government, are abroad, they have an obligation to try to explain to the United States what they are up to. Mr. Heath did this, eloquently and continually, both publicly and privately, and this obviously had an effect.

If this policy is important to the Europeans—as they claim it is—and this is the centre of their policy—which it seems to be—then they cannot, in good conscience, fail to make the point in their conversations with senior American authorities. They have not done this in the past.

These are the contributing elements to ignorance, but this is in the process of change. The visit of Mr. Heath and that of Sir Christopher Soames obviously have begun to change the situation. Even before that, the ambiguous phrase "It is Europe in 1973"—and I do not know what it means—is at least an encouraging slogan.

Senator Lapointe: Thank you.

Senator Macnaughton: Mr. Ambassador, if a major trade confrontation between the Community and the United States were to develop, what do you think the implications for Canada would be? Would we be considered part of the American orbit, or could we enjoy a separate entity?

Mr. Schaezel: I do not know, I think you would be like somebody standing on the sidewalk at a time when a great wreck took place, that you would have a very strong chance of being injured. As to whether the Europeans or we would look upon you as being for us or against us, that would depend on what you did and what the issue was. I could not predict in any hypothetical sense how you would come out; but frankly, within this area of highly hypothetical speculation, you would have an awfully tough time not being involved in one way or the other, and probably in not being injured.

Senator Macnaughton: Are we considered as being within the American orbit?

Mr. Schaezel: Yes. There are other people who can answer this more responsibly than I. I think the Europ-



FIRST SESSION—TWENTY-NINTH PARLIAMENT
1973

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 2

WEDNESDAY, MARCH 14, 1973

Second Proceedings Respecting:

**Canadian Relations with the Expanded
European Communities**

(Witness:—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE
ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Lapointe
Bélisle	Macnaughton
Cameron	McElman
Carter	McNamara
Connolly (<i>Ottawa West</i>)	Nichol
Croll	Rattenbury
Deschatelets	Sparrow
Lafond	van Roggen
Laird	Yuzyk—(20).

Ex Officio Members: Flynn and Martin

(Quorum 5)

Issue No. 3

WEDNESDAY, MARCH 14, 1973

Second Proceedings Respecting:

Canadian Relations with the Expanded
European Communities

(Witness—See Minutes of Proceedings)

Order of Reference

Evidence

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.

Before asking Mr. Pélissier to proceed, may I remind members that an in-house briefing with governmental officials has been arranged for 10:30 tomorrow morning, March 15, in Room 2025A in connection with our visit to the EEC in Brussels. I urge all members who are making the trip to try to be present. We will have an excellent panel of officials from several departments who will outline the way the EEC affects Canada. The details will be placed in the Senate Record.

From my discussion with Mr. Pélissier, I understand he is going to make a presentation which will take about twenty minutes. We will have two or three minutes with a lead-in and a question period. I will be present to introduce the speaker and to moderate the question period.

Wednesday, March 14, 1973
(4)

Present: The Honourable Senator Aird (Chairman),
The Honourable Senator Molgat, The Honourable Senator
The Honourable Senator Pélissier, The Honourable Senator
The Honourable Senator ...
The Honourable Senator ...
The Honourable Senator ...

The Committee continued its study of the expanded European
Community. The Chairman announced that the Committee
will be holding a public hearing on the subject of the
expanded European Community on Wednesday, March 15, at
10:30 a.m. in Room 2025A of the Senate Building.

At 12:40 p.m. the Committee adjourned to the end of the
day. The Chairman announced that the Committee will
be holding a public hearing on the subject of the
expanded European Community on Wednesday, March 15, at
10:30 a.m. in Room 2025A of the Senate Building.

First of all, then, on the proposed guidelines should be a
special relationship with the expanded European Community.
The special relationship is a key element in the
Canadian membership in the Community. It is a key
element in the treaty—did it might take it as a
precondition for the arrangement of the trade area.
At least one of your witnesses has recommended
this; others have questioned it.

The question came particularly to the fore in the
discussion with the witnesses. The witnesses were
asked to discuss the special relationship with the
expanded European Community. The witnesses were
asked to discuss the special relationship with the
expanded European Community. The witnesses were
asked to discuss the special relationship with the
expanded European Community.

Minutes of Proceedings

Wednesday, March 14, 1973.

(4)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 11.05 a.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Carter, Deschatelets, Flynn, Grosart, Lafond, Lapointe, Macnaughton, McElman, Sparrow, van Roggen and Yuzyk. (12)

Present, but not of the Committee: The Honourable Senators Argue, Heath, McGrand and Molgat. (4)

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee and Mr. Peter C. Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade.

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

Witness:

Mr. A. F. W. Plumptre,

Special Adviser on Governmental Relations, International Development Research Centre.

At 12.40 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

Order of Reference

THE STANDING SENATE COMMITTEE
ON FOREIGN AFFAIRS

Extract from the Minutes of the Proceedings of the
Senate, Wednesday, March 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
foreign purposes of such study of relations and
reimbursement of the Committee may determine and
to compensate witnesses by reimbursement of travel
and living expenses if required in accordance
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 Fortin
Clerk of the Senate

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Wednesday, March 14, 1973

The Standing Senate Committee on Foreign Affairs met this day at 11 a.m. to examine Canadian Relations with the expanded European Communities.

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

The Chairman: Honourable senators, in welcoming Mr. Wyn Plumptre as our witness this morning, I feel I must offer some apologies for the numerous times we have had to change the date of this meeting. However, we are grateful that he has always been very co-operative in adjusting and has consented to appear today just on the eve of a trip he is making to Latin America. I understand he is leaving at 6 o'clock tomorrow morning.

Mr. Plumptre is with the International Development Research Centre as Special Adviser on Government Relations. An economist, he has had a wide variety of experience both in academic and government fields. His most recent posts have been: Principal of Scarborough College, University of Toronto, and, before that, Assistant Deputy Minister of Finance in Ottawa. During the past year, Mr. Plumptre was the Canadian member of the OECD high level trade group, led by Jean Rey, which examined the major international trade problems and issued a report last September as a guide to the forthcoming multilateral negotiations. During the group's meetings he undoubtedly had an excellent opportunity to gain new insights into the attitudes of the European representatives and to assess their reactions, particularly in respect to the American positions. I may say, in passing, Mr. Plumptre, that amongst your many other accomplishments, you used to lecture to me at the University of Toronto in the distant past.

Before asking Mr. Plumptre to proceed, may I remind members that an *in camera* briefing with governmental officials has been arranged for 10:30 tomorrow morning, March 15, in Room 256-S, in connection with our trip to the EEC in Brussels. I urge all members who are making the trip to try to be present, as we will have an excellent panel of officials from several departments who will outline the key features of Canada-EEC trade relations and will be pleased to discuss them and to answer questions.

From my discussion with Mr. Plumptre, I understand he is going to make a presentation which will take about twenty minutes. In our usual way, we will proceed then with a lead questioner, and Senator Carter has kindly volunteered. Then the Chair will recognize other senators in due course.

You are indeed very welcome, Mr. Plumptre, and thank you once again for adjusting to our difficulties. We appreciate it very much.

Mr. A. F. W. Plumptre, Special Adviser on Government Relations, International Development Research Centre: Thank you very much, Mr. Chairman; and may I say how delighted I am to have been invited to be with you this morning? If I can help, I will be glad to.

As your chairman has said, I have had a particular experience during the past year with the OECD Trade Committee, and a rather long experience in the Public Service of 25 years before that, all of which was in relation to international affairs.

I have read with great interest and appreciation the proceedings of your previous hearings, and I am shaping what I have to say this morning very largely in relation to what has been said to you before. To some extent I may be duplicating what has been said, but it seems to me that a rather different approach or perspective would add to the spectrum of views which you take with you as you leave for overseas.

I shall be talking under four headings. The first is to review the proposal for a special relationship between Canada and the European Economic Community. My second heading will be some remarks on European attitudes and preoccupations at the present time. My third section will be some remarks on the U.S. attitudes and preoccupations at the present time; and finally, my fourth, some concluding comments on the Canadian position.

First of all, then, on the proposal that there should be a special relationship between Canada and the European Economic Community: This special relationship, as Ambassador Schaetzel explained to you, could not be Canadian membership in the Community—this is excluded by the treaty—but it might take the form of preferential trade arrangements of one sort or another, or a free trade area. At least one of your witnesses has recommended this; others have questioned it.

The questioning came particularly vigorously from your last two witnesses. Mr. Rogers said, "It seems to me that it is really nonsense . . . to talk about preferential deals with Europe . . ." And Ambassador Schaetzel said, "You [Canadians] should not seek a special relationship [with the EEC] and even if you did, you would not get it."

I should like to say a few words about Ambassador Schaetzel's two points: first, about "you would not get it"; and, second, about "you should not seek it."

I think one can identify five reasons why the EEC would not grant any special relationship to Canada—preferential, pre-free trade, or whatever. First, and by far of most importance, is to recognize that the whole thrust of the EEC movement is European. It is the European Economic Community, and its vital and fundamental purpose was to unify a war-torn continent. That is what it was all about. It was to bring together separate and often divided nations under one umbrella, essentially, originally, economic and then broadening, at least to some extent, into the political. It is intended to be a European movement.

There is, as in any important world movement, a momentum that builds up around this sort of movement, and I find myself using the phrase which the Americans used one hundred years ago, "manifest destiny." There is amongst those who are sponsoring the unification of Europe in one form or another a sense of manifest destiny which certainly spreads over the immediate continent of Europe, which spreads a little farther around the Mediterranean and then towards the ex-colonies of Europe, but which does not spread towards other continents; and, therefore, a country like Canada is not embraced.

Senator Grosart: Are we not an ex-colony of Europe?

Mr. Plumptre: They cannot remember that far back, sir—and I do not think you can either!

I have just led into the second point, and that is that in their thinking, and in thinking of this sort, Canada's manifest destiny belongs in the western hemisphere, and in so far as they think about Canada in these sorts of global terms, they think of us as being North American. In this regard the European Economic Community has accepted as natural the common resource arrangements that have been made from time to time between ourselves and the United States; the common defence arrangements that have been made; the special financial arrangements, such as exemption of Canada from the American interest equalization tax—a discriminatory measure—and, more recently, the auto pact.

All of these things they accept as being part of manifest destiny, part of a continental concept of development.

I am not saying that I fully agree with these things. I am only saying that this is the sort of thinking that I have found in recent months in Europe.

That leads me to the third point, as to why they would not grant a special arrangement to Canada, and that is that there are no special grounds for discriminating in Canada's favour rather than in various other countries'. True, we are a former colony, but so, of course, is the United States—not to mention Australia, New Zealand, South Africa and so forth. So, if they did grant any special relationship to us, this would lead by precedent to the question of a number of other relationships; but their intention is to make Europe cohesive, which, obviously would not be furthered by granting special relationships all around the world.

The fourth reason—one which was mentioned by Ambassador Schaetzel—why they would not want to take us in is because ours is amongst the most efficient agriculture on a very large scale in the world. Their own agricultural arrangements are amongst relatively high-cost countries, highly political in their nature, and again to use Ambassador Schaetzel's phrase, "to include Canada in

the EEC would tear the bottom out of their common agricultural policy."

Finally—and this was also mentioned by Ambassador Schaetzel—the EEC has already seriously upset the United States over various eastern hemisphere extensions and special arrangements extending down across the Mediterranean. There were special arrangements, preferential arrangements, with Africa, which, as Ambassador Schaetzel explained to you, were highly upsetting to the United States—perhaps more upsetting politically than they were in terms of trade and economics. But to offer a special relationship with Canada, to make such an offer to Canada, in Ambassador Schaetzel's words, "they would be out of their minds in maintaining any sort of relationship with the United States."

Turning now to the other side, the "you should not seek it" side of the special arrangements between Canada and the European Common Market, I think this can best be put forward in terms of a sort of cost benefit analysis. What are the costs and what are the benefits to Canada from any such special relationships?

In this regard I am going to invite you to look at some statistical tables which have been circulated—statistics which partly relate to the quantity of our external relations with the Community and partly to their quality.

In looking at these tables, may I emphasize that if a country discriminates in favour of another country, or group of countries, it automatically discriminates against those who are left out. People sometimes like to look at only the "plus" side of discrimination, without looking at the "minus" side, and that leads to a lot of rather wishful thinking. So let us look at the tables, having in mind that when you discriminate in favour of somebody you necessarily discriminate against somebody else.

Table 1 is a simple table showing our exports to Europe. First, the EEC—it was in 1971 before Britain had joined, of course; then the U.K.; then other European OECD countries, most of which would be embraced in the enlarged EEC or in the countries with which they are developing special preferential arrangements, the neutrals and so forth. So one has an aggregate of exports to Europe from Canada in that year of slightly less than \$3 billion.

Those are the exports which would, in a sense, be benefited by some special relationship; they would be discriminated in favour. But the exports that would be in jeopardy because we were discriminating in favour of the EEC are impressive. First of all, the United States, \$12 billion; secondly, Japan, about \$800 million; thirdly, Latin America, about \$700 million; and all the rest of the world, Asia, Australia and so forth, \$1.3 billion. So that over against the \$3 billion of exports which we would, in a sense, be encouraging by a special relationship, you have \$14.7 billion worth of exports to countries against whom we would be creating new discrimination.

In that regard, of course, one has to recognize that these countries, particularly the United States, would be unhappy about Canada discriminating against them, but before going into that I would just like to look at table 2, which has to do with growth rates. It is true that European growth rates have been very rapid in recent years, but Mr. Rogers brought that to your attention in his evidence last June that the expected growth rates as between Europe

and Japan, the United States and elsewhere, depended in the longer term, fundamentally, on population growth rates, and in their turn, on labour force growth rates.

Table 2 indicates the labour force growth in industrialized countries. First of all, of course, Canada's growth rate in terms of labour force far outruns all the rest, which relates to our employment problems in recent years. But disregarding Canada, which is the column to the left of the groups, one has the others, indicated on the right-hand side, showing the United States and Japan as being very substantial growth rate countries over the next decade, with the European rates being substantially less. Particularly important is the growth rate in the United States for 1970-1975 and 1975-1980. So, the basic anticipation is that European growth rates will probably level off and be overtaken by American expansion.

The Chairman: Mr. Plumptre, what is the source of these statistics? Is it the OECD?

Mr. Plumptre: No. On the front page I have indicated the sources, and this one actually is from a brochure put out by the Canadian-American Committee. A couple of the others are from the report to which you refer.

Senator Grosart: Mr. Chairman, I see the other very interesting tables, and I wonder if it would be possible to have them brought up to date. I am speaking particularly of table 5.

Mr. Plumptre: I am not in a position to bring them up to date, but tomorrow you will have before you officials from the Department of Industry, Trade and Commerce who could, I am sure, bring those up to date. There is a representative of the department here today, Mr. Castonguay, who, I am sure, will report this question back, and so they can, perhaps, be brought up to date for you tomorrow.

The Chairman: Would you be good enough to do that, Mr. Castonguay? We would appreciate it very much.

Mr. Castonguay: Yes.

Senator Grosart: There are some other interesting tables in the Canadian-American Committee brochure, and while the department is bringing this one up to date, perhaps it could bring them all up to date. That would be very useful.

Mr. Plumptre: Well, there are many tables.

Senator Grosart: Not too many of them.

Mr. Plumptre: Well, Mr. Castonguay has taken a note of this. I am glad Mr. Castonguay is here because he is the author of the next two tables. He is a student of mine at Carleton University and has been working in this field.

The next two tables indicate the nature of our exports to the EEC in 1971 and are of interest. The general thrust of the top table is that we are, if I may use the expression, hewers of wood and drawers of water to a large extent for the Community. This is shown by the main exports listed on table 3(a); while table 3(b) shows how very, very small is the number and amount of our manufactured exports to Europe. This relates to things which have been explained to you by other witnesses. The types of things which we manufacture are very largely of a North American standard and are related to a North American

market, and they do not break easily into a rather different sort of market, such as the European, even into the British market where in many cases we have preferences.

That leads me to table 4 which indicates, again, that even the British take very largely raw materials and foodstuffs from us. In many cases these will be subject to new tariffs as from this year. Our exports of finished goods to Great Britain are not very spectacular, even though most of them enter Britain under preferential tariff arrangements.

Turning table 5, you will see where I use these rather spectacular tables and pictures which are in this Canadian-American report. The important thing here is, having extracted the spectacular automotive leap, which is indicated in the top table which is table A, if that automotive performance is eliminated, you see in table B that manufactures, excluding automobiles, are running at about 25 per cent of that total, and going back to the top you see it is about 17 per cent of the grand total, which, as you may remember from the previous table, table 1, was 14.7. So merely one-fifth of 14.7 is in terms of manufactured goods going to the United States.

I would also remind you of the great variety not only in types of manufactures which we sell to the United States, which are manufactures from central Canada, Quebec and Ontario, but also that we export to the United States from right across Canada. They export fishsticks from Nova Scotia and they export lumber from British Columbia. Our exports to the United States are very diverse both in local and regional origin in Canada and in types and qualities.

What I am obviously emphasizing here is the degree of exports which we put at risk if we discriminate against the United States. In my thinking, a special relationship with Europe offers no escape from our dependence on the United States. I am not, of course, saying at all that what Mr. Sharp has said to you and what Mr. Pepin has said to you about the desirability of expanding our thrust is not desirable; clearly it is desirable. What I am saying, however, is that it should not be fostered by seeking a special preferential relationship; and, secondly, I think I would add that I would question whether it is going to change fundamentally the proportions going in the various directions. It will change them marginally, perhaps, but not, in my view, fundamentally.

Senator van Roggen: What you are saying in fact is that it is a desirable thing to try, but that it is not a substitute for anything.

Mr. Plumptre: That is exactly what I am trying to say, thank you.

Now, if I may come to my second heading. I should like to remark on what it seems to me are the European preoccupations at the present time, which are certainly not with Canadian affairs—indeed, they are not with external affairs at all. They are essentially with internal European affairs. In addition to the internal preoccupations which every national government has with its national problems, Europeans now have a large number of very special preoccupations because of their involvement in the Common Market. I will run through these very quickly, just to remind you of them.

The first, of course, is the aftermath of the common tariff around the Six which, of course, has created new trading problems within Europe, and has created, as we have in Canada, underprivileged areas which need support. They need a transfer of resources to assist them and special incentives for development. There are all sorts of special problems of that kind—in addition, harmonization of national taxation; harmonization of social and labour legislation as between neighbouring countries where new goods move freely; harmonization of commodity taxation—all these things are highly pre-occupying to the Six. In addition, as I have already mentioned, they are pre-occupied by a highly complicated system of support and protection for largely uneconomic agriculture.

In addition to those two matters which relate to the Six, they now have the problem of taking in three new countries—Britain, Ireland and Denmark, three very different countries incidentally—within the common tariff and within the common agricultural policy, which add degrees of difficulty to these problems.

The next point is that they have just launched, as of last fall, an effort to create a common monetary policy—a so-called “snake in the tunnel” exercise—by which they want to constrain within narrow limits exchange rate fluctuations between European countries, while leaving the group to fluctuate rather more widely in relation to the rest of the world. The events of last week have shown the extreme difficulties they are having in relation to launching that project. Of course, the recent upsets in the exchange market have come at a very inopportune time for them, just as they were beginning a new experiment and when they would have liked to float on a sea of tranquillity for a while rather than on the waves of a tempestuous foreign exchange market.

The Chairman: Apparently, that phrase has been changed. Yesterday I listened to Forrest Rogers in Toronto on the same subject, and he said, “The snake in the tunnel has now become the snake in the lake.”

Mr. Plumptre: Yes, I see.

Then, in addition to that, there are the special relationships, to which I have made reference already, to the neutrals in Europe, to those on the north side of the Mediterranean, to others on the south side of the Mediterranean, to African countries, and so forth—a whole host of new relationships to the Community. No wonder the Community is very inward looking at present. The pre-occupations are really quite staggering. Yet it comes at a juncture in world history when outward-lookingness is highly important.

That leads me to turn to the position of the United States, about which I would like to make some remarks. At this juncture in world history the United States also has some internal pre occupations. President Nixon has identified many of them in his recent messages—lawlessness and violence, drugs, inflation, unemployment, bulging bureaucracies, which is not confined to the United States, urban sprawl and decay, pollution, and the preservation of the environment, resource exhaustion, and so forth—there are many internal pre occupations for the United States.

Let us remind ourselves what a small segment of the United States has any active interest in the outside world. Canada generates more than 20 per cent of its gross

national product from exports; both the EEC and Japan generate about 10 per cent of their gross national product from exports; but the United States only generates between 4 and 5 per cent of its gross national product from exports. Therefore, it is traditional in the United States that they should be isolationist. Yet the astonishing fact at the present juncture in world history is that most, if not all, of the world leadership in regard to new initiatives of an outward-looking character is coming from the American administration. I am no vast admirer or lover of President Nixon, but this cannot blind one's eyes to the fact that these initiatives are coming from the United States, and the fact that these initiatives, broadly speaking, are very much of a type which is compatible with Canadian interests.

Let me just remind you of a few of the American administration initiatives over the past year to 15 months.

Firstly, it was the Americans who brought Japan and the EEC to agree to a new round of negotiations under the GATT for a further reduction of trade barriers, both tariff and others.

Secondly, the Americans have launched a strong thrust in an endeavour to get the Europeans to rationalize their agricultural program to make it more economic and less high-cost, and, therefore, more open to imports from the rest of the world, and also less liable to dump its high-price-support generated surpluses on world markets to the embarrassment of ourselves and other low-cost producers.

A third initiative of the Americans is to try to get the Europeans to open up their markets to Japan. The great thrust of Japanese exports has been to the North American markets, which have been much more open. The Europeans have continued to discriminate heavily against Japanese imports, so the weight, the burden of absorbing this vast flood of exports from Japan has come, quite unfairly, on to North America. Again, the Americans are trying to divert some of this flow to Europe, thereby lightening the burden on themselves and ourselves.

The United States is endeavouring to persuade the Europeans not to try to create a sort of zone of influence for the whole of Africa, but to allow Africa to become a group of reasonably independent, self-reliant countries, rather than holding them in the thrall of a sort of neo-colonialism from Europe. This American initiative is very much in our favour. Mr. Sharp remarked to you about the anomaly of our giving aid to certain East African countries when they were, in fact, discriminating against Canadian exports. It simply is not reasonable.

Again, the Americans are the leaders in proposing new rules in the world monetary system. Without going into those rules in detail at this stage, it is my opinion that most of the things they are proposing in the monetary field are the sort of things that will be helpful to Canadian interests—such as a great deal more flexibility in the exchange rate and parity arrangements which, if implemented, could allow Canada to come back within the fold of those who are obeying the rules of the international fund rather than floating outside, as we have been forced to do for so many years. In general, the U.S. approach is to restructure and rebuild the international trade and monetary system on a non-discriminatory basis that will not produce hostile blocs throughout the world. The general framework of world trade and payments is at this

time, as we well know, in danger of falling apart. Both the United States and Europe have enormous internal pre occupations; but the Americans have been able, in addition, to give world leadership in all sorts of fields of a very helpful character as far as we are concerned.

Mr. Chairman, can I briefly run over some comments from the Canadian point of view?

The Chairman: Yes, sir, I think it is a very good way to close your remarks.

Senator Macnaughton: You gave us the gross national product for exports: the EEC, 10 per cent; Canada—I am not sure of the figure—

Mr. Plumptre: Canada is just over 20 per cent, close to 21 per cent.

Senator Macnaughton: And the United States is between 4 and 5 per cent?

Mr. Plumptre: The United States is actually 4.3 per cent, between 4 and 5 per cent.

Senator Grosart: Those are commodity exports.

Mr. Plumptre: Yes, commodity exports.

Senator Grosart: It is somewhat changed when investment exports are included.

Mr. Plumptre: You mean the interest of the United States; that is quite true, yes.

Senator Grosart: And quite important at the moment.

Mr. Plumptre: Certainly, yes.

Now some comments on Canadian attitudes. As I have already said, these initiatives of the United States administration seem to me to be highly desirable from the Canadian point of view. However, we are inhibited in our reaction to them and, quite frankly, we are inhibited because in so many cases they have been put forward in a way and sometimes to an extreme which makes it very difficult for the friends, or the erstwhile friends or normal friends of Uncle Sam to give them the sort of support that they deserve. Nevertheless, I would hope that we would manage to think and work our way through these inhibitions, because in the absence of initiatives of this type the world seems to be quite clearly falling apart in a way which would be highly contrary to Canadian interests.

If by mischance or mismanagement the world does break up into blocs, hostile or other, there is no question in my mind where Canada will end up—i.e. in North America. There is no question in my mind; there is no viable alternative in any other direction. Geography, propinquity, common languages, common technology, the mass media, all sorts of things will tend, if the world does break into blocs, to mean that we will be in the western hemisphere bloc or, if you like, in the United States bloc. That being the case, it seems to me quite clear that we should bend every effort to avoid a world which does break up into blocs, whether one speaks in terms of not wanting to be in the American bloc or simply desiring a reasonable degree of independence of action for this country.

This brings us to an interesting paradox, which I am sure is true, that the best way to avoid being taken into the

American camp is to support the initiatives that they are making at the moment for a multilateral non-discriminatory world. Helping the United States may seem to some to be cuddling up to the United States. In fact, it seems to me to be the one and only way of escaping from American dominance. I just repeat that this does not mean that we should not have the sort of initiatives Mr. Pepin and Mr. Sharp have put before you to encourage and broaden our trade, to broaden our perspectives. However, as I have already said, I do not expect these to change our fundamental position of heavy dependence on the United States.

Therefore, I think my final message to you is that we should avoid preferential arrangements. As was mentioned in one of your earlier meetings, the effort to depart radically from relations with the United States was made by Mr. Bennett and by Mr. Diefenbaker. It was pointed out at that time that they were Conservatives, but it is also true to say that the first Empire preference tariffs were in the Fielding budget of 1897, which was not a Conservative budget. However, whether it has been from one side or from the other, efforts to become independent through preferential arrangements have been in one way or another doomed to failure. It is my strong feeling that if we can find a way to do so we should be supporting, vis-à-vis the world and vis-à-vis the Europeans, the United States type of initiative, in substance although not necessarily, I would say, in form.

I have been much too long; I am sorry.

The Chairman: You have not lost your rare turn of phrase—"cuddling up to Uncle Sam," "bulging bureaucracy" and a few others which make your presentations so colourful. Your efforts in going through the previous testimony and putting it all together will be of great assistance to us and will materially assist our record. We are grateful for that. Thank you.

Senator Carter: Mr. Plumptre has given us so much food for thought this morning and has covered so many vital areas that I am sure every member will have questions. I will therefore limit mine to three areas.

To begin, that budget of 1897 referred to by Mr. Plumptre was not too successful, if I remember.

Mr. Plumptre: None of the initiatives to which I referred were too successful, senator.

Senator Carter: Mr. Plumptre, you have sided with Ambassador Schaetzel in his argument against Mr. Rogers that we should seek some special arrangements with the EEC.

Mr. Plumptre: Excuse me; I think not with Mr. Rogers. The difference was with Dr. Pentland.

Senator Carter: Dr. Pentland, yes. You were a member of a study group under the chairmanship of Mr. John Rey. That group made three recommendations. First, a high priority for reciprocal trade relations, not only in industry but also in agriculture. It recommended new and substantial across-the-board reductions in industrial tariffs similar to the Kennedy Round, a one-third cut and a serious assault on non-tariff barriers which appeared to be in many cases effective substitutes for tariff protection.

Would you care to elaborate on these three points and assess the prospects for trade liberalization measures at the negotiations later this year? Do you see the possibility of any dismantling of the protectionist agricultural policy, for example, of the EEC? Do you agree with Mr. Sharp, who believes the danger of a destructive trade war between North America and Europe has receded? He is quoted in the *Globe and Mail* as saying we have pulled back from the abyss.

Mr. Plumptre: May I attempt to answer briefly as many as I can of those very challenging questions?

First of all, I think I should say that the Rey committee was not entirely unanimous. If you read the report carefully you can see that there are "On the one hand", "On the other hand", paragraphs quite often. While some clearly recommended an assault on the common agricultural policy, others emphasized that it was at the heart of the Community and must not be assaulted. My own position is that if one does not assault a situation such as this it will stay for ever. There are many in Europe who find this a very expensive and undesirable political manoeuvre and who would like to see it relaxed. Unless those who are hurt by it outside keep saying so, those inside will not receive the support they deserve.

I do not think that the common agricultural policy will wither away in a year or two. It is clearly there to stay, but the timing of its relaxation will in no small measure depend upon the degree of pressure that is exerted from outside as well as from inside.

Turning to the more general field of trade reductions and non-tariff barriers, the committee was much more unified in its approach to the desirability of the reduction of such barriers. There again, however, there was diversity, the American representatives arguing that industrial tariffs should be abolished over a 10-year period, whereas others were in a much more modest posture.

I am still hopeful that the American administration will be able to get enough support from Congress to get the legislation they need, and that they will then find enough response, both in Europe and in Japan—and here in Canada, because, after all, despite the President's preoccupations elsewhere sometimes, we are their largest trading partner. I think that the ability of the United States administration to get the legislation they need will in part depend upon the sort of noises we are making up here. This is one of my preoccupations in relation to the issues I was talking about a little earlier. If we react in an adverse way to American initiatives, or do not seem to support American initiatives, I think within the United States and within Washington the administration will not get the support which I hope they will obtain.

Having said all this, I think there is still a reasonable prospect of really substantial trade negotiations being undertaken. I personally feel that what is going on in the exchange market is not as dire a situation as other people may think. Canada has had a floating rate for a long time; it has been a much more stable rate than rates which other people have tried to fix; and I do not believe that an era of floating rates is necessarily an era of wild instability in exchange rates. If I did, I would be very pessimistic at the moment—more pessimistic than Mr. Sharp might have been when he spoke about drawing back from the abyss. We have been through some very shaking experi-

ences in exchange markets recently, but I personally take the view that this, to some extent, is allowing elbow room until we can get a new system of world monetary rules.

Senator Grosart: Would you make any distinction, in the making of noises, between quiet diplomatic noises and headline noises?

Mr. Plumptre: Of course, you distinguish between them.

Senator Grosart: I mean in this context. Which will be more influential in the long run?

Mr. Plumptre: I have not lived in Washington for a long time. There was a day when I would have answered that question, certainly, and said that the quiet diplomatic noises were the more important noises. I am not sure that is still the case. Your judgment would be as good as mine on that issue.

Senator Carter: Do you envisage the European Economic Community evolving a common policy amongst members for negotiating as a bloc in trade areas? Will the recent enlargement make a consensus more difficult to obtain, particularly in the presence of the United Kingdom?

Mr. Plumptre: The EEC in the Kennedy Round was represented by the commission as a single negotiator. So the Six have, in fact, achieved this position in regard to trade and tariff matters. There are all sorts of other matters where they are not equipped to speak with one voice, but in trade and tariff, yes, they are equipped to speak with one voice. The accession of the three new countries will, of course, add to the difficulties of obtaining unanimity, but I would not say "materially." I think that the machinery of bringing about the consensus and speaking with one voice is now well established, and therefore I do not envisage the accession of these three countries resulting in an inhibition in speaking with one voice. Now, the voice may be different from what it would have been if these three had not been in; there may be a bit of an English accent.

Senator Grosart: Or an Irish accent!

Senator Carter: I perhaps should have added one other point. If they do evolve a method and do, in fact, speak with one voice, will their set-up enable them to have sufficient flexibility to make any meaningful progress?

Mr. Plumptre: On tariffs, yes. They really are master of the common external tariff; there is no question about that. On the non-tariff barriers, which do not fall entirely under the commission, the answer has to be more equivocal. There, individual countries may have to speak with individual voices. It is a question that you might ask when you go over there. I do not know the entire answer to that question.

Senator Carter: Do you agree with the U.S. opinion which accuses the EEC of causing the demise of the most-favoured-nation principle in GATT by its new system of preferential arrangements?

Mr. Plumptre: I think that is a great exaggeration. I can see the element of truth that clearly is there, but it is a great exaggeration to suggest that the most-favoured-nation concept goes out the window when EEC comes in the door.

Let us look at table 1 and just remind ourselves that what we are talking about is some sort of fusion, as far as Canada is concerned, amongst the groups in the top section of that table. Therefore, to a greater or lesser extent, the most favoured nation, with individual parts of that group, ceases as far as Canada is concerned. But "most favoured nation", as far as the group as a whole is concerned, continues. That becomes a very important trading partner. But if you look at the rest of our list, MFN still applies individually throughout the rest of it. To say that it has disappeared is wrong. To say that it has changed its form in Europe so that we do not have MFN with each individual unit but rather with the thing as a whole, that is true. But I think the American position on this is grossly exaggerated.

Senator Carter: I gathered from your answer to my first question that you are optimistic that the present instability of international currencies can somehow be straightened out. Would you be good enough to give the committee your comments on the present system? What is the root of its main weaknesses? Is it the United States balance of trade? Is that the main factor in its instability, or are there other contributing factors? What is the real root of the trouble at the present time, and how do you think it can be overcome?

Mr. Plumptre: There is a legal root, that you referred to; and then, of course, there are some economic and financial roots. The legal root of the difficulty is the peculiar position accorded in the agreement of the international monetary fund to the U.S. dollar. It accords to the U. S. dollar a central, pivotal, fulcrum-like position with all other currencies reacting around it or against it to form their relations with each other; and because it was accorded the position of a fulcrum—and it seemed sensible in 1944 that it should be accorded such a position—it does not have the same mobility as the people at the two ends of the seesaw. It has stuck, and there has to be an agreement amongst all concerned under the fund rules for an effective change in the U.S. dollar. Therefore, there was a real legal problem to getting the U.S. dollar into relationship with the changing U.S. balance of payments, so there is that legal problem.

In addition to that, there was, of course, the U.S. balance of payments position, which went from bad to worse, which in my view would not have gone that way if they had had the same rights to change their currency as other countries had—which they did not have. So, I think from a legal point of view that is very important.

A second point, which relates to the operation of the fund, is to try to ensure that in future, creditors, internationally speaking, have reciprocal responsibilities with debtors, rather than creditors having a free ride and the debtors being responsible for doing all of the adjusting. I think this is a highly desirable concept.

A third concept that we need to introduce—and I have already referred to this—is a greater flexibility in the adjustment of exchange rates so that the exchange rate can take on its shoulders more of the burden of altering capital and commodity movements to bring about balances.

Senator Carter: Thank you, Mr. Chairman. Perhaps you could put me down for another round, and I will now yield to other members of the committee.

Senator Macnaughton: Mr. Plumptre, you have already answered in the last five minutes some of the overall questions I had in mind. I am going to throw a global question at you. Would you explain the monetary difficulties at the moment vis-à-vis the positions of the EEC and the U.S.A., and where Canada fits in? I do have some notes here. For example, they refer to the prospect for complete monetary union in the EEC by 1980, with a pooling of national reserves, with the issue of European currency in 1974 and a general integration—

Mr. Plumptre: I do not think there is a proposal to issue a new currency in 1974.

The Chairman: To create a unit, though, sir, I believe.

Senator Macnaughton: To launch a new European currency unit in 1974.

Mr. Plumptre: Yes, that is right.

Senator Macnaughton: I suppose it could be summed up thus: Have the current monetary difficulties served as an impetus to integrate the European monetary policies by uniting them against the United States? This is all part of the greater problem. Could you develop your theme a little further?

Mr. Plumptre: My own view is that recent experiences have emphasized the difficulties inherent in this common currency proposal. I think the program is likely to be deferred or delayed. As may be clear from what I said a few moments ago, I put a good deal of store in the relief that a country can get by having its exchange rate move up or down relating to its balance of payments. We certainly have found periods of a floating rate—where the thing could move a bit one way or the other and absorb the pressures of trade and investment changes—to be a considerable relief. I fear for an effort to try to bind Europe too tightly together. I think they have a good deal in common, but I think it will aggravate their difficulties inter-regionally, such as we have here in Canada with respect to transfers between provinces causing difficulties—areas that are hurt by one or another monetary policy. As long as they are separate, each country can take the line that is most accommodating to its agriculture, its industry, and so forth. If you get them all into a common monetary straitjacket, I think they are in for an aggravated problem. This view, of course, is not shared by many Europeans.

Senator Macnaughton: As between the North American bloc and the European bloc, where do we stand? We are on the circumference. We are only a small country vis-à-vis the power in force and the monetary influence of other countries.

Do you think we can just withdraw north of the border and say, "We will look after ourselves and wait until you people have slugged it out"?

Mr. Plumptre: Our experience with the floating rate is standing us in very good stead at the moment. It is allowing us not to get too deeply involved in the problems. I think that the float of Europe against the dollar, which is pretty much in effect now, is going to ease rather than aggravate their problems. Therefore, I am not worried by our present situation. Our float allows us to stand a little apart from the heat of the argument. I think it is very

important that we should see a world monetary system re-emerge. It is for that reason that I welcome the American initiatives which, I think, are generally of a sort we should support.

The Chairman: I should like you to comment, Mr. Plumptre, on the fact that the U.K. did not come into this joint float. What would be the reaction to that in Germany, for instance? I was surprised by it. With Britain now in, we have nine. One Common voice could speak for nine. Yet when we have the present exchange rate settlement we come back with six. I believe Italy was the other country outside.

I was surprised that this happened.

Mr. Plumptre: And Ireland.

The Chairman: Could you comment on that?

Mr. Plumptre: Yes. I think to comment effectively one has to go back a number of years and emphasize the degree to which British thinking has accepted the sort of position which I was mentioning a few minutes ago, the position which attributes to exchange rate flexibility a very great deal of importance in allowing easy adjustments between areas, regions and countries. This goes right back to the original proposals which John Maynard Keynes made before Bretton Woods, and there has been a stream of British thinking which has stressed the importance of exchange rate movements since that time. They have felt themselves under the funnelling system hung up, not on a cross of gold but on a cross of fund legalisms since that time. I think the British must be highly schizophrenic about this common currency proposal; it runs directly contrary to so much of British informed thinking, financial thinking, economic thinking, over the past three decades. Therefore, I was not surprised that the British continued to float. I think there was a proximate reason, too, that being that they are having these terrible problems with strikes, and so forth, against the attempt to control wages. It would be a very difficult time for them to pin their colours to any particular mast.

The Chairman: I agree with you. I think the fact that they did not join, in fact, does delay the monetary union. I do not think there is any question about that.

Senator Macnaughton: I have two other simple questions. Would you care to comment on the Euro-dollar situation and the multi-national corporation situation?

Mr. Plumptre: I cannot comment easily on both because I do not really understand them. That puts me in pretty good company.

The Chairman: A very large group.

Mr. Plumptre: The Euro-dollar market is obviously a source of instability in Europe, but it has also been a source of expansion in Europe. The multi-national corporations which, of course, have been moving the funds around from capital to capital, are, to some extent, the causes of the problem. However, I would say, rather, that the world monetary arrangements have not yet been accommodated to the realities of the modern world—i.e., the multi-national corporations and their movement of funds. I do not blame them; they are doing their own thing and that is what they are for. I think we must get a new exchange rate system in the world which can accommo-

date this type of movement. However, I am not very good on either.

Senator Macnaughton: If you had to choose, Mr. Plumptre, would you choose the U.S. dollar or the new evolving currency of the EEC to link yourself to—you as a Canadian.

Mr. Plumptre: There is no question about that. If you look at page 1, this tells you immediately where we link. Senator Grosart's comment about finance makes it an open-and-shut case. Our financial relationships are very largely with the United States, so we automatically link up in that direction. It does not necessarily involve fixity, but it does involve the sort of primary relationship as being with the U.S. dollar. Many other countries in the world will find themselves in that position.

Senator Macnaughton: At the beginning of your address you used the phrase, "manifest destiny." I think I have heard that before, certainly at first year McGill. Would it be facetious to call it, speaking of the Europeans, manifest conceit?

Mr. Plumptre: Was it?

Senator Macnaughton: Would it be?

Mr. Plumptre: But I have put the question back to you. Was it conceit of the Americans to think of manifest destiny in taking over "Fifty-four-forty or fight?" I think it was conceit on both sides to a certain extent. The thrust cannot be ignored.

Senator Grosart: They did not fight and they did not get fifty-four-forty.

Senator Grosart: In the Canadian-American booklet there is another very interesting chart, which I am sure you will recall, which presents the present and predicted population market—the market which faces us now and will face us in the future. This chart indicates that we are really going to be the odd man out. We will still have in, say, 1980 maybe a population market of 25 million, and almost everybody else will have a market of at least 100 million, some much more—the EEC 300 million, the United States 200 million, Japan 100 million. Can we really be the odd man out, or will we be forced into economic integration with the United States?

Mr. Plumptre: We will be forced into integration with the United States, in my view, if there is not a substantial reciprocal reduction of trade barriers on both sides of the Atlantic.

Senator Grosart: That answers it, thank you. It is a great answer.

Senator Lapointe: Could you assess the prospects for trade liberalization measures at the forthcoming negotiations? Do you see a possibility of any dismantling of the protectionist common agricultural policy?

Mr. Plumptre: I think it would be a great mistake to assume that the common agricultural policy is immovable. I am sure that over time there will be forces working from inside as well as from outside that will modify the common agricultural policy. It will not happen soon, but it will happen sooner if there are pressures from outside as well as from inside. Therefore, there will not be any

radical change within the next two or three years. The negotiations of which you are speaking will probably last, if they get going in 1973, for three or four years anyway; their results will then be put into effect over another three or four years; so the outcome is nearly a decade away, by which time there may be quite substantial changes in the common agricultural policy.

Senator van Roggen: Senator Grosart has really asked the question I intended to put, but I would like to elaborate on it a little. Mr. Plumptre, you mentioned that the only way we could really avoid economic integration with the United States was if the multinational trade negotiations were further successful. They will only be successful to a degree of lowering tariffs, not creating one global free trade area; at least, I do not suppose we will have a global free trade area. We have these huge manufacturing trading blocs. I say "manufacturing" because they are the industrialized part of the world; they are not in the Third World. Nobody has mentioned Russia, which has a market, with its satellites, of 350 or 400 million, I suppose. Europe has 350 million; the United States has 200 million, but I suppose a purchasing power of 300 million; Japan has 100 million, but by the same token a market larger than its population because of its lower wage scales, which automatically puts it into a greater area.

At the beginning you pointed out, quite properly, that even our exports to Europe are largely raw material oriented. Certainly, there is a complaint that our exports to the United States are this way. The common catch phrase in Canada is that we have to get more value-added, more manufacturing going in Canada. How can we get into the manufacturing business in a big way with our 22 million, when everybody else is working a market run of 200, 300 or 400 million, unless we get into a bloc, and there is only one bloc to get into?

Mr. Plumptre: I can only repeat what I said to Senator Grosart. I think we will be forced into a bloc unless there is a substantial reduction of barriers by the two big blocs. I do not think this is outside the bounds of possibility.

Senator van Roggen: Would you develop to what extent you think these negotiations might carry tariffs down? In other words, is it fractional? Are you really thinking in terms of something approaching free trade on such a massive scale?

Mr. Plumptre: Some top people in Washington are certainly thinking of what was in the Rey Report, an approach to the elimination of tariffs on industrial goods over 10 years, subject to an important escape clause which would allow temporary protection in cases of serious injury. This concept of a so-called "safeguard" clause, on which there is a good chapter in the Rey Report, has a very high ranking in the American mind. Incidentally, in the Rey Committee there was strong response to this on the European and on the Japanese side. One has to think of both a sweeping reduction of barriers as between the big blocs, and the possibility of imposing some sort of temporary restraint when markets are being flooded. This is conceived of primarily in relation, of course, to floods from low-wage areas where new technology suddenly goes in and there is massive development.

Certainly, my experience on the Rey Committee led me to be reasonably hopeful that there could be a reasonable safeguard clause plus a very substantial reduction in bar-

riers. I am not talking of agriculture at the moment, which I think comes along behind.

Senator Molgat: If I heard you correctly, you said you hoped we would soon get back to a world monetary system. What kind of system do you think we should have?

Mr. Plumptre: That is a very big question. Perhaps I should start by saying that I am sure we need a system, that we cannot be without internationally accepted rules in either the trade field or the monetary field unless we want to get back to the 1930s, when it was catch-as-catch-can, the devil taking the hindmost and the weakest. I am convinced that the world needs rules which are internationally accepted, broadly accepted; there can always be some flexibility, and perhaps some derogation, but basically there must be some accepted rules of trade and international finance.

For that purpose we need an international body which is, as it were, the keeper of the rules. I would therefore think that on the monetary side you certainly need the International Monetary Fund, with its system of consultations and inter-relations and many of its provisions. I think its rules need to be changed in certain respects, funnily enough not very extensively, because many of the rules and regulations are simply administrative and organizational.

First of all, as I have already said, the place of the United States dollar needs to be changed. We need to get an international fulcrum which is not a national currency. Luckily, this was evolved in the so-called SDR, the Special Drawing Right facility, which was evolved only three years ago, so we have in the nick of time, as it were, an international fulcrum to which currencies can relate, and the United States dollar can be released from its fulcrum position without any great difficulty.

Secondly, one needs provision for more flexibility in the adjustment of exchange rates, which have been pretty sticky, to use the word, and have not moved easily in response to changes in national balance of payments.

The third point I would make, which I think I have already mentioned, is that the rules should provide for reciprocal responsibilities on the two sides, that is, creditors and debtors. The present rules almost entirely allow creditors to do what they want and put the responsibility on debtors to do the adjusting. I think one needs to have some sort of reciprocal relationship.

Going back to the question of exchange rate movements, one of the reasons I liked the American proposals, which were put forward recently in the international forum concerned, was that they stress the desirability of having some objective criteria as to when one should or should not move the value of one's currency.

The great problem over the past 20 years has been that governments are very coy about reducing the value of their own currency. They feel that it is an admission of national failure and that it is something they want to avoid—unlike when the Bretton Woods Agreement was written the anticipation was that the 1930s would be the pattern, when everybody was trying to compete for the lowest possible position of their currency and competitive advantage for exports. But over the 20 to 25 years that the Fund has been in existence, under the rules, and the way

the rules are written, a country has to admit that it has got into fundamental disequilibrium before it can reduce the value of its currency; and this is a pretty nasty thing for a government to have to admit. I think that sort of thing must be changed.

These are the remaining areas that I see. They are not very great, but almost any rules are better than no rules. That is the way I look at it.

The Chairman: Senator Molgat, might I ask a supplementary question at this point? Mr. Plumptre, how does the United States escape the dilemma it is in at the present time? I appreciate your argument that the United States no longer wishes the U.S. dollar to be the fulcrum; yet on this most recent settlement I just do not understand how the United States can escape from the commitment of supporting the U.S. dollar; and in that way the U.S. dollar once again becomes the convertibility factor and goes back again to the fulcrum position.

Mr. Plumptre: Excuse me, but it does not necessarily go back to the fulcrum position. If the United States does not support the value of its own currency, it becomes unlike most other currencies of the world, because there they do support the value of their own currency. This is not a peculiarly fulcrum position; this is just the normal position of a country having to support its own currency when it is under attack. The peculiar situation that we have been under recently has been that the United States has not been supporting its own dollar; the supporters have had to come from Germany, from Britain, from Europe, from Japan. I think that the United States, clearly in this current round of negotiations, is taking the position that it does not wash its hands of the value of the U.S. dollar. But that does not mean that it gets back to the fulcrum position; it only means that it joins the rest of the countries in feeling that it has a responsibility to support it.

The Chairman: I would respectfully point out to you that I think there is a great difference between just "washing your hands" and whether or not you are committed to stand behind your currency. It seems to me that if the United States wished to proceed to get to this multilateral situation we have previously been discussing, perhaps one of the things it is going to have to trade is the fact that it will support its currency.

Mr. Plumptre: They would accept that, the Americans would accept that, too, as a basic necessity for a new system.

The Chairman: Thank you, that is my point.

Mr. Plumptre: There was one little piece in the paper which I left out and which I could bring back in a few minutes, if there were time. I want to comment on the protective nature of the common agricultural policy and of the common tariff. I could do that in a few minutes, if you want me to, but I do not want unduly to prolong the discussion.

The Chairman: What is the feeling of the committee?

Senator Macnaughton: The offer should be accepted, surely.

The Chairman: Yes. Would you please do so, Mr. Plumptre?

Mr. Plumptre: The points I want to make are simply these. When you get to Europe and start to talk with the representatives of the EEC, they will start, if I may say so, to do a bit of brainwashing on you. They will tell you that the Common Agricultural Policy is really not that hurtful, and they will tell you that the common tariff is not that high.

I just want to warn you to beware of this particular sort of brainwashing. First of all, on the Common Agricultural Policy, it is true that some exports of agricultural products still go into Europe, and over the past 10 years their agricultural imports have been gradually increasing, but of course not nearly at the rate of their own economic growth. Therefore, when they point with pride to the fact that there has been some increase in their agricultural imports, please do not believe that the Common Agricultural Policy is not there. It is there; it is a highly complex, highly protective system of agricultural support. In that regard you might look at the next-to-last table in my batch, which I put in for this purpose. This table really is designed to show how far the European countries are still agricultural. I do not want to go through it—you will have time to look at it—but you will see that regarding Canada, as of 1970, let us say, if you look at the second column and the second figure in it, 7.7 per cent of the labour force is in agriculture, as compared to 4.4 in the United States. The European countries are almost all substantially higher than the United States and ourselves. Most of us think of Europe as being highly industrialized. In fact, it is still more agricultural than we are on this side of the Atlantic. This is some of the explanation of the protective canopy which is put over European agriculture by the common agricultural policy.

So, while in regard to some exports, and that includes some of our exports—they will point to you and say "Look, your exports of so-and-so have done very well"—that is perfectly true, but a lot of other exports have not done as well.

Secondly, there are arbitrary decisions at the other end; we never know what is going to happen to our exports. Thirdly, by their high price supports they generate surpluses which they dump into third markets, to the detriment of ourselves, the Americans, the Australians and so on. So don't let them brainwash you by telling you that the Common Agricultural Policy still allows imports in.

The other thing is, do not let them brainwash you by telling you that the European tariff is in fact really a very low tariff. It is for this purpose that I have produced from the Rey Report table 7, at the bottom of the same page, to show that the business of averaging tariffs is highly complex, for reasons which I will not explain. I commend to you No. 3 of the various columns, in the pairs of columns, rather than the others, but they are all highly complex.

This indicates that the EEC—if you look at the right-hand group of No. 3s—has an external tariff, on dutiable items only, averaging 8 per cent, while the United States is slightly higher at 8.5 per cent, and Canada is at 14.1 per cent, so we are the horrid protectionists on the scene. They indicate to you that they are a very kindly group towards imports, through this low external tariff, whereas we Canadians are a wicked protectionist group.

First of all, the position of us Canadians. This averaging refers only to published, most-favoured-nation rates. It therefore excludes all the preferential rates which in

Canada, in certain areas, are very important. That in itself would bring our average substantially down.

Secondly, it does not take into account the fact that in many areas we have important tariff remissions under the Customs Act, that, for instance, the whole of the automotive pact is not included, nor the many special tariff agreements. It takes account of MFN tariffs as published, but the whole area of nil tariffs is not reflected here. So that as far as we are concerned it is suggested that we are a good deal more protectionist, tariff-wise, than in fact we are.

The second point to note is that in the use of non-tariff barriers we are perhaps as pure as any country in the world. I recall in a group which was meeting at Carleton only yesterday that it was brought to my attention that the UNCTAD—you know, this group which is essentially the developing countries—has identified the purest countries in the world from the point of view of non-tariff barriers, and Canada was one of the two purest countries in the world for not using non-tariff barriers to support its tariff protection.

The third point I want to make about this is that the European tariff may average at 8 per cent and they will emphasize that they have a fairly level wall of tariffs. They will hold out to you that they are not like those "horrid Americans" who have tremendously high rates and peaks, and one of their ploys is to say that, "We want to negotiate down the peaks in rates before we negotiate rates in general."

But do not forget that for every peak there is a valley. An average is the averaging of peaks and valleys. A tariff wall with no peaks is also a tariff wall with no valleys. The result is that you yourself can consider whether a tariff wall averaging 8 per cent all along is or is not more protective than if half the wall is 14 per cent and half is 2 per cent. Obviously, the tariff wall which is half 2 per cent and half 14 per cent—which will average out, if I have my mathematics right, at 8 per cent—is a less protective tariff wall than one which is fairly level.

Having said that, I would go on to say that when you look at it from the outside, the European common tariff does not always look like an 8 per cent tariff.

Mr. Lane, of the Department of Industry, Trade and Commerce, kindly supplied to me last night a list of a number of tariffs where Canada did export or might like to export manufactured and other goods. Perhaps I could just leave this with you and it could be circulated.

The Chairman: Thank you.

Mr. Plumptre: This shows the high custom duty rates of the Community for certain Canadian exports; in the agriculture area from 16 to 27 per cent rates; for certain industrial materials from 7 to 16 per cent rates; and in some manufactured products from 15 to 22 per cent rates. These are in areas of interest to Canadian exports. I do not need to read out the list, but perhaps it could be attached to the proceedings or circulated in one way or another.

I believe Mr. Lane, who wrote the letter, will be with you tomorrow. He gave me permission to table this list, but it is his baby, not mine. I just wanted to bring it in as an indication that you must not be bemused when the Common Market people say that they have on average a

low tariff and that, therefore, they are not very protectionist.

The Chairman: Thank you very much.

Mr. Plumptre: Those are a few pebbles to throw, if you want to throw pebbles. Thank you, Mr. Chairman. That was the additional remark I wanted to make.

Senator Carter: Before I ask my final question, I should like to ask a supplementary to Senator Molgat's question with respect to the world monetary system. What role do you see gold and SDRs playing in that new system?

Mr. Plumptre: First of all, SDRs, which you may or may not recall, are the so-called Special Drawing Rights or assets which are held by countries in the International Monetary Fund. Sometimes they are called paper gold. Unlike the ordinary drawing rights, which have been with us since the Fund was started and are intended to provide temporary support for a country whose currency is under attack—you borrow, you repay, the Special Drawing Rights go on forever and are issued, or can be issued, on the first day of January every year to make sure that the supply of basic world monetary reserves increases in response to the demand for expanded trade and so forth—they were born in a situation where we were all worried that gold was an unpredictable and unstable source of growth in world monetary reserves, and it was therefore considered desirable to create a man-made central reserve. It is rather like a world central bank operation. Just as a central bank in a country now creates and provides its reserves for the commercial banking system and the rest of the financial system, and does it at a certain rate to provide for expansion and, possibly, inflation, so on a worldwide basis there was this system of Special Drawing Rights produced for that purpose.

I am quite sure that that is with us to stay. It provides not only for man-made increments to world reserves, but it also provides, as I think I mentioned, the fulcrum, an internationally-created fulcrum, for the world currency system which releases us from the necessity of using a national currency.

As for the future of gold, this is a highly subjective and controversial issue. Personally, I think that gold is for the birds. That is not a sentiment that is highly esteemed in northern Ontario.

The Chairman: Or in France.

Mr. Plumptre: Or in various other countries. I think that gold has been a great source of difficulty and trouble, and I hope and believe that we are on our way to putting it permanently to bed and to rest—probably within the world monetary system, but, as I say, to get away from it as an active agent in any sense in the world monetary system.

The introduction of the so-called two-tier gold market of about four years ago was, I think, the beginning of the end. It was then that the major central banks of the world dissociated the price which they held gold in their own reserves from the market price, and the market price, as you know, has skyrocketed from that time. But that does not worry me. Now, as a matter of fact, the central banks are a bit unwilling to trade gold among themselves at the officially-agreed price. That also does not worry me too much. They have other assets to trade.

Senator Deschatelets: I agree perfectly with what you have just said on gold, but how can we explain this persistent increase in the price of gold on the unofficial market?

Mr. Plumptre: The only thing I can say is that hope springs eternal. In this case it may not be in fact eternal, but at least it will spring for a time. But as long as the world's central banks stand firm on their decision of four years ago, this bubble will collapse. It keeps on blowing itself up in the hope that the world's central banks will reverse and raise the price of gold. As you know, suggestions have been made, particularly in France, that \$100 an ounce is a nice price for gold, and it is a nice price, and people still hope. It is the most speculative market in the world.

Senator Carter: My last question follows on from Senator Grosart's and your reply, Mr. Plumptre, that unless trade barriers are reduced on both sides of the Atlantic, inevitably Canada will be drawn towards and integrated into the U.S. economy. I gather from that, that Canada's destiny, whether manifest or not, is to evolve almost indefinitely with the economic orbit of the United States, and the only way to keep that orbit from narrowing is to "Join up" with the United States in their proposal to the Common Market, and the only way to expand that orbit and get a little farther out is to trade with the European Economic Community.

Therefore, my last question is this: What prospects do you see for that? Do you see a prospect for Canada's developing a sizeable trade or a sufficient trade to offset the policy of the United States? Can we develop a sufficient trade with the Common Market to offset that possibility?

Mr. Plumptre: Not to offset it, but to ameliorate it. But, again, I think I must come back to the proposition that

this is not a bilateral problem but a global problem. The question is not whether the Europeans will reduce tariffs vis-à-vis Canada, but whether there will be a general reduction of trade barriers, both tariff and non-tariff, which will allow a substantial expansion in trade and, in a measure, reduce our short run, because, as you know, the problem of short runs is one that our manufacturers are typically faced with. But, as I have said, it is a global problem and simply not a bilateral problem, and this is why I hope we will be able to give very vigorous support to global initiatives which come from the United States, although not always in accents which we find very attractive.

Senator Carter: You do not think that there are any disadvantages to Canada's teaming up with the United States? Would it not look as though we were developing a trade bloc in North America vis-à-vis a trade bloc in the EEC? Do you see any disadvantages?

Mr. Plumptre: Yes, there are some that are presentational. Quite clearly at this particular moment in time there are many presentational advantages to giving as vigorous support to United States initiatives as I think it is in our interests to give. I recognize the presentational or, if you like, political disadvantages which certainly exist, but I would hope that substance would triumph over form in that regard.

Senator Macnaughton: You might give them the Gray report.

The Chairman: Are there any further questions?

Thank you very much. Your presentation has been most stimulating.

The committee adjourned.

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FIRST SESSION—TWENTY-NINTH PARLIAMENT
1973

THE SENATE OF CANADA
PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 3

TUESDAY, JUNE 12, 1973
WEDNESDAY, JUNE 13, 1973
WEDNESDAY, JUNE 27, 1973

REPORT OF THE COMMITTEE
Respecting

**Canadian Relations with the Expanded
European Communities**

Index of the Committee's Proceedings
during
Fourth Session of Twenty-eighth Parliament
and the First Session of Twenty-ninth Parliament
concerning

THE EUROPEAN COMMUNITY

THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Bélisle	Lapointe
Cameron	Macnaughton
Carter	McElman
Connolly (<i>Ottawa West</i>)	McNamara
Croll	O'Leary
Deschatelets	Sparrow
Lafond	van Roggen
Laird	Yuzyk—(20).

Ex Officio Members: Flynn and Martin.

(Quorum 5)

Order of Reference

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.

Minutes of Proceedings

Tuesday, June 12, 1973

(7)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met, *in camera*, at 4.05 p.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Belisle, Cameron, Carter, Croll, Lapointe, Macnaughton, McNamara, van Roggen and Yuzyk.—(10)

In attendance: Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade; and Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canada's Relations with the countries of the enlarged European Communities.

The Chairman submitted to the Committee, for consideration, a proposed "Draft Report" respecting the matter before the Committee. The Committee proceeded to its consideration of that "Draft Report".

At 5.40 p.m. the Committee adjourned to the call of the Chairman.

* * *

Wednesday, June 13, 1973

(8)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met, *in camera*, at 9.05 a.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Carter, Deschatelets, Lapointe, Macnaughton, McNamara, van Roggen and Yuzyk.—(8)

In attendance: Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade; and Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its consideration of the "Draft Report" respecting Canada's Relations with the countries of the Expanded European Communities.

At 12.33 p.m. the Committee recessed until 1.30 p.m. this day.

At 1.30 p.m. the Committee resumed its consideration of the "Draft Report".

At 3.40 p.m. the Committee adjourned to the call of the Chairman.

3 : 4

* * *

Wednesday, June 27, 1973

(9)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met, *in camera*, at 9:05 a.m. this day.

Present: The Honourable Senators J. B. Aird (*Chairman*), Cameron, Carter, Grosart, Lafond, Laird, Lapointe, McElman, Sparrow, van Roggen.—(10)

In attendance: Mr. Peter Dobell, Director, Parliamentary Centre for Foreign Affairs and Foreign Trade; and Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its consideration of the "Draft Report" respecting Canada's Relations with the countries of the Expanded European Communities.

The said report was amended and on motion of Senator Lafond **RESOLVED:** that the said report be adopted as the Committee's "Report to the Senate" and that the Chairman present same to the Senate as this Committee's Report on Canadian Relations with the Expanded European Communities.

The Committee *Agreed* that the expression "European Communities," where it appeared in the draft report, should be changed to read "European Community."

On Motion of Senator Lapointe,—**ORDERED:** that the Committee print in booklet form 3,000 bilingual copies of its Report to the Senate respecting the European Community.

At 11:55 a.m., the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes
Clerk of the Committee

Note: An index of the Committee's printed proceedings, of the 4th Session of the 28th Parliament and of the 1st Session of the 29th Parliament respecting the European Communities, is appended to this Issue immediately following the Committee's Report to the Senate.



July 1973

Canadian Relations

with the

European Community

**Report of The Standing Senate Committee on
FOREIGN AFFAIRS**

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

Deputy Chairman: The Honourable Allister Grosart



July 1973

Canadian Relations

with the European Community

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

Available from Information Canada, Ottawa, Canada

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
		Yzyk—(18).

Ex Officio Members: Flynn and Martin

(Quorum 5)

Note: The Honourable Senators Choquette, Eudes, Fergusson, Guin, 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

⁴ Clause 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. Plumtre, 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

Respecting

CANADIAN RELATIONS

with the

EUROPEAN COMMUNITY

I. INTRODUCTION: The Importance of the Community to Canada

This committee's mandate has strengthened its conviction that the European Community (EC) is of increasing importance to Canada. With the inclusion on January 1, 1973, of the United Kingdom, Denmark and Ireland, the Community accounts for the Canada's second largest trading partner. In 1972 the three member countries accounted for 22.4 per cent of total Canadian exports, or more than 45 per cent of all Canadian exports going to the United States.

While EC has imposed a greater burden of administrative and financial costs 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 objective until the system has been set up is economic. The achievement of the EC has been remarkable. The successful establishment of the customs union has resulted in a 10 per cent increase in the number of industrial countries between 1970 and 1972. The value of the Community's output has increased by 30 per cent, has surpassed its 50 per cent for the United States. The Community had in 1971 an annual production of about 1,000

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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.

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).

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.

ADDENDUM
THE SENATE OF CANADA

Fourth Session—Twenty-eighth Parliament

1972

(Issues Nos. 2 to 5 inclusive)

First Session—Twenty-ninth Parliament

1973

(Issues Nos. 1 — 2 inclusive)

STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

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Respecting:

**Canadian Relations with the Expanded
European Communities**

THE SENATE OF CANADA

The Standing Senate Committee on Foreign Affairs
(Fourth Session (Issues No. 2,3,4,5)—Twenty-eighth Parliament, 1972)
(First Session (Issues No. 1 and 2)—Twenty-ninth Parliament, 1973)

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RESPECTING CANADIAN RELATIONS WITH

THE EXPANDED EUROPEAN COMMUNITIES

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The Honourable JOHN B. AIRD, *Chairman*

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