

**Special Joint Committee on Canada's International Relations**

**INTERIM REPORT**

**pertaining to**

**BILATERAL TRADE WITH THE UNITED STATES**

**and**

**CANADA'S PARTICIPATION IN RESEARCH ON  
THE STRATEGIC DEFENSE INITIATIVE**

**August 23, 1985**

**Joint Chairmen**

**Tom Hockin, M.P.  
House of Commons**

**Jacques Flynn, P.C., Q.C.  
Senate**

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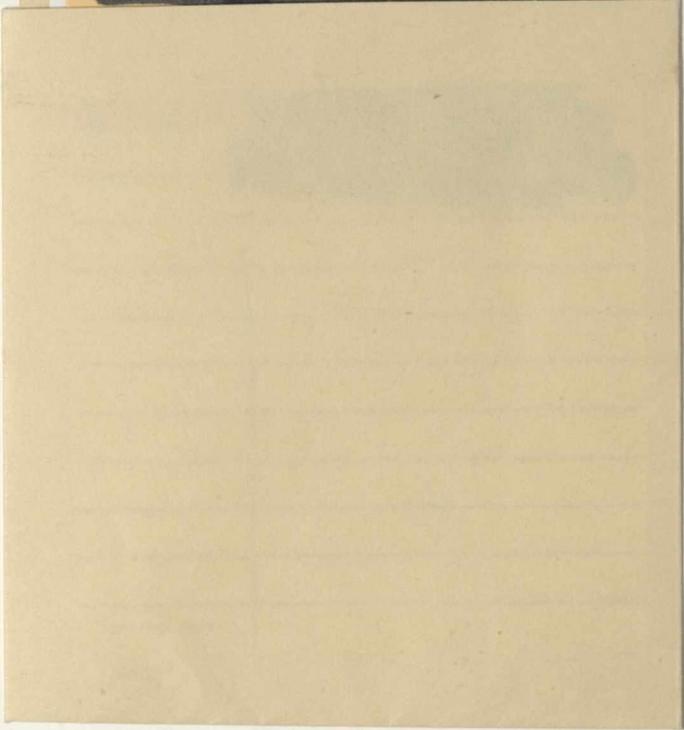
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Interim report pertaining  
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**Special Joint Committee on Canada's International Relations**

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CANADA'S PARTICIPATION IN RESEARCH ON  
AND  
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Special Joint Committee on Canada's International Relations

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INTERIM REPORT

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Jean Chrétien  
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In accordance with its orders of reference from the Senate, dated Thursday, June 27, 1985, and from the House of Commons, dated Wednesday, June 12, 1985, the Committee has examined Canada's participation in research on the Strategic Defense Initiative and bilateral trade with the United States and submits the following report:

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Vic Althouse  
Bill Attewell  
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James Edwards  
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Jean Lapierre

Paul Belisle  
Jean Macpherson  
Joint Clerks of the Committee

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## PREFACE

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The first assignment of the Special Joint Committee on  
Canada's International Relations began on the day Parliament  
adjourned for the summer. The mid-summer hearings were, in a  
sense, dictated by the force of international events. The  
Government of Canada must soon decide on the wisdom of entering  
intensive discussions on comprehensive new trade arrangements  
with the United States and on the value of accepting the  
invitation of the United States to join in the research phase of  
the Strategic Defense Initiative (SDI).  
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Accordingly, Parliament ordered the Committee to present an  
interim report on these two complex issues by August 23, 1985.  
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The Committee decided to deal with the perception that  
foreign policy is formulated in ivory towers by asking Canadians  
for their thoughts on international relations. An uncommonly  
tight schedule was unavoidable. Yet upon completion of sixteen  
days of hearings in seven cities, Committee members concluded  
that their task was well worthwhile, that the advantages far  
outweighed the obvious problems of conducting public meetings  
during the summer holiday period.  
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The time limitation precluded either in-depth original  
research or exhaustive analysis of issues. The five senators and  
twelve members of the House of Commons concentrated almost  
totally on the intensive work of the Committee for six weeks.  
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Advertising to submit briefs made demands on what was  
normally the holiday time of those that would participate. With  
only a month to deliver, almost 700 individuals and organizations  
filed written briefs with the Committee. At meetings in Halifax,  
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Ottawa, Montreal, Toronto, Vancouver, Calgary and Winnipeg, well over 300 witnesses provided the Committee with the benefit of their views on the two important subjects being studied. In selecting the 120 invited witnesses, the Committee tried to ensure that all sides of both issues would be aired fully. This evidence, coupled with the views of the more than 200 individuals and organizations that came to the hearings on their own initiative, gave the Committee a complete range of ideas to consider in preparing their interim report.

Time after time Committee members were astonished by the detail and care that had been lavished upon the formal submissions or, indeed, upon the shorter presentations made by interested individuals and organizations that came to the Committee. For Committee members, the greatest frustration was the constraint of time. Question periods especially demonstrated the depth of Canadian concern about the two issues, which were often referred to as the most important we have faced since Confederation.

One witness presented a 68-page submission of vigorous argument. Another submission, with its own elegance, was reduced to a few lines of poetry. Another presenter, his allotted time running out, forgave the Committee with a lullaby. One witness who wished to demonstrate his protest with two or three minutes of silence, spent most of that time explaining to the Chairman why his tactics were appropriate.

There were few either/or opinions on the subjects.

Consider the arguments in favour of enhancement of (but not free) trade with the United States. The committee was told we have no hope of retaining or improving the Canadian standard of

living without securing a share of the U.S. market for our products. (No modern industrial nation can be economically healthy without access to one hundred million customers.) We must act positively to halt what is seen as growing U.S. protectionism. We must work towards product mandates, sharing of technologies, and development of co-ordinating agencies to referee North American commerce.

But on the other hand, there is a risk that more bilateral trade will pose a risk to Canadian sovereignty. The United States would not be hospitable to any agreement that did not offer substantial gains to the U.S. economy and U.S. authority. Why not use our considerable influence to push for improvements in multilateral trade, especially to get back to the GATT? How would we be able to protect regional interests? How could we defend social benefits -- Medicare, Unemployment Insurance, pensions and such -- that Americans might see (and sometimes do see now) as subsidies in calculated pursuit of trade advantage? How would we be able to get agreement with the provinces on abandonment of their own protectionism? For that matter, wouldn't we be better off building trade within Canada and reducing our dependency on imports?

Consider the arguments heard in favour of Canadian participation in the research that could lead up to development and deployment of the U.S. Strategic Defense Initiative. We were told we would become part of a process intended to move the free world to a defensive stance from the offensive stance that has preoccupied us for some forty years. With the U.S. allocation of \$26 billion for the research phase, Canada could anticipate sharing in an enormous fallout of technological advancement that would not be available to us if we were not participants in the program.

On the other hand, the committee was cautioned, we know too little of the SDI adventure to pledge ourselves to Canadian commitment. Can we believe that we would have a realistic opportunity to turn back after four or five years and billions of dollars of investment in its creation? Could Canada's concentration on SDI not take such a share of our resources as to leave us too poor to pursue other priorities? And in the end, would the SDI shield, if it seemed close to success, not persuade the Soviets to attempt a first strike? If only one or two per cent of the Soviet Union's missiles got through, North America would be mortally wounded. Why not direct Canadian efforts towards renewal of the ABM Treaty?

So the debate went on. Vigorously, intelligently and, occasionally, emotionally.

The Joint Committee will be turning its attention to other aspects of Canada's international relations in the months ahead with the knowledge that there is much wisdom to be acquired from public participation in the process of decision making.

## CHAPTER I

### THE ISSUE OF BILATERAL TRADE

#### The Roots of the Issue

This is by no means the first time Parliament has examined Canada's commercial relations with the United States. The idea of a free trade agreement between Canada and the United States is one of the most enduring of Canadian history, pre-dating Confederation. Free trade has become so bound up with political controversy and debate in Canada that the term itself is loaded with emotion; at the same time it has been almost entirely dredged of meaning.

This Committee has been considering the possibility of bilateral trade liberalization with the United States, meaning the removal of as many tariff and non-tariff barriers to trade between the two countries as possible. The next step up the ladder of economic integration is a customs union, which entails a joint commitment to apply identical tariff and non-tariff barriers against the exports of non-member countries. Higher up the ladder comes the formation of a common market which involves the free movement of goods, services, capital and labour. As well, a common market often leads to proposals to issue a common currency and to harmonize members' domestic policies with respect to regulation, subsidization, taxation and other economic policies.

A limited form of free trade actually existed between the two countries under the Reciprocity Treaty of 1854. This treaty, which lasted until 1866, provided for free trade between the United States and the British North American colonies for many natural products, but it did not extend to manufactured goods. The British government, in fact, virtually imposed the treaty on the British North American colonies. In spite of this, the treaty was popular with politicians from the major political parties, and there were no substantial disagreements over this issue. The unilateral abrogation of the treaty by the United States Congress in 1866 did not dampen Canadian enthusiasm for the idea of free trade, and there were several attempts to negotiate a similar treaty. However, Canadians were unable to rekindle American interest.

In the election of 1891, the Liberal Party campaigned on a proposal of commercial union with the United States, and in the election of 1911 on a platform of reciprocity, while the Conservatives reaffirmed their belief in the tenets of the National Policy. The success of the Conservatives in both elections has been attributed primarily to their protectionist stance.

Matters remained where they were until the 1930s, when both countries raised tariff walls in response to the domestic economic conditions brought on by the Great Depression. The dismantling of some of these barriers was undertaken following the passage of the U.S. Trade Agreements Act of 1934. The Act paved the way for agreements concluded in 1935 and 1938 that reduced tariff barriers to the levels that had existed during the 1920s.

Moreover, the two agreements represented the first large-scale commercial agreements concluded between Canada and the United States since the Reciprocity Treaty of 1854.

The most recent bilateral free trade discussions were undertaken during 1947 and 1948 when a small number of officials from the two countries met to explore the issue. Although it was possible to draw up a draft treaty, it is not clear that the idea had broad political support on either side of the border. In any event, the far-reaching agreement was never presented for public discussion.

### Canada and the GATT

Since the end of the Second World War, Canada has pursued trade liberalization within the multilateral framework of the GATT (General Agreement on Tariffs and Trade). For Canada and the United States, the founding of the GATT represented an extension of the bilateral agreements of 1935 and 1938 to a multilateral forum. The GATT is undoubtedly the most important development in international economic relations during the post-Second World War period. Under its auspices, seven rounds of multilateral trade negotiations have reduced tariffs to a level where they are no longer regarded as major barriers to trade (with the exception of certain sectors). International negotiations are now more concerned with problems related to non-tariff barriers to trade.

Canada was one of the founding members of the GATT and has been a staunch supporter of its aims and actions. As asserted in Competitiveness and Security, the recent Green Paper presented by the Secretary of State for External Affairs, a crucial Canadian

trade policy objective is to preserve the integrity of the GATT system. This country has consistently advocated strengthening the GATT and extending it into new areas of international trade by, for example, recognizing the special interests and needs of developing countries as well as the growing importance of devising means to control and reduce the proliferation of non-tariff barriers.

Canada has benefited from the trade liberalization that has occurred under the GATT to the point where it ranks among the world's leading traders. The rules and regulations embodied in the GATT have allowed Canada to pursue its trade policy interests in many areas.

The restraints and disciplines accepted by the signatories to the GATT have afforded Canada bargaining leverage. In overall terms, the GATT has served to create an open world trading system, and Canada, as a middle-sized power, has used this system to pursue its diverse trade interests with its main trading partners, which are larger countries. The GATT has represented Canada's preferred trade policy option for the post-war period.

Despite the immense contribution of the GATT to establishing and preserving an open world trading system, frustrations have been growing in recent years. The most recent GATT round, the Tokyo Round, was unable to come to grips with some of the most pressing issues of international trade. In particular, the growing problems posed by non-tariff barriers and the means to address the special needs of the developing countries could not be resolved satisfactorily. It took six years to conclude the Tokyo Round, severely testing the patience and ingenuity of all

participants, and a further eight years to phase in the tariff cuts that were agreed to. In consequence, there has been a general reluctance to undertake another major multilateral trade negotiation.

Recently there have been encouraging, though tentative, signs that the desire to tackle international trading problems is growing once again. However, the next major GATT round will be the most difficult and complex yet attempted and may require some alternative to the usual round of massive negotiations. Moreover, the completion of the next GATT round and the phasing in of its agreements will not occur before the end of this century (if the Tokyo Round is any example). Can Canada afford to wait for the completion of another round to address its trading problems?

#### Economic Integration with the United States

The statistics of Canada-U.S. trade flows are impressive, although the size, complexity and importance of Canada-U.S. trade is not captured fully in a few statistics. About one-fifth of Canada's gross national product depends directly on exports to the United States. Another example of the importance of this trade is that Canada now sells more of one product -- motor vehicles and parts -- to the United States than of all the goods it sells to all other countries. Motor vehicles and parts are traded under the terms of the Canada-United States Automotive Products Trade Agreement -- the Auto Pact -- which represents a successful bilateral trade agreement for both countries. Conversely, the United States exports more to one province -- Ontario -- than it does to Japan.

The total value of Canada's exports to the United States exceeded \$80 billion in 1984; this figure has been rising steadily in the last decade, to the point where that country receives more than 75 per cent of Canada's exports. As well as being Canada's largest market, the United States is Canada's largest supplier. Imports from the United States were slightly less than \$70 billion in 1984 and have been growing slower than exports to the United States. The resulting Canadian trade surplus has grown dramatically, from a slight deficit in 1981 to a surplus of more than \$14.3 billion at the end of 1984. Canada now records a merchandise trade surplus with the United States that is second only to that of Japan. As well, Canada has registered consecutive surpluses on the bilateral current account (a measure of the exchange of goods and services). Approximately 2.5 million jobs in Canada -- out of a workforce of 12 million -- depend on trade with the United States.

On the other side of the border, the United States relies on Canada for 18 per cent of its imports and sells 17 per cent of its exports to Canada, making this country their largest customer and supplier. More than 1.5 million jobs are directly related to trade with Canada.

Two-way investment ties also constitute an important dimension of the bilateral relationship. U.S. interests have an estimated \$50 billion (1981 figure) in direct investment in Canada. Canadians have about \$16 billion (end of 1981) in direct investment in the United States. This Canadian investment is mainly in real estate, mineral leases and banking and has less effect on trade than U.S. investment in Canada which is concentrated in manufacturing and resources. Given the difference in size

between the two economies, Canadian investment in the United States does not have nearly the same impact politically or economically as American investment in Canada. The large amount of U.S. investment in Canada is the reason that intracorporate trade accounts for almost 50 per cent of Canada's exports to the United States. The reaction of this investment to any changes in Canada's trading relationship must be seriously considered.

### The Threat of U.S. Protectionism

The slow and uneven recovery of the world's industrial economies from the recession of the early 1980s has set off a chorus of protectionist demands. The protectionist surge has actually been building for the last decade throughout the world and is not unique to Canada and the United States. There are several factors that account for it.

First, during troubled economic times there is a natural tendency for governments to seek ways of reducing the impact of import competition on domestic producers. As the costs of trade become more visible than the benefits, governments are tempted to protect their own economies and, indeed, to seek external scapegoats for domestic ills.

Second, the international economy is going through a phase of adjustment. Some traditional manufacturing activities are shifting towards production in the newly industrializing countries, but new industries have yet to emerge fully and replace the employment that is being lost. It is only natural

that governments should seek to control the pace of this adjustment process as they attempt to minimize and smooth out the costs of dislocation and retraining.

Third, governments have increasingly intervened in their own economies over the last two decades. There are currently very few areas of the economy where modern governments are not involved through their policies and programs. This has led to a growing politicization of trade policy disputes and increased the temptation to resort to protectionist measures.

Fourth, the appearance of 'new' protectionist measures has been outside the constraints the GATT placed on the 'old' protectionist measures such as tariffs and quotas. By comparison, the old protectionist measures were relatively stable and predictable as to their effects. The imposition of non-tariff barriers has introduced instability into trading relationships as well as a certain amount of frustration and unease as countries try to come to grips with the effects of these restrictive practices on trade.

Increasing protectionist sentiments around the world pose a real threat to Canada. A relatively small domestic market has made Canada dependent upon international trade for its prosperity to a degree that is not matched by any of its major trading partners.

This recent rise in protectionist sentiment is particularly evident in the United States. The U.S. trade deficit was almost \$125 billion (U.S.) in 1984, and indications are that it could be slightly higher in 1985. The principal factor responsible for this deficit is generally accepted to be the relatively high

value of the U.S. dollar, the causes of which are (i) unprecedentedly high interest rates related to U.S. government deficits, which are proving difficult to restrain, let alone reduce; and (ii) the strength of its economic recovery, which has made the United States a major recipient of international capital flows as investors around the world have judged it to be the best place to invest. As neither of these factors is likely to change in the near future, the prospect is for protectionist sentiments to remain strong in the United States. The Reagan administration has managed to resist some of this pressure, but it is becoming increasingly more difficult to do so. At some point, the administration might have no real choice in the matter.

The possibility of U.S. protectionist policies being directed against Canadian interest is worrisome. Already Canadian lumber, steel, fish and agricultural commodities like hogs and potatoes have been threatened by such actions. Canada has many concerns in these areas. One is that Canadian manufacturers will be caught up in actions directed against other countries. For instance the U.S. government believes that other countries (especially the European Community) subsidize their steel exports and that these exports are injuring U.S. steel makers. While Canadian steel makers have not been judged guilty of these actions, only strenuous lobbying in the United States has kept them exempt from U.S. actions directed primarily at other countries.

The softwood lumber case has proven particularly troublesome for Canada. The Canadian industry has undergone countervailing duty investigations by the U.S. International Trade Commission. No case for countervail has been found, but this has not lessened

accusations of unfair trade practices levelled against the Canadian industry. In fact, the result has been the introduction in Congress of legislation defining the concept of subsidy so broadly that, if passed into law, it is certain to restrict Canadian exports.

The U.S. political system is sensitive to protectionist pleas. This is not a new phenomenon, as shown by the United States' unilateral abrogation of the Reciprocity Treaty of 1854 in response to pleas from U.S. fishing interests. Similarly, the U.S. Smoot-Hawley Trade Act of 1930 saw the highest tariff walls on record established during the Great Depression. However, what is troublesome about the current situation is the scope of proposed protectionist legislation. With the United States believing that everybody else is playing unfairly, there is the real possibility of a sweeping series of protectionist measures being put in place.

The legislative initiatives being considered in either the Senate or the House of Representatives can be grouped into four categories:

(i) industry- or sector-specific protectionist legislation designed to shield various U.S. industries from import competition (e.g., steel, automobiles). Of particular interest to Canada in this regard is lumber;

(ii) reciprocity -- Congress would apply to other trading nations the same rules as are applied to U.S. exports in their countries. This concept involves the ambiguous and vague term 'fair trade' and is intended to deal with grievances with Japan

and, to a lesser extent, the European Community;

(iii) a general import surcharge; and

(iv) redefining U.S. trade law so as to be sure that U.S. legislation would be almost automatically applicable any time protectionist actions are required. In particular, the definition of subsidy would be broadened to the point where any country not using the same methods as the United States would be guilty of subsidization and therefore liable for countervailing duties.

#### Rising Canadian Interest in Closer Trade Relations

The recent public debate over closer trade relations with the United States was set in motion in the fall of 1983 with the release of the first formal review of Canada's trade policy since 1972. Entitled Canadian Trade Policy for the 1980s, the review undertook to describe comprehensively the extent of Canada's diverse and complex trading relations with the world. The review concluded by posing the question of whether Canada's interests might be best served by considering sectoral adjustments with the United States. The significance of this document is underscored by its apparent signal that the so-called third option (the policy of diversifying Canada's trade so as to lessen its dependence on the United States) had not lived up to expectations. Indeed, during the 1970s the percentage of Canada's trade with the United States increased steadily. While not weakening Canada's preferred trade option, the review seemed to suggest that as Canada's interests were primarily with the United States, perhaps the time

had to come to re-evaluate the bilateral relationship in recognition of our mutual interests in trade liberalization.

Consideration of a major trade policy change was strongly influenced by the release in 1982 of the report of the Senate Standing Committee on Foreign Affairs on Canada's trade relations with the United States. The Senate Committee stated that the best solution for Canada's economic problems was to negotiate a comprehensive free trade agreement with the United States. Significantly, in the Committee's opinion, such a free trade agreement would not necessarily, or inevitably, lead to political integration with the United States.

A more recent contribution to the discussion of Canada's trading relations with the United States is found in "How to Enhance Access to Export Markets", a discussion paper released by the Minister of International Trade, the Honourable James Kelleher. The paper outlines the problems and challenges facing Canadian trade policy makers and, among other propositions, suggests that a bilateral trade agreement with the United States should be seriously considered. Upon release of the paper, the Minister for International Trade undertook to conduct cross-country consultations with industry, labour and the provinces to determine their opinions on the issues raised in the discussion paper.

A further step was taken by Prime Minister Mulroney and President Reagan at the Quebec City Summit in March 1985. This meeting resulted in a communiqué entitled "Declaration on Trade in Goods and Services". It established a work program on specific issues to be pursued over the next 12 months and directed the

Minister for International Trade and the U.S. Trade Representative to chart the ways and means to reduce and eliminate existing barriers and irritants to bilateral trade and to report in six months.

The most recent addition to this chain of official reports was the government's Green Paper, Competitiveness and Security: Directions for Canada's International Relations, which led to the establishment of this Special Joint Committee. In particular, it is the comments in the Green Paper on Canada's bilateral trading relationship with the United States that form the subject of this Committee's interim report.

During its hearings and discussions, the Committee encountered strong approval of the view that the government will have to take speedy and decisive action to enhance Canada's export potential. Much of the discussion centred, naturally enough, on the possibility of comprehensive liberalization with the United States. This option continues to raise a host of questions. These are some of the most salient:

1. Is a trade agreement the best way to enhance and make more secure Canada's access to the U.S. market? Are there other ways to improve Canada's competitiveness in international markets?
2. What would be the effect of free trade on employment and jobs, on specific sectors, and on firms within sectors?

3. What are the regional costs and benefits associated with a general policy of free trade (i.e., what is the likely distribution of costs and benefits across regions)?
4. What concessions would it be necessary to make to complete an agreement? What sectors or issues would be exempt from negotiation?
5. What would be the reactions of our other trading partners to a bilateral agreement? Is such an agreement compatible with the letter, and the spirit, of the GATT?
6. How would the existing policies and programs of the Canadian government be affected?
7. How would our independence in foreign policy be affected?

## CHAPTER II

### THE DEBATE ON TRADE LIBERALIZATION

#### The Rise of Protectionism

Some major themes emerged from the varied and often contradictory testimony the Committee heard. Nearly all witnesses argued that it is vitally important for our goods and services to have access to foreign markets, especially the American market. Even those that considered the prospect of increased integration of the Canadian and American economies dangerous agreed on the need to maintain, if not increase, our markets in the United States. Almost all those appearing before the Committee mentioned the rise in U.S. protectionism that has resulted from the large American trade deficit and from the job losses blamed on the deficit. Several companies and sectoral interest groups began their presentations by emphasizing the urgency of finding solutions.

For a number of these groups, American protectionist sentiments are more than a threat on the horizon; they are an obstacle with which Canadian business has had to, and must still, contend. Many Canadian producers are suffering from American attempts to create insecurity among foreign exporters by advocating a variety of bills designed to restrict imports. Wood, steel, fish and livestock producers, in particular, have faced a series of proposed measures and bills that would impose quotas on

or interrupt imports, introduce compensatory duties and safeguards, or impose regulatory and technical restrictions on the entry of foreign products. In some cases, these restrictive actions are aimed directly at Canada. In other cases, Canada is not the primary target of these measures, but this does not prevent our exporters falling victim to them as much as, if not more than, the countries that caused the alleged harm suffered by American producers.

Other sectors of the economy, still relatively untouched by this protectionist wave, can see the day when the situation will change. The Prairie Implement Manufacturers Association, for example, urged that a solution be found before its American competitors and the Congress become alarmed at the trend towards a tipping of the trade balance in this sector in Canada's favour.

According to many witnesses, the flurry of protectionist threats, whose worst effects Canada has so far managed to escape, shows the pressing need for a trade liberalization agreement with the United States. Representatives of Western Canada Steel told the Committee that our negotiators had often won only Pyrrhic victories in defusing several American initiatives; measures that were even more distressing and difficult to combat resulted almost immediately. Rather than exhaust itself in a perpetual struggle with Congress, the administration and American producers and unions, Canada should set about negotiating, once and for all, one or more agreements guaranteeing Canadian access to American markets. (According to the Canadian Organization of Small Business, Canadian companies have already sunk more than \$3 billion into this fight since 1975.)

The proponents of immediate negotiations also argued that inaction can only increase the trend towards Canadian companies locating in the United States so as to avoid trade barriers and assure their markets. In the final analysis, Professor Richard Lipsey told the Committee, a comprehensive agreement will be our only chance to reduce the effect of U.S. protectionist measures significantly.

Several groups, preferring to talk only about their own sectors or fundamentally opposed to a comprehensive free trade agreement, indicated their preference for a sectoral approach. However, most of the supporters of a bilateral liberalization process advocated a comprehensive approach covering all or most aspects of trade.

Many witnesses said that the Canadian government should act quickly while the opportunity is available and before the 1986 congressional elections dampen the American administration's enthusiasm for liberalizing trade. According to this argument, if negotiations are not concluded--or at least well under way--by then, the surge in protectionism prompted by campaigns for the Senate and House of Representatives will make an agreement extremely difficult to obtain. For this reason, the idea of resolving current problems, such as the threat of restrictions on lumber exports from western Canada, before beginning comprehensive bilateral negotiations has been rejected.

Not everyone shared this view. According to one diametrically opposed interpretation of the situation, the resurgence of U.S. protectionism is a major reason for not undertaking negotia-

tions on the comprehensive liberalization of bilateral trade. It will be extremely difficult to obtain congressional approval of a free trade treaty. Some believe that the prevailing mood in the United States is such that a wide range of Canadian programs and policies will have to be laid on the negotiating table, making an agreement impossible, at least for the time being. The Steelworkers' Union stated that the United States will definitely not be ready to give up its right of appeal to the International Trade Commission with respect to Canadian imports. The union recommended that no agreement be signed that does not include this condition.

The proponents of liberalization were criticized for wanting to solve an immediate economic problem with measures that could be harmful to Canada in the long run. The current mood of protectionism is linked to the value of the U.S. dollar, which has been subjected to "monetarist excesses" in recent years, in the words of Jack Munro of the International Woodworkers of America. According to Professor Mel Watkins, once the U.S. trade deficit regains reasonable proportions following the expected drop in the dollar, protectionist tendencies will diminish. Robert White, Director of the United Auto Workers of Canada, contended that the defenders of bilateral free trade are increasingly ready to admit that the threat of protectionism, and not the intrinsic merits of liberalized bilateral trade, is their chief incentive.

The opponents of comprehensive bilateral negotiations realize, however, that because immediate problems will continue to arise, they will have to be negotiated in the context of existing GATT arrangements. Organizations such as the International Woodworkers of America believe that their appeals

to the International Trade Commission have demonstrated the contribution and effectiveness of the GATT. The IWW argued that it would be a mistake for the government to try to resolve trade disputes with the United States without using these tools. For the long term, apart from hoping that protectionist sentiments will diminish, the critics of the comprehensive approach propose solutions ranging from an industrial strategy designed to reduce Canada's economic dependence on the United States to a multilateral strategy seeking to strengthen the GATT.

### Competitiveness

Although a good deal of the testimony dealt with recent protectionist measures, the fundamental debate was still about the costs and benefits of more liberalized trade between Canada and the United States. Discussion focused not only on how to remove trade barriers that exist or might be created, but also on the merits of bilateral liberalization as part of a strategy for increasing Canada's competitiveness in world markets.

All of the witnesses who spoke about Canada's position in the international market acknowledged the increasing extent of interdependence between world economies and emphasized that exports account for a large proportion of Canada's GNP. They also agreed that Canada's future economic success depends on the ability of its firms to compete with foreign firms in Canadian and in world markets.

They differed, however, on how we should attempt to increase our competitiveness. A large number of witnesses, including several groups of business executives, said that penetrating

foreign markets must entail--at least initially--a trade liberalization agreement with the United States, which already receives 75 per cent of our exports. Under such an agreement, Canada would lose the unenviable distinction of being the only major industrialized country that does not have access to a market of more than 100 million consumers. It could then proceed more rapidly toward achieving productivity gains and structural changes, which it must make in any case, unless it pursues the impossible dream of isolating itself from the rest of the world.

According to Senator George van Roggen and the British Columbia Business Council, the degree of protection extended until now to a large number of businesses has hampered their productivity and even strengthened the protectionist sentiments of our American neighbours. To maintain or strengthen our own trade barriers would prevent our economy from making up for ground lost over the last two decades in terms of productivity, particularly in relation to the newly industrialized countries.

In the view of the Economic Council of Canada, the advantages to be reaped from freer trade stem essentially from specialization, with each country concentrating on what it does best and benefiting from economies of scale and long production runs. The Council also said that the comparative advantages that will determine areas of specialization can be created through government policies, entrepreneurship and research and development activities. In this way, Canada would not be forced to concentrate on the areas in which it has traditionally enjoyed comparative advantages -- primary-sector activities.

The total elimination of Canadian tariffs as a result of the bilateral agreement would mean, among other things, a decrease in the cost of certain intermediary goods imported from the United States. This would make processing in Canada more profitable. According to the Royal Bank, this new trade regime would also step up the dissemination of technology in Canada, a key element in competitiveness. The Retail Council of Canada, among others, said that the specialization that takes place on both sides of the border should be governed by product mandates for the North American market and even for the world market. Rationalization of production in both Canada and the United States would result in stronger firms, better equipped to withstand competition from other countries. Moreover, since -- in terms of markets -- the advantages would be ten times greater for Canadian firms than for American firms, Canadian companies would have the greatest opportunities to grow and develop.

Most of the proponents of a bilateral trade liberalization agreement advocate a comprehensive approach, judging the alternatives to be impracticable, inadequate or too long-term in outlook. In their opinion, the sectoral approach would require that the benefits of an agreement be shared equally on both sides of the border within a given sector (thus limiting the possibilities considerably), or that the costs and benefits resulting from a series of sectoral agreements balance out within each country, an arrangement that would obviously be opposed by those whose interests were likely to suffer. In addition, to be compatible with article 24 of the GATT, which deals with free-trade agreements, the outcome of negotiations would have to cover a substantial portion of bilateral trade; this would probably not be the case with a series of sectoral agreements.

A framework agreement, involving the implementation of improved mechanisms for the settlement of disputes, consultation and exploration of the possibilities of further liberalization, was considered by various witnesses to be inadequate because it would not guarantee the prompt removal of trade barriers detrimental to our competitive position. However, many of the comprehensive agreement proposals submitted to the Committee also included these types of mechanisms. As Frank Stone testified, it is essential to retain them, even with the introduction of a stricter regulatory system governing the bilateral application of countervailing duties, anti-dumping provisions or safeguard measures.

The bilateral strategy was not presented to the Committee as being incompatible with the multilateral approach. On the contrary, many of those appearing before the Committee judged the two approaches to be complementary and believed that they should be used concurrently, if only to prevent Canada from putting all its eggs in one basket (Economic Council of Canada). It was noted that the upcoming round of multilateral negotiations will not begin to bear fruit for several years and that the United States would be the only country to experience rapid gains as a result of guaranteed access to larger markets. However, a bilateral liberalization agreement signed with Washington could well be opened up to other interested trading partners, provided they were willing to accept its conditions (Senator van Roggen). The example of a Canada-U.S. agreement could inspire or accelerate future multilateral negotiations. In short, the bilateral agreement would not prejudice our relations with other countries (unfavourable reactions are not expected) and may even be a first

step toward diversification of our international trade. As Professor James Fleck asked, if we cannot withstand competition from our neighbours, how will we fare against the newly industrialized countries?

With respect to competitiveness, there are two criticisms of bilateral liberalization. On the one hand, the critics do not agree that policies to assist and protect industries have been responsible for low productivity and thus for a lack of competitiveness. They argue that, without protection, the breweries, the textile and carpet industries, and others would decline significantly or even disappear. Only the guarantees contained in the Auto Pact have enabled the automobile sector in Canada to survive the elimination of import tariffs (Robert White). Farmers in Canada, like those in many other countries, need programs for subsidies, price stabilization, marketing and so on (National Farmers Union).

For these critics, the comprehensive trade liberalization strategy would be a 'passive' solution, amounting to an abandonment of the necessary means of intervention, all in the name of pernicious economic theories. On the pretext of increasing the competitiveness of Canadian industries, this strategy would lead politicians to disarm organized labour, reduce environmental safeguards and lower wages to the levels pertaining in the south-eastern United States.

On the other hand, opponents of freer trade with the U.S. question the productivity gains being projected. Many of the critics feel that studies extolling the virtues of free trade overestimate the economies of scale possible, and they hold that greater gains would result from the flexibility provided by new

technologies (economies of scope). Others feel that it would be better to reduce non-tariff barriers between the provinces before trying to resolve difficulties in Canada-U.S. trade relations. Although he did not pronounce himself opposed to prudent bilateral liberalization, Professor Pierre-Paul Proulx told the Committee that economists still know relatively little about the nature and scope of the link between liberalization, on the one hand, and the strength of production factors, diversification, productivity and optimum company size, on the other.

An even more critical view is that an emphasis on comparative advantages would result in still greater specialization by Canada in the area of natural resources, to the detriment of the manufacturing sector. A major effect of this specialization would be to limit our capacity for research and development, which are essential to the success of a modern society. Finally, in sectors such as textiles, natural resources and the automobile industry the real problem in the United States and Canada is often competition from other countries. A number of producer associations believe that an agreement with the United States would do nothing to resolve this difficulty.

### The Adjustment Process

What would be the impact on the employment situation of greater competitiveness resulting from bilateral trade liberalization? All the speakers heard by the Committee expect that, in the short term, structural dislocations will affect the labour force in specific industries and businesses. There is also unanimous agreement that adjustment policies will be needed

to help the communities and workers affected to redirect their activities or to cope with the shock in an acceptable manner.

In the view of the Task Force on Canada-United States Trade Policy, adjustment policies will have to be in place before the process of liberalization begins. These policies will have to be developed with the co-operation of all interested parties, including the unions, the private sector and the provinces. The Royal Bank proposes that, since the ultimate benefits will accrue to society as a whole, society must also be responsible for bearing the costs of the process. Supporters of trade liberalization also advocate that the new trade arrangements be introduced gradually, perhaps even more slowly in Canada than in the United States. They suggest that the transition period, making possible a more gradual restructuring of the economy, last from three to ten years. There would be no point, however, in postponing indefinitely the deadline of a process that would in any case be unavoidable (even without liberalization) and could, if put off too long, be even more painful.

According to a number of forecasts, the industries in which production and employment would suffer include the food, beverage, tobacco, textile, clothing, carpet, furniture, household appliance and paint industries (Senator van Roggen). Other sectors, such as agriculture, the cultural industries and the automobile industry, could be exempted from increased liberalization, on the grounds that these are industries deemed to be essential to the very existence of the country. In contrast, Professor André Raynauld contended that it would be very difficult to know which sectors should be exempted before beginning negotiations.

The theory of free trade, however, holds that, in the long term, rationalization and increased productivity will result in a net growth in employment on both sides of the border. In his submission, Professor Lipsey stated that an economic model developed by Professor Richard Harris of Queen's University had yielded a prediction of a 5-per cent increase in Canadian employment as a result of the trade-enhancing effect of free trade. This would be achieved by the diversion of trade from third countries, which would still have to pay the tariff to get into the American market, whereas it would be removed from Canadian goods.

Economists from the free trade school indicate that new jobs would be more stable and better paid than those lost and that overall, the standard of living would rise by between 5 and 10 per cent. Along the same lines, representatives from the Aluminum Company of Canada Ltd. told the Committee that as, in their industry, there is no substantial difference between wages north of the border and those south of the border, these would not influence Canada's competitiveness. Free trade would, however, bring the economies of scale that would make Canadian manufacturing and service industries truly competitive and increase investment and employment. In addition, it is contended that many active Canadian small businesses that have already invaded the market south of the border would be able to take advantage of the opportunity for easier access. Further, under a free trade system, job-creating investment would no longer have to leave Canada for the United States in order to get around American trade barriers.

Opponents of free trade warn that, far from resulting in net employment gains, its implementation would result in dislocations, not only in the short term or only in industries faced with new competition. First, according to the Canadian Centre for Policy Alternatives, weak sectors, deprived of government assistance and sacrificed on the altar of free trade, would give way in the face of competition and market forces. The breweries are a perfect example of an industry that fears being left defenceless against competition from American plants. Though their plants already benefit from considerable volume savings, they are still not operating at full capacity and are therefore capable of increasing their production to invade the Canadian market without encountering any opposition.

In the longer term, the multinationals' rationalization strategies, based on factors such as the proximity of consumer markets, production costs and salary levels, will lead them to move their Canadian branch operations to the United States. The same factors will result in declining investment in Canada, according to the Confederation of National Trade Unions. At present, nearly 50 per cent of the Canadian manufacturing sector is controlled by foreign interests, four-fifths of which are American. In the most pessimistic scenarios, Canada will become de-industrialized, still confined to developing natural resources, a capital-intensive but not labour-intensive sector. Dr. Arthur Donner, in particular, told the Committee that structural dislocations will be more serious in Canada than in the United States and that because of governments' battles with their deficits, public funds needed for adjustment programs will be granted sparingly.

## The Regional Dimension

The assessments presented to the Committee on the regional impact of bilateral trade liberalization varied according to the witnesses' overall expectations. In general, promoters of the idea believe that it will serve the needs of regional development, one of the fundamental objectives of Confederation. Opponents, on the other hand, predict a further weakening of the disadvantaged regions of the country.

One of the main opposing arguments centres on the threat to federal regional development and equalization programs and provincial industrial assistance programs, which are often viewed in the United States as a type of subsidy incompatible with 'fair' trade. If a bilateral trade liberalization agreement became a reality, asked the Alberta Federation of Labour, would Alberta still be able to provide natural gas to its industries at lower cost? Would Quebec be able to do the same with its electricity?

The dismantling of other provincial 'barriers' such as preferential purchasing policies, although desirable from a national viewpoint, could also have a negative impact on producers in regions such as the Atlantic provinces, according to Professor Barry Lesser. His opinion was that the net benefit of free trade for the Atlantic region would not be large and that the disparity between it and the rest of the country might become more pronounced. Although there is potential for growth in the Atlantic provinces, particularly in lumber, energy, fisheries and even the manufacturing sector (since the current tariff structure encourages the export of primary or semi-finished products),

there are other factors that must dampen our optimism. There would be stiff competition in the New England markets where lumber, fish and agricultural products would be sold. Consumers in the Atlantic provinces might opt for cheaper American-made manufactured goods, thereby weakening the already fragile industrial structure of their provinces. The removal of the present tariff-based incentive to export primary or semi-finished goods might not encourage more local processing, because a high proportion of the Atlantic provinces' trade with the United States is intrafirm. Processing might continue to be concentrated in the United States because that would serve the convenience of the corporations.

At the other end of the country, the Mining Association of British Columbia warned against any bilateral trade strategy that would harm the interests of the west coast. The United States has little to offer the British Columbia mining industry, and even this little could be completely eliminated if the province's future markets -- Japan and the Pacific Basin -- react unfavourably to a Canada-U.S. agreement. Indeed, if Canada were to place itself under the American protectionist umbrella, or if it decided to buy more from the United States than from Japan, then Japan could retaliate by reducing its purchases from Canada, which would affect British Columbia primarily. Canada should therefore reduce the trade barriers that it maintains against Japan, encourage Japan to open up its own market, and pursue a multilateral strategy of access to the Pacific markets.

The wide gap separating some of the opinions expressed before the Committee, occasionally by representatives from the same region, is illustrated by the views of the Mining Association, on the one hand, and, on the other, the full support of the Business Council of British Columbia for the idea of bilateral trade liberalization. The Council told the Committee that a Canada-U.S. agreement would provide Canadian firms with greater access to their natural markets, which are located south of the border. North-south business would be more profitable for them than the east-west trade imposed by the National Policy of the last century.

Moreover, although the provinces with economies based on natural resources have traditionally been the most receptive to free trade, an Ontario spokesman, Professor John Crispo, argued that Quebec and Ontario would derive the greatest benefit from it. Ontario must also stop believing that its manufacturing sector could not survive without the protective measures that date back to the National Policy. Major restructuring would certainly take place, but according to the Economic Council of Canada, the concentration of people in Quebec and Ontario would reduce the burden of adjustment borne by the workers when their existing jobs were replaced by new ones.

### Is Canadian Sovereignty in Jeopardy?

The value of Canadian sovereignty, in its economic, political and cultural senses, was frequently evoked in the debate on bilateral trade. Asked why Canadians should be concerned to

protect and nurture their sovereignty, Professor George Grant replied, "I think people are moving into a world where they often do not feel they belong anywhere. I think it is easier to maintain some kind of indigenous real life in the smaller context of Canada than in this great continent."

A closely related issue is that of Canada's independence or freedom of action. The fear was expressed by several witnesses that Canada might be compelled to make a large number of concessions in return for the lowering of American trade barriers.

The 'level playing field' favoured by Americans wanting to eliminate anything that might be interpreted as a form of government assistance to exports, appears to encompass such programs such as regional development grants, farm products marketing assistance, and stabilization programs. According to the British Columbia Federation of Labour, the United States might also demand certain guarantees regarding the price and supply of Canadian natural resources, exchange rate policy and even the exportation of Canadian water. Not only would there be the risk of surrendering valuable tools of social and economic policy during the negotiations, but the further integration of the two economies would later result in fiscal policies, environmental regulations and occupational health and safety standards being harmonized to ensure that Canadian business remains competitive with American business. Moreover, its increased economic dependency would place Canada under the threat of American blackmail through threatened interruptions in free trade. Although not all the critics of greater bilateral liberalization painted as black a picture as this, there was consensus among them that it would be

to the advantage of a country the size of Canada to adopt a multilateral strategy, which would win Canada allies when negotiating the concessions it seeks and make it less vulnerable to pressure from the United States.

A special aspect of the sovereignty issue has to do with the cultural identity and vitality of the country. The representatives of Canada's cultural industries are categorically opposed to any form of agreement that would sacrifice the public assistance they need. According to the Canadian Conference of the Arts, this would be tantamount to eliminating the very mechanisms that guarantee Canadians their cultural identity, which differentiates them from their neighbours to the south.

Those who favour a bilateral agreement do not share these fears and, in fact, feel that they are based too much on emotion (the Business Council on National Issues). They do concede that the initiative for bilateral negotiations should come from Canada, to avoid creating the impression that the United States has ambitious plans for continental union. But they believe that Canada has by now attained a degree of economic, political and cultural maturity that guarantees its independence. Industrial incentive programs compatible with free trade could continue in force, and struggling industries could even be exempted, to some extent, from the removal of protective measures. Clearly, harmonization of some policies, notably tax and monetary policies, would be inevitable, but the forces leading to this are present already, without free trade.

What really cannot be predicted is just what proposals will be offered to Canada in bilateral negotiations. Those who favour

the opening of negotiation suggest a prudent and pragmatic approach. As Mr. Carl Beigie told the Committee:

#### TRADE POLICY OPTIONS

It makes little sense for Canada to evaluate the bilateral option with preconceived notions about what the United States would demand as a condition for entering into an agreement of this kind. Canada could receive substantial economic benefits, but I realize that the U.S. position might carry a price tag that would be too high for Canada to accept. If that turns out to be the case, Canada should halt the negotiation and be prepared to follow an alternative approach. Having a viable alternative is a necessity for effective negotiation in the Canadian interest. To refuse to negotiate because of concern about what the United States would demand -- without knowing what its non-negotiable requirements, if any, would be -- strikes me as reflecting a victory of fear over reason.

The experience of small nations that have concluded free trade agreements with blocs or larger partners would give the lie to the argument that identity and sovereignty would be lost, argued the advocates of free trade. Some claimed increased economic integration with the United States would actually preserve Canadian sovereignty. As part of an economic entity containing more than 250 million consumers, Canada could make its voice heard better in multilateral discussions. Further, economic integration would obviate the possible risks to national unity of an economic structure that accentuates regional disparities. Even the most fervent advocates of free trade, however, made it clear to the Committee that they rejected the idea of a customs union or a common market with the United States.



## CHAPTER III

### TRADE POLICY OPTIONS

Trade, as one witness reminded the Committee, is a means to an end. If it is to be effective in contributing to national economic renewal, trade policy must cohere with fiscal, monetary, industrial development and other varieties of economic policy. There is a legitimate debate over which policy instruments deserve priority, but it is beyond dispute that none of them can be neglected.

It is also true that trade policy does not have to focus exclusively on the United States. The 25 per cent of Canadian exports that go to third countries are still extremely important. Third-country markets are, in fact, crucial for commodity producers, capital goods exporters and the engineering community, and for certain regions of the country.

The Committee was, however, asked to examine Canada's bilateral trade with the United States, and it is there that the greatest number of problems and opportunities lie. The fundamental problem is that of improving and making more secure Canada's access to the U.S. market. What then are the government's policy options?

There are five fairly familiar routes the government could choose to take. To some extent, they intersect and overlap, and the choice of one does not necessarily preclude taking one or more of the others as well. What did emerge from evidence the

Committee heard is that Canada confronts a major trade problem and that some decision on a new trade policy initiative be made.

### Multilateral Negotiations

The first option is throwing all our energies into a new round of multilateral trade negotiations. This is the option with which many Canadians feel most at home because it appeals to an instinctive calculation that Canada is advantaged by coping with a major power in a context where there are many potential allies rather than one-on-one. In a new GATT round, for example, we could add the support of other trading partners to the weight we can bring to bear to curb U.S. protectionism. Some businesses and business organizations that are reluctant to countenance bilateral liberalization nonetheless advocate pursuing the multilateral option.

The seven GATT negotiating rounds have succeeded in making substantial cuts in tariff rates on industrial goods. Canada's problems of access to the U.S. market, however, relate chiefly to non-tariff barriers to trade. Several witnesses expressed reservations about the appropriateness of the GATT forum, citing the inability of the Tokyo Round to reach any substantial agreements in this area.

In a new GATT negotiation, where the United States, Japan and, to a lesser degree, the European Community are sure to be the major players, it will be vitally important to have serious attention paid to Canada's special interests, such as the need to foster regional development. There is no doubt, however, that the GATT is becoming a more difficult framework to manage. It

is uncertain how much progress can be made in the next GATT round, the initiation of which has already occasioned considerable acrimony and the results of which, in the form of reduced barriers, will probably not be realized for many years. That is all the more reason for Canada to try to be an energetic interlocutor in the GATT system, working to bridge serious differences and to strengthen the multilateral trade regime.

#### A Framework Agreement

A framework agreement between Canada and the United States would set goals for improving the relationship between the two countries, would set up bilateral working groups to examine trade issues and to make recommendations, and could conceivably establish some form of disputes settlement procedure. Such an agreement would keep Canada's options open and might, at the same time, stave off U.S. protectionism. It would give time for more analysis and more adequate preparation of multilateral and/or bilateral negotiations.

As the eventual objective of a framework agreement is to negotiate a broad reciprocal trade agreement, this option could be used to promote undertaking comprehensive trade discussions. In answer to the question, "Why not move to comprehensive talks right away?" it could be argued, as a number of the Committee's witnesses did argue, that bilateral negotiations are premature and that much more time for research and mobilizing support is needed. Witnesses contended that the government's inadequate preparation is evident in the lack of sectoral impact studies. No one appears to know how many workers are going to be affected

by trade liberalization, for example, and how long the adjustment process would take.

The proponents of bilateral liberalization respond that an enormous amount of research has been done, much of it supportive of their position, and that there are, in any case, limits to what can be known in advance. As National Sea Products Limited assured the Committee, it will be surprising to see where new entrepreneurship arises. There is a lack of sector studies, but it is to be hoped that those carried out by the Royal Commission on the Economic Union and Development Prospects for Canada will soon be released and that these will contribute to the calibre of the public debate.

The most serious weakness of this option is that the goal is still perceived through a haze, and too little political energy is imparted to the bilateral interchanges to make significant progress possible. It could be argued that a framework agreement is already in place, as a product of the Quebec City Summit, and yet the flow of protectionist proposals in Congress is far from being staunched. As far as disputes settlement is concerned, agreed statements of principle and definitions are required every bit as much as a mechanism if this is to be carried out successfully.

#### A Sectoral or Functional Agreement

An option that has recently been tried is that of seeking bilateral arrangements for freer trade on a step-by-step basis. These arrangements would cover just specific sectors, such as

steel or mass transit, or specific issues, such as procurement or countervail, whenever agreements appeared to be obtainable.

The advantage of a sectoral approach is that it is possible to go ahead immediately with those sectors resolved to accept the risks and benefits of more intense competition. As the Canadian Senate Committee on Foreign Affairs stated in 1982, the sectoral approach is easier on the politician. There is no need to expend political energy in mustering even a modicum of consensus on the Canadian side, and the negotiation itself would probably be simpler. As sectors pronounced themselves ready, negotiations could be undertaken on their behalf and the examples set by those early in the game would help to spur the laggards. This pragmatic approach appealed to several sectoral representatives appearing before the committee, including the Canadian Cattle-men's Association and the Prairie Implement Manufacturers' Association.

There are, however, many disadvantages in taking this route. The most obvious is that it was tried by the previous government and evoked a tepid response from the United States. IPSCO, for example, reminded the Committee that the U.S. steel industry had flatly turned down free trade in steel. The Senate Committee detected no enthusiasm for sectoral agreements when it took soundings in Washington. Furthermore, sectoral agreements are not that easy to negotiate; they require a balancing of advantages on each side, which is often difficult to achieve within a sector. They cannot be expected to realize anything like the full benefits of free trade because these should derive,

in major part, from the spill-overs between sectors. Finally, sectoral agreements are probably inconsistent with GATT rules.

### Comprehensive Trade Discussions

The fourth option is to begin at once a process of comprehensive trade discussions with the U.S. government to explore an agreement to reduce as many barriers to trade as possible. These discussions could encompass a number of features, such as special rules for the bilateral relationship -- supplementing the GATT and covering such areas as safeguards and anti-dumping -- and an exploration of the value of new institutional arrangements to resolve bilateral disputes.

The argument in favour of this option hinges partly on the benefits of the process, as well as on the possible outcome. Discussion with the United States could be an exceedingly useful means of exploring the ground preliminary to both multilateral and bilateral trade negotiations. There is no reason why the two sets of negotiations could not go on simultaneously and feed into one another. After all, when Canada participates in a GATT round it does most of its negotiating with the United States. Given that the two countries confront so many of the same problems -- in particular, increasing competition from the newly industrializing countries -- and share so many of the same perspectives, an intensive bilateral interchange could serve to develop a common position on the GATT. Moreover, if a bilateral trade accord were reached, it might provide a model for the multilateral negotiations.

Secondly, a process that is aimed at the two countries' mutual benefit may make possible productive talks on the pressing issues of market access that have recently consumed the attention of Canadian ministers, officials and businessmen. In the early days of the discussions, long before offers are put on the table, there will be a period of feeling out the other side, of defining terms and fixing ground rules. It practically goes without saying that current trade irritants will be uppermost on the agenda. Whether each side retains sufficient energy and interest to push the talks along to the point where detailed provisions of a trade agreement are being negotiated will depend greatly on whether the immediate irritants appear to be moving towards a satisfactory resolution. Even if, in the end, the discussions fail to produce a trade agreement, they could perform a useful service by correcting the misperceptions that appear to have taken all too firm root in Washington and driving home an awareness of Canada's serious and legitimate concerns.

A third advantage of the process of bilateral discussions would be to intensify and focus internal consultations with provincial governments and the representatives of economic sectors. Such consultations will, of course, be a political necessity. It is also necessary to start an active external interchange in order to probe the other side for what is available and to clarify the internal choices. What should eventually be placed on the table can be properly determined only by a symbiotic process of intensive consultation at home and detailed exploration with the United States. The two must go together.

As far as the final outcome of the discussions is concerned, it is impossible to specify in detail what would happen, but clearly it would stop well short of complete economic integration. The forms of trade agreement that are compatible with the GATT are described in the Report of the Senate Committee on Foreign Affairs, Canada-United States Relations, Volume III, published in 1982. The content is, however, bound to vary considerably from one case to another. The important point is that this initiative would represent a further stage in a process of liberalizing Canada's trade that stretches back 40 years.

The promised benefits of such liberalization include the security of access that now looms large in the calculations of firms, such as the steel companies, that have been stung by recent U.S. actions or threats of action. For them, the problem is uncertainty. In addition, there could be the economies of scale and specialization that would come with selling into a much larger market; improved productivity and competitiveness, leading to increased employment opportunities; greater investment; and a shift towards more higher value-added product. As well, an agreement would lessen the incentive of businesses to build plants in the United States to avoid uncertainty.

The feared costs of such liberalization include the potential loss of jobs and investment to the United States, pressure to harmonise Canadian policies with American, and a loss of capacity of the Canadian state to govern that could even lead to a diminution of sovereignty. In addition, it would be wise to remember that there will still be bilateral disputes, no matter what kind of agreement is concluded. If the involvement of modern government in the economy did not ensure this by itself,

the activities of provincial and state governments would certainly do so. There is no absolute security for Canadian exporters.

The Canadian negotiators' task will be to achieve the maximum benefit in return for paying the minimum cost. There is bound to be concern over what they might be prepared to put on the table. Are marketing boards, government procurement incentives, grants to industry and regional adjustment assistance at stake?

Another question mark hanging over the negotiators will be the list of exceptions that would have to be attached to Canada's demands. The Committee received many representations on this subject and compiled a long list of possible exceptions, beginning with the cultural industries and including the agricultural sector, textiles, shoes, furniture and alcoholic beverage industries. "Include us out," as Mr. R.A. Morrison, President of the Brewers Association of Canada, put it. How ready would the United States be to accept even a modified list, and what demands would it make in return? Would the hand of Canada's negotiators be strengthened if they were to possess a clear mandate to insist upon a detailed list of exceptions, decided upon in advance, or should they be given maximum flexibility to strike the best deal they can in the thick of bargaining?

An even larger question is how the negotiators would handle the production safeguards allowed Canada under the terms of the Canada-U.S. Auto Pact which accounts for approximately 35 per cent of the total trade between the two countries. Patrick J.

Lavelle, President of the Automotive Parts Manufacturers' Association, termed such safeguards "absolutely essential", whereas Carl Beigie contended that because the automobile companies had far exceeded the required production levels they had become "virtually irrelevant". In any case, the safeguards have always been considered transitional by the U.S. government. It would be important, therefore, to determine the receptivity of the United States to an exception for the Auto Pact.

The Canadian government will have to insist that careful co-ordination of bilateral discussion and domestic consultation be carried out on the U.S. side, because the consent of the U.S. Congress, or at least the Senate, and the agreement of state governments to surrender non-tariff barriers will be prerequisites of a successful negotiation. After the conclusion of such a negotiation, state and local governments, and Congress itself, might well continue to initiate unilateral actions that cater to local interests and have a harmful effect on Canada. A trade treaty or agreement would, however, take a long step towards the goal of immunity from such actions. The U.S. Constitution makes treaties concluded under the authority of the President binding upon the states. The new form of international trade agreement ushered in by the Trade Act of 1974, which provides an alternative to formal treaties, similarly overrides subsequent state legislation.

In certain circumstances, however, states may be successful in setting up impediments to foreign commerce if these relate to a valid state objective and are clearly within state jurisdiction. Further, it would remain within the competence of Congress to put the United States into default on its

international obligations. In the event of a Canada-U.S. treaty or agreement, therefore, it would be necessary to prompt the U.S. administration to undertake strong efforts of political suasion to ensure adherence to its spirit as well as its letter.

The Committee was frequently reminded of the importance of effective and comprehensive adjustment measures to cushion the effects of liberalization on industries, workers and communities. Adjustment measures would clearly have to go along with any comprehensive agreement and would have to embrace a wide range of assistance, including retraining and relocation grants. The Committee did, however, hear evidence from academic economists to the effect that the adjustment problem might be exaggerated, in that liberalization would probably lead not to the disappearance of whole industries but to greater specialization of firms within industries. Their conclusions were based on the results of the formation of the European Community as well as on theoretical models.

#### A More Aggressive Trade Strategy

The final option avoids bilateral deals altogether, on the assumption either that attempting to go around U.S. non-tariff barriers with a liberalization arrangement won't work or that Canadian negotiators could not be relied upon to preserve vital national interests. Instead, trade policy should be concerned with what Canada can accomplish on its own. There could be at least five prongs to such a policy:

- (i) A renewed effort, in concert with the provinces, to remove trade barriers within Canada. Proponents of this

effort argue that Canadian industries will be better able to compete internationally if the Canadian common market can function more effectively.

(ii) A stronger effort to assist exporters confronting road-blocks in the U.S. market and to make use of the leverage provided by Canada's imports from the United States. This would involve government financial assistance and research help to businesses fighting trade battles in Washington or the state capitals. To go one step further, restrictive actions in the United States would provoke speedy retaliation, countering one trade barrier with another to bring about a resolution of the issue. In this respect, Canada's hand is not without its trump cards.

(iii) Mounting a more active lobby in Washington and in the state capitals. Here again Canada does have leverage, deriving from the two-way bilateral trade flow, of which the United States is too often apt to lose sight. The Canadian Exporters' Association provided the Committee with an example of the kind of linkage that could be used here; the Association recommended impressing upon the Americans that for every dollar of cement exports lost they would lose \$1.25 of coal exports.

(iv) Making export finance more competitive and more readily available.

(v) Also in concert with the provinces, improving and co-ordinating trade promotion activities abroad.

#### BILATERAL TRADE WITH THE UNITED STATES

These are tasks that can be tackled immediately, without waiting for the outcome of a bilateral trade negotiation. They would also obviate an internal conflict over free trade that, in the view of a number of witnesses, would be certain to arise. Some advocates of a more aggressive trade strategy would also want to use industrial policy instruments to promote increased exports from Canada. The trade strategy option is not, however, without weaknesses. In particular, case-by-case combat with the United States could turn out to be a dangerous game, since Canada depends more on its trade with the United States than vice versa. Moreover, none of the elements of an autonomous trade strategy promises to assure the security of access that will be forthcoming only if federal and state governments in the United States are bound by prior agreement.

On the investment side, for example, a large number of international companies are now in the process of shifting the organization of their production from a national base to a world basis. This makes it imperative to move fast to ensure that an appropriate share of the newly reorganized productive capacity is located in Canada.

On the trade side, there is an obvious danger of sustained conflict between the great trading blocs of the United States, the European Community and Japan, each one succumbing to domestic



## CHAPTER IV

### BILATERAL TRADE WITH THE UNITED STATES: RECOMMENDATIONS AND CONCLUSIONS

#### Trading Relationships - General

The current state of the international economy is one characterized by exciting opportunities and looming problems for Canada. The opportunities consist in the chance to build Canadian capacities to exploit newly developing markets and to expand the country's stake in traditional markets. The problems consist in the considerable uncertainty engendered by the domestic economy of the United States, the world's greatest economic power, in problems of international finance and the massive debt of the Third World, and in far-reaching changes in patterns of world investment and trade.

On the investment side, for example, a large number of international companies are now in the process of shifting the organization of their production from a national basis to a world basis. This makes it imperative to move fast to ensure that an appropriate share of the newly reorganized productive capacity is located in Canada.

On the trade side, there is an ominous danger of sustained conflict between the great trading blocs of the United States, the European Community and Japan, each one succumbing to domestic

pressures rather than embracing the larger interest in co-operation. This faces Canada with the disastrous prospect of being almost entirely shut out of its major markets.

Moreover, Canada's continued prosperity is closely linked to the competitiveness of its industries in the international market place. For nearly two decades we have witnessed the entry of newly industrialized countries into competition with our labour-intensive industries. These countries now have comparable technology and lower labour costs than Canada in many industrial sectors. At the same time, our resource industries are feeling increasingly intense competition from newer producers of primary products. As a result, many Canadian firms are now undergoing a painful, but inevitable, process of rationalization and adaptation. The process of adaptation must be encouraged if we are to avoid severe trade and economic problems in the near future.

Other industrialized countries have been subjected to similar trade pressures, which has led to a rising tide of international protectionism. Such protectionism is manifested in non-tariff barriers to trade, which threaten the long and difficult process of trade liberalization achieved through the GATT process. This rise in international protectionism has brought Canada's problems into sharper and more immediate focus.

Canada continues to experience substantial trade surpluses in certain sectors. Other sectors face competitive threats due to low productivity, insufficient research and development, and

lack of capital investment, resulting in erosion in trade in their sectors.

There was a strong feeling among those appearing before the Committee that the status quo in our trade relationships cannot continue satisfactorily, primarily because many sectors of the Canadian economy are faced by immediate and substantial threats to their existing markets. There was also a strong feeling that this situation is only going to get worse unless something is done.

On the positive side, Canada has enjoyed large trade surpluses for the past few years, although current account deficits have remained. Several factors account for the surpluses, not the least being the ability of Canadian businesses to work hard at beating their competitors. Some of our industries are of world calibre and continue successfully to meet the increasingly severe challenges of the international marketplace. Canadian firms in a wide range of industries, from telecommunications to clothing manufacturing, are successfully identifying profitable markets, upgrading their technological base, and improving their productivity. Admittedly, the exchange rate for the Canadian dollar is another factor assisting exporters to the United States but, if anything, it has made it more difficult for them to sell to the rest of the world.

The Committee feels that some sectors of Canadian industry are adapting successfully to increased international competition and that a comprehensive, multi-faceted trade policy, in conjunction with other areas of government policy, can help to create an

environment that will encourage competitive advantages for Canadian enterprises.

#### Trading Relationships - United States

The United States and Canada have enjoyed a long and, in general, mutually beneficial trade relationship, though not without occasional periods of friction. The United States is Canada's most important trading partner and will remain so for the foreseeable future. Fully 78 per cent of Canadian exports of goods go to the United States, and 21 per cent of U.S. exports go to Canada; it is the largest two-way exchange of goods in the world. The relationship is both special and unique.

Under the terms of the GATT, and including duty-free trade under the Auto Pact and the Defence Sharing Agreement, around 80 per cent of Canada-U.S. trade will be tariff-free by 1987. Approximately 15 per cent of that trade will be subject to tariffs of 5 per cent or less. Thus, in terms of tariffs, much of Canada-U.S. trade will be 'free' by 1987.

However, a high proportion of the 80 per cent which will be tariff-free consists of commodity and resource-based products. The portion of Canadian exports to the United States that still has duties imposed on it is mostly high value-added goods produced by the manufacturing sector. It is precisely this sector of the Canadian economy that most needs to adapt to an increasingly competitive international trade environment.

There is also an extensive set of non-tariff barriers to trade between the two countries. These consist of 'standing' and 'contingent' non-tariff barriers.

Standing non-tariff barriers are government programs or regulations that tend, often as an indirect effect, to restrict trade between the two countries. Examples include government procurement policies giving some preference to domestic producers and differences in health and safety standards between the two countries.

Contingent non-tariff barriers include dumping and countervailing duties. Countries impose these either to deal with a charge of unfair trading or as part of the safeguard provisions of the GATT which permit temporary shielding of a domestic industry from foreign competition to allow it time to adapt.

Recently, there have been suggestions in some quarters in the United States that particular Canadian government programs would justify the imposition of countervailing duties and quotas. The response to such suggestions must be speedy and resolute. Such programs as Medicare, Unemployment Insurance and equalization payments do not fall within the realm of trade relations. Instead, they are essential instruments for building the equitable and just society to which Canadians want to belong and should be recognized as such by our trading partners.

Finally, the GATT regulations apply only to trade in goods and do not regulate trade in services. Services are an increasingly important component of trade between Canada and

the United States and should be the subject of discussions between us.

The health of our trade relationship with the United States is of great importance to Canada. There was a strong feeling among those appearing before the Committee that this trade relationship is deteriorating, with the rise of protectionist sentiment in the United States Congress, with calls to impose import quotas on goods, and with an increasing number of countervailing duty requests being filed with the U.S. International Trade Commission and the U.S. Department of Commerce.

The Committee recommends that the government act swiftly and decisively to implement a multidimensional initiative in trade. The objectives of this initiative would be to secure our access to traditional markets, to actively develop new markets and to encourage Canadian industry to adapt to an increasingly competitive trade environment. Some of the dimensions of such a strategy would be as follows:

#### Mechanisms

##### 1. Promoting a New Round of Multilateral Trade Negotiations

A successful and timely round of multilateral trade negotiations would be the most satisfactory means of dealing with Canada's trade problems. A major advantage would be that these would encompass other markets in addition to that of the United States, and these third-country markets are of considerable importance to Canada. Such negotiations would have to deal with

issues not adequately covered under the GATT, such as non-tariff barriers and trade in agricultural products and services.

The government has been pressing strongly for a new round of multilateral negotiations. The Committee recommends that the government continue its vigorous efforts to initiate a new round of multilateral trade negotiations. The government should also address itself to the major problems that are faced by the newly industrialized countries and that relate to strengthening the international trading system, by removing international financial impediments to trade.

## 2. Reducing Interprovincial Trade Barriers

In consultation and co-operation with the provinces, the government should study interprovincial trade irritants and barriers and undertake an initiative to reduce interprovincial trade barriers where such barriers diminish Canada's international competitiveness.

## 3. Initiating Bilateral Trade Discussions with the United States

There appears to be little chance of a new GATT round being completed before 1990, and the implementation of agreements will occupy at least several years. Bilateral trade negotiations with the United States are not, however, viewed as a substitute for multilateral trade talks. Rather, the bilateral mechanism is viewed as complementary in that it affords the government the

opportunity to take near-term action to deal with immediate problems. The multilateral mechanism is, by its very nature, a much longer-term process.

The Committee recommends that there be immediate bilateral trade discussions with the United States.

The discussions should centre initially on resolving current trade irritants, especially prevention of the imposition of additional non-tariff barriers to trade between the two countries. Issues such as the definition of the net effect of subsidies provided by both sides and the identification of the appropriate jurisdictional authority for implementing changes in non-tariff barriers should be dealt with explicitly. These discussions should be used to explore the potential for additional trade liberalization between the two countries and for securing and strengthening access to each other's markets. Issues such as trade in services, government procurement, and reducing remaining tariff barriers should be dealt with explicitly.

The Committee views these discussions as the natural extension of a process begun by Prime Minister Mulroney and President Reagan at Quebec City (see chapter I). The Committee believes that it is premature for Canada to initiate formal bilateral negotiations but that it is necessary to initiate broad discussions with the United States to determine their receptivity to liberalizing bilateral trade. After a ministerial report to Parliament on the outcome of these discussions and on whether certain conditions have been met, the government should decide whether the prospects are sufficiently promising to continue on to detailed negotiations.

The merits of several possible mechanisms for trade liberalization have been argued energetically before the Committee. These mechanisms included the sectoral, framework, and comprehensive models. There is no necessity for the Committee to recommend one of these models. Only the preliminary discussions and possible subsequent negotiations will determine how far down the road to bilateral trade liberalization we can safely travel and what the appropriate mechanisms for implementing changes will be.

The Committee feels strongly that liberalization of bilateral trade must take place within the GATT framework. In addition, the Committee would not advocate standardizing the two countries' external barriers to trade (i.e., a common trade policy with respect to trade with other countries) or complete removal of internal barriers to the movement of labour and capital between the countries. For these reasons, the Committee would not recommend that Canada enter negotiations with a view to joining either

(i) a common market, which has standardized external barriers to trade and no internal barriers to the movement of labour and capital among member countries, or

(ii) a customs union, which has standardized external barriers to trade among member countries.

The Committee believes that a bilateral trade agreement between Canada and the United States does not require exclusive concentration on the American market. It can parallel and co-exist with multilateral trade agreements and would not preclude other bilateral initiatives for trade liberalization directed at the European Community, Japan and the Pacific Rim or developing countries. A series of new bilateral initiatives may serve to stimulate movement towards a new round of multilateral trade negotiations.

The Committee recognizes that concerns will be raised as to the implications for Canadian independence and sovereignty of any move toward trade liberalization. This is clearly an area where government policy makers will have to be vigilant to ensure that distinctive cultural institutions and industries are not lost.

The Committee wishes to make several further recommendations as to the process and content of the discussions, as follows:

1. The Committee recognizes that both Canada and the United States will want to identify exceptions to the range of subjects to be considered in any detailed bilateral negotiations. These should include policy areas and policy instruments that are of fundamental importance to the maintenance of a distinctive Canadian identity or to keeping solemn commitments made to significant elements of Canadian society. At the top of the list would be cultural industries and cultural policy, social policies, the agricultural sector and the workings of the Canada-United-States Auto Pact.

The federal government has been consulting for some time with the provinces, the trade union movement, business and the farming community on bilateral trade issues. In continued consultation with these groups, the government should identify other possible exceptions to a bilateral agreement. Such exceptions could include the ability to undertake regional development initiatives. In addition, specific sectors of the economy expressed opposition to their inclusion in a comprehensive agreement. Business and trade union representatives of many manufacturing industries expressed serious concerns about the loss of their markets to U.S. competition and the associated job loss they felt would arise from a comprehensive trade agreement with the United States. Many manufacturers indicated, however, that they could adapt to the new environment if given enough time to do so.

Any bilateral trade agreement with the United States should contain provisions to allow time for adjustment and adaptation to take place. Such provisions would include phase-in periods for changes in trade barriers. These would be determined on a sector-by-sector basis up to a suggested maximum of 10 years. The government should examine areas of the economy that may be affected by changes in Canada's trading arrangements. There may well be a need for large-scale labour adjustment programs, to ensure that workers do not suffer from these changes, and the government should plan the financing of these programs in consultation with provincial governments, business and labour. In addition, the government may wish to use supplementary adjustment mechanisms such as an adjustment board to deal with short-term dislocation.

2. The government should perform such economic cost/benefit studies as it deems prudent prior to, and in the course of, bilateral negotiations.

3. The Committee recommends that the negotiations include the formulation of an effective mechanism for ongoing administration of any bilateral agreement or agreements, including the settlement of disputes.

4. Trade Strategy

Multilateral and bilateral negotiations might not be successfully initiated or concluded. For this reason, the government should also pursue options for a more aggressive trade strategy.

The components of such a strategy could include the following:

(i) Consultation with the provinces with a view to developing a substantial, co-ordinated trade promotion effort.

(ii) A review of export financing provisions with a view to improving accessibility for Canadian exporters and ensuring that this financing is comparable to that of our competitors.

(iii) Investigation of effective mechanisms for assisting producers or industry groups to deal with specific trade disputes with other countries.

- (iv) An attempt to initiate discussions leading to reform of the international monetary system to deal with exchange rate problems and capital flow requirements that are causing distortions in international trade.

The Goal of the Program

In announcing his Strategic Defense Initiative (SDI) in a televised speech on March 23, 1983, President Reagan told the American people that together they were launching an effort which holds the promise of changing the course of human history. The President's conception of defensive systems to render nuclear weapons impotent and obsolete was, indeed, bound to fly in the face of one of the underlying assumptions of strategic planning in the nuclear age. Until his announcement it had been the conventional wisdom that the strategic balance derived not from the capability to defend against a nuclear attack but from the capability to retaliate with a punishing blow. Even if a tiny portion of the attacking force were to get through, that would be the end of the enormous destructive power of nuclear weapons. This understanding was reflected in the Anti-Ballistic Missile (ABM) Treaty of 1972, which banned systems for intercepting defense of territory against ballistic missile attacks.

Since March 1983, however, strategic analysts -- if they have not rejected the SDI out of hand -- have been advocating a reorientation that thinking to accommodate the possibility of a missile defense system. Political leaders have been working with the domestic and international press to promote the initiative and the President's initiative and a general attitude of...

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## CHAPTER V

### THE STRATEGIC DEFENSE INITIATIVE

#### The Goal of the Program

In announcing his Strategic Defense Initiative (SDI) in a televised speech on March 23, 1983, President Reagan told the American people that together they were "launching an effort which holds the purpose of changing the course of human history." The President's conception of defensive systems to render nuclear weapons "impotent and obsolete" did, indeed, appear to fly in the face of one of the underlying assumptions of strategic planning in the nuclear age. Until his announcement it had been the conventional wisdom that the strategic balance derived not from the capacity to defend against a nuclear attack but from the capacity to retaliate with a punishing blow. Even if a tiny portion of the attacking force were to get through, that would be too much, given the enormous destructive power of nuclear weapons. This understanding was reflected in the Anti-Ballistic Missile (ABM) Treaty of 1972, which banned systems for nation-wide defence of territory against ballistic missile attack.

Since March 1983, however, strategic analysts -- if they have not rejected the SDI out of hand -- have been endeavouring to reorient their thinking to accommodate the possibility of a missile defence system: political leaders have been coping with the domestic and international cross-currents set in motion by the President's initiative: and a growing portion of the

scientific community in the United States has been bending its efforts to realize his ambitious goal.

In highly simplified terms, the ballistic missile defence currently envisaged is a three-tier system, designed to attack enemy missiles in each of the phases of their flight: the initial boost phase, the mid-course phase while they are outside the atmosphere, and the terminal phase. The array of new, and mostly untested, technologies to which U.S. strategic planners are looking to provide an impenetrable shield includes space and ground-based lasers, magnetic rail guns that fire projectiles at high speeds, and directed beams of subatomic particles. These technologies have to be complemented by sensors to detect missiles at a distance and advanced computer systems to manage an intricate high-speed battle in space.

To research and begin development of these technologies, a number of previously existing research programs have been brought together in the Strategic Defence Initiative Organization (SDIO), within the U.S. Department of Defense. There can be no doubt that the repercussions of the SDIO's activities are felt throughout the entire U.S. defence structure. Indeed, in the opinion of one witness, Professor Albert Legault of Laval University, the director of the SDIO has been given de facto charge of rationalizing and guiding all strategic weapons developments for the United States.

The SDIO has set itself a more limited objective than the goal of population defence espoused by President Reagan. The objective is to deny damage from limited nuclear attacks and to limit damage from full-scale nuclear attacks. In addition, a

number of conflicting interpretations of the program's purpose have been offered by officials and political figures in Washington. There is now a widespread view that what is really intended is simply a means of defending missile silos, radars, and command, control and communications sites. Such a purpose could be justified under the old rubric of deterrence based on the threat of retaliation, but critics have been more inclined to fasten on the instability that would result if the United States were seen to be acquiring the capability of carrying on a limited nuclear war.

A recent refinement of the goal of the SDI was offered by Paul Nitze, Special Assistant to the President and to the Secretary of State for Arms Control. Nitze posited a new kind of deterrence based not on mutual assured destruction but on mutual assured security -- the ability of the defence to deny success to a potential aggressor's attack. Ballistic missile defences would bolster deterrence by increasing the uncertainty in a potential aggressor's mind that he could carry off a first strike without incurring unacceptable costs. It should be noted that it would not be necessary to have a 'perfect' defence to accomplish this.

The concept of deterrence has thus been rehabilitated, but this time coupled with two stringent criteria set down by Mr. Nitze for assessing the feasibility of the new technologies when they are developed. The new defences must be "reasonably survivable", for otherwise their vulnerability would provoke a first strike and stability would be decreased rather than bolstered. Secondly, they must be cost-effective at the margin. It must be cheaper to add defensive capability than for a potential aggressor to add the offensive capability

necessary to overcome the defence. Otherwise, rather than rest content with mutual assured security through defence, the aggressor would see a prospect of victory through the acquisition of stronger offensive power. These criteria have become part of the common currency of public discussion of the SDI.

### The Motives Behind the SDI

Just as several aims have been enunciated for the SDI so there is a variety of motives for undertaking this Herculean endeavour. One that must weigh heavily in the mind of any political leader confronted by substantial public opposition to nuclear weapons is the prospect that strategic defence will be based mostly on non-nuclear technologies. Such appears to be the plan at present, though the SDI is still only the vaguest of sketches, with a multitude of significant details yet to be added. By the same token, the proponents of the SDI can claim to have found a better replacement for the concept of mutual assured destruction. This concept, which has required each side to prepare for its own suicide in order to assure its security, has long been criticized as inherently absurd and fated to break down in catastrophe.

Uppermost in the minds of strategic planners favourable to the SDI is likely the motive of correcting the increasing vulnerability of inter-continental ballistic missile (ICBM) sites to a Soviet first strike. This vulnerability is a consequence of the much greater precision of offensive nuclear weapons. The Soviets Union's deployment of a reloadable 'fourth generation' of ICMBs, together with other new weapons

systems, has greatly enhanced its ability to destroy 'hardened' targets, arousing extreme concern within the national security policy community in the United States.

In addition to the support of policy makers, the SDI has attracted the advocacy of a number of other constituencies, each with its own motivations, some sectarian and selfish, others broadminded and idealistic. This is only to be expected in an undertaking so all-embracing. That these motivations do not extend to everyone, however, is evidenced by a large and vocal opposition to the SDI that includes a substantial representation from the scientific community and many former U.S. policy makers, as well as the leaders of the peace movement.

#### The Soviet Ballistic Missile Defence Program

As distinct from the factors that have prompted this revolution in American strategic thinking, the primary justification offered publicly for the SDI research program is that it is the only prudent course for the United States, given that its superpower adversary is doing precisely the same thing. At a minimum, the research program provides a hedge against unilateral ballistic missile deployment by the USSR. Indeed, it is one of the strange paradoxes of the debate in the West about the SDI that so much attention has been focused on the U.S. program and so little on similar, and possibly even more intensive, efforts that have been undertaken by the Soviet Union.

As allowed by the provisions of the ABM Treaty, the Soviet Union has, since 1964, protected Moscow with the only existing operational ballistic missile defence system (the 'Galosh')

system), and this has recently been upgraded. The Soviets have developed a fairly extensive capability in the detection, identification, location and tracking of ballistic missiles, including fully operational space-based sensors. Further, since the early 1970s, they have devoted considerable financial and manpower resources to research on directed energy weapons, including high-energy lasers, charged particle beams and electromagnetic pulse devices, all of which have ABM applications. The United States alleges that Soviet research on lasers is in fact more advanced than its own. There are other areas, of course, such as computer technology, where the United States is clearly ahead.

For a number of years the Soviets have also been developing a military space program. They have developed and deployed an anti-satellite weapons system (the only one in existence). A number of their activities have given rise to considerable concern in the West about possible infractions of the ABM Treaty. In particular, the Soviets are constructing a large radar near Krasnoyarsk in central Siberia. The United States has repeatedly alleged that this violates a provision of the ABM Treaty which requires that such radars can only be placed along the periphery of the national territory of one of the parties, and must be oriented outward. The Krasnoyarsk radar could be used to manage a defence against ballistic missiles by providing early warning of attack, distinguishing incoming warheads from decoys and guiding interceptors to their targets. The Soviets, however, claim that the radar is intended for space tracking and is, therefore, permitted by the Treaty.

Taken together with the emphasis that the Soviets have placed on civil defence -- far more than any NATO government has done -- these incursions into the field of strategic defence represent a formidable endeavour. The purpose is not to strike awe in the minds of readers with this list of Soviet defence technologies, some of which have considerable shortcomings and/or are only one stage beyond the drawing board. The point is that the Soviets are poised on the verge of strategic defence in approximately the same position as the United States. If nothing else, the dictates of superpower competition will require a continuation of research on both sides. It is certainly true that of the many accusations hurled at the SDI none has been more fraught with hypocrisy than the assertion of Soviet scientists and government officials that the U.S. program is destabilizing and provocative.

#### The SDI and Arms Control

It cannot be emphasized too much that the SDI exists, at the moment, only in the form of a research program. The United States has committed itself to carrying out this research within the constraints of its arms control treaties, including the ABM Treaty. The United States has also forcibly asserted that the SDI research program must be excluded from negotiations in the present round of arms talks in Geneva.

There are varying views as to how long the research will take -- and at least some support for early deployment of a rudimentary point defence system -- but significant deployments

are unlikely for a number of years. This raises the question of how much real opportunity there will be for consultation and negotiation, assuming the results of the research are satisfactory, before the United States goes ahead. There can be little doubt that the deployment of space-based or ground-based ballistic missile defences would require the abrogation, or substantial amendment, of the 1972 ABM Treaty.

The Treaty limits the testing and deployment of anti-ballistic missile systems on the grounds that "effective measures to limit anti-ballistic missile systems would be a substantial factor in curbing the arms race in strategic offensive arms and would lead to a decrease in the risk of outbreak of war involving nuclear weapons." The Treaty, as amended in 1974, limits ABM deployment to only one site of 100 interceptors and 100 launchers, to be located around the national capital or an intercontinental ballistic missile field. It is agreed in article V that each party undertakes not to develop, test or deploy ABM systems or components that are sea-based, air-based, space-based, or mobile land-based. Laboratory research is not forbidden and could not, in any case, be verified by national means. Any field testing that can be monitored by the other party's satellites and radars would, however, constitute a violation of article V.

The Treaty establishes a Standing Consultative Commission by means of which the parties are to consider the questions of compliance, verification, amendments to the treaty, and further arms limitations. The Treaty is of unlimited duration, but is to be reviewed every five years. Each party may propose amendments and has the right to withdraw after six months

notice "if it decides that extraordinary events related to the subject matter of the treaty have jeopardized its supreme interests" (article XV).

There has been no pronouncement by the U.S. government on what will happen when the development of the SDI rubs up against the provisions of the ABM Treaty, but the President has given an undertaking that there will be negotiations with the Soviet Union prior to deployment. These negotiations could also address the question of compliance with other treaties, such as the 1963 Test Ban Treaty and the 1967 Outer Space Treaty.

Another of President Reagan's undertakings that is of particular relevance to Canada is the commitment that SDI deployment would be the subject of consultations with the allies of the United States. The communiqué issued after the summit meeting between the President and Prime Minister Mulroney in Quebec City last March stated that "steps beyond research would, in view of the ABM Treaty, be matters for discussion and negotiation."

#### The Invitation to the Allies

At a meeting of NATO's Nuclear Planning Group in Luxembourg, on March 26, 1985, U.S. Defense Secretary Caspar Weinberger formally invited allied governments to participate in the SDI research program. "As you know," Mr. Weinberger's letter said, "the purpose of the SDI is to determine whether there are cost-effective defensive technologies that could enhance deterrence and increase stability." The letter asked

each of the allies to respond within sixty days and to identify the sphere of research that they considered most promising for their participation in the program. In addition to the countries represented at the Luxembourg meeting, the invitation was also extended to France, Japan, Australia and Israel.

The form of the U.S. invitation has been altered significantly since the meeting. In the wake of a somewhat confused and irritated reaction on the part of some allied governments, the sixty-day deadline has been dropped, and the United States is no longer requiring that there be a specific government-to-government agreement on research. That has been left up to the individual governments to decide. There can be allied participation in the program in a variety of ways. The United States has made very clear, however, that it will not give a contract to a foreign company if the government in question is opposed to the involvement of its private sector.

As Professor Dan Middlemiss told the Committee, it remains uncertain whether the United States wants Canada to be involved in a significant way. Vital security interests for the United States are tied up in the SDI, and that country may not be prepared to negotiate the terms of Canadian participation so as to accord with what Canada might see as its own interest in the research. Indeed, the invitation may well have been little more than a courtesy extended to an ally. Whatever the case, it would be an error of judgement to perceive the response to this invitation as a litmus test of friendship with the United States or fidelity to the Atlantic Alliance.

A number of the allied governments clearly have considerable reservations about the SDI program but, at the same time, do not want to be frozen out of the possible financial and technological benefits that may flow from the program. There have been intensive consultations between the United States and its potential partners, particularly the United Kingdom, the Federal Republic of Germany and Japan. Other governments, including those of Australia, Denmark and Norway, have declined participation, although Norway has left the door open to participation at a later date. The government of France has said that it will not participate but that French industry is free to do so. Meanwhile, France has led the way in formulating the Eureka Project, which is intended to be a civilian alternative to the SDI and to co-ordinate European high technology research in the space field.

The Canadian government has not yet responded to Mr. Weinberger's amended invitation. The nature of the reply that should be given has, however, been given much consideration by this Committee, both during its hearings across the country and in the preparation of this interim report.

The principal argument in favour of the SDI is that it would bring a welcome change in strategic principles: deterrence through fear would be replaced by deterrence through defence. If so, the superpowers would be deterred from using their nuclear stock by the prospect of seeing those arms neutralized by the enemy's defence system. In the long term, then, the SDI would lead to the scrapping of nuclear arms. Because it would give us



## CHAPTER VI

### THE DEBATE ON THE STRATEGIC DEFENSE INITIATIVE

The Committee heard many witnesses and received many more submissions, letters and petitions on the subject of the Strategic Defense Initiative (SDI) and whether Canada should participate in its research phase. The opinions expressed ranged from passionate enthusiasm to dogged opposition. This chapter attempts to synthesize the main arguments in the debate on the SDI.

#### The Strategic Balance

The central controversy surrounding the SDI is the connection between ballistic missile defence and international security. Some witnesses, on the one hand, told the Committee that ballistic missile defence would transform the balance of terror into a balance of defence. Others maintained that it would reinforce deterrence. Its detractors, on the other hand, claimed that if deployed, a ballistic defence system would be extremely destabilizing.

The principal argument in favour of the SDI is that it would bring a welcome change in strategic principles: deterrence through fear would be replaced by deterrence through defence. If so, the superpowers would be deterred from using their nuclear arms by the prospect of seeing those arms neutralized by the enemy's defence system. In the long term, then, the SDI would lead to the scrapping of nuclear arms. Because it would give us

the technology to prevent a nuclear holocaust, the supporters argued, the SDI is the only realistic alternative to mutual assured destruction.

A related argument holds that the SDI would become an essential complement of deterrence. Because of the precision of modern Soviet ballistic weaponry, U.S. command and communications posts and land-based strategic forces are becoming increasingly vulnerable to a first strike. The situation is thus one of instability, because Washington would always be tempted to rely on either a pre-emptive strike strategy or a launch-on-warning strategy. A ballistic missile defence, however incomplete and vulnerable, might at least avert the destruction of a large proportion of the U.S. retaliatory forces. This prospect would be enough to deter aggression. At the very least, the existence of an anti-ballistic missile system would increase the level of uncertainty and the complexity of the calculations a possible aggressor would have to make.

One witness argued that an anti-missile defence could also prevent the accidental launching of a nuclear war. To avoid escalation after an attack launched by mistake, the superpowers could sign an agreement stipulating the right of each of them to destroy any unidentified missile in space. The SDI could also preserve stability by reducing the importance of stock-piled ground-to-ground ballistic missiles relative to bombers and cruise missiles. These weapons give the defender a longer reaction time; in addition, bombers can be recalled.

Proponents of participation in the SDI believe that it is a natural consequence of evolving technology and the Soviet-American rivalry. The American research effort is justified by Soviet progress in anti-ballistic and anti-satellite weapons. The possession of a defence system by only one of the two parties would be highly destabilizing, and the Americans, if they are not to prove vulnerable, must acquire the means to remain competitive with the Soviet Union.

Opponents of the SDI reject this thesis. They believe that the United States has decided unilaterally to change the rules of the strategic game. The Soviets have never expressed any intention of going over to a defensive strategy, and they are far behind the Americans in almost all the advanced technologies related to anti-ballistic defence. Critics of the SDI consider that the U.S. decision is extremely dangerous for world peace. They maintain that the first power to have an anti-missile defence system would have first-strike capability. Protected by this system, the United States might launch an attack on the Soviet Union because it would feel secure against the reprisals of a weakened adversary.

Some witnesses also stressed the possibility that SDI weapons could be used offensively, against enemy satellites. The United States would thus be in a position to paralyze Soviet forces by destroying their communications and surveillance satellites. According to some testimony before the Committee, the SDI reflects a deliberate attempt by the Americans to acquire a first-strike capability. Without making assumptions as to

U.S. intentions, other witnesses mentioned that the SDI is, in fact, perceived in this way by the Soviet Union.

Opponents of the SDI all pointed to the dangers of the transition period, during which the two superpowers would gradually be acquiring anti-ballistic missile defence systems. The process would be unstable because each of the superpowers would be afraid that its rival might be the first to acquire a defensive system and hence a first-strike capability. In this tense situation, the USSR and the United States would be more tempted than ever to launch a pre-emptive strike. Should a crisis occur, a panic reflex could set off such an attack.

A number of witnesses added that the danger of escalation in time of crisis would be increased by the highly advanced automation of the defence system. Given the importance of destroying as many missiles as possible during their boost phase, space-based anti-ballistic missile defences would have to be activated within seconds of detecting an enemy launch. On account of the extremely short warning time, the SDI system would be under computer control, capable of being activated without human intervention. Any accident could lead to escalation, because activation of the defence system following a false alarm could make the enemy believe a first strike was taking place. Witnesses pointed out that the frequent false alarms in the NORAD system can be cancelled only by human intervention.

Many Canadians, then, prefer (or, at any rate, consider the lesser of two evils) the existing situation, characterized by the balance of terror and attempts at arms control. Others favour complete nuclear disarmament.

## Arms Control

The Committee heard conflicting views on the impact of the SDI on arms control. Some expressed the fear that by accepting the U.S. offer, Canada would be supporting a new arms race and the end of arms control, to the detriment of international security and a tradition of peaceful diplomacy. Others maintained that the SDI could hardly lead to an arms race, because it is merely a research project. However, an effective anti-missile defence could one day eliminate strategic weapons and the need for arms control.

The SDI is viewed as a new phase in the arms race primarily because of the belief that the superpowers will increase their offensive strategic weapons to maintain a quantitative advantage over the defence. Moreover, the SDI adds another deployment territory (outer space) and new weapon types (directed energy weapons) to the superpowers' arsenals, and requires them to devote even more resources to maintain the balance between them.

All these developments pose a threat to existing arms control agreements. The Soviet build-up of offensive weapons could constitute a breach of the SALT II treaty and bog down the Geneva talks on nuclear arms control. Deployment of a weapon such as the X-ray laser, which is activated by a nuclear device, would threaten the 1967 Outer Space Treaty prohibiting the orbital deployment of atomic bombs, and the testing of this weapon would be in contravention of the 1963 Nuclear Test Ban Treaty, which bans nuclear explosions in space.

Critics of the SDI believe that the introduction of new ballistic missile defences poses a threat to the 1972 ABM Treaty, the major arms control treaty between the superpowers. The Treaty has so far prevented a catastrophic escalation of the arms race by prohibiting the deployment of more than one anti-missile defence site in each country. The ABM Treaty would appear to have provided a degree of stability for the international system, while constituting a symbol of co-operation between the superpowers.

Critics of the SDI raise other issues relating to the ABM Treaty. One of the most important, which involves Canada directly, is the prohibition of the foreign transfer and deployment of anti-ballistic technology (article IX). The United States could be in violation of the Treaty if it were to test or deploy anti-ballistic missile weapons in co-operation with Canada or any other ally. In this event, Canada could be an accomplice in flouting international law.

Its supporters argue that, as a research program, the SDI cannot be prohibited under the 1972 Treaty. They add that the Treaty contains an old definition of an anti-missile system (radars, launchers and missiles), which does not apply to arms of the type envisaged by the SDI. They also point out that the Treaty's appendix, which is the source of considerable controversy, states that specific limitations on future defence systems are to be negotiated by the signatories.

Some witnesses suggested that the Soviets have already violated the Treaty through their research, testing and deployment of anti-missile and anti-satellite weapons. Others appeared to believe that a revision of the Treaty is inevitable and necessary, though the Committee did not hear any opinions on the methods and goals for the possible renegotiation of the Treaty. Nevertheless, almost all witnesses appearing before the Committee were in favour of maintaining the ABM Treaty and other arms control agreements because, as Mr. William Epstein pointed out, once you start eroding these treaties, "then the post-war international order that has been slowly and carefully constructed could erode and crumble and we could be forced back to something approaching international anarchy."

#### Alliance Cohesion

A major criticism launched against the SDI is that it will result in the break-up of NATO. It is argued that the SDI will revive East-West tensions, which will heighten European insecurity and cause resentment against the United States. It is feared that, over the long term, a ballistic missile defence protecting the United States from nuclear attack will reinforce U.S. isolationism. As a defence against theatre nuclear arms is held to be beyond reach, even in the long term, it is feared that the United States will arm itself with a system protecting only North America, which will trigger the 'uncoupling' of U.S. and European defences so feared by the Europeans. Moreover, divisions could arise within the Alliance because British and French nuclear forces, which are financially costly but politically important, might be rendered powerless in the face of a Soviet anti-missile system. At the very least, the British and

French would have to make an enormous effort to increase their offensive capability in order to keep up with Soviet defences.

Some witnesses made a very different link between Alliance unity and the SDI. They held that Canada should participate in the SDI as a loyal ally of the United States, whose role in the defence of the West is greater than ever. It was pointed out that the United States has agreed to consult its allies on the deployment of any ballistic missile defences. Another point of view was that ongoing discussions (to which Canada might contribute) between the United States and Europe are essential to preserve the unity of the Alliance. The NATO mechanism was also perceived to provide a means of influencing the U.S. course of action on the SDI. The National Capital Branch of the Canadian Institute of International Affairs contended that it is "open to Canada to seek like-minded allies in NATO who would share our objective of influencing the eventual decisions about development and deployment and would be prepared to support an initiative to set up a NATO consultative committee on SDI."

### SDI Technology

Several witnesses, reflecting the scepticism of a large part of the scientific community, contested President Reagan's statement to the effect that the SDI would render nuclear weapons useless. They maintained that the technical problems are such that a flawless anti-ballistic missile defence system is impossible and that it is not worth spending billions of dollars on a penetrable and destabilizing system. They also advanced the argument that the SDI will protect the United States only against

Russian inter-continental missiles and not against missiles launched from submarines or bombers, cruise missiles or nuclear terrorism.

One of the most developed technical arguments focuses on the unreliability of the software needed to manage an anti-ballistic missile defence. The proposed system is so complex that it would take a mathematical revolution, a "miracle", to create the operations that would allow co-ordination of the many aspects of the SDI. Moreover, as Professor David Parnas told the Committee, it would be impossible ever to test the whole system under real-life conditions. The system deployed might well be so full of bugs that it would totally fail to function.

Other witnesses underscored the problems of deploying the most important of the weapons -- those that attack offensive missiles during their boost phase. None of these weapons is ready for production and none is immune to counter-measures that would be relatively easy to develop. Moreover, any anti-ballistic missile defence can be saturated by using a greater number of missiles and decoys. Finally, some mentioned that supplying the energy requirements of the system is a problem as yet unresolved.

The problem of SDI effectiveness appear greater still when we consider the extreme vulnerability of a system that could be paralyzed by an anti-satellite strike directed against the 'eyes' of the system -- the radars or the sensors. Indeed, it is much easier to destroy a geostationary satellite, with its predictable orbit, than a missile whose time and place of launching and subsequent trajectory cannot be predicted.

Another important aspect of the SDI is its cost-effectiveness. Most of the witnesses doubt that it will be possible to create a defence system so effective that, in the long run, improving it would be less expensive than manufacturing the offensive means of destroying, deceiving or saturating it. Offensive weapons, which are far simpler, will always be less expensive, and the defender will have to devote a great deal of his resources to protecting the defensive system itself.

For many, the cost aspect of the system is not all that important. The system should not only be relatively effective, it must be absolutely effective. With the quantity of nuclear weapons deployed today, we have to consider that the explosion of even a very small number of them would cause a planet-wide disaster. If it is to be effective, an anti-ballistic system must provide complete protection.

The supporters of Canadian participation in the SDI say that it is too early to decide on the potential of anti-missile defence. We will have to wait another six to ten years before being able to pass judgement on the feasibility or otherwise of the SDI. Others maintain that the SDI does not have to be a perfect system for the defence of the population and that its primary role is to prevent a first strike against strategic weapons and command posts. The system need not, therefore, be completely effective.

#### The SDI and Militarism

One variety of opposition to the SDI is founded on the view that large-scale research and development in the area of anti-missile weapons will increase the militaristic tendencies

present in all societies, including Canada and the United States. For some, any defensive effort reinforces man's aggressive tendencies and is therefore morally reprehensible. As one witness, the Reverend Donald Pipe of the Quebec Council on Peace, put it, all arms development takes place in a moral vacuum.

Other opponents of the SDI argued that the SDI reinforces the military-industrial complex in American society, draining society's and the state's attention, resources and energy into the manufacture of arms at the expense of urgent and pressing social needs. The SDI was portrayed as an attempt to find a military solution to political and economic problems.

Many witnesses pointed to the considerable opposition within Canadian society to militarization, arguing that acceptance of the SDI can lead only to an extremely dangerous political situation within Canada itself. A militarized society would be unproductive and authoritarian and would not even improve security because, as one witness said, the diversion of resources towards instruments of war creates conflict in itself. Militarism could lead only to economic collapse or war.

The Committee noted the enormous frustration felt by a great many witnesses regarding the manner in which East-West relations and nuclear issues are dealt with in government circles. Many groups would certainly be prepared to support the call by the Canadian Coalition of Women's Organizations, which organized an International Peace Conference in Halifax, for a "paradigm shift". This would require a recognition that we are committing a serious error in continuing to arm ourselves and distrust

certain countries. We should have the courage to choose a new path, characterized by the development of human contacts with Soviet Bloc countries, nuclear disarmament and the diversion of military expenditures to non-military uses.

### Canada's International Relations

Can participation in SDI research enhance Canada's international influence and the degree to which it controls its own destiny? The witnesses heard by the Committee had different answers to this question, although they all agreed that acceptance of the American offer to participate in the SDI would have a major effect on Canada's international relationships.

For some witnesses, the American decision to launch into research on anti-ballistic weapons is irrevocable; no other country can influence the process that is under way. However, the allies of the United States will have some influence in the decision to deploy the defence system. If Canada wants its voice to be heard, it must participate in the SDI. This decision would have a favourable effect on our bilateral relations with the United States and on our multilateral relations in NATO. Canada would be recognized as a serious partner that is doing its part to defend the Alliance. The United States would be bound through SDI to listen to Canada's opinion on deployment of the space defence system and the defence system against non-ballistic missiles. Canada's affirmative decision could also lead to an improvement in bilateral trade relations.

The counter-argument, which the Committee also heard, is that Canada can have more influence on U.S. decisions and retain its sovereignty if it does not take part in the SDI. Canada potentially has a great deal of influence on the United States, without being required to give in to all American demands. This influence is on two levels: (i) Canada is a member of the two alliances that are most important for the United States -- NATO and NORAD; and (ii) Canada's territory takes on vital strategic importance with the introduction of the anti-ballistic missile defence system, because it is the best location for intercepting Soviet atmospheric weapons, whose role will increase as the role of ballistic missiles declines. By using its contacts in NATO and by turning the value of its territory to good advantage in NORAD, Canada could thus become a more important element in American calculations.

A number of witnesses took the argument in a different direction. Canada has much to lose in accepting the American offer. Creation of 'Fortress America' would remove Canada once and for all from the counterbalancing influence of Europe. At the very least, if Canada had to increase its military expenditures to participate in this project, it might have to terminate its military commitment in Europe.

A frequently heard argument was that participation in the SDI would threaten Canada's independence in both domestic and foreign policy. In the opinion of the Council of Canadians, deployment of the SDI could end Canada's political and territorial sovereignty. The existence of American military installations and personnel on Canadian soil for purposes of defence against bombers and cruise missiles would be a violation of our territorial integrity. What is more, Canada's political

sovereignty would be threatened by substantial military integration, as well as by the division between Europe and the United States, the effect of which would be to put us entirely under American influence. Participation in the SDI could also signal the end of Canada's special role as a nation particularly devoted to the resolution of international disputes, the negotiation of arms control agreements, and the maintenance of peace.

#### Economic Benefits for Canada

The Committee encountered strong defenders of the view that the government should support the SDI if it wishes to assure the country's technological capability and contribute to economic recovery and renewal. The SDI would be Canada's best chance of initiating or intensifying research and development in such fields as communications, computers, robotics, optics and artificial intelligence, which could have repercussions on the future economic direction of the country. In fact, it would appear that in most fields of advanced technology, military research and civilian research are closely related. One witness maintained that 90 per cent of research in the aerospace industry applies to both sectors. Since SDI technology is first and foremost military in nature, however, Canada would not have access to it without the government's official participation in the project, it was asserted.

SDI research could significantly strengthen both Canada's job market and its trade position, one line of argument ran. The SDI will draw large numbers of foreign scientists to the United States. As a result, Canada could lose significant scientific resources if it refuses the U.S. offer. SDI proponents often

cited the consequences of the abandonment of the Avro Arrow project in 1961. High-technology research leads to the creation of jobs in the long term, even though it appears costly at the outset. In the aeronautics field, the marketing of one successful prototype reportedly generates twenty jobs for each job required in the research phase. These jobs are highly specialized, and so their creation would help to raise the calibre of Canadian manpower resources.

An associated argument was that a role in the SDI could also help strengthen the country's trade position. In the short term, Canada would benefit from an improvement in bilateral trade with the United States. In the long term, diversification of Canadian exports, a goal that has long been sought, could be expedited by the further development of a high-technology sector.

These views were met with considerable opposition. Witnesses critical of the SDI maintained that military spending generates substantially fewer jobs than expenditures in other sectors and argued that funds that would go to the SDI could aid economic growth more effectively if allocated to other areas. They also pointed out that the United States would be selling Canada their research equipment, not vice versa. This would, in fact, result in a loss of jobs and have an unfavourable impact on Canada's foreign trade position.



## CHAPTER VII

### CANADA'S RESPONSE: THE OPTIONS

The Green Paper reminds us that "in the future, Canada may need to take decisions on some of the diverse and sometimes contradictory strategic, arms control and technological interests at stake" in ballistic missile defence. The dilemmas that will pose are suggested by the exceedingly difficult decision the government confronts in responding to the invitation of the United States to participate in SDI research. Not only are there strongly held opinions on either side of the issue. The issue itself still harbours so many unknowns that there are severe limits to any analysis of the government's various options.

The factors that bear on Canada's decision can be divided into two groups. First, there are those that relate to the merits and demerits of the Strategic Defense Initiative itself, that is, its effect on strategic stability, arms control and alliance cohesion, and its technical feasibility. The relevance of more parochial considerations pales beside the question of whether the SDI increases the likelihood of nuclear war, or provides a chance that such catastrophe might more surely be avoided. These factors should not, however, be assessed in isolation, because it is how they influence the political relations between East and West that matters more than anything else.

A second group of considerations relates to Canada's specific interests in relation to the SDI research program. These include the expected impact of the Canadian decision on relations with Washington, Canadian security and Canada's effectiveness in the international arena, and the economic, scientific and technological benefits that may be obtainable from participation in the research.

A number of witnesses assisted the Committee in exploring the choices that the government could make. There appear to be four main options, each one carrying potential risks and benefits. These options are:

1. Unqualified acceptance of the U.S. invitation
2. Qualified acceptance of the U.S. invitation
3. Qualified rejection of the U.S. invitation
4. Unqualified rejection of the U.S. invitation

1. Unqualified acceptance of the U.S. invitation

Unqualified acceptance of the U.S. invitation would amount to an expression of Canada's willingness to participate in the SDI research program, the aim of which is to yield information on which assessments of the feasibility and strategic implications of the SDI can be based. Such assessments will presumably be put off until the development phase of the program. It is not, however, evident that the barrier between the research and development stages can be clearly demarcated. In opting for full participation in SDI research, Canada would therefore risk de facto involvement in the following phases as well.

One lesson the Committee carried away from its hearings is that many Canadians do not draw a firm distinction between the concept of strategic defense and the SDI research program. This is true of both sides of the debate. Some are confused about the distinction between the two, but many others accept the view that research leads inevitably to development and deployment, which implies a lack of confidence in the 'fire breaks' that Prime Minister Thatcher and others have sought to build to enable rational decision-making and negotiations to take place before deployment. A decision to say "yes" to the United States will, therefore, be widely interpreted as a decision to support the SDI. It will be assumed that Canada accepts the U.S. rationale for the whole endeavour and/or is unwilling to disrupt the warm bilateral relations of recent months by breaking ranks over a program that is so closely identified with President Reagan.

Unqualified acceptance would reinforce Canada's good relations with the United States and might strengthen Canada's voice in decisions regarding the subsequent phases of the SDI. The Americans might, after all, listen closely to those who have most actively assisted them. A "yes" could also strengthen the hand of U.S. negotiators in the Geneva arms talks, by demonstrating to Moscow that it cannot count on the SDI to drive a wedge between the United States and its closest allies.

It is probably a mistake to calibrate these political factors too finely, since they have to be seen in context with a number of other considerations that shape Canada's influence. Furthermore, the United States is clearly taking a more relaxed approach to its allies' decisions regarding SDI research than

could have been predicted last March. At the same time, there is no sign of any intention to share the direction of the research program with the other participants. By agreeing to participate, Canada might, in fact, be diminishing its stature in the eyes of non-aligned countries and gaining practically no political benefit in return.

The most salient advantage of the first option is that it would maximize the economic and technological benefits available to Canada through the SDI. The government would be in a stronger position to stipulate the quantity and quality of work that should come Canada's way and to establish guidelines for technology transfers. Canadian researchers would, in effect, be in on the ground floor, would build a network of contacts within the program and would doubtless acquire an easy familiarity with it. Participation in the research would also strengthen Canada's claim to participate in SDI-related development, when and if the time comes.

Against these considerations, the government must weigh the increasingly strongly held view in the business and scientific communities that Canadian organizations would be unlikely to receive major contracts from the SDI research program. The drain of scientific expertise to the United States, which some anticipate would follow a decision to decline the U.S. invitation, would probably go on just as rapidly if the government said "yes" and Canada were kept out of the core areas of the research. If Canadian scientists and technologists did, indeed, undertake a substantial amount of work for the SDI, this would represent a diversion of scarce financial and manpower resources from other

high technology developments, such as the Canadian space program. Moreover, these scientists and technologists would be having their priorities and their work programs defined for them by the U.S. government and the corporations associated with it in the SDI.

The Committee's attention was drawn to another argument against saying "yes" at this time. If the SDI were to take a direction that a future Canadian government thoroughly disapproved of, it might be exceedingly awkward to opt out of the program. As a brief from the Canadian Centre for Arms Control and Disarmament put it, "Formal endorsement or material support could give the government a stake in SDI which would make open criticism of, or even disassociation from, SDI much more politically costly, where such action is necessitated by later events."

## 2. Qualified Acceptance

An alternative to outright acceptance of the U.S. invitation would be an affirmative response coupled with an effort to exert a degree of control over the nature of Canada's participation. The characteristic that distinguishes this option from unqualified acceptance is that the government would be imposing its own design on the research program, on the basis that, as Professor Douglas Ross told the Committee, "SDI work in Canada needs to be regulated by government policy. The issues involved are too important to permit a passive approach to the problem."

Canada's participation in the SDI would thus be tailored in accordance with specific Canadian interests. There are at least two approaches that could be taken, but they are by no means mutually exclusive.

First, the government could state firmly that its involvement in the SDI would be governed by the primary importance it attaches to the pursuit of international stability through arms control. This would be intended to convey the message that Canada is a reliable ally but, at the same time, stays true to principles that place international peace and security ahead of all other considerations. Canadian participation would be restricted to technologies that do not risk being destabilizing, that would not escalate the arms race and that would not undermine arms control. Canada would refuse participation in weapons-related research, for example, including work on lasers and particle beams.

Second, on the basis that Canada's industrial research capacity is limited, Canadian participation could be restricted to areas where the country has particular expertise and/or that correspond to specific Canadian national security interests. These could well include communications and surveillance (including sensors, radars and data management), where Canada could contribute to both the SDI and the protection of the North while building upon competence that already exists. This approach would meet the request of the United States that participating countries identify specific areas in which they could work and would, in practice, fit neatly with the emphasis on arms control suggested above.

The influence that Canada can bring to bear in Washington, and in the world at large, would probably not be significantly altered by putting these qualifications on a Canadian acceptance of the U.S. invitation. The benefits and the costs would be roughly the same as in the case of the first option. Canada could certainly not escape the charge that, whatever its qualifications, it would be endorsing an escalation of the arms race, and this would hamper the conduct of Canadian diplomacy in international meetings on arms control.

It is not clear at this point whether it would be practical for Canada to hive off its own specific areas of SDI-related research, manage to keep in close touch with the development of new technologies bearing on Canadian security interests and, at the same time, remain immune from other activities in the SDI program. Such research is not easily divisible into compact packages. Furthermore, there are other ways of fitting Canada's space research efforts into a national framework, such as by means of a national space program. There are also other ways of garnering the benefits of co-operation with the United States, through civilian space research programs.

### 3. Qualified Rejection

Moving a further step away from SDI research and towards a more independent stance, the government could decline the invitation of the United States. This would be done without issuing any public condemnation of the program. At the same time, being unwilling to impose any more direction than necessary on the activities of the private sector, the government could

leave it up to Canadian companies, universities and individuals to decide whether they would participate in SDI-related projects.

In many ways, this option might be the one that gives Canada the greatest room to manoeuvre with its diplomacy. It is unlikely that the bilateral relationship with the United States would suffer, since the possibility that allied governments might not themselves endorse the SDI research program is already included in the range of possible responses that the U.S. government has suggested. At the same time, the government could be more assertive in its pursuit of arms control measures. Not being formally tied to the SDI, it would be better able to monitor the strategic defence programs of both superpowers and to express Canada's concerns clearly and unequivocally.

Saying "no" with qualifications has the additional merit of keeping Canada's options open. There may be no compelling reason for getting in at this stage. A qualified "no" would not, after all, preclude later involvement with the SDI, and would give time for a thorough assessment of the implications of the change in U.S. strategy. Moreover, involvement in the SDI may appear very different when the precise demands that may be made of Canada begin to emerge. Will the United States, for example, be requesting the use of Canadian territory for the deployment of ground-based ballistic missile defences? Will the extension of the SDI's protective curtain to cover at least parts of Canada lead to pressure for Canada to make a financial contribution to the costs of strategic defence commensurate with this protection? Such questions, when and if they are ever posed, will be bound to bring Canada's interest in the SDI into much clearer relief than is the case at present.

An autonomous space program, with both civilian and military dimensions, also fits best with this option, in so far as limited financial and manpower resources can be better concentrated. The military aspects of this program could be strictly limited to surveillance and communications, as in the case of the second option, and would demonstrate to both domestic and international audiences that Canada takes its own defence requirements and alliance responsibilities seriously. The opportunity of cooperating in U.S. and European civilian space research would also be somewhat greater due to the greater availability of resources. Civilian space programs may well offer better opportunities for developing Canada's skills in high technology than classified research done under the SDIO.

The other side of the coin is that there would be far fewer economic and technological benefits to be obtained from SDI research. The opportunities for Canadian involvement would probably be diminished by the government's decision, and only less significant and less remunerative contracts would, practically speaking, be available. Many Canadian firms would, in fact, find unappealing the prospect of involvement without the government's leadership and official endorsement. They might not want to serve as sub-contractors or sub-sub-contractors for the U.S. government and U.S. firms when they have the opportunity to be prime contractors in a Canadian space program.

Assuming that such a national space program could compensate for this loss of benefit, the main disadvantage to drawing further away from SDI research would likely be the absence of involvement with developing defence technology. There would be a

risk that Canada might be kept in ignorance of important technological developments related to the defence of its own territory. Without a detailed grasp of the multifarious SDI research endeavours, it would also be much more difficult to discern exactly where curbs should be placed around the research to prevent it from becoming destabilizing.

#### 4. Unqualified Rejection

An unqualified rejection of the invitation would carry with it a prohibition on research undertaken by the private sector. The Canadian government would also seek to manifest its disapproval of the Strategic Defense Initiative. The government would make clear that, far from regarding the SDI as a welcome and revolutionary development in the management of East-West relations and one that could conceivably yield important improvements in international security, Canada had determined that the Initiative is a step backward in the search for peace.

This would be going further than any of the governments that have so far declined the invitation of the United States. The consequences are most likely to be felt in the area of bilateral relations. Whether or not a break with the United States would actually reduce the Soviets' incentive to bargain over the SDI at the Geneva arms talks, the Americans would certainly perceive it as having that effect. An overt, direct and conscious linkage of the decision with, for example, trade or environmental issues cannot be discounted altogether, but it is highly unlikely. What should give greater pause to the government would be the effect of the decision on the Canada-United States defence relationship. This is so close and has such a long history that

it would moderate any possibly untoward consequences of choosing qualified acceptance or qualified rejection. Outright refusal could, however, diminish the confidence and trust that have permitted a fairly free flow of information between the two countries and have powerfully bolstered Canadian security. Equipped with its own national space program, Canada would no doubt try to pursue a cautious relationship with the SDI through NORAD, but this conduit could prove to be of decreasing usefulness.

As far as the exercise of diplomacy outside the Canada-United States relationship is concerned, an outright rejection would be a demonstration of independence in foreign policy and would, in turn, marginally widen the scope for certain kinds of independent action. In the eyes of some of the non-aligned countries, Canada would have enhanced its claim to be a supporter of arms control and its image as a leading middle power. This might turn out to be of useful, though very modest, benefit if there should be an increasing role for middle powers in building international institutions and forging stronger links between North and South.



## CHAPTER VIII

### PARTICIPATION IN SDI RESEARCH: RECOMMENDATIONS AND CONCLUSIONS

#### Context of the Decision

President Reagan's invitation to the Canadian government to participate in the research phase of the Strategic Defense Initiative has aroused strong opinions among Canadians. The Committee has heard from proponents of widely divergent points of view as to the merits of ballistic missile defence and the SDI.

There are a number of uncertainties associated with both ballistic missile defence and the SDI. The direction taken by the Initiative will depend on a complex mix of political, military, technological and diplomatic factors. In these circumstances, it may be too early to make any definitive judgements on the merits of producing, testing or deploying ballistic missile defence systems.

In any event, the program has acquired considerable momentum and is beginning to shape the strategic thinking, domestic politics, and diplomatic activity of the United States in a way that suggests that it will be of major significance to the United States and its allies.

With respect to active participation by the Canadian government in the research phase of the SDI, the majority of the Committee developed their recommendations in the context of the government's traditional approaches to the promotion of security for Canadians. These are commitment to defence; commitment to arms control; and commitment to the economic strength of Canada.

#### Commitment to Defence

Canada is committed to the common defence of the West through the North Atlantic Treaty Organization and to the common defence of North America through the North American Aerospace Defence Command. Canada's security is intimately bound up with that of the United States and Western Europe, and its alliances are an essential element of its foreign policy.

These commitments are detailed in the First Report of the Senate Subcommittee on National Defence entitled Manpower in Canada's Armed Forces (January 1982). In referring to Canada's military role, the Report states:

[These roles] consist of the protection of Canada, joining in the defence of North America, participation in NATO and contributing to the U.N. and similar peace-keeping missions.

The first of these commitments involves surveillance and control of Canadian territory, air space and waters; aid to the civil power; assistance to the civil authority such as

participating in fisheries surveillance and ice reconnaissance; providing search and rescue services; and contributing to national development.

The second requires close cooperation with the United States to counter direct military threats to this continent. Participation in NATO involves the stationing of land and air forces in Europe and the maintenance of sea, land, and air forces in Canada which are committed to NATO.

Defence commitments provide a broad framework for the pursuit of national policies but they need to be translated into a series of military tasks if the armed forces are to carry them out. For example, surveillance of the Canadian Arctic includes periodic patrols by long range aircraft.

In referring to Canada's naval role, the Report states:

[Canadian naval forces] are responsible for carrying out surveillance to identify and track air, surface and subsurface naval threats, joining in the protection of sea lines of communication to Europe; contributing to surveillance of the Canadian North; assistance in fisheries protection and participating with the United States in maintaining a North American underwater surveillance system.

NATO is the Western Alliance's primary instrument for strengthening its defence and deterrent posture, and also for co-ordinating policies and initiatives with respect to arms control. It should be clearly understood that membership in NATO imposes no contractual obligation to accept the U.S. invitation to join in SDI research. In fact, three NATO members have

already declined the invitation. NATO does, however, provide a key avenue for consultations with the United States on the SDI. Whether or not Canada participates in SDI research, it has an important stake in the future direction of the SDI.

The United States and the Soviet Union have been researching ballistic missile defence technologies since the early 1960s. Limitations in the technology and concerns about stability led to the signing of the Anti-Ballistic Missile Treaty in 1972, which limited production and deployment of anti-ballistic missile systems. Since that time, the operational arrangements for defence against ballistic missile attack have been focused primarily on the deployment of effective early warning systems to prevent a successful first strike. Early warning was viewed as integral to the maintenance of an effective deterrent to nuclear attack.

Since 1957 Canada has been committed, in partnership with the United States in NORAD, to the defence of North America from air attack. This commitment has taken the form of assisting in the detection and interception of aircraft and, more recently, the detection of cruise missiles.

Detection of a ballistic missile attack on North America is primarily the responsibility of the United States. Most of the detection capability is incorporated into a satellite-based reconnaissance system called BMEWS (Ballistic Missile Early Warning System). Canada's role in the detection of ballistic missiles has been limited to permitting the stationing of U.S. supplementary ground-based detection equipment on Canadian soil.

## Commitment to Arms Control

Another of the firm foundations of Canada's foreign policy has been its commitment to working for arms control objectives, both within the United Nations system and outside it. Arms control makes for greater predictability of the behaviour of each side, enhances mutual perceptions of security, and bolsters deterrence. At a time when communication between the superpowers is tense, there is an especially great need for Canada to encourage the arms control process.

On the arms control implications of ballistic missile defence, a favourable view presumes that the present balance of nuclear terror is increasingly dangerous. The acquisition of highly accurate nuclear weapons by each side renders deterrent forces more vulnerable to surprise attack and contributes to international instability. In this perspective, the SDI appears as a revolutionary development in arms control, one that promises a much more stable form of deterrence, a decrease in offensive arsenals that have grown far too large, and the gradual replacement of nuclear by non-nuclear weapons.

In contrast, an unfavourable view of ballistic missile defence holds that it represents a step backward from the present condition of mutual deterrence. The deployment of ballistic missile defence would threaten to trigger a spiralling buildup of offensive weapons and, at the same time, would breach the few workable arms control agreements still in force. In this perspective, the SDI threatens to increase instability, and is nothing more than an intensification of the arms race.

## Technological and Economic Considerations

A number of technological and economic concerns surrounding Canada's participation in the research phase of the SDI were raised before the Committee.

These included testimony that participation by the government in the research phase of the SDI would result in significant direct and indirect job creation in Canada. In contrast, the Committee also received testimony that research and development is a capital-intensive process and that the individuals directly involved are highly trained scientists and technicians with good existing employment opportunities. In fact, there were indications that Canada is already in short supply in some categories of scientists and technicians. In terms of indirect job creation, concerns were expressed that a significant portion of the expenditure on capital equipment would be used to purchase equipment outside Canada, leading to less indirect job creation than might otherwise be expected.

Developments in space and space-related technologies seem likely to remain on the leading edge of all technological development and to provide a continued source of commercial spin-offs. For these reasons, a strongly focused space industry is a central feature in the planning of most industrialized countries.

The SDI research program can be viewed as an economic initiative designed to revitalize the technological base of U.S. industry. Significant advances in new technology, and refinements of existing technologies, are expected to result from

the SDI research program. It has been strongly argued that Canada must be involved in the SDI research program or risk falling behind the rest of the world in technology, especially in view of the large Japanese and European research efforts that have recently been initiated.

A counter-argument is that the economic revitalization objectives of the SDI research program and the demands of national security in the United States will act to block the flow of key technological developments to other participating countries. If this proved to be the case, then Canadian research resources would likely be assigned to support roles in the program, and the Canadian portion of SDI research would be diffuse and yield little of value in terms of commercial spin-offs.

Canada's fledgling space industry has grown at a considerable rate in recent years. The future health of the industry is, however, by no means guaranteed, partly because of the stiff international competition. The government will shortly decide upon a long-term plan for Canadian activities in space, the Strategic Space Plan.

Three possible components of this plan are currently under consideration:

- 1) Development of an Integrated Servicing and Test Facility to complement the U.S. Space Station by performing space-based assembly, testing, servicing and maintenance functions;

- 2) Development of a remote sensing satellite for resource monitoring and navigation (RADARSAT);
- 3) Development of a commercial Mobile Communications Satellite System.

These activities are primarily civilian in nature, although later generations of RADARSAT may enhance Canada's surveillance capability with respect to its territory and sovereignty and to protection of the U.S. land-based deterrent.

#### Conclusions and Recommendations

The majority agreed on a large number of conclusions and recommendations.

#### Commitment to Defence

The majority of the Committee is of the opinion that the government of Canada should remain fully committed to NATO and NORAD and should strive to fulfil our Alliance responsibilities.

The majority of the Committee recommends that the government continue to support pragmatic defence-oriented research and development programs where those programs contribute to our ability to fulfil our military roles and responsibilities. Further, that the government continue to enter into joint defence research programs.

In view of the absence of negotiated limitations on research into ballistic missile defence and concerns about Soviet research programs, the majority of the Committee is of the opinion that it is prudent and logical that the United States continue to do basic research into this area until such time as it is limited by treaty or other agreement.

#### Commitment to Arms Control

The majority of the Committee was struck by the fact that an overwhelming portion of the testimony it received, both in favour of and in opposition to the SDI was drawn from secondary sources, such as journals, magazines and newspapers of U.S. origin. They concluded that a significant Canadian effort is required to inquire into the strategic and technological issues involved in ballistic missile defence and they recommend that the government continue to do primary research on the subject of ballistic missile defence and attempt to expose the public to primary sources of information on this issue.

The majority of the Committee is concerned about the implications of ballistic missile defence on international stability and on the future of Canada's involvement in the arms control process. Although the Committee recognizes the prudence of research by the United States into ballistic missile defence because of the absence of negotiated and verifiable limitations on equivalent research by the Soviet Union, they have serious concerns about the implications of any eventual production, testing and deployment of such systems on the stability of U.S.-Soviet relations.

In particular, the majority of the Committee listened with concern to testimony about the instability of the transition period between mutual assured destruction and mutual assured defence and the tremendous cost of a new arms race. They concluded that the only way to deal with these serious concerns surrounding any production, testing and deployment of new ballistic missile defence systems is through active promotion of the arms control process.

The majority of the Committee recommends that the government remain firmly committed to the letter and the spirit of the Anti-Ballistic Missile Treaty of 1972 as essential to the maintenance of international order and stability. Violations of the Treaty would erode the slender bond of communication and understanding that now exists between East and West. The government should encourage the United States and the Soviet Union to use the Standing Consultative Commission set up by the Treaty to agree on the permissible limits of research. The government should also oppose any atmospheric test of nuclear anti-ballistic weapons that would contravene the provisions of the Nuclear Test Ban Treaty of 1963. The government should also re-emphasize the fundamental importance of the 1967 Treaty banning the deployment of nuclear weapons in space.

The majority of the Committee recommends that the Government investigate technological options and initiatives that would assist in the verification of arms control agreements. Further, they recommend that the government encourage the United States and the USSR to consider the possibility of a mutual exchange of

the knowledge gained from military space research, with a view to limiting the instability that a knowledge gap in this area might produce.

#### Technological and Economic Considerations

The Committee recommends that technological and economic factors be considered subordinate to strategic and arms control concerns in the formation of the government's decision.

The Committee has not received evidence that government participation would result in significant job creation in Canada in the research phase of the SDI.

The importance of establishing a Canadian military space program was expressed in the recent report of the Special Committee of the Senate on National Defence, which stated, "space-based systems are likely to provide the main elements of North American Air Defence, because they are becoming technically feasible and cost effective."

The military applications of space technology continue to grow in complexity and importance. Space represents the 'high ground' for the gathering of intelligence and for military communications. Informed defence planning can take place only if current technologies and their potential applications are understood, and if appropriate military intelligence is available. Space technologies are of particular interest to the Canadian military because of the difficulties inherent in monitoring and

defending our large territory in a cost-effective manner. Space-based systems are seen to be possible solutions to these difficulties.

The majority of the Committee has concluded that Canadian interests will be best served through a coherent plan for the Canadian aerospace industry. The majority of the Committee believes that a Canadian space program should straddle military and civilian purposes and, indeed, that the distinction between military and civilian applications is becoming increasingly blurred. The majority of the Committee therefore recommends that the government undertake, both alone and in collaboration with other governments, a much more aggressive effort to develop Canadian capabilities in the aerospace field. This effort should be directed to providing for the defence of Canada, to furthering the cause of international peace and security, and to civilian ends, such as meteorology, natural resource exploration and communications.

Issues on which the majority did not reach consensus

There were a number of issues on which the members were divided, sometimes due to the uncertainties surrounding them. These issues included:

1. The effect of Canadian participation in the research phase of the SDI on Canada's arms control efforts.
2. The size of the commitment that Canada would be expected to make to the SDI program and the effect of such a commitment on the fulfilment of existing military roles and responsibilities.

3. Which technological program would best provide a clear focus for the Canadian space industry and support for Canada's military objectives.

Some members of the Committee are deeply concerned that Canada will have to make a significant commitment of resources to the SDI should the government decide to participate actively in ballistic missile defence research. They feel that Canada can expect little in the way of a reward for the use of its aerospace resources if the government does not make a significant monetary commitment to the research phase of the SDI. If a significant contribution is required, then the SDI will compete with other important military programs for limited government funding. They think that the government is constrained by the need to allocate resources in other areas and to reduce the deficit. A commitment to participate in the SDI would take the form of scarce defence research resources in the research phase and, in all probability, a significant financial contribution to eventual deployment. Canada and the United States have a long history of co-operation on military programs. Almost without exception these programs have been organized on a cost-sharing basis.

They are concerned about the widespread criticism within Canada and from our allies of Canada's lack of commitment to our existing military responsibilities. The government has responded to this with major re-equipment initiatives for the Canadian military, including the Canadian Patrol Frigate Program, the purchase of CF-18 Hornet aircraft, and participation with the United States in construction of the North Warning System. These members have serious concerns that participation in the SDI will

deflect resources away from initiatives to upgrade the ability of the Canadian forces to fulfil existing military roles and responsibilities.

These members also believe that the government must give serious consideration to the implications of active participation in the research phase of the SDI on Canada's role in arms control activities. They are concerned that such active involvement in the SDI might severely limit Canada's ability to promote discussion on a wide range of arms control issues.

Based on the knowledge available, these members concluded that it is unlikely that participating countries will be allowed full access to the key technological developments that will result from the research phase of the SDI. They therefore find it difficult to see how SDI research would play a key role in developing and honing Canadian scientific and technological capabilities. They appreciate the difficulties that the U.S. Congress faces in permitting other countries, even allies, access to technology that is developed primarily with U.S. funding and they think that there is a much better chance of linking Canadian resources to the achievement of Canadian priorities when there is a substantial measure of Canadian control.

These members point out that there is uncertainty surrounding some of the strategic and economic implications of government participation in the research phase of the SDI, and think that it is more prudent to decline to participate now, with the possibility of joining the program at a later date, than to join the program now and risk having to extricate ourselves later on if problems develop.

Based on the knowledge available, these members believe the government should not participate in the research phase of the SDI unless strategic concerns demand it. These members recommend that the government vigorously explore military-oriented research alternatives to research into ballistic missile defence. The criteria for assessment of military program alternatives would be consistency with and support for Canada's military objectives, establishment of a strong focus for Canadian space technology development, and a fit with existing Canadian expertise.

One attractive military focus for Canadian technological development which has come to their attention is the development of a space based warning, surveillance, and communications system for air defence in co-operation with the United States through NORAD. Such a system would allow Canada to monitor air and naval activity in Canadian territory consistent with our NORAD role, to monitor surrounding waters that are our responsibility under NATO, and to enhance our ability to participate in arms control verification activities. The technologies involved in such a system include space-based sensors, specialized computer processors, sophisticated computer software for image and signal processing, and secure communications technology. These are key areas of future technological development and ones in which Canada has existing capabilities that could be further developed.

Other members of the majority feel that it is important that Canada actively support the United States in the Strategic Defense Initiative and recommend that the government accept the invitation to participate at this time. They feel strongly that such active support is integral to our traditionally close

military relationship with the United States. They think that the Canadian contribution to SDI research will be small in terms of allocation of defence resources and more than justified by strategic concerns. They also believe that Canada's role in arms control is already limited by our involvement in NATO and NORAD but that involvement in the SDI will not further limit it.

In terms of economic concerns, these members think that the SDI could be an excellent opportunity for Canada to gain technological expertise. In their view, the government should work out a coherent plan for the aerospace industry within the SDI, a role that would be compatible with Canada's existing technological capabilities and that would result in appropriate sharing of technological benefits.

These members also think that there is uncertainty surrounding some of the strategic and economic issues, but that the government should stay involved in the process by agreeing to participate and waiting to see what develops.

#### Summary Resolution

The majority of the Committee, including those who were inclined to say no and those who were inclined to say yes, agreed, however, that the Committee was not able to obtain crucial information at this time because the material is classified or otherwise unavailable. This might influence a final decision, and the majority of the Committee feels that the government is best equipped to gather the additional information required. Therefore the majority of the Committee recommends that the

government not take a final decision on participation in the research phase of the SDI until it has been able to acquire the required additional information related to the strategic, financial and economic implications of the invitation.

Thursday, June 27, 1985

Ordered, - That a Message be sent to the House of Commons to inform that House that the Senate do unite with the House of Commons in the appointment of a Special Joint Committee to consider Canada's International Relations:

That the document entitled "Competitiveness and Security: Directions For Canada's International Relations", tabled in the Senate on May 13, 1985 (Sessional Paper No. 331-383), be referred to the Committee;

That the Committee consider and report upon the issues discussed in the above-mentioned document and make recommendations in their report concerning the objectives and conduct of Canada's international relations;

That five Members of the Senate, to be designated at a later date, act on behalf of the Senate as members of the said Committee;

That the Committee have the power to sit during sittings and adjournments of the Senate;

That the Committee have the power to report from time to time, to send for persons, papers and records, and to print such papers and evidence from time to time as may be ordered by the Committee;

That the Committee have the power to retain the services of expert, professional, technical and clerical staff;

That the Committee have the power to adjourn from place to place inside Canada and that, when deemed necessary, the required staff accompany the Committee;



## ORDERS OF REFERENCE

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**Orders of Reference from the Senate**

Thursday, June 27, 1985

Ordered, - That a Message be sent to the House of Commons to inform that House that the Senate do unite with the House of Commons in the appointment of a Special Joint Committee to consider Canada's International Relations;

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That the Committee have the power to retain the services of expert, professional, technical and clerical staff;

That the Committee have the power to adjourn from place to place inside Canada and that, when deemed necessary, the required staff accompany the Committee;

That the Committee submit an interim report on Canada's participation in research on the Strategic Defence Initiative and on Bilateral Trade with the United States no later than August 23, 1985.

That a quorum of the Committee be seven members, whenever a vote, resolution or other decision is taken, so long as both Houses are represented and that the Joint Chairmen be authorized to hold meetings, to receive evidence and authorize the printing thereof, whenever 4 members are present, so long as both Houses are represented;

That the Committee submit an interim report on Canada's participation in research on the Strategic Defence Initiative and on Bilateral Trade with the United States no later than August 23, 1985;

That notwithstanding the usual practices of this House, if the Senate is not sitting when an interim or final report of the Committee is completed, that the Committee shall report its findings by depositing its report with the Clerk of the Senate and that it shall thereupon be deemed to have been laid upon the Table; and

That the Committee present its final report no later than May 31, 1986.

Ordered, - That a Message be sent to the House of Commons to inform that House that the following Senators have been appointed to act on behalf of the Senate on the Special Joint Committee on Canada's International Relations, namely, the Honourable Senators Flynn, Doyle, Gigantès, Stollery and Grafstein.

ATTEST

Charles A. Lussier  
The Clerk of the Senate

## Order of Reference from the House of Commons

Wednesday, June 12, 1985

Ordered, - That a Special Joint Committee of the Senate and of the House of Commons be appointed to consider Canada's International Relations;

That the document entitled "Competitiveness and Security: Directions for Canada's International Relations", tabled on May 14, 1985 (Sessional Paper No. 331-4/10), be referred to the Committee;

That the Committee consider and report upon the issues discussed in the above-mentioned document and make recommendations in their report concerning the objectives and conduct of Canada's International relations;

That the following 12 Members of the House of Commons to act on behalf of the House as members of the said Committee be: Messrs. Axworthy, Chrétien, Crofton, Mrs. Duplessis, Messrs. Harvey, Hockin, Jardine, Miss Jewett, Messrs. Kempling, Langdon, Porter and Stackhouse;

That the Committee have the power to sit during sittings and adjournments of the House;

That the Committee have the power to report from time to time, to send for persons, papers and records, and to print such papers and evidence from time to time as may be ordered by the Committee;

That the Committee have the power to retain the services of expert, professional, technical and clerical staff;

That the Committee have the power to adjourn from place to place inside Canada and that, when deemed necessary, the required staff accompany the Committee;

That a quorum of the Committee be seven members, whenever a vote, resolution or other decision is taken, so long as both Houses are represented and that the Joint Chairmen be authorized to hold meetings, to receive evidence and authorize the printing thereof, whenever 4 members are present, so long as both Houses are represented;

That the Committee submit an interim report on Canada's participation in research on the Strategic Defence Initiative and on Bilateral Trade with the United States no later than August 23, 1985;

That notwithstanding the usual practices of this House, if the House is not sitting when an interim or final report of the Committee is completed, that the Committee shall report its findings by depositing its report with the Clerk of the House and that it shall thereupon be deemed to have been laid upon the Table;

That the Committee present its final report no later than May 31, 1986, and

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, members to act on the proposed Special Joint Committee.

ATTEST

The Clerk of the House of Commons

## COMMITTEE WITNESSES

Witnesses who appeared before the Committee are listed in alphabetical order. The issue number of the Minutes of Proceedings and Evidence is indicated in parentheses.

ABERLF, Neil J. (Issue 10)

ACF GREW INC. (Issue 9)  
Francis, Peter R., President

ACT FOR DISARMAMENT (Issue 10)  
Keser, Bert

ACT FOR DISARMAMENT HIGH SCHOOL NETWORK (Issue 10)  
Park, Gareth

ACTION AGAINST MILITARISM - HAMILTON (Issue 10)  
Kattenburg, David

AEROSPACE INDUSTRIES ASSOCIATION OF CANADA (Issue 6)  
Lewis, Kenneth, President

AITKEN, James D. (Issue 15)

ALBERTA FEDERATION OF LABOUR (Issue 15)  
Aitken, Don, Secretary-Treasurer  
Selby, Jim, Research and Communications Director

ALBRECHT, Helmut (Issue 16)

ALLEVATO, Carmela (Issue 13)

ALUMINUM COMPANY OF CANADA (Issue 17)  
Morton David, President & CEO  
Skelton, Jeffery, Vice-President Governmental Affairs

AMBRIDGE, T.J. (Issue 15)

ANDERSON, Eric (Issue 15)

ARROTT, Anthony (Issue 13)  
Professor of Physics, Simon Fraser University

ARTS FOR PEACE (Issue 16)  
Shojania, Moti

ASSOCIATION DES BRASSEURS DU QUÉBEC (Issue 7)  
Deniqer, Pierre

- ATLANTIC PROVINCES CHAMBER OF COMMERCE (Issue 2)  
Geldart, Jeanne, President  
Hazen, John, Chairman
- AUTO PARTS MANUFACTURERS' ASSOCIATION (Issue 17)  
Lavelle, Patrick, President
- BECK, James S. (Issue 15)  
Faculty of Medicine, University of Calgary
- BEIGIE, Carl (Issue 9)
- BEYOND WAR (Issue 13)  
Keene, Thelma Ruck
- BOARD OF TRADE OF METROPOLITAN TORONTO (Issue 9)  
Bursey, James  
Legge, Bruce J. (Issue 10)
- BOSSIN, Bob (Issue 14)
- BOULTER, Robert (Issue 3)
- BREWERS ASSOCIATION OF CANADA (Issue 2)  
Morrison, R.A., President
- BREWERY AND SOFT DRINK WORKERS - LOCAL UNION 361 (Issue 2)  
Foran, Gary, President
- BRITISH COLUMBIA FEDERATION OF LABOUR (Issue 13)  
Kube, Art, President
- BRITISH COLUMBIA PEACE COUNCIL (Issue 13)  
Foulks, James
- BRITISH COLUMBIA PROGRESSIVE CONSERVATIVE YOUTH (Issue 13)  
Whiteside, Joseph
- BRITISH COLUMBIA VOICE OF WOMEN (Issue 13)  
Engineer, Soono
- BROMKE, Adam (Issue 11)  
Professor, McMaster University
- BROOME, Douglas (Issue 13)
- BROUGHTON, Wayne H. (Issue 10)
- BUCKLEY, Fred W. (Issue 2)

BURNABY PEACE COMMITTEE (Issue 13)

Schnee, Henry, Treasurer

RUSRY, Pauline (Issue 8)

BUSINESS COUNCIL OF BRITISH COLUMBIA (Issue 13)

Granholm, Ron, Chairman

BUSINESS COUNCIL ON NATIONAL ISSUES (Issue 17)

D'Aquino, Tom, President & CEO

Powis, Alfred, Chairman of the Task Force on  
Industrial Development & International Trade

BUTEUX, Paul (Issue 16)

Professor, Dept. of Political Studies,  
University of Manitoba

CALGARY DISARMAMENT COALITION (Issue 15)

Stanford, Jim  
Benoît, Gerri-Lynn

CALGARY ECONOMIC DEVELOPMENT ASSOCIATION (Issue 15)

Smith, Arthur R., Co-Chairman

CALGARY LABOUR COUNCIL (Issue 15)

Paterson, W.Y. (Bill), Executive Secretary

CAMETOID LTD (Issue 5)

Newman, Desmond G.

CANADA WEST FOUNDATION (Issue 15)

Elton, David, President  
MacMillan, Kate, Research Associate

CANADIAN PAR ASSOCIATION (Issue 16)

Matas, David, Chairman,  
Sub-committee on Nuclear Disarmament

CANADIAN CARPET INSTITUTE (Issue 4)

Edwards, Douglas S., President  
MacPherson, G.P. (Patt), President,  
Corporation House Ltd.

CANADIAN CATTLEMEN'S ASSOCIATION (Issue 15)

Mills, Chris, Policy Advisor  
Wilson, Stan, First Vice-President

CANADIAN CENTRE FOR ARMS CONTROL AND DISARMAMENT (Issue 6)

Lamb, John, Executive Director  
Hagen, Lawrence, Director of Research

## CANADIAN CENTRE FOR POLICY ALTERNATIVES (Issue 4)

Findlay, Peter, President  
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YORK UNIVERSITY RESEARCH PROGRAM IN STRATEGIC STUDIES (Issue 10) - 1965  
Leyton-Brown, David, Associate Director  
Macintosh, James, Research Associate  
Shadwick, Martin, Research Associate

YOUNG COMMUNIST LEAGUE (Issue 15)  
Willett, Cindy

WILSON, Tom, Lecturer  
WILSON, Tom, Lecturer

WITZER, David, Lecturer  
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WELSH, John, Lecturer  
WELSH, John, Lecturer

WHITE, Robert, Lecturer  
WHITE, Robert, Lecturer

WILSON, John, Lecturer  
WILSON, John, Lecturer

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As of 7 August 1985, the Committee had received written material (articles, briefs, reports or letters) from the following groups and individuals:

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	Ottawa	Ontario

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KNOX Allyne	Regina	Saskatchewan

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MCARTHUR, H.R.	Nelson	British Columbia
MCARTHUR, Robert	Nelson	British Columbia
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MCKINNON, Richard	Fort Frances	Ontario
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MORGAN, John	Toronto	Ontario
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ORTON, Helen	Belleville	Ontario
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PARK, Megan	Kelowna	British Columbia
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PERFORMING ARTISTS FOR NUCLEAR DISARMAMENT	Penticton	British Columbia
PHI, D.T.	Toronto	Ontario
PHYSICIANS FOR SOCIAL RESPONSIBILITY - MONTREAL CHAPTER	Moncton	New Brunswick
OTTAWA CHAPTER	Montreal	Quebec
VANCOUVER CHAPTER	Ottawa	Ontario
VICTORIA CHAPTER	Vancouver	British Columbia
PIPE, Donald	Victoria	British Columbia
PLENDERLEITH, Donald H.	Montreal	Quebec
POPE, Kaye	Vancouver	British Columbia
POPE, Laura	Vancouver	British Columbia
POPE, M.	Denman Island	British Columbia
	Denman Island	British Columbia

POTVIN, F.	Guelph	Ontario
POULTER, Pamela	Winnipeg	Manitoba
POVALL, Leonard	North Vancouver	British Columbia
PRAIRIE IMPLEMENTS MANUFACTURING ASSOCIATION	Regina	Saskatchewan
PREDDIE, Calvin	Cornwall	Ontario
PRINCE EDWARD ISLAND MARKETING COUNCIL	Charlottetown	P.E.I.
PRINCE GEORGE CAMPAIGN FOR NUCLEAR DISARMAMENT	Prince George	British Columbia
PROJECT PLOUGHSHARES, NATIONAL OFFICE BARRIE CHAPTER	Waterloo	Ontario
CALGARY CHAPTER	Barrie	Ontario
CORNER BROOK CHAPTER	Calgary	Alberta
LONDON CHAPTER	Corner Brook	Newfoundland
NIAGARA CHAPTER	London	Ontario
PICTOU CHAPTER	St. Catherines	Ontario
SAINT-JOHN CHAPTER	Pictou	Nova Scotia
SAINT-THOMAS CHAPTER	Saint-John	New Brunswick
SASKATOON CHAPTER	Saint-Thomas	Ontario
SMITHERS CHAPTER	Saskatoon	Saskatchewan
PRONGOS, Peter	Smithers	British Columbia
PROSS, Veronica	Vancouver	British Columbia
PROULX, Pierre-Paul	Halifax	N.S.
PSYCHOLOGISTS FOR SOCIAL RESPONSIBILITY	Montreal	Quebec
	North Battleford	Saskatchewan
	Vancouver	British Columbia
PUBLIC EDUCATION FOR PEACE SOCIETY LTD.	New Westminster	British Columbia
PURKIS, Jean	Toronto	Ontario
PYE, Cindy	Prince George	British Columbia
QUIGLEY, Tim	Saskatoon	Saskatchewan
RAY, A.K.	Gloucester	Ontario
REID, James and Scott	Winnipeg	Manitoba
RETAIL COUNCIL OF CANADA	Toronto	Ontario
REXDALE PEACE GROUP	Rexdale	Ontario
REYNOLDS, Sherry	Cowley	Alberta
RICHMOND CONNECTION FOR WORLD PEACE	Richmond	British Columbia
RIDER, Katherine W.	Galianc Island	British Columbia
ROBERTSON, Chris	Belmont, Col. Co.	Nova Scotia
ROBINS, Tom	St. Catharines	Ontario
ROGERS, O.G.	Toronto	Ontario
ROMANOV, Peter	Scarborough	Ontario
ROSE, Alex K.H.	Lacombe	Alberta
ROSE, Loretta L.	Edmonton	Alberta
ROSS, Jack C.	Kaslo	British Columbia
ROY, Lois	Vancouver	British Columbia
ROYAL BANK OF CANADA	Montreal	Quebec
ROYAL CANADIAN MILITARY INSTITUTE	Toronto	Ontario
RUSSELL, Serge R.	Montreal Nord	Quebec
RUTH, Dr. & Mrs. Stewart M.	Killarney	Manitoba
RYERSON, John E.	Toronto	Ontario
RYERSON, Peter	Montreal	Quebec
RYKENS, Helen	Toronto	Ontario

SANDERS, S.C. and C.L.	Gloucester	Ontario
S.T.E.P.S. AND THE TREASURY	Toronto	Ontario
SADLER, Clarence W.	St. Thomas	Ontario
SAKHAROV INSTITUTE	Vancouver	British Columbia
SALTSPRING NUCLEAR DISARMAMENT GROUP	Ganges	British Columbia
SAUNDERS, W.	Willowdale	Ontario
SAVAGE, Fred L.	Victoria	British Columbia
SCANLAN, David	Scarborough	Ontario
SCHILLER INSTITUTE	Montreal	Quebec
SCHNEIDER, Aaron	Baddeck	N.S.
SCIENCE FOR PEACE	Toronto	Ontario
BRITISH COLUMBIA CHAPTER	Vancouver	British Columbia
SEIFRED, Barbara	Beaconsfield	Quebec
SEINEN, Gary	Port Alberni	British Columbia
SENIORS CAUCUS OF VANCOUVER	Vancouver	British Columbia
SEREDIN, A.	Powell River	British Columbia
SHALOM INSTITUTE	Vancouver	British Columbia
SHAW, Danielle		
SHUKIN, Mary	Nelson	British Columbia
SHUSWAP NUCLEAR STUDY ACTION GROUP	Salmon Arm	British Columbia
SIDE, Sam	Dawson Creek	British Columbia
SIMON FRASER STUDENT SOCIETY	Burnaby	British Columbia
SIMPSON, Roderick Lyle	50 Stave Lake Rd.	British Columbia
SINCLAIR, Iris	W. Vancouver	British Columbia
SISTERS OF ST. MARTHA SOCIAL JUSTICE COMMITTEE	Sydney	N.S.
SLAVIN, A.J.	Peterborough	Ontario
SLAVIN, Linda	Peterborough	Ontario
SMIECIUCH, D.	Toronto	Ontario
SMITH, Arthur R.	Calgary	Alberta
SMITH, Toby	North Vancouver	British Columbia
SOBOLEWSKI, André	Vancouver	British Columbia
SOBRINO, Luis	Vancouver	British Columbia
SOCIAL RESPONSIBILITY COMMITTEE	Guelph	Ontario
SOKOLSKY, Joel J.	Halifax	Nova Scotia
SOLIDARITY CENTRE	Chatham	Ontario
SORENSEN, Mr. & Mrs. Hagbarth	Nelson	British Columbia
SORENSEN, Rosamund	Nelson	British Columbia
SPANJER, David	Willowdale	Ontario
SPEECHLEY, Owen D.	Calgary	Alberta
SQUAMISH CITIZENS FOR PEACE	Squamish	British Columbia
SRIVASTAVA, R. Mohan	Saskatoon	Saskatchewan
ST. JAMES, John	Toronto	Ontario
ST. ALBERT STUDENTS AGAINST NUCLEAR SUICIDE	St. Albert	Alberta
STEDMAN, C.K.	New Denver	British Columbia
STELCO INC.	Toronto	Ontario
STEPHENSON, David G.	Calgary	Alberta
STOKES, S.C.W.	Burnaby	British Columbia
STOKOE, R.J.R. (Professor & Mrs.)	Halifax	N.S.
STONE, Frank W.	Ottawa	Ontario
STRATFORD, H.R.	Whitby	Ontario

STUDENTS FOR PEACE	Vancouver	British Columbia
AND MUTUAL DISARMAMENT	Petitcodiac	New Brunswick
STULTZ, Charles A.	Calgary	Alberta
SUTHERLAND, Tony and Jill	Kitchener	Ontario
SWAN, George	Minnedosa	Manitoba
TAIT, Ed	Vancouver	British Columbia
TAMOTO, Florence		
TASK FORCE ON CANADA -	Ottawa	Ontario
UNITED STATES TRADE POLICY	Victoria	British Columbia
TECHNOVATION CONSULTANTS	Calgary	Alberta
TENNANT, Elizabeth and Robert	Edmonton	Alberta
TERLESKY, Merle	Maisonnette	New Brunswick
THERIAULT, Doris	Abbotsford	British Columbia
THOMPSON, Paul	Windsor	Ontario
THOMPSON, Ian	Winnipeg	Manitoba
TJADEN, Karen A.	Simcoe	Ontario
TODD, G.	Toronto	Ontario
TORONTO ANTI-INTERVENTION COALITION		
TORONTO DISARMAMENT NETWORK -		
MEMBERS OF THE CO-ORDINATING		
COMMITTEE	Toronto	Ontario
TORONTO NUCLEAR AWARENESS	Toronto	Ontario
TORRANCE, Mr. & Mrs.	Queenston	Ontario
TRAINOR, L.E.H.	Toronto	Ontario
TRINITY UNITED CHURCH	Cobourg	Ontario
TRIP, Gwen	Brandon	Manitoba
TSAWASSEN PEACE AND		
JUSTICE DISCUSSION GROUP	Tsawassen	British Columbia
TURGEON, Sue		
UBC EDUCATORS FOR NUCLEAR DISARMAMENT	Vancouver	British Columbia
<u>UNION CANADIENNE DES TRAVAILLEURS</u>		
<u>UNIS DES BRASSERIES, FARINE,</u>		
<u>CEREALES, DES LIQUEURS DOUCES</u>		
<u>ET DISTILLERIES</u>		
- LOCAL 301	Montreal	Quebec
UNION DES PACIFISTES DU QUEBEC	Montreal	Quebec
<u>UNION DES PRODUCTEURS AGRICOLES</u>	Montreal	Quebec
<u>UNION DES ROUTIERS, BRASSERIES</u>	Ville D'Anjou	Quebec
UNITARIAN CHURCH OF VANCOUVER	Vancouver	British Columbia
UNITED ASSOCIATION DISARMAMENT		
STUDY GROUP, WINNIPEG BRANCH	Winnipeg	Manitoba
UNITED AUTO WORKERS	Toronto	Ontario
UNITED CHURCH OF CANADA		
BRITISH COLUMBIA CONFERENCE	Vancouver	British Columbia
CONFERENCE OF MANITOBA AND		
NORTHWESTERN ONTARIO	Winnipeg	Manitoba
UNITED ELECTRICAL, RADIO		
AND MACHINE WORKERS OF CANADA	Don Mills	Ontario
UNITED NATIONS ASSOCIATION		
IN CANADA	Winnipeg	Manitoba
UNITED STEELWORKERS OF AMERICA	Toronto	Ontario
UNIVERSITIES OF GUELPH AND		
WATERLOO - AD HOC COMMITTEES	Guelph	Ontario

UNIVERSITY OF GUELPH AND WATERLOO - AD HOC COMMITTEE ON STAR WARS	Waterloo	Ontario
UNIVERSITY OF MANITOBA PEACE COMMITTEE	Winnipeg	Manitoba
UNIVERSITY OF SASKATCHEWAN STUDENTS FOR DISARMAMENT	Saskatoon	Saskatchewan
UNIVERSITY OF TORONTO - AD HOC COMMITTEE OF ACADEMICS	Toronto	Ontario
UNIVERSITY OF TORONTO CAMPAIGN FOR NUCLEAR DISARMAMENT (UCAM)	Toronto	Ontario
URSULINE SISTERS		
USHERWOOD, David C.	Toronto	Ontario
VANCOUVER CENTRE COMMITTEE ON ARMS CONTROL AND DISARMAMENT	Vancouver	British Columbia
VANCOUVER EAST GREENS	Vancouver	British Columbia
VANCOUVER YOUTH FOR PEACE ACTION	Vancouver	British Columbia
VAN DEN BURGH, Sidney	Sidney	British Columbia
VERNON PEACE COALITION	Vernon	British Columbia
VERNON RELIGIOUS SOCIETY	Vernon	British Columbia
VETERANS FOR MULTILATERAL NUCLEAR DISARMAMENT	Halifax	Nova Scotia
VANCOUVER ISLAND GROUP	Vancouver	British Columbia
VICTORIA INTERNATIONAL DEVELOPMENT EDUCATION ASSOCIATION	Victoria	British Columbia
VICTORIA PEACE COUNCIL	Victoria	British Columbia
VINCENT, Solanges	Montreal	Quebec
VOICE OF WOMEN (CANADA)	Halifax	Nova Scotia
VOICE OF WOMEN NELSON GROUP	Nelson	British Columbia
VOICE OF WOMEN, VICTORIA GROUP	Victoria	British Columbia
VOYKIN, Mr. and Mrs.	Wenlow	British Columbia
WALKER, Kim	Nelson	British Columbia
WALKER, R.B.J.	Victoria	British Columbia
WALTERS, R.	London	Ontario
WALTON, Wendy	Newmarket	Ontario
WATKINS, Mel	Toronto	Ontario
WATSON, John	Edmonton	Alberta
WEBB, G.R.	Bowser	British Columbia
WEBB, Geoff	Ottawa	Ontario
WEBSTER, Bob	Vancouver	British Columbia
WELDON, Jack	Montreal	Quebec
WEST VANCOUVER CITIZENS FOR PEACE	West Vancouver	British Columbia
WESTERN CANADA STEEL LIMITED	Vancouver	British Columbia
WESTMORE, H.H.	Calgary	Alberta
WHITE, Dorothy	Calgary	Alberta
WILBUR, Lynn	Squamish	British Columbia
WILFRID LAURIER UNIVERSITY AD HOC COMMITTEE ON STAR WARS	Waterloo	Ontario
WILKINSON, B.W.	Edmonton	Alberta
WILLERS, Francis	Station LaSalle	Quebec
WILLIAMS, Dan	Coldwater	Ontario
WILLMOTT, Donald E.	Toronto	Ontario

WILSON, Alan E.	Gabriola Island	British Columbia
WILSON, J. Galt	Prince George	British Columbia
WINDSOR COALITION FOR DISARMAMENT	Windsor	Ontario
WINDSOR-WEST NEW DEMOCRATIC PARTY RIDING ASSOCIATION	Windsor	Ontario
WINNIPEG CO-ORDINATING COMMITTEE FOR DISARMAMENT	Winnipeg	Manitoba
WOMEN'S ACTION FOR NUCLEAR DISARMAMENT	Calgary	Alberta
WOMEN'S INTERNATIONAL LEAGUE FOR PEACE AND FREEDOM	Vancouver	British Columbia
WONNACOTT, Ronald J.	London	Ontario
WORLD FEDERALISTS OF CANADA	Ottawa	Ontario
WORLD FEDERALISTS OF CANADA - VICTORIA BRANCH	Victoria	British Columbia
YALKEZIAN, Joe	Montreal	Quebec
YORK NORTH PEACE GROUP	Aurora	Ontario
YORK UNIVERSITY RESEARCH PROGRAMME IN STRATEGIC STUDIES	Downsview	Ontario
YOUNG COMMUNIST LEAGUE	Calgary	Alberta
YUDITSKY, Ilanna		
ZIMMERMANN, Hans G.	Varenes	Quebec
ZINK, Lubor	Ottawa	Ontario



SUMMARY OF THE COMMITTEE'S ACTIVITIES, INCLUDING A SUMMARY  
OF PRESENTATIONS BY SCHEDULED WITNESSES PUBLIC HEARINGS

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2	July 15, 1985	OTTAWA, Ontario
3	July 16, 1985	HALIFAX, Nova Scotia
4	July 17, 1985	OTTAWA, Ontario
5	July 18, 1985	OTTAWA, Ontario
6	July 19, 1985	OTTAWA, Ontario
7	July 22, 1985	MONTREAL, Quebec
8	July 23, 1985	MONTREAL, Quebec
9	July 24, 1985	TORONTO, Ontario
10	July 25, 1985	TORONTO, Ontario
11	July 26, 1985	TORONTO, Ontario
12	July 29, 1985	VANCOUVER, British Columbia
13	July 30, 1985	VANCOUVER, British Columbia
14	July 31, 1985	VANCOUVER, British Columbia
15	August 1, 1985	CALGARY, Alberta
16	August 2, 1985	WINNIPEG, Manitoba
17	August 8, 1985	OTTAWA, Ontario

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## APPENDIX E

### SUMMARY OF THE COMMITTEE'S ACTIVITIES, INCLUDING A SUMMARY OF PRESENTATIONS BY SCHEDULED WITNESSES

Sunday, July 14, 1985 was one of those steamy, hot days that are inevitably a feature of a summer in the Nation's Capital. A few energetic tourists wandered listlessly about Parliament Hill, easy prey for the orange and lemonade vendors along Wellington Street. A careful observer, one who is familiar with the Ottawa scene, could not help but notice unusual activity at the main entrance of the West Block of the Parliament Buildings. Unusual, that is, a few minutes before ten on a sleepy Sunday in summer.

Several senior officials from the Department of External Affairs strode purposefully into the building. They were followed every minute or so by several Members of the House of Commons and a clutch of Senators.

All made their way through the silent corridors to Committee Room 308 at the rear of the building. At 10:10 a.m. Mr. Tom Hockin called to order the sixth meeting of the Special Joint Committee on Canada's International Relations.

Around the rectangular tables MPs and senators were together for briefings for the last time before undertaking public hearings. Their assignment required them to report to Parliament within just 40 days of that meeting on two of the most urgent and fundamental questions facing the Government of Canada: the nature of Canada's bilateral trading arrangements with its largest market by far, the United States of America (should the status quo continue, or should we seek to enhance the relationship with a comprehensive framework agreement, a bilateral treaty or a series of sectoral agreements?) and the question of whether Canada should accept the invitation of

the President of the United States to participate in the \$26 billion research program of the Strategic Defense Initiative, the concept of developing technology capable of destroying intercontinental ballistic missiles (ICBMs) before their warheads reach their targets.

The two subjects were officially related in coming before the committee together at this time only in the sense of urgency. Both would demand answers by summer's end. As the committee's hearings proceeded more than one witness would suggest another link, that the decision about participation in the SDI would in fact have a bearing on Canadian-American relations, which in turn would form the environment for any negotiations with the Americans on the future of trade relations.

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The committee had its origins in the desire of the Secretary of State for External Affairs, announced in September 1984, to have a full and public review of Canada's foreign policy. On May 15th, 1985 the Minister had published a resource document entitled Competitiveness and Security: Directions for Canada's International Relations.

In his preface the Minister wrote:

"I encourage all Canadians with an interest in the future of their country and the contributions Canada can make to a safer, more prosperous and humane world to come to the Parliamentary hearings... and make their views known."

Several months passed between the Minister's announcement of his wishes and the publication of the policy discussion paper. Over the winter protectionism in the United States mounted steadily. And on March 26th the United States invited Canada and its other NATO allies to participate in SDI research. Thus, both these questions assumed a new sense of immediacy and urgency. Consequently debate took place among the parties in Parliament about the need to place the trade and SDI issues on an advanced schedule (to become known as Phase One) so that Canadians could be heard and the committee could deliberate in time for its report to be considered by the Government. The date of August 23 was eventually agreed upon as the deadline for an interim report on Phase One by the parties. And on June 28 the Senate gave the final parliamentary authority necessary for the special joint committee to proceed.

Clerks Jean Macpherson from the House of Commons Committees Branch and Paul Belisle from the Senate and their staffs had already been preparing contingency plans for intensive travel plans and hearings. Once the committee was established, they presented their draft options.

The members began by expressing a strong desire to hold Phase One hearings in every province. Faced at their first official meeting with the sheer impossibility of so extensive a summer tour while also preparing a report by the August 23 deadline, the members reluctantly hammered out a compromise that would take them to all regions, from public hearing rooms overlooking Halifax harbor to others overlooking Vancouver harbor, to six cities as well as Ottawa. When the inevitable complaints came from provinces that had to be excluded, the members regretted the limitations imposed by the unavoidable schedule and gave assurances that other centres would get special consideration for visits during the second phase of the committee's program.

The preliminary business and briefings completed, the committee members "took to the air." Members, staff, and cases and cases of documents and equipment boarded Eastern Provincial Airways flight 164 for Halifax, and the Atlantic regional hearings.

The public hearings opened in the ballroom of the Halifax Sheraton Hotel on Monday, July 15. In opening comments, Senator Jacques Flynn, the Senate joint chairman, pointed out that the committee was in fact mandated to review all the contents of Mr. Clark's paper. Eventually it would do so. Meanwhile unusual circumstances required the committee to embark upon an unusual program. "Generally," said Mr. Hockin, the House of Commons chairman, "foreign policy is a restrained activity. When it comes to decision-making the Minister consults with officials and the cabinet, and that's about it. This committee is trying to break that by seeking public participation." He explained that in

addition to time for scheduled witnesses, time had been allocated for the public. "People who have views but are not part of an organization, or not necessarily a scholar... They are welcome to register and be heard, on a first-come, first-serve basis."

Liberal member Lloyd Axworthy opened on a whimsical note. During the night, he said, all the members in their hotel rooms had experienced "a Halifax variation of bell-ringing." There had been a fire alarm which turned out to be false but not before several demonstrations of a space-age buzzer in each room. The alarm had been accompanied by metallic-voiced explanations and assurances over speakers about the disturbances to the guests' sleep.

The topics under consideration, said Mr. Axworthy, were central to the concerns of Canadians. Here was an opportunity for them to articulate their concerns directly to Parliament. During the process, he hoped, there would be some definition of the terms being widely used, particularly on the trade issue, terms such as enhancement, framework agreement and free trade.

Speaking for the New Democratic Party, Steven Langdon commented that momentum had been building towards free trade with the U.S. and participation in SDI research. "I don't see the committee itself making any decisions. It's just going to be one input. But if it is an input which raises -- as I think it should -- some extremely important question marks about the approach we are taking as a country on both these issues then I think those question marks will have the ability to hold back the momentum."

After two days of hearings in Halifax the members returned to Ottawa for a further three days of hearings. Then it was on to Montreal, Toronto, Vancouver, Calgary, Winnipeg and back to Ottawa.

Interest groups and committed organizations filled the agenda in every city. In all 120 scheduled witnesses were heard. And the public responses exceeded expectations. There were 203 "walk-in" public presentations. In Vancouver, the committee sat well past midnight to accommodate all 71 requests. Example: Walter and Margaret Taylor drove 1,200 kilometres from Smithers, B.C. to present an eloquent commentary on behalf of their town's Project Ploughshares. Example: In Toronto, Gareth Park appeared on behalf of ACT for Disarmament High School Network, representing students in 40 schools.

"Do not underestimate the role Canada plays in the arms race," he said. "We serve as an example to others and I hope it will be a good one. Our hope is to see a day when there are no more nuclear weapons on earth... I do not see SDI bringing this day closer."

The debate spilled over into the halls outside the meeting rooms as witnesses with differing views clashed informally with each other. At one hearing a determined mother changed an infant's diaper on one of the staff work tables.

In the spirit of their assignment to communicate with Canadians, the members undertook as many radio, television and newspaper interviews as their travel and hearings schedules would permit. They participated in 10 special television and 40 radio interviews and 14 newspaper interviews in addition to the regular coverage of their hearings by the media. They met the editorial boards of newspapers in the cities visited. Sometimes these arrangements meant getting up at 6 a.m. to accommodate program deadlines and going without breakfast or lunch.

The tight summer schedule had advantages as well as disadvantages. Some Canadians who would have liked to be heard were away, or were left with inadequate time to prepare. But 323

organizations and other Canadians were heard. Members of the committee, freed from most of the burden of Parliamentary duties during the summer recess, were able to concentrate on the hearings. Without exception they were left with a sense of accomplishment. The level of understanding and awareness of two vital issues had been raised immeasurably across Canada. That, in itself, was no mean accomplishment.

### CANADIANS SPEAK TO THE ISSUES

The following pages contain unofficial summaries of the presentations by scheduled witnesses. Abridgement has been necessary, but every effort has been made to reflect the sense of each presentation faithfully. These summaries are presented here to let the witnesses speak for themselves, as it were, to a larger readership. They illustrate directly and cogently the diversity and depth of feeling that exist in Canada for the issues that are the subject of this report.

### BILATERAL TRADE

Halifax, July 15, 1985

Several witnesses dealt with the broad implications of trade policy and trade initiatives while some organizations concentrated on the impact of a free market on specific industries and occupations.

Among those whose focus was on the broad repercussions were Professor Barry Lesser of Dalhousie University and the Institute for Research for Public Policy, the Atlantic Provinces Chamber of Commerce and Professor George Grant.

Benefits may be limited

Professor Lesser took the view that the net benefit of free trade would not be large and the Atlantic provinces might be relatively worse off vis-à-vis the country as a whole.

If the benefits of free trade were shared disproportionately among Canada's regions, then free trade could exacerbate regional economic disparities in Canada, he said.

Professor Lesser also warned that under free trade, Canada could be forced to seriously alter -- if not abandon -- regional development incentives.

In arriving at his conclusions, Professor Lesser weighed the possible gains from free trade for the Atlantic region (increased sales from fish, lumber and energy); the supply of lower cost manufactured imports; and the processing of more primary goods in Atlantic Canada against the potential costs (greater competition with New England producers of primary products); undermining of the region's industrial base; less local processing; and lesser attractiveness of Atlantic province locations because of corporate rationalization.

Jobs issue paramount

The Atlantic Provinces Chamber of Commerce in its submission to the committee noted that at its annual meeting in May, 1985, the chamber had adopted a resolution supporting the principle of "freer trade" with the United States, in particular, the enhancement of freer trade relationships between Atlantic Canada and the England States.

The chamber urged the four Atlantic provinces to appoint an emergency task force to study all aspects of freer trade relations with the U.S.

The chamber cited the provision of more jobs in the Atlantic economy as a prime concern in formulating its attitude towards freer trade. Others might concern themselves with foreign ownership, political independence, economic welfare and efficiency. But the effect of free trade on jobs in Atlantic Canada was paramount.

Trade liberalization could prompt price and cost reductions for the Atlantic provinces and there was a chance that some additional processing of resource exports might become feasible.

The chamber felt a liberalized trade policy represented "a gamble" but on balance it was worth pursuing so long as there were safeguards for cultural or other industries contributing to national identity.

#### Sovereignty question

Professor George Grant, author, philosopher and noted Canadian nationalist, advocated the view that free trade would put Canadian political and cultural sovereignty in question.

Asked about the value of sovereignty, Professor Grant said it is easier to maintain some kind of indigenous real life in the smaller context of Canada. In a continental community, it is harder to know your own. Canada's trading relationship with the United States is its biggest economic question, but some of Canada's political leaders are guilty of not thinking through all the ramifications of free trade.

## Brewing industry problems

More specific attention was devoted to special issues by Moosehead Breweries Ltd., Brewery and Soft Drink Workers, Local 361; National Sea Products Ltd., and Maritime Lumber Bureau.

Moosehead Breweries Ltd. (Harry Morrison) suggested the brewers could not survive competition from a concentrated, integrated U.S. industry that has the advantage of non-returnable cans and bottles.

"It is evident that in an open continental beer market, the survival of small scale, labor-intensive breweries is questionable. Rapid rationalization of the North American industry on a purely economic basis would see the utilization of the highly efficient, low-cost U.S. surplus brewing capacity and the shut-down of non-competitive Canadian plants..."

The brewery warned that the federal and provincial governments would have to cope with a significant number of plant closures, the suspension of brewery operations in a number of locations and an overall employment reduction of up to 65 per cent of the present labour force. Smaller operations such as those located in Atlantic Canada would be particularly vulnerable.

Brewery and Soft Drink Workers expressed strong concern that a move to freer trade with the United States would have a "devastating impact" on the beer industry and jobs within it. The union noted that U.S. breweries were bigger and more efficient; their production was nine times more than all of Canada's production.

If freer trade in the industry were established, Canadian plants would consolidate their business and have breweries in only the most populated areas.

## Sectoral approach questioned

National Sea Products Ltd. (Gordon Cummings and Henry Demone), the largest fisheries-based firm in Canada, supported a bilateral free trade agreement, but cast doubts on the sectoral approach. A free trade agreement, NSP said, should be accompanied by the removal of non-tariff barriers and fishing industry must get along without government assistance.

A prerequisite of free trade with the United States would be the acceptance by the Canadian fishing industry that it will have to compete in the world market without reliance on government support. Governments in Canada are going to have to permit the industry to rationalize and employ the latest technology if it is to prosper in such a competitive environment.

NSP said it firmly believed that if Canada was willing to accept a free market approach to business and conclude a free trade agreement with the U.S. that the possibility for long-term growth and prosperity exists for Canadians, including those in the Canadian Atlantic fisheries.

## Lumber a textbook example

Maritime Lumber Bureau (Anthony G. Rumbold) said the lumber industry found free trade a laudable goal and noted the industry itself had been a textbook example of free trade until 1981. Trade barriers had been successively lowered until only a few items were covered by tariffs.

But in recent years, Mr. Rumbold said, the route to free trade had become fraught with difficulties raised by constituencies with emotionally charged problems. Protectionist sentiment and bills embodying that sentiment were before the U.S. Congress. One in particular involving natural resource subsidies

would pave the way for countervailing duties on Canadian lumber and other forest products. The effect on the Maritimes would be "disastrous."

The Bureau in addition to endorsing long-term free trade suggested that the immediate path to follow was low-key bilateral discussions and a broadening of multilateral reductions in tariffs at the next round of global negotiations.

Ottawa, July 17 and 18, 1985

The Canadian Manufacturers Association advocated a two-pronged strategy: a new round of trade negotiations with GATT and active consideration of a bilateral agreement between Canada and the United States to secure and enhance each other's market access.

Elements involved in such a Canada-U.S. trade agreement would be the need for a strategy to cope with strong U.S. protectionist pressures; a recognition that it could take between five to ten years for any tangible results for Canadian industry from a new GATT round; and a hope that any Canada-U.S. trade discussions might serve as an impetus to discussion within GATT.

The CMA conceded that any significant freeing up of Canada-U.S. trade would accelerate the difficult restructuring of a number of Canadian businesses -- and this would be particularly hard on certain companies and smaller communities that depend on them.

#### Guidelines proposed

The CMA emphasized that any Canada-U.S. trade discussion's therefore should be conducted within certain parameters:

The rights and obligations of both countries under the GATT should be maintained;

While discussions to liberalize trade should take place on a broad basis, there would have to be provisions of exceptions and sectoral arrangements;

There would be a need for transition periods and appropriate safeguard measures;

Federal and provincial governments would have to be prepared to put in place appropriate adjustment policies to assist labour and capital in the transition to a freer trading environment.

CLC warns of job loss

The Canadian Labour Congress, in contrast to the CMA, cast doubt on any comprehensive free trade arrangements with the United States. The CLC said such a pact raised questions of Canada's vulnerability to the U.S. pressure for policy "harmonization" in fields ranging from fiscal to foreign policy. Free trade would mean a significant loss of jobs in the short term with no guarantee of either adequate adjustment support or a payoff in long-term jobs. Moreover, the CLC argued, free trade would involve a significant loss of economic sovereignty. Part of the deal would mean abandonment of certain tools of national economic management and, in addition, there would be pressure for Canadian and U.S. competitors to operate in a substantially similar tax and regulatory environment.

The CLC suggested a preferable option would be fair trade based on active government participation and negotiation.

The Labour Congress said emphasis should be at first on national economic management to create jobs, ensure a fair

distribution of income and regionally balanced growth. Trade policy should be a subordinate part of such a policy. A strategy of planned trade would be combined with an overall economic policy designed to maximize processing of Canada's raw materials and to stimulate domestic consumption of Canadian goods and services.

Richard Martin, a CLC vice-president, suggested there was a price to be paid for any "trade enhancement" agreement with the U.S. What guarantee was there that such enhancement would not mean shutdown of Canadian branches of U.S. companies? Or a slowdown in the rate at which new companies in Canada open? What guarantees were there that Canadian firms would not move their facilities to the U.S. in the medium and longer term as they are faced with decisions about where to put new investment?

The CLC criticized the federal government for what it said was failure to do detailed research on the jobs impact of any free trade arrangement. The CLC estimated that nearly one million Canadians and their families could face massive adjustment problems. The CLC cited eight industrial sectors which were likely to be highly vulnerable to North American rationalization, among them, clothing and textiles, brewing, meat packing and processing, appliances, machinery, furniture, shoes and high technology goods.

Mr. Martin reiterated the approach of the CLC brief in submitting that apart from jobs, there was the overall threat of loss of sovereignty in a possible free trade deal -- in such fields as taxation, regional development, job training programs, health and safety and bilingualism programs; all were likely to come under fire in a free trade framework between Canada and the U.S.

## Negative impacts cited

Canadian Centre for Policy Alternatives (Professor Peter Finlay and others) questioned the optimistic picture of free trade supporters as to its impact on the Canadian economy. The Centre, an economic and political research body, foresaw instead a decline in manufacturing activity in Canada; a significant increase in unemployment; increased pressures on remaining workers to be "internationally competitive"; and a reinforcement of Canada's tradition as a resource-exporting economy. Social and political costs of a free trade initiative would include realignment of Canadian economic and social policy to conform to U.S. standards; and regional adjustments. Moreover, Canadian autonomy could itself be jeopardized.

As an alternative, the Centre urged an indigenous industrial strategy with a focus on production of goods and services to assure a decent standard of living for Canadians.

## "Explore trade options"

Canadian Export Association (Frank Petrie, president) maintained that with 75 per cent of Canada's trade concentrated in the U.S. market, it was essential that Canada work out some trade arrangement with the United States.

Given the current U.S. threats against Canadian lumber, steel, cement, fish, pork and many other important Canadian exports, the status quo should be ruled out. The sectoral approach might have limited results, the association said. So would the functional approach concentrating on selected non-tariff barriers.

Hence the Canadian government should without delay move forward to explore the widest practicable trade liberalization within the letter and spirit of GATT.

The CEA made it clear that in taking this position it was mindful of the need for transitional arrangements in some cases and exceptions of specially sensitive sectors of the economy from any negotiations.

Non-tariff barriers raised

Canadian Organization of Small Business (Geoffrey Hale, vice-president, and Julie Gaudern, senior policy adviser) favoured negotiation of a comprehensive trade agreement with the United States so long as safeguards were built in. The main goal of such an agreement, the small business body said, was long-term security of access to U.S. markets and precluding of hostile action against Canadian exports by an increasingly protectionist U.S. Congress.

The COSB noted that non-tariff barriers were often a more significant obstacle for smaller companies entering the U.S. market than more formal tariffs or import quotas.

Any comprehensive agreement should be phased in over a period of between three and five years for most industries. There should be selected exemptions for those industries where freer trade would require a total overhaul of existing structures.

The organization also called for preservation of Canada's flexibility in negotiating trade agreements with other nations and explicit steps to preserve Canada's sovereignty over key national and cultural institutions.

## Broad expansion urged

National Farmers Union (Wayne Easter, president) recognized the importance of developing sound trading relationships with the U.S. The NFU supported Canada-U.S. trade arrangements that could be identified as mutually beneficial. In some instances, these might be by special arrangement as in autos or sectoral as in farm machinery. But the organization did not support any overall arrangement which could smother Canada's economy; Canada must consolidate its own identity in world markets through the pursuit of expanded trading relationships.

Canada could not afford to ignore the needs of other customers, particularly the USSR and China. Canada could not rely on the private sector to secure stable growth of the agriculture industry; the country needed Crown agencies such as the Canadian Wheat Board and greater public involvement in research and development. The livestock industry could not remain viable with free trade because of Canada's relatively smaller production and marketing base and higher production costs than those in the U.S.

## Support for "fair trade"

The Canadian Federation of Labour (James McCambley, president, and Austin Thorne, secretary-treasurer) supported "fair" rather than "free" trade arrangements. The organization again drew attention to the possible impact on existing jobs and enterprises of free trade arrangements with the U.S. The primary need for Canada was to develop the secondary sector in order to create jobs. Free trade would probably lead industries to move from Canada to the U.S.

## Defining the terms

The Canadian Institute of International Affairs (John Halstead, Robert Bryce, National Capital Branch Working Group) discarded an all-embracing free trade arrangement with the U.S. as an immediate step and opted instead for a framework agreement between the two countries. The framework would define in precise terms the process both for future bilateral trade liberalization negotiations and for management of ongoing bilateral irritants as well as for new dispute resolution facilities on trade and economic matters. The fears of both the Canadian public and third countries about possible negative effects of bilateralism would to some extent be mitigated by this approach, the CIIA said.

Such an approach need not exclude a free trade arrangement as a longer term objective, but would allow more time for study of and adjustment to that objective.

The submission noted that a formal treaty with the U.S. now would involve serious political difficulties in Congress and would not be binding on the provinces in their fields of jurisdiction.

## Textile industry struggling

The Canadian Textiles Institute (Eric Barry and others), representing 90 companies in an industry with 1,200 plants and more than 80,000 jobs, emphasized that free trade or trade enhancement with the U.S. could not be pursued without a stable domestic base. The industry was struggling against an excessive level of imports with a resultant decline in its share of the domestic market and the loss of thousands of textile jobs.

The CTI saw no consensus emerging in favour of free trade with the U.S. Any such arrangement would require preconditions

such as common external policies, an adjustment period favouring Canada and a staged reduction in tariffs on textiles and clothing.

In discussion, witnesses underlined that all light industry is threatened by free trade with the U.S. They suggested that at least 20,000 jobs directly or indirectly linked to textiles could be lost through such arrangements.

#### Tariff needed for carpets

The Canadian Carpet Institute (Douglas Edwards, president) told the committee the Canadian carpet industry is the third most advanced in the world, but that its cost disadvantage vis-à-vis American carpet producers makes the tariff indispensable to its survival. In the event of a free trade arrangement, some Canadian carpet mills would close and survivors would tend to locate in the southern states, taking advantage of non-unionized labour.

The Institute placed considerable stock in future GATT negotiations. The U.S. and the Pacific Rim presented the greatest opportunities for export growth, but despite an increase in export levels over the '70s, institute representatives believed their industry could not find a major niche in the U.S. market.

#### Chamber favours free trade

The Canadian Chamber of Commerce made one of the strongest presentations in favour of a full-scale free trade arrangement with the United States. The Chamber described it as an essential condition for Canada's economic renewal.

The Chamber said such a trade agreement would not be a panacea, but it was the best option open to Canada. The sectoral approach and framework agreement were non-starters because the

Americans were not interested. The status quo did not exist anymore.

There were controversial aspects to the free trade pact -- questions about Canadians' ability to maintain their own identity and adjustments which would be imposed on business and labour. But the Chamber was confident both could be dealt with; otherwise trade would be restricted and Canadians' living standards lowered -- sapping Canada's "ability to thrive economically and culturally as an independent nation."

#### Importers favour negotiations

The Canadian Importers Association (Keith G. Dixon, president) proposed that Ottawa continue serious negotiations with Washington that will lead to a mutually enhanced market -- not necessarily total free trade. This arrangement should include appropriate safeguards and periods of adjustment for the weaker and most exposed Canadian industrial sectors.

Canada should also re-emphasize the need for an early new round of multilateral trade negotiations under GATT sponsorship.

Any special trade arrangements that may be reached between Canada and the U.S. would obviously have an impact -- perhaps adverse -- on commercial relationships with other trading partners; hence it is important that Canada's trading partners around the world be assured from the beginning of any new agreement with the United States that our mutual trade with them is not impaired.

Montreal, July 22 and 23, 1985

Liberalization only choice.

The Royal Bank of Canada (Dr. Edward P. Neufeld, senior vice-president and chief economist) maintained that Canada has no choice but to move judiciously toward trade liberalization if it wishes to protect its own interests.

The Royal Bank brief said there would be significant benefits to Canada in adopting a policy of appropriately phased trade liberalization with the United States. The costs of doing so should be borne by the nation generally -- and not just by the individuals or industries directly affected.

Dr. Neufeld said a decision to do nothing in the present changing trade environment would be "a decision to go backward, not a decision to keep what we have." Nor could Canada hope to win in any protectionist "shoot-out" with forces advocating such an approach in the U.S. and the European Economic Community.

The submission asserted that trade liberalization was an essential element of an overall industrial policy for achieving an economy that can create new jobs and assure decent living standards.

Dr. Neufeld, former assistant deputy minister of finance, cautioned as well that Canada should not wait for progress in forthcoming multilateral negotiations before attempting to achieve significant improvements in its access to U.S. markets.

## Guard against protectionism

Pierre-Paul Proulx (professor, Department of Economics, University of Montreal and Research Co-ordinator, IRPP) suggested there was much to be said for the conclusion of a trade enhancement framework agreement with the U.S. Such an agreement, he said, would help to stave off some of the current U.S. protectionism and enhance Canada's access to U.S. markets. It could allow time for formulation of a Canadian strategy aimed more particularly at the Pacific Rim; and it could allow for the identification of export opportunities where Canadian firms are more competitive than American firms in offshore markets.

Professor Proulx argued against a full, comprehensive bilateral trade arrangement; he said it was not desirable or feasible in a context where by January 1, 1987, 80 per cent of Canada's exports to the U.S. would be tariff free and 90 per cent subject to tariffs less than 5 per cent, while 65 per cent of U.S. exports to Canada would be free of tariffs.

## Free trade needed

Professor André Raynauld (Economics Department, University of Montreal) said he was in favour of a Canadian American trade liberalization.

He said Canada needs access to a broad market to grow in economic development and that a more suitable trade policy with GATT is not enough. He said it was needed to stop new taxes, duties and regulations that threaten our exports.

He added that although our market is tied closely to that of the U.S. we cannot enjoy all of the benefits because of a lack of a suitable agreement which could come about in constructive trade talks. Fears of U.S. treaty abrogation like that of 1860 and

fears that Canada will become a U.S. satellite were greatly exaggerated.

#### Great losses

Jack Weldon (Economics Department, McGill University) said he was afraid free trade with the U.S. would result in "the loss of all things that go into the public good to make this a desirable place to live."

Professor Weldon (who does not believe free trade will take place) took a hypothetical view, and said he thought the Canadian government would have to relinquish many of its functions if free trade existed.

He feared for the loss of our social programs, our cultural activities, pension and health plans. He said we might lose our sovereignty, political identity, and be integrated with the U.S.

"We'd lose the superior lifestyle we have for marginal trade gains," he said.

#### Pragmatic approach needed

L'Union des Producteurs Agricoles counselled on behalf of agriculture an approach which would militate against an overall comprehensive free trade agreement with the U.S.

The organization cited cases in which protectionist measures had been adopted for certain products by U.S. authorities. It concluded that no simple, uniform line of conduct could be evolved for trade with the U.S. and others. Instead, a general policy would have to be worked out on a pragmatic, supply basis -- on a product basis, in other words.

## Supplementary to GATT

Frank Stone (research associate, The Institute for Research on Public Policy) set out the framework for a new bilateral agreement with the United States, but emphasized it should not replace the GATT. Instead, any new trade pact should be designed to build upon and supplement the GATT.

Such an agreement, Mr. Stone suggested, should include these main elements: a process of negotiations to reduce or remove remaining tariffs and other barriers to cross-border trade; agreement on and tighter rules to govern the trade policies of the two countries; special arrangements for continuing agreement; and establishment of some kind of independent joint commission for trade to help resolve disputes arising from operation of the agreement.

Mr. Stone is a former minister at the Canadian Mission to Geneva and Canadian ambassador to Pakistan and Afghanistan.

## Electricity a model

The Canadian Electrical Association (George Lafond, vice-chairman) noted that Canadian-U.S. electricity trade was an example of a bilateral free trade environment in which Canada has prospered because of technological and resource input advantages. The trade has provided reliability, security and economic advantage to both countries.

The association said there was concern about a general protectionist philosophy emerging in the United States and its potential to affect the current mutually advantageous trade in electricity.

To date, the electricity model had indicated the potential advantage of unimpeded trade to any industry sector with basic indigenous advantages derived from technological or resource-cost inputs. To continue to be successful, the association asserted, there was a requirement of acceptance by both trading partners that one country may dominate industrial activity in one sector and the other in another area, to the mutual advantage of both.

#### Benefits to fur industry

The Fur Council of Canada (Del Haylock) endorsed freer trade with the United States and predicted an expansion in the fur manufacturing industry as a result. The creation of job opportunities in fur manufacturing through increased exports would obviate some of the substantial costs of retraining and relocation assistance currently being spent by the government to help displaced apparel workers adjust.

But the Council stressed there would have to be safeguards before opting for such a freer trade arrangement. The Council's chief concern was the matter of possible transshipments. If low-cost imports did enter Canada at a low duty rate by being transhipped through the United States, they could cause serious disruption to the Canadian market. The council said the industry was not willing to see "an erosion in protection" afforded by Canada's tariff when it comes to trading with such countries as South Korea, Hong Kong and China.

#### Brewers urge caution

L'Association des Brasseurs du Québec advised a go-slow approach in any moves to trade liberalization. The association said there were barriers to increasing the Quebec brewing industry's share of the American market and it was unrealistic to

envisage a substantial increase in exports to the U.S. in the short term.

Any process of rationalizing the industry on a cross-Canada basis would be a long, complicated and costly endeavour. Any changes in the rules of the game governing the beer trade should not be made lightly or precipitately, the Association advised. Otherwise, action could have "dramatic consequences" for the brewing industry in Quebec.

Toronto, July 24 and 26, 1985

Benefits would outweigh costs

Carl E. Beigie, former executive director and president of C.D. Howe Research Institute, maintained that if a mutually satisfactory agreement with the United States could be negotiated, the longer-term benefits would more than offset the transitional costs of adjustment.

Among key benefits cited by Mr. Beigie were:

-- Reduced likelihood of arbitrary barriers being imposed on Canadian exports to the U.S.

-- Increased market incentives for shifting the mode of Canadian manufacturing production towards operations benefiting from greater specialization and, where appropriate, scale.

-- Expansion in the horizons of Canadian business towards international markets and away from the formerly well-protected domestic market.

Mr. Beigie said there was no inherent reason to suppose that bilateral negotiations could not proceed simultaneously with

multilateral ones. Moreover, a forward-looking bilateral accord with the U.S. could serve as a useful prototype for the GATT talks.

Mr. Beigie suggested an approach to maximize the potential benefits from a broad bilateral trade accord and to minimize its costs to Canada. This approach would embrace achievement of a larger share of national output going into investment; a more solidly reasoned basis for industrial assistance in core sectors; and policies to foster a dynamic entrepreneurial climate within Canada.

#### Significant problems seen

Arthur Donner (Professor of Economics, York University) cautioned that a comprehensive trade agreement presents a series of significant problems for Canada.

"It is naive to think that any gains from free trade with the U.S. will not place Canadian political and economic sovereignty at risk. In my view, a comprehensive trade agreement is a backdoor way of changing the way Canada's political and economic institutions operate..."

Professor Donner opted instead for maintenance of the status quo with an emphasis on multilateral rather than bilateral negotiations to reduce tariff and non-tariff barriers.

Professor Donner said this approach could be coupled with establishment of a new politically sensitive body to monitor trade grievances between the two countries.

He warned that when serious talks begin, the United States would take an aggressive stance against Canadian vested interests. The concept of safeguards regarding sourcing in Canada

would be anathema to the Americans. The U.S. would correctly see its interest in a broad arrangement with no restrictions on market forces.

Professor Donner noted that most tariff barriers between the U.S. and Canada have been eliminated. What was really at stake was negotiations over the so-called non-tariff barriers to trade.

But what the U.S. might regard as a non-tariff barrier could very well be an important federal or provincial policy instrument -- for example, regional industrial grants, grants for research and development, corporate tax incentives and provincial programs designed to attract industry -- all non-tariff barriers of a kind. They contravene the spirit if not the letter of any free trade arrangement.

"The status quo, as unsettling as it might appear, might prove a more superior solution for Canada than a comprehensive trade agreement which puts Canada's political sovereignty at risk," Professor Donner concluded.

#### Risks in status quo

Professor R.J. Wonnacott (Economics Department, University of Western Ontario, sponsored by the Ontario Economic Council) noted that a major argument for a free trade agreement is to secure Canada's present access to the U.S. market in a period when the United States may become increasingly protectionist.

"There is no doubt that there would be risks and uncertainties in adjusting to free trade with the U.S. However, we also face risks and uncertainties from the alternative strategy of taking our chances as U.S. policy develops. Moreover, in the case of Canada-U.S. free trade, the risks would be offset by

large export benefits that cannot be acquired in any other way..."

Professor Wonnacott said that if there were a strong resurgence of U.S. protectionism that seriously damaged access to the U.S. market, the status quo would disappear as an option for Canada and Canada would have little choice but to seek some form of bilateral trading accommodation with the U.S. But that would be the worst possible time to try to negotiate freer trade; it would be even more difficult than it would be now to get U.S. agreement to provisions to reduce Canadian adjustment costs.

In any broad agreement, Professor Wonnacott suggested, creation of an agency to handle disputes and appeals would be essential.

#### Trade enhancement treaty

Professor John Crispo (Faculty of Management Studies, University of Toronto) acknowledged there is no risk-free trading option for Canada, but only one makes any real sense in the long run -- free trade with the United States.

The way to achieve that objective is to negotiate a trade enhancement treaty between Canada and the U.S. as quickly as possible. It should commit Canada and the U.S. to the principle of free trade and set out a procedure and timetable for working in that direction.

Professor Crispo warned that if Canada does not work out a meaningful economic agreement with the U.S., it is running a serious risk -- overriding all others. Without such an agreement, there is a real chance that the U.S. standard of living will rise considerably faster than that of Canada. "If anything will destroy this country, it is that distinct possibility..."

Professor Crispo singled out Ontario's coolness to a free trade pact as contrary to the province's as well as the national interest.

#### Role of multinationals

The United Steelworkers of America, National Office (Gerard Docquier, national director), Canada's largest industrial labour organization, said it welcomed increased trade between nations. But it argued that "free trade in the sense being employed meant putting Canada's economic future in the hands of transnational corporations."

About 70 per cent of what statisticians called "trade" constituted transfers within transnational corporations, as subsidiaries of a conglomerate pass items back and forth.

Canada's interest should be to ensure that trade be fair, be managed in the broad social interest rather than "manipulated by a few giant companies."

The Steelworkers noted that models of free trade assert that freer trade will produce long-term gains in income and economic efficiency. But to whom would those benefits flow and where will the jobs be?

The union charged that some free trade proponents were motivated by seeing it as the only alternative to a more active industrial policy and a more public interventionist kind of political economy. "We believe that working Canadians will suffer if they are abandoned to the free play of the market, which in this case means the multinational corporations through the Trojan Horse of free trade..."

## Transition period cited

James D. Fleck (Chairman, Fleck Manufacturing Inc.) and M. Wallace McCutcheon (Professor of Business-Government Relations, University of Toronto) argued that it was a politically feasible moment for both countries to negotiate and legislate a free trade treaty. But such a treaty must have a transitional period and dispute resolution mechanisms.

Adjustment assistance for displaced workers would be essential. But even more energy should be devoted to trying to provide an economic climate that encourages and nurtures newborn jobs.

Mr. Fleck and Professor McCutcheon said Canada should continue to give strong support to multilateral trade liberalization and make a commitment to participate in the next round of GATT negotiations.

## Benefits uncertain

Professor Mel Watkins (University of Toronto) rejected the logic of free trade proponents who concede political costs for Canada but insist on economic benefits.

Professor Watkins maintained that not only are economic benefits uncertain but they are especially uncertain when the political capacity to create them is itself being undermined.

Professor Watkins proposed an alternative set of economic policies: to move to secure the Canadian market for Canadian producers; to use access to the Canadian market as a bargaining chip to get multinationals to produce more in Canada; to enhance domestic content arrangements -- in effect to put in place an

industrial strategy based on greater self-reliance and less dependence for Canadians.

Need for study

The Task Force on Canada-United States Trade Policy (membership includes representatives of main Canadian business organizations). The consensus of the Task Force was that the government's objective should be the widest practicable degree of trade liberalization. It believed neither the sectoral nor functional approach would provide substantial results.

Members of the Task Force recognized the need for in-depth study of the implications of dismantling of trade barriers. Involvement of the provinces was of key importance, particularly since many of the non-tariff measures are of provincial origin. The task force urged that federal-provincial consultations be an integral part of the process.

Work towards consensus

Stelco Inc. (John D. Allan, President) proposed that all parties work to develop consensus in the U.S. and Canada that more secure access to the markets of each will allow manufacturing and service industries to develop facilities and programs to allow North America to regain its competitive lead on the rest of the world. "Canada should be seen as the ally, not the antagonist." Nations should talk of securing access to each other's "open" markets rather than giving the impression they are out to gain an advantage through so-called "free" trade or "enhanced" trade, Mr. Allan said.

Stelco suggested that a good start at achieving a closer trading relationship with the U.S. could come from establishing a joint commission. This body would be designed to be the focal

point for the collection and maintenance of a data base on all aspects of trade between the two countries. Politicians and government officials could turn to the commission for the facts before embarking on policies that might affect the North American trading system.

#### Winners, losers debate

The United Automobile Workers of Canada (Robert White, Director) said the crux of the free trade debate is that no one has made a convincing argument that Canadians will benefit, while it is clear that certain sectors will certainly be "losers".

In addition, the UAW maintained, free trade will make Canada more vulnerable and insecure since corporations will have more flexibility in shifting locations and jobs. They will exploit this power to further worsen the distribution of income taxes, restrain wages and limit progress in community standards such as pollution controls, plant closure legislation, unemployment insurance and equal pay laws.

This erosion in Canada's de facto economic sovereignty would be formalized by any treaty that insisted on an end to Canadian non-tariff barriers in such areas as regional development, subsidies, support of public ownership in key sectors.

The union said the issue to be discussed should not be increasing economic integration with the United States but how Canada could reduce an already incredible degree of dependency. "We should not be talking about 'enhanced trade', but of 'enhanced Canadian content' to reduce our import dependency which, in the manufacturing sector, ranks among the highest in the world in terms of deficit per capita...."

### Threats to cultural identity

The Canadian Conference of the Arts warned that broad free trade arrangements with the United States could pose additional threats to Canada's cultural identity. The Conference advised Ottawa to give serious and careful consideration to all measures presumed protectionist and to non-tariff barriers in the event that they might be of particular importance to some aspect of Canada's cultural sector.

The organization noted that Canada was one of the countries most heavily penetrated or even saturated by foreign -- particularly American -- culture. Because of "our geography and small population, we are hard put to resist the flow of material coming from so proximate and vast a market as the United States." In turn, it is difficult for us not to consider the U.S. as the prime export market for our own cultural goods and services.

### Benefits for clothing industry

Peter J. Nygard (Chairman, Nygard International, major Canadian apparel manufacturer) said there is no consensus within the clothing and textile industry. Implementation of a free trade policy for the industry would require a major financial contribution by government. He summarized his presentation with five key points. (1) The focus must be on terms of free trade. (2) Canadian manufacturers must control and dominate certain segments of their domestic market. Import policy must create an advantage and an incentive to the domestic manufacturers. (3) Manufacturers must have easy access to world raw materials, in most cases without restrictions, and must be tariff-free. (4) Government must plan a continuing and increased investment role during the transition. (5) There must be a phase-in period of no less than 10 years for the clothing sector and five years

for the textile sector, and U.S. tariffs must disappear immediately.

### Pygmy Canadians face American giants

ACF Grew Inc. (Peter R. Francis, President) said free trade would result in the decline of his company and the Canadian power and pleasure boat industry in general.

He said by American standards his company was a "pygmy" and that if free trade existed he would have to face competition from American companies 20 to 30 times larger. His American competition already operates successfully in Canada.

He said the task of expanding into a new market of 250 million people would be "staggering" since it would require new facilities, expensive advertising to establish his company and vast amounts of capital for a venture that has "no assurance of success".

Not only would the American elephant outrun and outmuscle the Canadian mouse, the elephant is already so far ahead that the mouse would never catch up. "He is already out of sight," Mr. Francis said.

### Vancouver, July 29 to 31, 1985

#### Concern about bilateral approach

B.C. Mining Association (Tex Enemark, President) cautioned that a free trade arrangement with the U.S. alone could be harmful to its members and the industry. The group stressed that a move towards trade liberalization with the United States must not undermine the multilateral approach taken through GATT.

"Our concern is that any bilateral discussions or agreements which may be reached with the U.S and the Japanese on their bilateral trade matters could be particularly harmful to British Columbia's mining industry."

The Association said this would be especially so if the Japanese were forced to redress their estimated \$40 billion trade surplus with the United States as a condition of such an agreement by purchasing more raw materials in the U.S. In this event, any benefit to the mining industry in freer trade with the U.S. would be "wiped out" by a shift of as little as 5 per cent of coal purchases from B.C. to the United States.

Another concern about a bilateral agreement would be a development whereby Canada simply came under the umbrella of U.S. protectionists leading in turn to retaliatory measures by Japan and other countries. Japan might attempt to resolve the problem by shifting its purchases of Canadian goods from Canada to other countries -- and this would have serious consequences for the B.C. mining industry.

The Association concluded that the multilateral approach to liberalizing trade was the best option. It hoped the major GATT partners would soon agree to enter a new multilateral round of negotiations. It was only within this framework that the importance of a triangular relationship between Canada, the U.S. and Japan could be addressed.

#### Lessons in lumber debate

Council of Forest Industries of B.C. (T.M. Apsey and others) said the need for a comprehensive trade agreement with the U.S. was amply demonstrated by the current lumber debate. The Council noted the industry as well as federal and provincial governments

were locked in a struggle to defend free trade in lumber against a rising protectionist tide in the U.S. Congress.

A comprehensive trade pact would reduce Canada's vulnerability in sectors where free trade has already been established -- the lumber trade, for example -- by isolating such trade from short-term political pressure to restrict trade when it is expedient.

A formal trade agreement would not remove the possibility of quasi-judicial actions such as countervailing duty or anti-dumping petitions. But it would go through renegotiation, define and formalize the treatment of subsidies and other areas of contention.

"Trade covered by formal agreement would be shielded from capricious and expedient attack and would contribute to greater security and stability in Canada-U.S. trade relations."

The Council maintained establishment of freer trade with the U.S. also stood out as the essential and urgent first step to the longer-term reduction of barriers to trade within the multi-lateral framework of GATT.

In the council's formal brief, the group indicated a comprehensive agreement should include provision of a necessary period of adjustment for industries which could be seriously affected by freer trade.

#### Senate committee's conclusions

Senator George van Roggen (Chairman, Senate Committee on Foreign Affairs, inquiry into Canada's trade relations) reviewed the deliberations and decisions of the Senate committee which led it to advocate that Canada negotiate a bilateral free trade

agreement with the United States. It rejected any piecemeal approach to trade liberalization.

He said the committee underlined that any full-scale trade agreement would in no case lead to political integration with the U.S. This was "totally unwarranted by the facts". A far more potent threat to Canada's political and social strength would come from continued weakening of its industrial performance and decline in its economic stability.

The growing competition in international markets, the increasing resort to non-tariff barriers in the U.S. and the development of a massive free trade bloc in Western Europe -- all these developments suggested strongly that Canada must seriously consider protecting its trade interests by seeking a special bilateral arrangement with the United States.

In his brief, Senator van Roggen suggested several trends indicated the merits of such an agreement. One was the increase in protectionism in the industrialized world. International competition had increased. Specific U.S. protectionism was another factor. The growth of regional trading blocs was another key development.

The senator conceded that some industries and sectors would be net losers in a free trade pact. But these dislocations would have to be dealt with. Adjustment assistance to works and firms hurt by an accord would clearly be a priority.

In summary, the senator said a bilateral trade agreement would offer Canada "much improved access to a huge and prosperous market, access that we do not now enjoy..."

Treaty relationship seen

Business Council of British Columbia (Ron H. Granholm) suggested that any free trade arrangement with the U.S. would not allow absolute free trade, but rather special bilateral treaty arrangements with the U.S. that enhance and secure Canada's position with them.

This situation presented an opportunity to begin a process of a "managed trade" or "treaty relationship". In many ways, the Council said, Canada's arrangements with Japan on car imports began this process.

Enhanced trade with the United States would benefit all Canadians and could increase permanent employment opportunities in Canada. It could reduce prices for consumer goods and services as a result of specialization of production.

The council emphasized that enhanced trade with the U.S. would allow Canadian producers to improve productivity; removal of barriers would stimulate investment in resource-processing operations and innovative ventures; security of access to American markets would improve the Canadian investment climate; and there would be expanded opportunities to participate in the introduction of new products and the export of specialized services.

Protectionism feared

Western Canada Steel Limited (Michael Hobbs, Chairman) submitted that trade liberalization to the greatest possible extent should be Canada's target. Neither Canada nor the United States had anything to fear from each other except protectionism and isolationism and "retaliation that breeds retaliation".

## Economic blackmail

Pacific Group for Policy Alternatives warned that Canada will open itself up to economic blackmail if it keeps being dependent on one trading partner instead of diversifying its trade with other countries.

The group was particularly worried that a bilateral trade agreement will link Canada to participation in SDI, a trade-off the group finds "offensive". SDI would waste resources and create a less stable world.

The group warned of dangers to the Canadian timber industry and said that "as long as we are dependent on that economic giant, that giant can blackmail us". Canada must diversify its international markets and strengthen its domestic economy since inclusion with the U.S. will destroy its independence while offering no new economic benefits.

### Too many problems

International Woodworkers of America (Jack Munro) said that free trade will not correct a number of problems that have been plaguing the timber industry since the early 1980s.

The IWA said that free trade will not correct an inadequate lumber supply or assist employees and communities where mills have run out of lumber. It will not fix the aftermath of monetarist excesses and job losses that began in the 1980s either.

The union said that 80 per cent of our lumber and pulp and paper already goes to the U.S. under free trade conditions but only 5 per cent of our plywood gets in because of a 20 per cent tariff which they would like to see changed. The IWA was also worried about major American shareholders in companies who might

have interests that differ from those of the people of British Columbia.

Calgary, August 1, 1985

Free trade offers benefits

NOVA, An Alberta Corporation (Robert Pierce, Executive Vice-President). NOVA favoured a bilateral free trade agreement with the U.S. to cover all or virtually all goods and services produced.

Mr. Pierce warned it would be unwise to rely on GATT alone to ensure access to the U.S. as it would not enable required restructuring of Canada's industries. Through rationalization of manufacturing industries, Canada would be able to exploit comparative advantages, and thus attain greater efficiencies and ultimately lower prices.

NOVA agreed that short-term costs such as unemployment would result, but with phasing-in and safeguard provisions dislocation effects could be minimized. By achieving economies of scale and increased specialization through a bilateral free trade agreement, Canada could obtain larger external markets and develop more value-added industries.

Larger markets are needed, stressed NOVA, because Canadian markets are too small to support the cost and risks of new product development.

"It must be emphasized that such an agreement would at least ensure that there would be winners as well as losers and therefore the resources to take care of the latter."

Cannot afford not to

Canada West Foundation (David Elton, President, and research associate Katie Macmillan) suggested two reasons for seeking a Canada-U.S. enhanced trade agreement: Canada "can't afford not to", and the "faith in Canadians" rationale. Rejection of this approach would mean continued economic decline due to U.S. countervailing action, declining leverage multilaterally, and declining competitiveness. An enhanced trade agreement would force Canada to come to grips with structural problems.

Those who don't have faith that Canada can win in such an agreement demonstrate "victory of fear over reason".

Secure access to larger markets is a necessary precondition of competitiveness, just as preventing athletes from competing internationally is a surefire recipe for defeat at the Olympics, said Mr. Elton.

Sector approach

Canadian Cattlemen's Association (Stan Wilson, Vice-President) favoured a sector-by-sector approach to free trade "for it permits industries like our own...to move forward without waiting upon a national consensus on a wider scale".

"Unhesitatingly in support of free trade in the entire beef sector," the Association had no concern that domestic packing industries could not compete.

Mr. Wilson said that when beef trade is restricted as it is now -- with quotas, tariffs and duties -- it ensures live exports will increase, whereas value-added activities create jobs.

A bilateral agreement on beef would have to include agreements on health standards and inspection, protection of national herds, diseases, as well as mechanisms to discuss extensive domestic policy initiatives impacting the industry as well as co-ordinated policy toward third market exporters.

Free trade welcome idea

IPSCO (International Pipe and Steel Company, Roger Phillips, President and Chief Executive Officer) supported the immediate negotiation of an across-the-board enhanced trade agreement with the U.S., enforced access to other markets, and an end to government subsidization (particularly in the U.S. and Canada). IPSCO also said that sectoral negotiations with the U.S. would be an impossible exercise.

Further, Canada should not put preferential tariff rates on steel from developing nations when the domestic steel industry is closed off from these highly subsidized markets.

The U.S. is also restricting its market to other steel markets (i.e., Canada) of late when the steel industry in North America is substantially integrated.

There is a need for enhanced access to markets beyond our borders, and the need for controlled access to our markets by nations not trading by the same rules, Mr. Phillips said. But IPSCO was not pointing the finger at the U.S. Mr. Phillips said he recognized that on the whole the U.S. trades "fairly".

Winnipeg, August 2, 1985

The Canadian Federation of Agriculture felt that the subject of agriculture should not be part of the Canada-United States

trade negotiations because Canada may lose heavily in the bargaining process.

The Federation was concerned that Canadian negotiators may bargain away important Canadian agricultural policies that the U.S. disapproves of to gain concessions in other areas. The U.S. would not reciprocate equally in the agricultural area.

The CFA was also concerned that the U.S. would attack vital policies of supply management, wheat board marketing and horticultural tariffs since Canada "has little to negotiate with".

Farmers felt that trade liberalization would be of little use to them since existing quota systems and tariff structures benefit the individual farmer. Tearing away these structures would erode the farmer's security.

The federation agreed that some discussions about countervailing, anti-dumping and health protection are necessary, but that these can be done in a non-agricultural context.

The Dairy Farmers of Canada supported the position of the CFA in regard to specific agricultural discussions between Canada and the United States.

The DFC felt that the disruption of their established industrial milk policy would not be desirable as the quota system and protectionist policy provides and aims for a high level of domestic self-sufficiency and stability.

The Prairie Implement Manufacturers Association suggested that a sectoral or functional free trade agreement between Canada and the United States regarding farm equipment and parts would be beneficial to Canada.

A strong American dollar and a growing Canadian agricultural sector has led to increased trade between the two countries. In addition, the Canadian recession has made it impossible for manufacturers to rely on domestic sales.

This year Canada exported \$576,600,000 worth of farm equipment to the United States and PIMA said that "with the appropriate encouragement" this trend could continue.

The U.S. has been moving toward protectionism in other areas of its markets, and PIMA said a free trade agreement should be implemented before protectionist action takes place in this area.

**Ottawa, August 8, 1985**

**No more eggs in one basket**

Confédération des Syndicats nationaux said Canada should not move towards free trade with the United States because it would increase our dependence on a country that already "subjects us to the end of the whip if we try to get out of its economic sphere".

The Federation said Canada would face the condemnation of other trade partners if it did not increase its multilateral ties. The CSN did not think Canada should increase bilateral trade with a country with which three quarters of its trade already takes place at the expense of other countries.

The Federation said there would be many disadvantages to free trade with the U.S. In 1987, only 65 per cent of American goods would be admitted freely to Canada, while 80 per cent of Canadian goods would be admitted duty-free to American markets. Free trade would also create more unemployment and salary cuts in the manufacturing sector, especially in Quebec. The Federation

doubted the claims of free trade supporters who have said that new jobs would be created in their place.

"We could get into a slave labour situation like that of the U.S. during the last century," the brief said.

In conclusion, the CSN advocated four options instead of free trade. These were:

- to adopt industry policy aimed at the substitution of imports especially in the manufacturing sector where they have been experiencing a deficit;
- more geographical diversion in Canadian trade;
- greater liberty within the GATT structure, and more multi-lateral trade between countries;
- limit the Canada-U.S. trade talks until the protectionist movements of the U.S. market are diminished and new advantages for Canada surface.

#### Second-best solution

Economic Council of Canada (Dr. David Slater, Chairman) gave qualified approval to greater trade liberalization with the United States. But the Council believed there must be vigorous moves towards increased multilateral elimination of trade barriers through the General Agreement on Tariffs and Trade. A free trade arrangement with the United States was a second-best solution to Canada's trade aspirations.

Dr. Slater also voiced concern about the long-run implications for the preservation of Canadian economic, social and cultural institutions. If a free trade arrangement were concluded with the U.S., it could leave Canada exposed to market-oriented policies of the U.S. as well as its various lobby groups.

The Council recognized that expansion of world markets offered substantial real income gains for Canadians and more opportunity for specialization, higher productivity and a more competitive economy. There would, however, be problems of adjustment, need for welltargeted transitional income support, re-training and mobility programs.

#### Trade enhancement pact proposed

Business Council on National Issues (Thomas d'Aquino, President, and Alfred Powis, Chairman, Task Force on International Trade). The Council said it was persuaded that a "carefully crafted" bilateral trade agreement with the U.S., which gradually liberalized trade, provided for more assured market access and contained provisions to deal with future commercial policy disputes, would be in Canada's long-term interests.

The Council in 1984 developed the idea of a trade enhancement agreement to provide the basis for exploring the prospects for liberalized trade on a broader basis. This pact was viewed as a preliminary step towards the negotiation of a comprehensive agreement.

There was no reason to believe that an improved trading relationship with the U.S. would pose a threat to Canada's culture or political sovereignty. The Council was strongly opposed to economic or political union with the United States.

The Council supported efforts on a multilateral basis through GATT. This would be coupled with moves to develop new trade arrangements with the U.S.

Without a bilateral trade agreement, there was no way Canada could realistically expect to negotiate its way around or insulate itself from U.S. trade actions or import restrictions.

## Time to start negotiations

Richard G. Lipsey (Senior Economic Adviser, C.D. Howe Institute) and Murray Smith urged Canada to seize the initiative in opening negotiations with the U.S. for a comprehensive trade liberalizing agreement aimed at removing tariffs and containing and reducing non-tariff barriers.

"Now is the time to reject the timid approach that offers slow decline and to seize the opportunities for continuing Canada's growth in living standards and employment through major trade enhancement..."

Professor Lipsey noted that a bilateral approach to the U.S. was not inconsistent with multilateral efforts for trade improvement through GATT. Mr. Lipsey recommended that both courses be pursued.

The submission conceded adjustment in employment would be necessary with trade liberalization, but such an agreement would not increase overall unemployment.

Nor would political sovereignty be jeopardized. Indeed, Professor Lipsey maintained that securing treaty access to the U.S. market would actually increase rather than diminish Canadian room for manoeuvre in following many of its national policies.

A comprehensive agreement would also represent the only chance for Canada to get some significant restraint on American contingent protection measures.

## Long-term policy needed

Motor Vehicle Manufacturers Association (Norman Clark, President, and David Rehor, Treasurer) said the Automotive

Products Trade Agreement with the U.S. represented a conditional free trade arrangement. It was multilateral on Canada's part, but bilateral in U.S. terms.

A long-term auto trade policy, firmly founded on principles of the auto pact, was necessary if voluntary export restraints on motor vehicles were to be phased out.

The Association said the Canadian auto industry must and can be part of a global industry. To be viable, monetary, trade and economic policies of governments must be appropriate and as competitive in their own right as the motor vehicle producers must be in theirs.

Timetable faulted

Automotive Parts Manufacturers Association of Canada (Patrick J. Lavelle, President) argued that Canada should not proceed with discussions about a comprehensive free trade pact with the U.S. under the timetable prepared by the present government. The necessary preparatory work had not been done.

"It seems unthinkable to me and others that the government would proceed with negotiations without determining the facts, without knowing what benefits (if any) would accrue and what impact they would have on the cultural and economic sovereignty of the country..."

The Association questioned what work had been done within government or the private sector on the impact of any new trade arrangement. How many workers and industries would be affected? What about the effects on marketing boards, grants to industry and regional adjustment assistance? Why did the sectoral trade initiative with the U.S. fail?

The Association agreed it was important to retain access to the United States; but Canada must strengthen its trade ties with Japan and the developing world -- and the best way of doing so was within the multilateral framework of GATT.

"While many deplore the idea of fortress Canada, the idea of fortress North America is just as short-sighted."

The Association urged the government to improve export development programs, delivery systems and import laws. A domestic strategy was needed. "First improve the domestic infrastructure and then proceed to put in place a comprehensive export trade strategy," the Association said.

Protectionist threat cited

Aluminum Company of Canada (David Morton, President, and Jeffrey Skelton, Vice-President) favoured efforts to negotiate a comprehensive free trade agreement with the U.S. and noted there were two linked aspects to such a move: as a measure to counter incipient protectionist proposals in the U.S.; and as a necessary prerequisite to Canada's cost-effective participation in world and principally U.S. markets.

A commitment by Canada to move towards freer bilateral trade relationships with the U.S. would help delay or exempt Canada from a range of U.S. protectionist measures.

On the cost-competitive side, there could be economies of scale and good management. It might also spur a focus on product specialization and it would foster production volumes from expansion to export markets.

A bilateral pact would provide Alcan with more secure access to the U.S., serve as a spur to Canadian semi-fabricating and

fabricating facilities, and still leave it possible to retain its position in other world markets.

## STRATEGIC DEFENSE INITIATIVE

Discussion of the U.S.-conceived Strategic Defense Initiative (SDI) before the committee split among those who directly opposed Canada's participation in SDI and those who advocated co-operating in the strategy as a positive measure. Others were wary of the implications for Canada, even in the research phase, and suggested Canada might participate only under highly defined and restrictive guidelines.

Halifax, July 16, 1985

Destabilization factor

Veterans for Multilateral Nuclear Disarmament (C.G. Gifford and others) contended that SDI would not work with the necessary hundred per cent reliability. A partially effective defence, however, would be a destabilizing factor because the other side would perceive it as an added threat.

SDI, the organization said, masked a bid for U.S. dominance and was the ultimate tool to encourage complacency about the arms race. Canada should work towards a treaty banning space weapons, a comprehensive test ban and a nuclear freeze.

The veterans' group represents 400 men and women whose ranks before retirement ranged from private to general.

In discussion, Mr. Gifford, national chairman of the group, urged Canada to join with other middle powers in more aggressive diplomacy in terms of imaginative proposals for arms control --

verification, and in particular, an international monitoring agency.

Opposition based on waste

Coalition of Canadian Women's Groups: International Peace Conference summarized the results of the conference at Mount Saint Vincent University in June 1985 in which the plenary session expressed its clear opposition to Canadian government participation in the Strategic Defense Initiative. The conference said the women delegates believed Canada's defence and security are threatened by SDI. Secondly, rejection of SDI was based on the enormous waste of resources which should be devoted to development of a more stable and balanced social and economic order within a more sustainable international economic and political order.

Escalation of arms race feared

Voice of Women (Dr. Gillian Thomas and others) warned against acceptance of any invitation from the U.S. to participate in SDI research. SDI, the organization warned, could precipitate a further escalation of the arms race, threaten Canada's national security and could result in the militarization of space and the economy.

On the technical side alone, such participation would open the way to costly errors and make decision-making in moments of crisis totally computer-dependent.

Dr. Thomas contended that SDI research was already under way in Canada and that it was difficult for the government to control it. However, for Canada to associate itself with SDI would be a radical change in its foreign policy. The government should therefore oppose the militarization of space, stop funding all

research serving U.S. military interests and reassert Canada's interest in peace.

The Voice of Women discounted common rationalizations for SDI in terms of job creation and the argument about making the Soviet Union more willing to negotiate. The project was essentially capital-intensive. And the concept about prodding the Soviets had never worked in the past.

The VOW urged the committee to resist further militarization of the North and further erosion of Canadian sovereignty by increasing dependence on American military and economic policy.

Project Ploughshares (Pictou County Group - Anthony Law) opposed SDI because its deployment would markedly increase uncertainty, insecurity and instability -- and hence the danger of nuclear war. Moreover, it said, SDI would risk overturning various efforts aimed at arms control. Mr. Law proposed that the Canadian government reject SDI and forbid private participation in the endeavour.

Restricted participation suggested

Professor Joel Sokolsky (Dalhousie University) suggested that Canada should not at this time oppose the research development phase of SDI, but should withhold final judgement while monitoring its progress.

Private firms, he said, should be allowed to bid on SDI contracts in Canada. But government funding should be restricted. Where a particular aspect of SDI research, such as space-based surveillance and warning, contributes to Canadian needs, some funds should be made available, Professor Sokolsky said.

The Canadian response must take into account that of other allies. If SDI in the eyes of Canada and other allies seemed to be undermining stability and the chance of arms control, then Canada should be prepared to join with other allies in presenting their views to Washington.

Professor Sokolsky noted that the initial goal of SDI is to protect the land-based strategic missiles of the United States -- the long-range goal is to base security on the denial of a first-strike capability through defence.

In answer to questions, Professor Sokolsky downplayed the effect of the ABM Treaty on the strategic balance. He disputed the view that Canada's international reputation would be significantly affected by any involvement with SDI research.

Conditions should be defined

Professor Dan Middlemiss (Dalhousie University) argued that limited research involvement in SDI was acceptable for the present, but Ottawa should maintain a healthy skepticism toward long-run SDI participation. Professor Middlemiss said Ottawa should establish clearly-defined preconditions for future Canadian participation in SDI testing and deployment.

He urged Canada to reaffirm its support for the Outer Space and ABM treaties and to consider prospects of proceeding with its own more limited military space program should Washington reject its preconditions for SDI participation.

Professor Middlemiss noted the prospect for Canadian influence over U.S. policy was greater inside the SDI framework than outside it. The test would come when Canada was asked to sign an agreement concerning the use of Canadian territory; that was the point at which preconditions should be imposed --

possibly aimed at preventing testing or deployment inconsistent with the ABM Treaty or banning of space-based weapons.

#### Participation favoured

Vice-Admiral J. Andrew Fulton (retired) supported Canada's participation in SDI both for immediate benefits and in terms of long-term defence relationships with the United States and other allies. If the SDI investigation concluded a ballistic missile defence system were possible, Canada would be in a far better position to contribute on an equal basis inside the SDI framework rather than as an outsider.

Admiral Fulton argued that Canada would profit from the related technology and acquire expertise in surveillance and communications techniques.

He maintained the concept of destroying weapons systems must be better than the present system of deterrence whereby each side threatens to kill millions of people on the opposing side. SDI research would enable participants to see if a ballistic missile defence system were possible. Admiral Fulton noted that for the ballistic missile defence system to work properly, it might require the use of some Canadian territory.

**Ottawa, July 18 and 19, 1985**

#### Canada requires clarifications

Canadian Institute of International Affairs (John Halstead, Chairman of Working Group, National Capital Branch) suggested it was only prudent for the United States to undertake research into strategic defence systems. On the other hand, Canada should raise questions about the scope and scale of the U.S. program to

clarify its political and strategic implications for both NATO and North American defence.

Mr. Halstead said Canada's response to the U.S. invitation to participate in SDI research should include two main elements: conditional support for normal research pending clarification of what development program is to follow; and second, provision for alliance examination of the longer-term implications of ballistic missile defence for NATO strategy.

The CIIA warned that unless the process set in train by the SDI program is wisely managed, it may well place disruptive strains on NATO. No outcome -- technical, financial or operational -- would be reckoned a success if the cost were alliance solidarity.

Canada, the Institute felt, should encourage creation of a NATO consultative committee on SDI to share in influencing eventual decisions about its development and deployment.

NATO consultations proposed

The Council of Canadians (Mel Hurtig and others) urged Canada to decline the U.S. invitation to participate in SDI research.

The Council also recommended early consultations within the NATO framework to evolve agreed limits to the American program; reaffirmation of strong Canadian support for the ABM treaty; no Canadian government financial or other support for Canadian firms bidding on SDI contracts.

The Council suggested SDI would almost certainly require deployment of ballistic missile defence sensors and interceptors on Canadian territory. Any deployment of an SDI system would

require a substantial increase in Canadian expenditures for the defence of North America. Finally, development of SDI would impose strains on relations between Washington and Europe within the NATO framework.

The Council felt Canadian participation in SDI research would be extremely unlikely to gain Canada any meaningful influence over decisions in the SDI program. At the same time, direct Canadian participation could entail additional encroachment on Canada's territorial sovereignty -- for example, a major extension of the U.S. security presence in Canada.

Research would lead to deployment

The Canadian Labour Congress condemned the SDI research program and urged Ottawa to reject participation in it. The CLC took the position that any involvement in SDI research at present would mean deployment later and further proliferation of weapons systems at a later date.

The CLC discounted the SDI as a job-producer; the record in other areas showed there were few jobs to be created -- and even if there were, the Congress would argue against such a move in the face of fostering a more dangerous world.

The CLC urged a different approach emphasizing satellite technology for verification and arms control. Canada should work for arms control "through the application of its technology and political will..."

Focus on "serious" proposals

Operation Dismantle (Jim Stark, president, and Bill Robinson, researcher) urged Canada to reject participation in SDI

research and focus on "serious" proposals that might actually make nuclear weapons impotent and obsolete.

The group said President Reagan was guilty of trying to apply pre-nuclear thinking to the nuclear age. "For better or worse, we have no option but to finally concede that nuclear weapons are so powerful and dangerous that there is no sufficiently effective technological defence against incoming missiles... There is no longer any American security without Soviet security.

The importance of participation

Canadian Institute of Strategic Studies (G.S. Bell and B.S. Macdonald) argued that Canada could not afford to remain detached from the Strategic Defense Initiative. Canadian participation in SDI was crucial to the economy, industrial strategy and improvement of its trading position with the U.S., they said.

The aim of SDI was to maintain the strategic balance and thereby assure stable deterrence. Basically it was a long-term program aimed at finding cost-effective survivable approaches to defending NATO against the threat of nuclear-armed and conventionally-armed ballistic missiles.

During the lengthy period of SDI research, Canada's concern must be to ensure its participation and technological development in this "dynamic" period.

World Federalists of Canada (Fergus Watt, Executive Director) listed several arguments that SDI would be destabilizing and said Canada should work towards creation of an international satellite monitoring agency.

SDI would lead to a new and expanded arms race.

The history of the arms race demonstrated that new weapons developed by one superpower are soon copied by the other. Thus, U.S. research on strategic defence would likely spur the U.S.S.R. to equivalent testing and research.

Development of strategic defence systems would increase the chance of nuclear war.

This was the heart of the argument that SDI is destabilizing. The spectre of ballistic missile defence raises, for the first time in the modern nuclear era, the possibility of a "survivable" nuclear war and a nuclear war fighting capability. Present strategic doctrine dictates that a nuclear attack by one superpower is met with a destructive counter-strike by the other. This mutual assured destruction, which has prevented nuclear war over the years, is enshrined in the 1972 Anti-Ballistic Missile Treaty. SDI would put the U.S. on a collision course with the ABM Treaty, which stipulates that each party (the U.S. and the U.S.S.R.) undertakes not to develop, test or deploy ABM systems or components which are sea-based, air-based, space-based or mobile land-based.

If successfully deployed, strategic defences would be destabilizing. Would U.S. and Soviet security be enhanced if both were invulnerable to nuclear attack? The answer, if we assume that defences would remain impenetrable, is probably yes. However, we do not live in a static world and consequently must consider the probability of changes to either superpower's offensive forces which would reduce the other's security.

There was little doubt that Canada, situated directly between the superpowers, would be required to participate in strategic defences, Mr. Watt said. Development of space-based

defensive weapons would lead both superpowers to greater reliance on the cruise and other "stealth" technology.

Few other countries could match Canada's expertise in the technology that would be required to develop a satellite monitoring agency under the United Nations. This would be an essential precondition for a more effective international peace effort.

"In this way Canada could promote the development of its space and high tech industries while contributing to a valuable component of a global common security system."

#### Safeguards for sovereignty

D.G. Newman (President, Cametoid Ltd.) urged the Committee to support Canada's involvement in SDI while seeking prudent safeguards to respect Canadian sovereignty in a true partnership with the United States. Mr. Newman felt that Canada's participation was important not only in a strategic sense but in terms of deriving the benefits of the coming spurt in technology linked to the SDI program. "SDI is not merely a military strategy; it is a true national strategy addressing the legitimate economic and political aspirations of the United States as well as its security needs."

#### Computer reliability questioned

David Horwood (Institute for the Peaceful Uses of Technology) argued that computer scientists largely agree that if SDI is deployed, it would be controlled and driven by the largest, most complex system ever designed or built -- and that this computer-dependent system is certain to be unreliable.

Nothing could be more dangerous than an unreliable system of massive complexity functioning all the time. The prospect of accidental activation would be real. Critical satellites would be threatened if SDI were triggered in this way.

Aerospace Industries Association of Canada (Ken Lewis, President) said participation in the SDI research phase is so logical that opposition can stand only on emotional grounds. This was not surprising because the media turned SDI into "Star Wars". "Largely overlooked is the fact that we have been asked to participate in strategic defence research only, to pursue answers to questions raised by the concept."

Mr. Lewis summarized as follows the "principal considerations" that lead the Association to favour participation in the research program:

1. The overall conceptual aim of SDI is to enhance deterrence by offsetting reliance on offensive systems to maintain the peace with less dangerous defensive systems on both sides. This conceptual objective is honourable and in keeping with Canada's position as a strong proponent of peace.
2. The U.S. has committed itself to carrying out SDI research within the constraints of its treaties with the Soviet Union, including the ABM Treaty.
3. The SDI concept may not prove feasible technically or strategically. The purpose of the research phase is to find out if it is.
4. The invitation is to participate in the research phase only of SDI. Canada has the right to decline to participate in development and deployment. Canada's posi-

tion as a strong advocate of arms control therefore should not be hindered, and could be enhanced.

5. Participation in the research phase will give Canada a stronger voice in the ultimate decision process concerning development and deployment.
6. Strategic defence research is not a new endeavour. The Soviets have had an extensive ballistic missile research program for at least two decades. The U.S. has had a continuing ballistic missile defence research program for many years. The SDI represents a change only in the intensity and breadth of research now proposed. The research will continue in both countries whatever Canada does. Technology will not stand still.
7. SDI research will create a tremendous technological surge and accelerate progress in the areas of remote sensing, computers, communications, artificial intelligence, optics, materials, robotics and many others. Some argue there are other ways to acquire such technology, but none can be viewed as more dramatic in scope or have the same impetus as SDI.
8. Among the major technology camps -- the United States, the U.S.S.R., Europe and Japan -- Canada must choose the one with which it must ally. The choice will be obvious to most Canadians.
9. Within the international aerospace community it is generally accepted that 90 per cent of research and technology are common to civil and military aeronautics. Given the relatively tightly focused research proposed for SDI, spinoff applications to the civil sector should be significantly plentiful.

10. Economic gains from participating in SDI research will begin immediately, albeit modestly. But the major benefit will be in the form of an investment in our technological future. As a general rule of thumb in the aerospace industry, where research leads to the development of a successful product, 20 jobs stem directly from each job for the lifetime of the product.
11. If at the end of the research phase SDI development and deployment proceeds and further participation is deemed to be in Canada's interest, additional work could be created by development and production programs.
12. If Canada decides not to participate in the SDI research phase, it is unlikely that any Canadian company or other entity will be permitted to share in SDI work, except where we have some technology that cannot be obtained in the United States or in some other participating country.
13. If Canada decides not to participate in the SDI research phase, such a rebuff to the United States could add difficulty to Canada in retaining, let alone gaining more, access to the U.S. market so vital to our economy.
14. If Canada decides not to participate in the SDI research phase, we should anticipate a brain-drain effect. France is proposing a European research alternative to SDI called Eureka, ostensibly to reduce the loss of scientists and engineers to SDI and no doubt to try to match the technology push of the U.S. camp. People in the Canadian aerospace industry have expressed concern that we may be headed for another Arrow situation in terms of opportunity lost.

Other steps take precedence

William Epstein (Chairman, Canadian Pugwash Group; Senior Special Fellow, UN Institute for Training and Research) urged that Canada should withhold any participation in any aspect of SDI pending pursuit of other steps.

These would include full compliance with the ABM treaty; full compliance with the Test Ban and Outer Space treaties. Mr. Epstein, a specialist in disarmament measures, also called for moves to urge both superpowers to negotiate and agree on a treaty banning the testing, deployment and use of anti-satellite weapons. He urged postponement of action on the North Warning System and consultation with allies on raising the entire problem of outer space and nuclear weapons in the UN.

Mr. Epstein foresaw deployment of SDI systems as destabilizing the arms race; it could also mean the end of nuclear arms control. It would be inconceivable that when neither superpower was engaged in building a strategic defence, the other would agree to limit or reduce its offensive weapons.

Improper for private sector

Ottawa Disarmament Coalition opposed Canadian participation in the SDI research program. The Coalition indicated that Canada should refrain from participating in or subsidizing Canadian firms through the Defence Industry Productivity Program. Surely it was improper as well to allow Canadian firms to participate in an enterprise which so many Canadians "find to be dangerous and morally repugnant".

The government had recently placed controls on Canadian companies investing in South Africa; surely even stricter

standards should be made to apply to a destabilizing new weapons system.

The SDI program would mean little economic benefit, either, for Canada. If the Canadian government were serious about job creation, wouldn't it be better advised to contribute to a more labor-intensive industry than the aerospace sector?

Rejection would have wide ramifications

C.R. Nixon (former Deputy Minister of National Defence) supported participation in the research linked to the SDI program. Canada should move from the concept, Mr. Nixon said, to being prepared to participate in and provide funding for Canadian universities and firms to participate in such research.

To reject Canada's participation would likely affect not only Canadian high technology, but the total environment for negotiation and discussion of Canada-U.S. relationships.

Mr. Nixon suggested Canada should also urge its NATO partners to launch discussions about possible changes in Alliance strategy should the SDI research program demonstrate merit for comprehensive ballistic missile defence systems.

Would encourage the other side

Peace Research Institute (Allan Newcombe) suggested any deployment of an SDI system would merely encourage the other side to launch a campaign aimed at eliminating a threat to its own offensive capability. Moreover, the SDI "defence" system might try to destroy missiles and warheads while they are rising from the ground. But the system offered no defence against cruise missiles, bombers, suitcase bombs or submarine-launched ballistic missiles.

Deny territorial access

Project Ploughshares (Simon Rosenblum and Bonnie Greene) recommended that Canada withdraw its support for SDI; that Canada decline participation in research and development; that it refuse to spend any special funds for SDI-related research; that it prohibit the use of funds from existing pockets of money or funding programs for SDI-related research; and that it prohibit Canadian industrial participation in SDI-related work. This would require a system of export permits regulating Canadian access to U.S. military contracts. Canada should also reconfirm its support for the ABM Treaty and seek other means of industrial and technological development as a course of industrial strategy in Canada.

Mr. Rosenblum said SDI is technologically unfeasible, undefendable, and would be strategically destabilizing. The program already went beyond research because President Reagan has mandated the U.S. Defense Department to "demonstrate" defensive weapon technology. The fundamental question was what Canada could do to persuade the U.S. not to continue the program.

Ms. Greene said an alternative for Canada in enhancing security would be to use northern space as an early warning system to provide confidence and to assure both the Soviets and the Americans that a pre-emptive nuclear strike would be futile. Addressing the jobs creation question, she said not all jobs are desirable, and they are not necessarily effective in developing Canadian industrial strategy. Funds spent in non-military ways might be equally well used. "What concerns us about this proposal is that it is out of sync with what we have traditionally stood for in Canada. We have always argued for finding political means rather than military or technological means."

"Weaponization" of space dangerous

Canadian Centre for Arms Control and Disarmament (John Lamb and Lawrence Hagan) suggested the SDI program threatened to replace one situation of vulnerability with another. Space was already militarized; the real danger was a destabilizing "weaponization" of space.

Mr. Lamb and Mr. Hagan maintained SDI was unlikely to be successful as a bargaining lever at Geneva and far more likely to spur an offensive and defensive arms race. There was a threat to the ABM Treaty.

Canada should raise questions about SDI's effects on its defence expenditures, on the use of Canadian territory, on the degree of technological integration required, and on its links with NATO allies. The Centre asserted Canadian policy should focus on the broad lines of East-West stability and arms control.

In summary, Canada should avoid giving a definitive answer on SDI participation and keep its options open. "Canada's best option is to seize the high ground of arms control."

Hence the government, while not preventing Canadian firms from bidding on SDI-related contracts, should not itself formally endorse or provide any form of government support for such private sector involvement.

**Montreal, July 22 and 23, 1985**

Consultative unit proposed

Canadian Marconi Company (John H. Simons, Executive Vice-President) urged Canada to accept the U.S. invitation. Canada should set up a consultative body with members from government,

industry and universities to identify appropriate technology areas within an SDI program in which Canada should carry out research.

At the conclusion of the research program Canada should then consider whether to participate further if the United States decides to proceed with development.

Mr. Simons counselled that Canada could not afford "to sit idly by" and be left out of the technological developments flowing from SDI research. SDI would dramatically advance certain technologies such as communications, computer technology, robotics, artificial intelligence and remote sensing. Canadian firms were engaged in many of these areas.

L'Union des Pacifistes du Québec submitted general statements in support of peace initiatives with appended articles opposing the SDI research program.

Principle unassailable

Canadian Coalition for Peace Through Strength (Philip Traversy, Director, and Miroslaw Matuszewski, Chairman) suggested the U.S. mutual assured survival strategy stands a good chance of moving the world away from nuclear holocaust. "We can assure our survival or we can move inevitably toward the day of mutual assured destruction."

The moral principle of a purely defensive system could not be challenged. The coalition urged the committee to resist the wellorganized and financed anti-SDI lobby.

Miroslaw Matuszewski, coalition chairman, said it was possible the Soviet Union had launched a similar research

program. Unless the Americans proceeded with their SDI plan, the U.S. could be left behind.

#### Aim for some benefits

Professor Albert Legault (Laval University) submitted that Canada should try to reap some technological benefits from the program. "Whether or not Canada participates, the U.S. will take whatever measures it believes are necessary for its own security," he testified.

#### Alternative research

Professor Michael Fortmann (University of Montreal) suggested Canada sponsor modest, non-aggressive forms of research such as developing alert systems rather than laser weapons.

Professor Fortmann judged on the basis of conversations with officials in Washington that Canada's credit in Washington was not high. "The Pentagon does not trust us very much. We are not a 'leakproof country', as they put it. So they would not want to give us a big role in any case."

#### Nuclear winter threat cited

Conseil Québécois de la Paix warned of escalation of the arms race and the terrors of a "nuclear winter." The group said that SDI has become the principal obstacle blocking the success of disarmament negotiations in Geneva and that if the program were allowed to proceed, it would harm world security as each side struggled to put their instruments into space.

The group quoted several scientific experts who said that a nuclear war based in space could easily start by accident and that even a "limited" war would create dust storms, plunging temperatures and other terrors that would make survival impossible.

Funds allotted to SDI research in Canada would only create 300 jobs but that 1,000-1,500 jobs could be created in education, health and home construction programs. It could also go toward "good" outer space technology like the satellite systems used to broadcast the Live Aid concert. The council appealed to Parliament to pass a law that would make Canada a nuclear-free zone.

Soviets pose threat

The Schiller Institute (Guy Huard) said that Canada and other American allies should be part of the Strategic Defense Initiative because the Soviet Union poses a very near and real threat to our security. According to Mr. Huard, the Soviets are refurbishing their economic and military programs. They are updating their arsenal of nuclear weapons while restructuring the economy in the name of defence. They are also trying to "slowly and surely Finlandize the rest of Western Europe," said Mr. Huard. "They are planning strategies against us. Terrorism is on our doorsteps."

Canada should join the U.S. in SDI and encourage other NATO allies to do so because without installing this military system we are jeopardizing the world.

Canada has much to offer in the way of laser technology and it would be a boon economically to contribute to the program, perhaps even creating our own NASA, Mr. Huard concluded.

SDI creates bad atmosphere

Dr. Don Bates (Physicians for Social Responsibility, Montreal Chapter) said that arms control is far from satisfactory but it cannot be improved, enhanced or replaced by "torpedoing" it with SDI.

Canada should not endorse SDI because it will not work as an overwhelming defence system and, even as a modest defence, it will escalate the arms race.

He added that SDI undercuts treaties and arms control negotiations in Geneva. SDI would lead to the abandonment of arms control and to argue that SDI would be good for arms reduction would be "to put the cart before the horse".

Toronto, July 25 and 26, 1985

"Only game in town"

Conference of Defence Associations (Lt.-Col. Irvine Mathieson, senior vice-chairman) advocated participation by Canada in SDI research. The Association's conference described this as a "unique" opportunity for Canada and its NATO allies to become involved in the research and decision-making process as outlined by the United States. Canada's future security might well depend on it. In any event, the U.S. was going ahead with SDI and Canada could not afford to remain detached.

The defence conference spokesperson said new methods had to be found to neutralize the Soviet missile strike force -- and the "only game in town" was the development of a ballistic missile defence program such as SDI.

A reliable defence system would enhance deterrence and hence alliance security. Moreover, a ballistic missile defence program could result in a huge reduction in production and deployment of offensive missiles. This in turn could open the door to serious negotiation for large reductions in offensive weapons.

The conference noted that Canadian participation in the SDI program would ensure further development of Canada's high tech

industries -- and many economic advantages would accrue to Canada from research and production contracts.

Options presented

York University - Research Program in Strategic Studies concentrated on the options open to Canada with the U.S. invitation. The York group set choices involving a clear no or clear yes as well as two intermediate policy options -- the qualified acceptance prescription limiting research participation and the restrained rejection prescription declining to participate directly but leaving any Canadian firm or university free to participate in SDI-related projects. A clear acceptance would reinforce Canada's special relationship with the U.S. and result in some genuine economic benefits; but it would arouse strong domestic oppositions and still leave Canada with little ability to control the direction the U.S. might take in the SDI program.

The York team noted, however, that participation did offer some prospect of influence with American decision-makers. Canadian airspace would be involved regardless of formal Canadian participation. But if there were no formal involvement, Canada would either have to surrender vast portions of its sovereignty or protect them "at enormous cost".

Security the key

John Gellner, author and defence specialist, suggested Canada's decision in respect to participation in the SDI should not be the creation of jobs or the acquisition of advanced scientific and technical knowledge, but rather Canada's interest in helping with a project likely to contribute substantially to Canadian and world security.

Professor Gellner noted that efforts to develop a non-nuclear, space-borne defence system against ballistic missiles were under way in both the Soviet Union and the United States. One could only hope that these endeavours -- aimed as they are at eliminating the threat posed by strategic nuclear weapons -- will be successful.

#### Violation of treaties

Lawyers for Social Responsibility (David Wright, president, and others) said Canada could be violating treaty obligations and international law by taking part. Development of SDI would violate the ABM treaty and could violate other international agreements such as the Outer Space Treaty, the Non-Proliferation Treaty, the Partial Test Ban Treaty as well as the UN charter and other UN declarations.

The group recommended that Canadian industry be barred from participating in SDI and urged Canada to reject any direct involvement in the program. The program, the submission argued, will accelerate the arms race, increase the likelihood of conventional war and increase the likelihood of a first strike.

The substantial resources which the program would require could and should be put to better use, particularly since the weight of scientific opinion suggested that such an anti-ballistic missile defence system could be easily rendered ineffective.

Mr. Wright said it was almost impossible to draw a meaningful distinction between research and actual development. "It is incredulous that \$33 billion would be spent on research if no further steps will be taken."

## Churches oppose participation

Canadian Council of Churches (Ernie Regehr) rejected Canadian public or private participation in SDI, including the research phase. The Council used the analogy that a strong shield (nuclear defence) gives rise to even stronger swords (first-strike offence), leading to further escalation of the nuclear arms race.

Further, the Council objected to SDI because of the potential threat to sovereignty: Canadian territory would be required for full deployment of U.S. strategic defence forces. To participate in the research phase, they contended, would make it difficult for Canada to say "no" to deployment in Canada's North.

The Council endorsed Project Ploughshares' Ottawa presentation. Both organizations suggested the only acceptable way for Canada to participate would be to have the entire project under the aegis of the United Nations.

## Treaties would be jeopardized

Science for Peace (presented by the scientific organization's President, Anatol Rapoport, University College, University of Toronto). "Canada ought not to associate itself with the program outlined in SDI under any circumstances." The U.S., according to Mr. Rapoport, is struggling for the achievement of global superiority through technical solutions. The question of how a war should be fought obscures the question of "why" in the psyche of the American decision-maker.

In addition to jeopardizing arms control negotiations, SDI would abrogate the Non-Proliferation Treaty and ABM Treaty. "The objective of SDI amounts to forcing unilateral disarmament on the

Russians," and by threatening the Soviet Union, SDI threatens the security of all.

#### Benefits limited

Ontario Federation of Labour (President Clifford Pilkey and Secretary-Treasurer Wally Majesky) believed the U.S. will go ahead with SDI regardless of Canada's decision, and challenged the view that benefits to Canada would be significant.

The Federation proposed Canada should strengthen international involvement in world organizations, not in bilateral arrangements with the U.S. The Ontario Federation of Labour called for a review of the Non-Proliferation Treaty, and declaration of Canada as a nuclear-free zone.

Recognizing Canada's high trade deficit in high technology, the OFL suggested that instead of high tech spin-offs from SDI, the federal government should have an overall strategy, as in other countries, in particular in government-run high technology programs. The Federation suggested Canada should participate in France's EUREKA program (European Research Co-ordinating Agency) which proposes a pooling of non-nuclear research technologies.

It is also proposed that an international satellite monitoring agency be set up by the United Nations.

With respect to alternatives for job creation, the OFL supported Canadian participation in the U.S. Space Station Program, which it believes is of little or no military value. Further, it proposed that Canada should develop programs of economic conversion from war to peace production.

## Bid for nuclear superiority

Toronto Disarmament Network (presented by members Robert Penner, Steve Shallhorn and Wendy Wright) said the SDI research phase is not a defensive system, but a bid for nuclear superiority as part of development of first-strike capability.

There was another option in strategic thinking, namely arms control. The network said verification is not a problem because if technology can be invested in space weapons, it can also resolve challenges in verification.

Territorial sovereignty was also viewed as an important issue. Canadian territory may be required for full deployment of the SDI system.

A decision to become involved would affect other future policy decisions even more widespread than is currently speculated. The Network said SDI is more than a research program because the U.S. would not invest nearly so much money in research without reaping the benefits of development.

## Non-nuclear co-operation only

Professor Adam Bromke (Department of Political Science, McMaster University), speaking on his own behalf, recommended Canada reject the U.S. invitation to participate. He also recommended that military co-operation with the United States should continue in non-nuclear matters only; that Canadian influence be directed towards pressing the Soviets and the Americans to reach a nuclear arms control agreement; and that Canada participate in all projects pertaining to the peaceful exploration of space with a view to obtaining indispensable technology.

Proceeding with SDI research, he said, would be contrary to the entire basic post-war Canadian foreign policy -- of maintaining support for the western alliance while simultaneously striving to reduce East-West tensions and promoting arms control. SDI represents not a shift from offensive to defensive strategy but an effort to expand the existing offensive strategy, supplementing it with a parallel defensive system. Thus SDI would destabilize the existing balance of power.

#### Two-year commitment

Strategic Analysis Group (Nicholas Stetham, managing director) said Canada should commit itself to two years in SDI research in order to understand the system and be part of the new technology. He also felt that the U.S. should not have to bear the moral burden of such a project alone.

#### Canada cannot lag behind

Mr. Wayne Broughton said Prime Minister Mulroney should visit President Reagan to say that Canada will participate in SDI research, and Canada should urge European countries to join the SDI venture too. SDI research was important in stopping the Russians from preparing for world take over. He said the Soviets already have massive nuclear superiority over the West as well as more combat vessels and conventional war weapons.

He said SDI could save the collapse of our ailing western economies, create jobs, eliminate the budget deficit, and provide funds to aid Third World countries.

Vancouver, July 30 and 31, 1985

Catalyst for arms control

Federation of Military and United Services Institutes of Canada (Lt.-Gen. R.J. Lane, national chairman) argued that the research program would not stimulate the arms race; the arms race was already on and would continue until there was a political settlement or a new strategy was found.

In fact, Lt.-Gen. Lane suggested SDI could be a vital catalyst for arms control, even during any transition years, until both opponents had an effective system. In addition, the program would provide a hedge against Soviet technological breakthroughs or defence developments.

Canada should accept the principle that defence against a ballistic missile attack was no different from defence against a bomber/cruise missile attack. Canada should participate actively in SDI.

The advantages outweighed the disadvantages, the Federation asserted. The scientific community would benefit from research. Information about research and development findings would be forthcoming in any real sense only when Canada was a full partner in the program.

The Federation, in summation, urged Canada to accept the U.S. invitation to gain the knowledge necessary for informed decisions; to reiterate the principle of joint aerospace defence; to ensure that the USSR did not spring a technological surprise; and to seek a new approach to move nuclear disarmament discussions off dead centre and so take the first step in reducing existing nuclear stockpiles while ensuring the security of West and East.

## Software assumptions false

Professor David Parnas (Department of Computer Science, University of Victoria). Professor Parnas, who resigned from a U.S. Strategic Defense Initiative Organization (SDIO), served as a consultant to the U.S. Department of Defense for nearly 14 years.

He questioned the validity of basing assumptions and positions on SDI software. He said it was very unlikely that software could be constructed to function as required in the SDI program. Even if this were done, no one with experience in military software would trust the proposed system enough to abandon other defensive systems.

Professor Parnas said it was not necessary to enter into "an ill-conceived and fraudulent military make-work program" in order to challenge Canada's community of high-tech professionals. Other areas where the same talents to challenge them could be applied -- protecting the border, protecting fisheries and forests, guarding against terrorism and protecting ships against missiles.

## Job creation minimal

British Columbia Federation of Labour (Art Kube, president) said it was unalterably opposed to any participation by Canada. "Canadians should not participate in that insanity..."

The group said the only deterrent to nuclear war was the elimination of nuclear weapons, not the increase of nuclear weapons' capacity to destroy. With all of the issues facing the world, it was incredible that Canada should consider participation in increasing "the technology of slaughter."

The B.C. labour organization said it had fought for years to initiate new job creation programs. The SDI plan, however, should not be considered in this light. The number of jobs created would be minimal and it would make no sense to put people to work developing systems of destruction.

#### Plans for arms control

Institute of International Relations, University of British Columbia (Dr. Douglas B. Ross, senior research associate) asserted that the program in its maximum form was "a clear threat to international security." He suggested in an Institute submission a six-part plan with the emphasis on arms control.

Among the measures advocated were these: monitoring the ABM Treaty to protest any Soviet or American violations; urging early renegotiation of the ABM Treaty to permit significant expansion of ground-based ballistic missile defence; in the event of collapse of the ABM Treaty, applying diplomatic pressure with others to limit new ballistic missile defence deployments to ground-based defensive systems only; stressing at an early date to preserve the ABM Treaty; carefully regulating and controlling any SDI sub-contracting work done in Canada so that only research on ground-based missile defence systems could be carried out in Canada; securing a House of Commons resolution making clear Canada could not envisage participating in a scheme of active air defence of North America that would be intended to provide a comprehensive and hence destabilizing air defence shield.

#### Critical Opposition

UBC Students for Peace and Mutual Disarmament (Chris Corless and others) urged Canada to reject any participation. The Canadian government should support this decision by refusing to assist Canadian involvement through government grants or Defence

Production Sharing Arrangements. Instead, Canada should stress the importance of restricting ballistic missile defence research to the minimum level required to match Soviet progress.

The UBC group said SDI would accelerate the arms race and in the long run violate the ABM Treaty. SDI's technical feasibility was dubious and jobs involved would be small in number and draw valued scientists away from other tasks.

Moreover, participation would not gain Canada greater influence with the U.S.; instead, future involvement would likely be taken for granted and meanwhile international respect for Canada would be diminished.

#### Nuclear dangers masked

Professor Luis Sobrino (UBC) noted that the only technically realistic prospect within the foreseeable future that the SDI program offers is a partial defence against ballistic missiles. Such partial defence would have extremely deleterious effects on strategic stability even before it was deployed, Professor Sobrino said.

If the Soviet Union perceived that the U.S. had the intention of developing such a defence, it would in all probability react by launching an extensive strategic arms build-up. It might proceed to the development of weapons capable of attacking the space-based components of the system -- thus extending the arms race into space.

Professor Sobrino suggested the public was being misled into believing that the SDI program would eventually lead to abolition of nuclear weapons. The real dangers presented by nuclear weapons and the arms race were being "masked".

As a result, he urged Canada to decline to participate in SDI programs and strive instead to influence the great powers to negotiate meaningfully at Geneva for the reduction of nuclear arsenals.

Professor Sobrino deplored the fact that the Canadian government had not consulted the Canadian professional community by requesting the creation of an independent body of Canadian scientists and engineers to serve as an advisory panel on the implications of SDI.

Strategic step for peace

Canadian Conservative Publishers (William Campbell and Richard Melchin) argued that SDI was strategically necessary to deter a pre-emptive first strike by the Soviet Union.

Canada's security would be enhanced by participating in the SDI and in the long run would enhance the world's prospects for peace. SDI was "the most vital strategic step toward enhancing and ensuring peace that the current generation had yet witnessed."

SDI was a totally defensive, non-nuclear system. Those nations that endorsed it were acting morally to improve their ability for self-defence.

Canadian initiative for arms control

Physicians for Social Responsibility (B.C. Chapter - Dr. Julius Stoller, D.M. Goresky): The physicians' group, part of the Canadian Medical Coalition for Prevention of Nuclear War, urged Ottawa not to participate or sanction participation by Canadian universities or companies in the SDI. Instead, the group advocated a major Canadian initiative to promote nuclear arms control.

The group said SDI could only be useful as a component of a first-strike, nuclear war-fighting capacity -- hence, a dangerous, destabilizing project. On theoretical and technical grounds, there was no invulnerable defence against nuclear weapons.

The group saw the SDI as a step which could prompt the Soviet Union to develop counter-measures -- including space weapons.

SDI would also divert governments from the necessity of controlling the nuclear arms race. Canada's role as an arbitrator between the superpowers would be undercut by participation in SDI. Economic benefits to Canada from SDI would likely be insignificant. In any case, it would not only be immoral but foolish to stake the nation's economic welfare on a project which will increase the likelihood of Canada's destruction.

#### SDI logic flawed

End the Arms Race (Frank Kennedy, president) said Canada's participation in SDI would be criminal. The coalition, a group representing approximately 200 organizations, said SDI was dangerous, expensive and an unnecessary escalation of the arms race. The underlying logic of SDI was fundamentally flawed. That is, an ABM system attempted to combat nuclear weapons that have been launched. This strategy was doomed to failure because of the massive destructive power of nuclear weapons.

Development of an anti-ballistic missile system would cause strategic destabilization. It would increase the first-strike capability of the U.S. It would be an offensive weapon, not a defensive one. An ABM system could only destroy 90 per cent of Soviet missiles fired at the U.S. -- 10 per cent would still get through. But if the U.S. struck first and took out most Soviet

warheads, the few getting through would be destroyed by the ABM system.

SDI would escalate the arms war. SDI violates the 1972 ABM Treaty, undermines the current Geneva talks and lessens chances for success in future talks. It damages the relationship between the superpowers, and increases tensions, distrust and insecurity.

SDI would prompt massive redirection of resources from the civilian to the military sector. Few jobs would be created, due to the highly specialized and classified nature of the SDI. It represented misplaced priorities. It's obscene to direct money to nuclear weapons development with so much hunger, misery and poor living conditions in the world.

**Calgary, August 1, 1985**

An unparalleled opportunity

Edmonton Chamber of Commerce (President Bruce Campbell) favoured participation in SDI research, citing job creation, high technology and spinoff effects as probable benefits.

"SDI is an unparalleled opportunity to diversify into high growth industries and value-added manufacturing." The program would provide numerous job opportunities and spinoffs in the civilian sector, said Mr. Campbell.

A decision not to participate, he warned, could further add to the export of scientific and high technology workers to the U.S.

The Chamber encouraged Canada's early commitment in order to beat out competitors for contracts, but said conditions and terms of an agreement would have to be worked out to ensure benefits would accrue to Canada as well as the U.S.

Private sector should be barred

Alberta Federation of Labour (President Dave Werlin and Secretary-Treasurer Don Aitken) strongly opposed involvement in SDI and recommended no public money be spent. Nor should private companies be allowed to participate.

SDI -- "even in its initial research phase" -- would undermine strategic deterrence or mutually assured destruction, as well as breach signed treaties, in particular, SALT I.

A further reason for opposition was that defence research creates fewer jobs in terms of dollars spent than most other uses of public funds. Because military technology changed so rapidly, "military production is an absurd waste of both non-renewable resources and labour."

Exploration of weaponry

Project Ploughshares (Saskatoon Chapter - Co-ordinator Ellen Gould and member Murray Dobin) said that since SDI is not an impermeable shield, "the program merely becomes another exploration of new forms of weaponry." It would undermine deterrence by encouraging a first strike. And it would violate provisions of the ABM Treaty.

Project Ploughshares concluded that Canada should not be involved, publicly or privately. Nor is Canada obligated to participate as a member of NATO. As Lord Carrington recently said, money spent on SDI would not be available for conventional defence.

Verification problems a concern

Calgary Disarmament Coalition said Canada should be opposed -- regardless of whether SDI would actually work -- and work toward demilitarization of outer space. SDI would spur the arms race as the Soviets would not accept nuclear superiority in offensive or defensive weapons.

The only way SDI could be considered a tool of peace, said the Coalition, would be if the technology was shared, and mutual ABM systems erected simultaneously. But this co-operation is unlikely, and there is little evidence to suggest the USSR is ahead in space-based military technology.

SDI would create problems in verification in addition to precariously endangering space. Canada should not participate and instead should strongly reaffirm the ABM Treaty.

Military escalation seen

Edmonton Peace Council (prepared by B.G. Gislason) said the only defence against modern-day weapons, especially nuclear weapons, is their abolition. Canada should work towards reducing nuclear weaponry by supporting existing treaties and encouraging further arms negotiations and stronger treaties.

SDI is military escalation, and rather than diminishing the threat of nuclear war, it would destabilize international relationships. A first-strike capacity appears to be the aim of the system, said the Council.

In addition to being ineffective against such weaponry as cruise missiles, the existence of numerous ICBM decoys and computer malfunction could render the system ineffective.

Winnipeg, August 2, 1985

The Canadian Bar Association (David Matas) stated that Canada and the United States would escalate the arms race and violate too many important international treaties if they went ahead with plans for the Strategic Defense Initiative.

Mr. Matas pointed out that as a unilateral initiative of the U.S., SDI goes against the interests of NATO, NORAD and the Anti-Ballistic Missile Treaty. The violation of the ABM Treaty would move research work towards actual field testing, "an illegality that should not exist."

Canada's involvement in SDI would conflict with an American treaty promise not to provide technical descriptions worked out for the construction of ABM systems. Canada would also violate its commitment to the Outer Space Treaty which commits nations to the use of space for peaceful purposes.

Canada and the U.S. would also violate the Partial Test Ban Treaty and the Non-Proliferation of Nuclear Weapons Treaty and escalate the arms race in the process. Canada would also violate international law by helping the U.S. to violate other U.S. treaties.

The Winnipeg Coordinating Committee for Disarmament said SDI is full of myths and would have a negative impact on Canadian society and international affairs. The group attacked several aspects of the plan and said it was creating "false hopes" among Canadians about job creation. Canada would still lag behind in technology at the end of such a project. The program offered nothing towards world peace, it could be used as an offensive measure instead of defensive, and it would escalate the arms race.

The Manitoba Educators for Social Responsibility warned that the involvement of Canada would further "erode the sense and order of security that students have."

The educators attacked several aspects of the SDI plan and said that money could be better used toward health, education, social services, foreign aid and peace discussions. "We would be selling our brains and economic strength and we fear for our Canadian souls."

The educators accused the CIA and American government of distorting the Soviet research program with their "anti-Communist paranoia." They warned Canadians of being mere "puppets" to the United States in forging ahead with the program, saying that Canadians would lose their reputations as "honest brokers" on the international scene. Canadians should have nothing to do with SDI and should urge the U.S. to abandon the proposal and concentrate on peace talks with the Soviet Union.

Paul Buteux (Professor of Political Studies, University of Manitoba) said that Canada should take a cautious approach and review and examine further some fundamental issues before committing itself.

Professor Buteux said it is unknown what path SDI will take since the program is in an early and uncertain stage. He was uncertain of the nature of the research that Canadians might be called upon to do.

He suggested that Canada should co-operate in SDI research on an ad hoc basis and work within a framework of existing defence production sharing arrangements and defence agreements (NATO).

He added that Canada should avoid taking an official stand or formal agreement on participating in the project before essential details of collaboration were worked out and before (if possible) a substantial consensus among NATO allies has been established. He also said a full foreign and defence policy review would be essential before making a final commitment.

Ottawa, August 8, 1985

'Not a penny'

The Confederation of National Trade Unions said that the Canadian government on moral and responsible grounds should not give a single penny to support SDI research.

The CSN attacked Mr. Clark's discussion paper, saying it was full of propaganda designed to make the Americans look like the "good guys" and the USSR the "bad guys" when the American government and CIA commit many of the same atrocities as the Soviets.

The CSN was angry that the Canadian government wished to increase its defence budget. Billions of dollars go to buy arms, and fighter aircraft and uniforms to appeal to "the vanity of generals while famine persists in many countries. And we call ourselves civilized."

As for Canada's research position in SDI, the CSN was skeptical about the number of jobs SDI would provide and wanted more details and statistics.

The best thing for Canada would be to opt for a neutral position and try to work the two powers towards constructive peace talks. The CSN said "reducing military expense is not becoming a military power in decline (as is stated in the Green Paper) it's becoming a power for disarmament, peace and justice."

It's permitting workers to support their families while working towards peace rather than the destruction of humanity."

Control Data Canada (T.S. Allan, President) said that Canada cannot afford not to be involved because we are falling behind the United States and Japan in the technological world.

Mr. Allan said Canadians are not spending enough money on micro-electronic research and that by co-operating in a joint venture with "our closest ally neighbour and greatest trading partner" we would advance our technological knowledge, create jobs and spinoff opportunities for work.

He added the research work would have nothing to do with weapons but with surveillance and other non-violent aspects and that we would be "immature" if we did not give SDI a fair chance.

## STATEMENT OF DISSENT

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BY

LIBERAL PARTY MEMBERS OF THE COMMITTEE

The Liberal members of the Committee strongly disapprove of the content and recommendations of the Interim Report of the Special Joint Committee on Canada's International Relations on Canada's participation in SDI. The Committee has abdicated its responsibility to Canadians by deciding not to answer this issue specifically. Simply passing the matter back to the Government without a firm recommendation only continues present uncertainty, and is a betrayal of all the witnesses who testified under the assumption that their participation would be reflected in specific advice and recommendations presented to the Government. Furthermore, the text and analysis of the Interim Report do not even accurately reflect the nature of the testimony of the majority of witnesses. Nor does it reflect the genuine consideration of all members of the Committee. Instead, it is purely a result of the inability of the majority Party to reach a conclusion.

Members of the Committee had requested that more time be permitted for the consideration of the SDI issue. However, the Government demanded that a recommendation be made by the 23rd of August. Even given the shortness of time, the overwhelming evidence heard by the Committee has enabled Liberal members to reach a specific and carefully considered conclusion.

This conclusion is that the Committee should firmly recommend that the Canadian Government decline the American invitation, for the following reasons. The SDI program could have a destabilizing effect on the international strategic environment, could lead to a major escalation of the Arms Race, to an erosion of the AMB and other Arms Control Treaties, and Canada's participation would impede our ability to play an effective role as a peacemaker.

In addition there are very real questions as to whether the envisaged SDI system is even feasible. On the issue of job creation, the evidence provided to the Committee discredited the notion that there would be significant employment benefits to Canada. These points are further explained in the Liberal Task Force Interim Report on SDI.

A qualified rejection of the American invitation would have received the careful consideration of the Liberal members. However with no decision on SDI, any further discussion of alternatives, such as a Canadian space program or other initiatives aimed at strengthening Canadian sovereignty, while extremely important, cannot be considered by the Committee. At this time, decisions on this subject are not appropriate. They should be addressed after the Committee fulfills its mandate on Canadian participation in SDI.

## STATEMENT OF DISSENT

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BY

NEW DEMOCRATIC PARTY MEMBERS OF THE COMMITTEE

1. Bilateral Trade

Given emerging problems in Canada's trading relations, we strongly endorse Committee recommendations concerning multilateral trade and the need for discussions and new mechanisms to resolve Canada-U.S. disputes.

We disagree, however, with the recommendation to launch unconditional freer trade discussions with the U.S. There is no national consensus in favour of a grand bilateral freer trade initiative, and we believe that moves in that direction would distract us from resolving current bilateral disputes and from building a more diversified and self-reliant economy.

Bilateral freer trade could damage important sectors of the economy and limit our freedom to pursue independent economic policies. Detailed examination of these implications, clarification of trade goals, preparation of detailed sectoral impact studies, related labour and community adjustment plans, development of a broad national consensus for change, and detailed Parliamentary scrutiny and approval of any proposed initiative must, in our view, be preconditions for freer trade negotiations with the United States.

## 2. Strategic Defense Initiative

On the question of Canadian participation in SDI research, the Conservative majority has refused to say yes or no. It has thrown the matter back in the Government's lap. And it has done so on the truly incredible grounds that it had inadequate information "related to the strategic, financial, and economic implications" on which to make a judgment.

In fact the Committee was inundated at all of its hearings with detailed information on the strategic, arms control, technological, economic and moral aspects of Star Wars. What more did the Conservative majority need?

The scorn with which the Conservatives have treated the hearings is further evidenced by the almost total absence in their report of references to the witnesses and what they said on SDI. It's as if Canadians had never spoken or written to us at all, as if the hearings had never taken place.

Witnesses will be absolutely staggered to learn that the Conservative majority's main thrust in their recommendations is that Canada should be more involved in the militarization and even the weaponization of space. How many witnesses wanted this? Did even the aerospace industry ask for a Strategic Space Program?

A copy of the relevant Minutes of Proceedings and Evidence  
(Issue Nos. 1 to 18) is tabled.

Respectfully submitted,

Senator Jacques Flynn, PC

Tom Hockin, MP

Joint Chairmen

The emphasis on Canada's becoming a more integral part of the militarization and potential weaponization is the most alarming of the Conservatives' recommendations. Paying only lip service to the need to de-escalate the arms race, the Conservatives seem almost to relish the possibility of our becoming involved in a program that would, inevitably, be linked to Star Wars, the encouragement of ASAT testing, the destruction of the ABM Treaty and the denial of a comprehensive test ban.

The invitation to participate in research on SDI presents us with both an opportunity and a challenge. The opportunity is to say no, no to giving political legitimacy to a project that in our view and in the view of countless witnesses will only accelerate the nuclear arms race itself. The challenge is to find the political will to do so.

Pauline Jewett, M.P.  
Steven Langdon, M.P.



