



STATEMENTS AND SPEECHES

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CANADA'S TRADE IN A CHANGING WORLD

Speech by Mr. Donald M. Fleming, Minister of Finance, to the Canadian Club of Winnipeg on January 19, 1962.

... As the centre of Canada's grain industry and the gateway to our great Western provinces, which, as much as any area in the world, live by trade, Winnipeg has always had a deep-rooted and lively interest in matters of international commerce. I propose, therefore, to speak to you today about some of the major trade issues now confronting Canada and, indeed, the world.

Canada has what has been called an "exposed" economy. More than other countries, we are profoundly affected by international economic developments. In volume we rank fourth among the great trading nations of the world and, on a per capita basis, first. It should surprise no one, therefore, that the developments now occurring in Europe, the emergence of the European Economic Community and the possibility that the United Kingdom may join it, have aroused such deep interest in Canada. Hardly a day passes without some reference in the press and elsewhere to the great issues which face us in relation to these far-reaching changes in Europe. Many debates occur on how we can meet the challenges and seize the opportunities which they offer and, at the same time, avoid the dangers which they may involve.

Confusion of Issues

Unfortunately, some contributions to this discussion have not always been factual, objective and constructive. This has led to muddying of the waters and some confusion of the issues. I should like to take this opportunity which you have so kindly offered me today to endeavour to clarify the situation.

Let me speak plainly. It has been alleged in some quarters that Canada has somehow shown hostility towards the United Kingdom in connection with their negotiations for accession to the European Common Market. I would like to say now, clearly, emphatically and without equivocation, that such charges are completely and utterly devoid of any foundation in truth. At no

time has there been anything remotely approaching coolness or hostility in our relations with the United Kingdom. We have never tried to make things difficult for the British. On the contrary, we have simply pointed out to them the implications for Canada and the Commonwealth which British accession to the European Economic Community could entail.

In discussing these issues with our British friends we have spoken frankly, but only when they invited us to express our views. No responsible government could have done less. Speaking frankly is a privilege reserved to those who are friends and our British friends were the first to appreciate this.

It is in this spirit of frankness and friendship that all Commonwealth countries participated at the Commonwealth Economic Consultative Council meeting in Accra last September. Some mischievous people in this country have alleged that at the meeting Canada led an attack on the British decision to enter into negotiations for accession to the European Economic Community and confronted Britain with a choice between the Commonwealth and the Common Market. Nothing could be further from the truth. Obviously, the United Kingdom, like any other independent country, possesses the sovereign right to make its own decisions on matters of national policy. We have always recognized that Britain itself must take its own decision on vital matters and we said so plainly at Accra and on other occasions.

British Testimony

Speaking about the Accra meeting which he attended, the Right Honourable Reginald Maudling, then President of Britain's Board of Trade, and a veteran of many such-conferences, said, in a speech delivered at Toronto on September 26, that it was "the best discussion we ever had", and that "everything that was said was reasonable". Similarly, a few weeks ago, Viscount Amory, the British High Commissioner to Canada and a former Chancellor of the Exchequer, said in a press interview in Toronto that Canada was "dead right to speak her mind plainly".

A fortnight ago, the Right Honourable Edward Heath, Lord Privy Seal, who is in charge of the British negotiations in Brussels, paid us a visit in Ottawa to report thereon and to seek our views. Among other things, we discussed arrangements to assist the United Kingdom negotiators in the next phase of the negotiations by making available to them full and up-to-date information about every aspect of Canada's trade interests. We offered to send a high-level team of Canadian officials to Brussels for this purpose and Mr. Heath warmly accepted this offer. This meeting was not only one of the most productive but also one of the most cordial we ever had with out British friends.

The Main Issues

Let me turn now to some of the main issues raised for Canada by the United Kingdom decision to negotiate for membership in the European Economic Community. Like other countries of the Commonwealth we are facing two areas of uncertainty. First, what might United Kingdom membership in the European Economic Community imply for the future of Canada's trade and economic relations with the United Kingdom? Second, what could be the political and economic effects of such membership on the Commonwealth association itself?

Our trade and economic relations with the United Kingdom have steadily expanded in recent years to the benefit of both countries. After the United States, Britain is Canada's largest export market, taking now close to one billion dollars' worth of our exports annually. A great variety of products of interest to every region of Canada and to most of our industries makes up this total; for a number of these commodities, of which wheat and flour are outstanding examples, the United Kingdom is Canada's principal external market.

If you compare the terms of access which our exports enjoy in the British market with the common tariff of the European Economic Community countries, you will see that, of total Canadian sales of \$915 million to the United Kingdom in 1960, \$691 million, or 76 per cent, could be affected in greater or lesser degree if the United Kingdom were to join the Common Market. Much, of course, would depend on the terms of entry which the British proved able to negotiate. To illustrate, let us see what would happen on the extreme assumption that the United Kingdom adopted the Common Market tariff and the proposed common agricultural policy of the Community without any exceptions. In such a situation, we would lose the tariff preferences we now enjoy in the British market for a great variety of Canadian exports. We would be faced with tariffs where now there are none for virtually all our exports. Far from continuing to enjoy preferences ourselves, we would be treated less favourably than Britain's European partners who would be enjoying free entry in the British market. Perhaps most important of all, the United Kingdom would cease to be an open market for many Canadian agricultural products, especially wheat and flour. The Continental system in agriculture to which Britain would have to adapt is based on high price supports buttressed by tariffs, import quotas and other restrictive measures. With these considerations in mind, we have urged the United Kingdom in negotiating accession to the European Economic Community to secure the fullest safeguards possible to maintain our traditional access to this essential market.

In these discussions we were mindful not only of our own interest in keeping the United Kingdom market open for our goods, but also of the other Commonwealth countries and of the broad interests of the Commonwealth as an association. I need not

elaborate on the reasons for Canada's whole-hearted attachment to that unique association which is the Commonwealth of Nations. Spanning five continents, linking with common bonds peoples of different races and creeds, the Commonwealth is not only the first, but, to date, the only example of a real family of nations. As such it is a major factor in international stability and peace. Like all families we have had our differences, like all human associations, ours is not a perfect one; but, by and large, our aims have been common, and, where they diverged, we have brought our differences to the conference table and discussed them as members of a family.

Our attachment to the Commonwealth, however, would be nothing but empty sentimentality if it did not find expression in a determination to preserve the strength and vigour of the Commonwealth that it may play its ever-increasing and beneficent role in international affairs. It is this concern which, in common with the other Commonwealth countries, we expressed to the United Kingdom in our discussions with them. We urged the United Kingdom to safeguard her important trade and economic links with Commonwealth countries because we fully recognize that the United Kingdom is the pivot of the Commonwealth and that the Commonwealth would be seriously weakened unless the United Kingdom remained in a position to play a full and active part.

Protecting Commonwealth Interests

The British have made it clear to us that, in their negotiations with the European Economic Community, they are determined to safeguard Commonwealth interests. Indeed, they have assured us and the other members of the Commonwealth that, unless they can secure terms which will adequately safeguard the essential interests of Commonwealth countries, they will not join the Common Market. We do not doubt and we have never for one moment doubted the determination of the United Kingdom to endeavour to obtain the necessary safeguards.

We must recognize that, even at best, Canada and other Commonwealth countries would have to face some trade adjustments should the United Kingdom join the Common Market. In the new pattern of international trading relationships which is likely to emerge, losses in one direction will have to be offset by gains in another if we are to succeed in expanding international trade and in raising living standards throughout the world. The changing international economic scene may well compel adjustments in Canada's own commercial policies as well as in the policies of the other important trading countries. In recognition of this possibility, we have been hard at work exploring all possible ways of furthering the vital trade interests of this country.

Some Canadians have suggested that a solution for Canada might be found in joining or associating ourselves with the European Economic Community. Let us examine this suggestion.

What is the European Economic Community? Is it open to us to join it or seek an association? If we could, would it be in our interests to do so?

EEC Described

Let me first outline the nature of the European Economic Community. Six European countries seeking closer integration, partly for economic and partly for political reasons, signed in March 1957 what has come to be known as the Treaty of Rome, which provides for the establishment of their Common Market. By the end of this decade these countries will have abolished all tariff and other trade barriers against each other and will have erected a common tariff against imports from the rest of the world. In addition to this, the Six have set for themselves other important economic and social objectives. But, more important, the political objective of creating a nucleus of a united Europe lies at the very core of the movement which found its culmination in the signing of the Treaty of Rome. The countries concerned have never made a secret of their political purposes. Indeed, a committee which was recently established by the European Economic Community governments is now actively at work studying plans for closer political union on the basis of proposals put forward by France.

This brief outline brings out three essential facts: first, the European Economic Community is, above all, European; second, in addition to being an economic association it has overriding political aims; third, it is not a free-trade organization seeking members.

Might Canada join or become associated with the European Economic Community if we so wished? In the light of what I have just said, it is not surprising that the Treaty of Rome provides in the plainest terms for the accession of European countries alone to membership. As regards association, a group of articles of the Treaty (Part Four) make provision for the associate membership of overseas territories. Obviously this provision has no application to Canada. A further article provides that: "The Community may conclude with a third country, a union of states or an international organization agreements creating an association embodying reciprocal rights and obligations, joint action and special procedures." The Six have made it quite clear, however, that the countries to which this last article applies are the less-developed countries of Europe, such as Greece, which has already signed a treaty of association with the European Economic Community.

Treaties can, of course, be amended by the parties thereto, so let us go beyond the formal position. Is there any likelihood that the European countries would wish Canada as a member or as an associate?

No Associate Tie for Canada

I have myself heard the opinion clearly expressed by high-ranking and influential European statesmen that membership or association for such a non-European country as Canada would radically change the entire character of the Community and would be inconsistent with its most cherished objective: a tightly knit, politically unified Europe. Needless to say, we have not been asked to join and, let's face it, we would not be welcomed if we sought to apply for membership or association.

It seems to me that people who have advocated that Canada join the European Economic Community have not been aware of these plain facts. Nor have they really examined the terms of the Treaty of Rome or what the economic and trade effects would be for Canada. There is no doubt that we would be expected to remove all tariffs against the Community. This would open up the whole Canadian market to their goods which, as you know, are made up very largely of manufactures. The European Economic Community, on the other hand, would never consent to opening up their markets to the free flow of our agricultural products. Although they have agreed on the main conditions for a common agricultural policy by no means all their internal agricultural problems have as yet been resolved. What sort of bargain would it be for Canada if some of our major exports could not receive access comparable with their access to our market? Quite apart from the balance of the bargain, it is difficult to see how we could pursue our national objective of promoting a balanced economic structure in this country in circumstances where our markets for manufactured goods were wide open to the unrestricted competition of the highly efficient and low-cost industries of Europe.

The fact that we cannot join the European Economic Community does not imply any lack of sympathy for its objectives. We see great potential merit in what is now taking place in Europe and, provided these efforts are oriented in the right direction, we, as friends, trading partners and allies of the Six, stand to gain from the economic strengthening of the Continent. I wish to make this quite clear to you: if we have any vested interest in Europe at all, this interest, cultural, political, economic and strategic, lies in a strong Europe. At the same time, it is only right and proper that we should be concerned about the direction which European developments may take. A cohesive Europe, to be really strong and to make an effective contribution to world affairs, must not be built at the expense of the trade and economic interests of other countries. For these reasons the United States and Canada have urged the Six to follow outward-looking policies rather than those restrictive of trade abroad.

Canada has vital and growing trade interests in the six countries of the Common Market. We are trading substantially with this area now and we have been making powerful efforts to expand this trade. At almost half a billion dollars, our exports

to the countries that now form the European Economic Community were four times greater in 1960 than ten years earlier. We shall seek to preserve and expand the opportunities which this important market offers to us but we shall not attempt to do this on the basis of a regional association.

Presidential Agreement

In this connection, I am reminded of the words President Kennedy used when he addressed the National Association of Manufacturers on December 6, 1961. Referring to the new American trade initiative which he is now submitting to Congress, the President said:

"I am not proposing, nor is it either necessary or desirable, that we join the Common Market, alter our concepts of political sovereignty, establish a 'rich man's' trading community, abandon our traditional most-favoured-nations policy, create an Atlantic free-trade area, or impair in any way our close economic ties with Canada, Japan and the rest of the free world."

These words apply with even greater force, to our own situation. Like the United States, our trade and economic interests are far-flung. Only we depend relatively much more on foreign trade than they do. Just as our southern neighbour has political interests all over the world, so our own political interests are very wide, embracing many areas and countries. We have a European heritage and we are a member of the Atlantic Community but we also value our membership in the Commonwealth, we are a country of North America, we have close relations with the United States, and we have developed increasing trade bonds with third countries such as Japan.

We cannot, any more than the United States can, seek to further our national economic and political objectives through a narrow regional approach. Inevitably, such an approach would force us to choose between the wide variety of interests which contribute to our identity and our prosperity. And this would be - let there be no doubt about it - an agonizing choice, indeed.

Happily it is not a choice we are forced to make. I am firmly convinced that whatever problems emerge from current regional developments in Europe can and must be solved on a broad basis, in keeping with our interests and with the interests which all the countries of the free world hold in common.

Multilateral Solutions

Because of the world-wide nature of our interests to which I have just referred, we have always favoured multilateral solutions to world economic problems. We have been, and continue to be, active members of the international organizations such as

GATT and the International Monetary Fund, which were created after the war to further the multilateral trade and payments system. It is not without interest that the Organization for Economic Co-operation and Development, which groups together 20 countries of Europe and North America and of which I have the honour to be Chairman, reaffirmed, at its recent ministerial meeting in Paris, its fundamental aim to further the expansion of world trade on a multilateral non-discriminatory basis.

You may ask, what do I mean when I speak of multilateral solutions to current world economic problems? I have in mind that the new pattern of world trading arrangements emerging from the creation of the European Common Market and its possible enlargement in Europe raises fundamental problems for the entire free world. It follows from this that effective solutions cannot be found by Canada or any other single country acting alone, but will require the collective efforts of all the principal trading countries. They will also require the constructive and imaginative leadership of the United States as the principal world power and the central bastion of the alliance of free nations.

Bold U.S. Initiative

We are fortunate in witnessing these days the display of just such leadership on the part of the United States. I am referring, of course, to the new trade programme which President Kennedy is submitting to Congress. This bold and far-reaching initiative is principally designed, as you know, to permit the United States to negotiate on the basis of the gradual elimination of tariffs in the United States and the Common Market over a wide variety of goods which are mainly produced in these areas and to permit a gradual reduction of duties up to 50 per cent on other goods.

The United States trade programme is in line with the sort of solution to current world economic problems which we have been consistently advocating. If President Kennedy is successful in obtaining the required authority from Congress, and if the European and other trading countries are prepared to play their part, I have no doubt that together we shall be able to make important progress in the expansion of world trade.

In his "State-of-the-Union" message, President Kennedy said that all tariff reductions would be on a "most-favoured-nation" basis. It follows, therefore, that all GATT countries, including, of course, Canada, would be given the benefit of lowered United States and European Economic Community trade barriers. This fact was emphasized last Saturday by members of the United States Cabinet at our meeting in Ottawa. It follows, of course, that countries receiving such benefits in substantial measure will be expected to make some contribution of their own.

The seventh meeting of the Joint Canada-U.S. Continuing Committee on Trade and Economic Affairs, consisting of designated cabinet members of both countries, last week was one of the most valuable we have ever held. We had a full discussion of the need to expand world trade on a multilateral non-discriminatory basis and an equally full discussion of the United States trade expansion programme. This was particularly timely as our meeting began the day after the "State-of-the-Union" message. Let me read to you from our agreed communiqué on this subject:

"Canadian ministers reiterated their support for the expansion of world trade on a multilateral, non-discriminatory basis, and Canada's readiness to play a constructive role in the promotion of freer world trade. United States members welcomed this statement and pointed out that the United States had consistently supported these objectives for many years. The Committee recognized the importance of the recent decision at the GATT ministerial meeting to explore new arrangements for the multilateral reduction of trade barriers and for moving toward freer trade. The United States members emphasized that the new trade legislation being sought at this Session of Congress is intended to contribute substantially to this objective.

"The United States members explained the general nature and purposes of the trade expansion programme which the United States Administration will be submitting to Congress, which, if approved, would enable the United States to make a greater contribution to the growth of international trade on a multilateral basis, and in this way contribute substantially to the strength and prosperity of the free world."

More Involved than Tariff Changes

We must recognize that, if the new trading world now being conceived is to conform to our collective aspirations, more will have to be achieved than an elimination or lowering of tariffs on manufactured products. The special interests of countries such as our own will have to be taken into account. In particular, access will have to be provided for agricultural exports which are now restricted by a variety of non-tariff devices. Attention will also have to be paid to the needs of the less-developed countries. In working out solutions for these problems we stand ready to play our full part.

These points were also emphasized in the communiqué issued by the Joint Committee last Saturday. Let me read what the communiqué said about agricultural trade:

"The Committee examined the problems inhibiting international trade in agricultural commodities and underlined the importance of securing international agreement on measures which would provide adequate access to world markets for agricultural producers. They agreed that such measures should take full account of the comparative advantage of production in agricultural commodities among different countries. United States and Canadian ministers expressed the hope that coming international discussions would effectively contribute to the freeing and expansion of international trade in agricultural products."

Main Elements of Policy

From what I have said, I think you will agree that ours is a positive and forward-looking response to the challenges and opportunities which are emerging. Briefly stated, these are the main elements of our policy:

1. We shall continue through friendly co-operation with the British Government to assist them to safeguard the vital interests of Canada and other Commonwealth countries in their negotiations with the European Economic Community.
2. We desire to see our relations with Commonwealth countries, economic and other, preserved and strengthened and will work consistently to this end.
3. Through the GATT and in other ways, we will endeavour to maintain and enlarge our access to the European market and further in every way the expansion of our exports to this important area.
4. Together with the United States and other like-minded nations, we will play a constructive role in the promotion of freer world trade on a multilateral non-discriminatory basis.
5. In the all-important area of agriculture we will co-operate in current international efforts to bring about more rational and equitable conditions of trade.
6. At home, we will work constantly for the improved efficiency and modernization of Canadian industry so that we can take full advantage of all opportunities which will become available for our exports under conditions of freer world trade.

We are in the midst of a dynamic, rapidly-changing world situation. We face many complex issues that present new challenges and new opportunities. We look to the future with courage and determination. But to be courageous is one thing and to be foolhardy quite another. And in the present situation only

the foolhardy would argue that there are easy solutions to the problems now before us. Let me be quite clear on this: there are no simple answers and I promise you none. .

The situation is much too complex to permit anyone to be dogmatic about precise solutions. We must proceed with careful regard for the many and varied political and economic factors, national and international, which face us. A great deal of hard bargaining lies ahead; in some instances we will be participating directly; in others we may not be direct participants although our interests may be profoundly affected by the outcome. In participating in whatever negotiations may be required to reshape the world's trade and economic patterns in the face of the kind of developments I have outlined to you today, it will remain our policy to seek in every quarter the retention and expansion of our existing markets, and the winning of new ones.

It is a time for vigilance, alertness, co-operation and confidence. Canada has good friends in the free world. Working together with them as we are doing and maintaining a broad view of Canada's interests and potentialities we shall confront without fear the challenge of these eventful times.

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