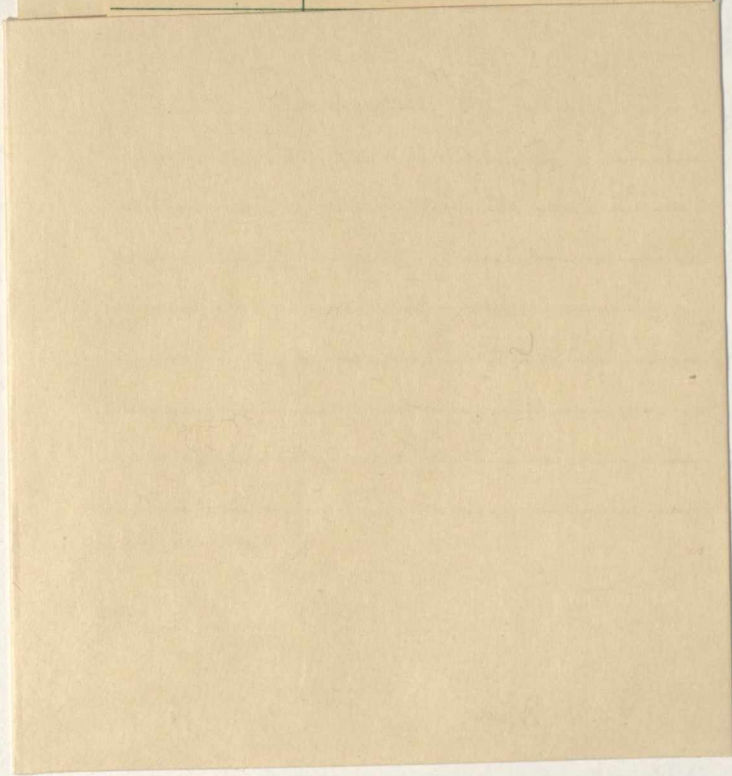


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SECOND SESSION—TWENTY-NINTH PARLIAMENT

1974

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 1

THURSDAY, MARCH 28, 1974

First Proceedings Respecting:
Canadian Relations with the
United States

(Witnesses: See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Laird
Bélisle	Lapointe
Cameron	Macnaughton
Carter	McElman
Connolly	McNamara
(Ottawa West)	Rowe
Croll	Sparrow
Deschatelets	van Roggen
Hastings	Yuzyk—(20).
Lafond	

Ex Officio Members: Flynn and Martin.

(Quorum 5)

Issue No. 1

THURSDAY, MARCH 28, 1974

First Proceedings Respecting:
Canadian Relations with the
United States

(Witnesses: See Minutes of Proceedings)

Order of Reference

Foreign Affairs

Evidence

Extract from the Minutes of the Proceedings of the Senate, Tuesday, March 26, 1974:

The Honourable Senator Aird moved, seconded by the Honourable Senator Grosart:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States; and

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Thursday, March 28, 1974.

(2)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 8:03 p.m. this day.

Present: Honourable Senators Aird, Belisle, Cameron, Carter, Connolly (*Ottawa West*), Grosart, Hastings, Lafond, Laird, Macnaughton, Martin, McElman, McNamara, van Roggen and Yuzyk. (15)

Also present but not of the Committee: The Speaker of the Senate, the Honourable Senator Fergusson; and Honourable Senators Heath and Lang.

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

The Committee proceeded to its consideration of Canadian relations with the United States.

WITNESSES: From the Department of External Affairs: Honourable Mitchell Sharp, Secretary of State for External Affairs; and Mr. Keith MacLellan, Director of U.S.A. Division.

The Honourable Mr. Sharp tabled two documents which were identified as follows:

- a) List of Treaties and Agreements entered between Canada and the United States in force February 1, 1974. (*Exhibit No. 1*)
- b) List of Canada-United States Intergovernmental Bodies. (*Exhibit No. 2*)

On motion of Senator Carter,

Ordered, that the two documents, mentioned immediately above, be printed as Appendices "A" and "B", respectively, to this day's Proceedings.

On the suggestion of the Chairman, *Agreed,* that the Committee increase the number of its printed Proceedings to 1500 English copies and 500 French copies.

At 10:15 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Thursday, March 28, 1974.

The Standing Senate Committee on Foreign Affairs met this day at 8 p.m. to examine Canadian relations with the United States.

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

The Chairman: Mr. Minister and honourable senators, welcome to this first meeting in our study of Canada's relations with the United States.

Once the committee had decided to look at this subject it was clear that our starting point should be Mr. Sharp's paper on the subject "Options for the Future" published a year and a half ago.

The other day I was reading a speech he gave on this subject to the Canadian press last year. You may recall it, sir. It was on May 2, and it was a very amusing and interesting speech, by the way.

In that speech Mr. Sharp explained that the "Options" paper represented an attempt to give a sense of direction to our relations with the United States. He admitted that at the time of the formulation of the paper there were some misgivings in government circles about the government opting for any particular direction in our relations with the United States. "Why take a public position?" he was asked. "Why not play it by ear and leave all the options open? Why give the opposition something else to criticize?" But he said the government came to the conclusion that playing it by ear or continuing on with the more or less *ad hoc* reactive policies toward the United States was no longer good enough. It was decided that a sense of direction had to be given to our relations.

So the study was undertaken and the "Options" paper was published and, in a sense, it presented an invitation to public debate on and criticism of the wisdom of the choice of the third option.

In our study of Canada-U.S. relations this committee is opening up a forum for such public debate and criticism. We want begin with an overview of the whole Canadian-American relationship.

It was evident that the "Options" paper should be the starting point, and the minister the first witness to present and speak to his paper.

We are very happy he was able to oblige and to arrange to be with us this evening.

I might just say in passing how proud I am to see so many senators here, both members of the committee and non-members. It is very heartening.

We hope the minister will be able to give us the reasons why the government resisted the qualms of some of its members and considered it had to go ahead and make a choice, and why he thinks this is the right direction for

Canada to take in its relations with the United States at this time.

Mr. Sharp, we know how busy you are and we understand the heavy demands which are made upon your time. Thank you very much, Mr. Minister, for your unfailing courtesy and co-operation.

Honourable senators, following our usual procedure, after the minister's opening remarks Senator van Roggen has agreed to lead the questioning, and then the Chair will recognize individual senators as they wish to participate in the debate.

Once again, sir, you are most welcome.

Hon. Mitchel Sharp, Secretary of State for External Affairs: Mr. Chairman and honourable senators, I am happy to be here this evening. May I congratulate you on the study you are undertaking, and may I say that I am flattered that the paper to which I put my name, on options, is one of the starting points for your discussion.

I intend this evening to open with a statement on Canada-United States relations, prefaced by some remarks about the international system within which one must look at these relationships at the present time.

The relationship Canada has with the United States is unique and by far the most important of our bilateral relationships.

It operates in three main areas:

First, in respect of global, political and security issues which affect Canada, but in which we are not directly involved but where we lend our efforts to a solution. Examples of this are Vietnam and the Middle East.

Secondly, in respect of multilateral questions, in which Canada is directly involved and where we may support, seek the support of, or indeed oppose the United States, such as the Law of the Sea.

Thirdly, in respect of the many problems which are special to us, where we seek to promote or protect the Canadian interest through mutual accommodation, such as oil and gas export.

The relationship, therefore, between Canada and the United States, even in the strictly bilateral area, is significantly affected by developments abroad. It is useful, therefore, to look briefly at what the political scientists call the "international system". The post-war structure of international relationships and institutions is undergoing very important changes in the seventies.

Let me describe these changes under three headings:

First, changing relationships at the political level. The achievement of nuclear parity has led the two super powers—the United States and the Soviet Union—to seek appropriate means for stabilizing their relationship.

Negotiation has replaced the confrontation of the cold war period. The United States is in the process of complementing the initial SALT agreement with a second agreement to cover offensive weapons. Détente is being pursued at both the multilateral level, such as in the Mutual and Balanced Force Reductions talks and at the Conference on Security and Co-operation in Europe, and at bilateral levels, in augmented commercial, technological and cultural exchanges between East and West.

Diplomatic contacts, if not formal diplomatic relations, have been established between Washington and Peking. Regrettably, there has not been a similar improvement in relations between Moscow and Peking even though diplomatic relations are formally correct. The United States has withdrawn its combat units from Viet-Nam and is actively pursuing peace in the Middle East with at least the tacit approval of the Soviet Union. Many aspects of traditional defence relationships are in the process of re-examination in the context of the changing international strategic environment.

The second change relates to the new functional influences on the international system. These go beyond the traditional concerns over economic or military power we have been accustomed to.

These new influences involve such comparatively new considerations as the recognition of the finiteness of world resources—and, consequently, new attitudes on the terms on which these resources will be made available to meet global demand; dangers to the world environment; managing new technology; the power of modern communications; and needs of less developed countries. These factors are major modifiers of the current international scene. Their impact on the international political situation, including on existing political alignments, is only beginning to be felt.

The so-called energy crisis is a dramatic illustration. It has touched off a spate of attempts at bilateral supply arrangements, which are having their effects on relations between the United States and many of its allies. It has led to attempts, under the sponsorship of the United States, to approach the problem as a global one. Canada supported this concept and was instrumental in moving the initial discussions to wider forums, which will include not only the less developed countries, but producing countries as well. The energy crisis has forced us to re-examine our own position and to take measures to ensure Canadian security of supply. This, in turn, has required us to enter upon intensive and continuous consultations with the United States on oil exports.

The third heading under which I want to describe changes in the "international system" is international trade and payments. On this, the effect of the energy crisis has been convulsive.

Well before the curtailment of the international supply of crude oil it was abundantly clear that the pattern of international economic relationships had been dramatically altered. Japan had emerged as a major economic force. The European Community had expanded and strengthened to the point of rivalling the United States in global economic terms. Since the introduction by the United States of the new economic policy in August, 1971, the post-war system of trade and payments based on the Havana Charter and on Bretton Woods has been in the process of restructuring. Until the oil crisis emerged there

were encouraging prospects for developing a reformed monetary system at a fairly early date.

Similarly, preparations were well advanced for entering into substantive negotiations in the "Tokyo Round" of tariff and trade negotiations. The price increases for crude oil have had a devastating effect on the balance of payments of a large number of the developing countries and have posed very significant problems for even the wealthiest nations. As a consequence, discussions of the international monetary situation have tended to focus on the question of ensuring stability and on finding means of assisting those countries hardest hit by oil price increases, with less stress than formerly on developing a comprehensive reform of the monetary system. With respect to the multilateral tariff and trade negotiation, it is not clear at this stage to what extent the "Tokyo Round" will be affected by emerging economic issues such as resource scarcity. In addition to focusing on the reduction of tariff and non-tariff barriers to trade in order to improve access to markets, it may become necessary in the course of these negotiations to consider the question of secure access to supplies of oil and other raw materials.

Given these three major elements, the changing international system of which Canada is inextricably a part will profoundly influence our future. We are therefore engaged in all aspects of it. Our first concern is to protect Canadian interests, but in the wider, not narrower, sense. Nevertheless, there are limits to the available options. We are exposed to an international environment over which we have incomplete control. But it provides us with opportunities, since others, even the great powers, also face constraints. Finally, it conditions significantly our relationship with the United States, which will inevitably be a key player in all important areas.

Now let me turn more specifically to our relations with the United States in the light of the description of the international system which I have just given.

As this decade got under way, the government, in response to these changes in the international system, began a foreign policy review which led to a number of innovations, including the development of relations with the Soviet Union, and the recognition of China. There was a time when these measures were misunderstood in the United States. This undoubtedly had implications for bilateral questions. However, the foreign policy changes which flowed from the Nixon Doctrine, and United States rethinking on many of these same questions, have meant that the Canadian and American perceptions of the political and strategic aspects of the external world are again largely in parallel.

I can remember very well, Mr. Chairman, when I was being criticized, and the government was being criticized, for having offended the United States by seeking closer relations with the Soviet Union, and for trying to establish diplomatic relations with Peking; but it was not very long until Mr. Nixon followed in the path of Mr. Trudeau, and Mr. Nixon went to China, following the recognition by Canada of that regime. He did not quite accomplish what we accomplished in establishing diplomatic relations, but it was quite clear that there was no divergence in fundamental policy between our two countries, and this, I think, has become clearer as the months have passed.

Moreover, our views on the larger multilateral trade and payments question are broadly similar during this

period of substantial change in the international monetary and trading world.

Perhaps as good evidence of that as any was the very close similarity of approach that the Canadian and American delegations took at the recent Washington energy conference, which was largely concerned with the monetary and trading aspects of the very rapid increase in oil prices.

But the economic relationship between our two countries has greatly changed. Since August 1971, the United States has been pursuing what it called the New Economic Policy. Canada, for its part, has been intent on strengthening its economy, and diversifying its external economic relationships, in order to reduce our vulnerability. We have each acted in response to domestic and international circumstances in pursuing separately our own perspective of our own respective national interest.

Nevertheless, the United States and Canada remain each other's most important customer. In fact, the trend for the foreseeable future points towards a continuation of this mutually advantageous situation.

We are no longer at a stage where the trade "irritants" of 1971-72 assume so much immediate importance. These have taken on a different perspective when viewed against the energy crisis and the other international developments that I have been describing. There has also been a recovery in the United States balance of payments.

The atmosphere is accordingly very much improved. But the situation is quite different from what it was in the 1960s. As I told the House Standing Committee on External Affairs and National Defence on March 19, we are in a period of adjustment to many domestic and international circumstances. National policies in both Canada and the United States, in several areas, such as the resources, economic and environmental sectors, will not necessarily coincide.

The Canadian objective is to expand and strengthen the Canadian identity and the Canadian economy.

To this end, our aim internationally will be to endeavour to ensure that any measures adopted will be compatible with these goals. Domestically, if we are to meet our social and economic requirements our industrial and manufacturing sectors will need to be strengthened. The level of employment will have to increase, so as to be in step with an expanding labour force. As you know, honourable senators, Canada has probably the most rapidly expanding labour force of any industrialized country. Regional disparities must be reduced. This will require Canadian decisions on locating industries in areas where they will most benefit our society as a whole. In the resources sector it will mean the development of mineral resources at our own pace, and the encouragement of further processing in Canada.

Our purpose is not to take unfair advantage, as some have alleged, of the United States, or to ignore its needs, or to eliminate a co-operation which has been so beneficial to both countries. Our purpose is to ensure a fair return in terms of our own requirements, and to support the international trade and payments system.

Similarly, in the environmental field we shall continue to protect essential Canadian rights and interests through the process of consultation and negotiation. Four matters in this area have been the subject of considerable recent public attention. I mention these four as obvious and

outstanding cases that have been in the public press recently. They are:

- The proposed flooding of the Skagit Valley
- The Garrison diversion
- The West Coast tankers problem; and the
- Reduction of pollution in the Great Lakes.

In each case, we are pursuing Canadian requirements actively.

While Canadian and United States policies in the multilateral field are largely in parallel, there is nevertheless a need to inform and consult with the United States to ensure that policies and actions affecting each other's interests will not be misunderstood or misinterpreted. For example, our search for balance and diversification in our external relations is leading us to broaden our relations with the European Community. At the same time the United States is taking important initiatives of its own towards the Community and towards the Atlantic Alliance as a whole.

I am very much concerned at the current tension which has arisen between the Community and the United States. The United States and the Community members include our major allies. It is necessary for Canada that the widest possible measure of co-operation and understanding exist with them and also, I must say, between them. We also need to ensure that political co-operation between Canada, the United States and the Community is maintained within the NATO framework, not only in the interest of collective defence but also in the common pursuit of détente.

Tension and disharmony between the two sides of the Atlantic will inevitably be to Canada's disadvantage. I have for some years been concerned with this problem, and in 1971 drew the attention of both the NATO Council and of the OECD to the danger to the economic and financial environment, and therefore to Canada, of any misunderstanding or lack of consultation on economic questions. The same holds true if there is discord on political questions. The third option is based, as I have said, on the diversification of our relations, not on our having to choose between our major partners and allies.

Furthermore, equilibrium must be restored in the world trading and payments systems. Otherwise economic management, both by government and by private industry, in Canada and in other trading countries, will be severely hampered. This equilibrium cannot be brought about in circumstances when the major trading nations on the two sides of the Atlantic are, as they seem at present, unable to take fully into account each other's requirements.

Similarly, our current efforts to explore with the Japanese new avenues for fruitful co-operation in economic and other matters should be seen as a natural manifestation of our diversification policy. It is also, of course, a response to the new status of Japan in industrial, commercial and also political terms.

Mr. Chairman, let me put this question to you, because I am sure it is one to which your committee will be devoting a good deal of attention. How should the Canada-U.S. relationship be managed in the period ahead? There exists a range of older and newer bilateral mechanisms on which the Canada-U.S. relationship has relied and continues to rely.

Such mechanisms wax or wane in response to changes in the nature of the relationship. In the period of the 1940s

through to the 1960s there was a disposition on both sides to develop joint ministerial bodies for co-operation, particularly in the important fields of economics, trade and defence.

There has been less use of these joint ministerial mechanisms in recent years. Contacts between the ministerial counterparts in the two governments, either directly or through various multilateral meetings, have been a frequent and effective substitute for the more elaborate and more formal joint cabinet committees. Such meetings have, for instance, taken place in the past six months on foreign affairs, finance, trade, energy, environment, and agriculture. There is also greater reliance on standard negotiating practices on an issue-by-issue basis. This is consistent with the emphasis given by both countries since 1970 to national rather than continentalist policies.

I do not believe that we need be unduly concerned that the joint ministerial mechanisms have not been employed frequently in recent years. We have found other ways to respond effectively and quickly to rapidly changing events. Indeed, the relationship between our two countries in such that we can easily and quickly establish new mechanism as required—continuing or *ad hoc*—to meet new situations.

In addition, there are important specialized mechanisms. Two notable ones are the unique and now venerable Permanent Joint Board on Defence, of which your chairman is an illustrious member, and the International Joint Commission. Since its inception some 35 years ago, the role and composition of the PJBD have changed as the nature and requirements of joint defence have changed.

The International Joint Commission is a product of the Boundary Waters Treaty of 65 years ago. It had written into its mandate the potential for a broad role in Canada-United States relations. For a considerable period, however, the Commission confined itself mainly to activities related to regulating of boundary waters. More recently, however, the International Joint Commission has come to assume a much wider role, in a variety of bilateral environmental subjects. It is now and will continue to be a most valuable instrument in helping to manage this sector of our relationship.

We have also, of course, the classical instrument for conducting business between states, our embassy in Washington, with its network of 15 consular missions located throughout the United States. In recent years, we have been giving priority to building up this network so that it can effectively support the embassy in promoting and defending the full range of Canadian interests.

For example, increased emphasis is being placed on providing the American public as well as the United States administration with quick and accurate information on Canada and Canadian policies of interest to Americans. This program has already paid an important dividend. I believe that it was the energetic public information work of our embassy and consular missions in the United States in recent months which did much to head off misinterpretation and misunderstanding by many Americans of Canadian policy on our oil exports to the United States. The process of strengthening our missions in the United States to meet such demands continues.

To sum up, honourable senators, we are in a new phase of our relations with the United States, in which both countries are adjusting to new conditions abroad and

more effective affirmative national policies at home. In both bilateral and multilateral matters we can expect a period of negotiation and adjustment over a wide range of issues which will need careful handling. There will be a continuing need to select our policies on their own merits in an unemotional, business-like and positive fashion.

Mr. Chairman, I thought it might be useful to the committee if I also submitted to you for the use of the committee two papers: one, a list of treaties and agreements entered into between Canada and the United States which were in force on February 1, 1974; and the other, a list of Canada-United States inter-governmental bodies.

The Chairman: I presume, honourable senators, that it will be in order to annex these to the minutes. Agreed? (Note: See Appendices "A" and "B" to these Proceedings)

Hon. Senators: Agreed.

The Chairman: Thank you very much, Mr. Minister, for your most impressive and full presentation. When I introduced the motion in the Senate on Tuesday evening last I used the two words "constructively" and "carefully" as to our *modus operandi* for carrying out this inquiry. I think it is most interesting that your paper, in effect, responds perhaps to that method of thinking and you have given us, firstly, the overview, and, secondly, you have at some length discussed the management, or the bilateral machinery, for which we are also grateful.

As I indicated at the outset, the method that we will use for proceeding will be for Senator van Roggen to lead the questioning.

Senator van Roggen: Thank you, Mr. Chairman.

Mr. Minister, I do not know if our chairman had it in for you, or for myself, in asking me to lead off this evening. I know that I and many other senators present will have many particularized questions we would like to ask you. However, in leading off, I thought it might be more interesting if I could draw you out philosophically on a rather broader basis to start out discussion tonight.

I am addressing myself to the third option of your paper, which I read with some interest some time ago, at the time we went to Brussels, I think it was, and I refreshed my mind by reading it again today. You and I have had certain contacts over the years which might lead you to believe that I would not necessarily adopt the third option, although I would like to make the point, with which I am sure you would agree, that the lines between the three options, of necessity, are indistinct, they cannot be too sharply drawn. I would like to avoid, if I can, a "motherhood" type of approach to the question I am going to pose, because no one will disagree with our pursuing the best possible avenues of contact and economic development with all countries. That is where the emphasis lies, and it may be important.

The question I put to you is: Have you had any reason to re-assess at all the third option, in the manner in which it is put forth in the 1972 paper, in the light of more recent developments? I might just enumerate them. There is the energy crisis, which is uppermost in our minds and which has changed, in my opinion, the conceptions, of many people, of economic power in the world in the last six or eight months, where it becomes obvious that the Japanese miracle cannot grow to the sky. I will return to that in a moment. Then there are such developments as you mentioned in your opening remarks as the unilateral activities

of France and other countries as a result of the trauma of the energy crisis. There is, of course, the United Kingdom election and its effect on the Common Market; then Mr. Nixon's following, as you quite properly put it, the lead of our Prime Minister, yourself and our government in opening up the United States relationships with China and Russia and putting them, as you quite correctly said, on a more parallel course with ourselves.

This brings me to this question, which I think is germane to the third option. Let me take what I consider to be the three great industrial areas of the world.

The first is Europe, mainly the Common Market, but there may be some peripheral countries involved, which, generally speaking, have a shortage of food, a lack of energy, a lack of raw materials, a quite heavy concentration of population, reasonable living space, but certainly with, as we have seen in the oil crisis recently, a situation in which they can only anticipate probably a lower rather than a higher standard of living in the years to come relative to other areas.

Then Japan—completely vulnerable, with no energy, no food self-sufficiency, no raw materials, only its labour force to function with—will have to maintain a standard of living considerably below that of others in order to maintain its position and find its foreign exchange.

The third is North America, if I can use that term as including Canada and the United States primarily, although Mexico is part of it, where you have, although it is in dislocation at the moment, a surplus of energy, a surplus of food, more than sufficient to pay for the limited amount of raw material that needs to be imported into it, ample living space and the highest technology in the world.

It is my feeling that of these areas the North American has so much going for it that it is going to continue to be, in our lifetime, the most favoured part of the globe, industrially, economically and from the point of view of standard of living.

Keeping in mind also the balance of payments problem, which is going to be much more difficult for Europe and Japan to cope with than for North America which can be self-sufficient and keeping in mind the fact that wage levels that we can compete with exist in North America where they do not exist in Japan, and to a lesser extent in Europe, perhaps the United States is not only our greatest problem, looming as large as it does over our shoulder, but it is also our area of greatest opportunity, and I would not like to see our dedication to the third option jeopardize the opportunity that exists in our using the situation that exists at the moment in the world to gain greater access to the United States market for manufactured goods and increase our standard of living as a result.

The Chairman: Before you reply, Mr. Minister, I am sure that we all welcome the Speaker of the Senate, Senator Fergusson. We are honoured to have her with us.

Hon. Mr. Sharp: I would like to thank Senator van Roggen for starting off this discussion in such a vigorous way. So far as the government is concerned—and I think that I speak for it when I say this—we continue to reject the second option. The second option is that we should move ultimately toward greater integration with the United States, presumably in a free trade area or an economic union. That we have rejected and we continue to reject it.

We have then to decide, if we have rejected that, what our policy should be. Should we continue as we had been, which was largely reactive to events, or should we have a sense of direction? I am summarizing the argument of the paper.

We concluded, as the chairman himself concluded from the speech I made contemporaneously with the release of the paper, that we should have a sense of direction.

It is undoubtedly true, as Senator van Roggen has said, that since the time this paper was published there has been a decline in the fortunes of two of the most important economic powers in the world, Europe and Japan, largely because of the emergence of the energy crisis, both countries being very deficient overall in their energy supplies.

It means that the opportunities for diversification will not be as great as one might have anticipated a year ago, before the very rapid increase in the price of oil.

I am still satisfied, however, that the direction of our policy should be towards diversification and achieving as much independence as we can from the United States in the sense of reducing as far as possible our dependence upon them.

I say this in terms, not so much of economics as of our general and overriding political purposes, because I am satisfied that if we did not resist this very strong urge to continentalism, which arises from our proximity to the greatest and most properous power on earth, we would be absorbed.

This, I know, is a question upon which the honourable senator and I are likely to differ, although his views and mine coincide over quite a wide range. I can recall the circumstances under which we were allies in resisting the extreme form of economic nationalism which both he and I abhor, and it is quite clear from the paper that that is not what is being advocated.

It is simply to give a sense of direction to Canadian policy so that we can live distinct from but in harmony with the United States.

To conclude this not very short answer, notwithstanding the changes that have taken place in the world which have reduced the prospects for diversification, it should continue to be the aim of the Government of Canada, in its trade and cultural policies, to try to diversify our relations so as to keep Canada as distinctive a national entity as is achievable in an increasingly international world.

Senator van Roggen: Thank you, Mr. Minister. I do not want to pursue the subject, other than to say that while pursuing this diversification I know, from knowing you, that we will not ignore what is closest to us with regard to opportunities that might exist there. I will leave to another occasion and other witnesses the question or whether or not greater penetration for our manufactured goods in the American market is incompatible with Canadian independence. I think it would increase our independence, but I will not get into that argument now, Mr. Minister. Thank you very much.

Senator Carter: I have two questions, Mr. Chairman.

Mr. Minister, looking back over the past, we have had a lot of misunderstanding with the United States which could have been and, apparently, should have been avoided. I am thinking of trade balances. Apparently, we have

two different systems of bookkeeping. We come up with two different answers to our trade balances. We have the auto pact, and we do the same thing there; we have two systems of bookkeeping with the auto pact. We are now into the oil question.

Only today, on the 12 o'clock radio news, a prominent member of Parliament, a businessman, said that the Arabs were not the greatest gougers, that we also had one up North that was gouging us.

We do not seem to be putting across our message very well. Surely there should be some way of working out a common system so that we use a common yardstick, so that we do not have these unnecessary quarrels about who is gaining from the auto pact or who is gaining from the balance of trade this year or next year, and that sort of thing. Is anything being done to avoid that in the future?

Hon. Mr. Sharp: We are trying valiantly to make the facts of our situation known in the United States. We have made some progress in reducing the disparities arising from the bookkeeping. The staticians have got together and they have reached a much better understanding of the balances between Canada and the United States.

May I offer just a couple of comments on the nature of the problem? Taking the autopact, for example, there are politicians in the United States as well as in Canada who have a local interest in getting re-elected. They are not particularly interested in presenting a balanced view of the situation. Their main interest is in trying to get a change in the agreement that is more favourable to their electors. Because of that they are bound to present what we would consider a biased view. Perhaps some of them feel that some of our politicians do likewise, but that is in the nature of the political process. There is nothing we can do, by way of giving facts, that is going to change that situation.

My own impression, considering the number of contacts that take place between Canada and the United States, between Canadians and Americans, is that the number of problems is remarkably few. I remember talking about this problem on one occasion and getting a rather unexpected retort, which I will repeat. I had said that the greater the number of contacts between peoples, the greater will be the number of problems. More people cross the border between Canada and United States than between any other two countries; there is greater trade between Canada and the United States than between any other two countries; there are more financial dealings between our two countries, more foreign ownership in both directions than anywhere else, and so on. The view I expressed was that if you do not have contacts, you do not have problems. At one time I said, for example, "We do not have any problems with the people of Outer Mongolia because we have no contacts." And when I used that simile, someone in the audience got up and said, "We should establish diplomatic relations with Outer Mongolia immediately!"—which we have done.

Senator Connolly: Any problems?

Hon. Mr. Sharp: They will begin!

With respect to the price at which we are selling oil to the United States, I think, considering the nature of the problem, there is remarkably little misunderstanding. As soon as my colleague, the Honourable Donald Macdonald, explained the situation on television from Washington,

that we were selling our oil at the same price as we were buying it, it became clear to the American people that we were not gouging; that we were exporting about as much as we were importing; and that there was no reason why we should sell it more cheaply than we were buying it. So that problem disappeared.

I have no correspondence from Canadians saying that when they went down to the United States they were discriminated against because of the alleged gouging. I have no correspondence like that, and I can assure honourable senators that anyone who has a complaint about the treatment of Canadians abroad writes to me. So I think the problem is pretty well contained. It is an enormous problem. It operates on both sides, as you know. Canadians have complaints about the United States. Such complaints often indicate just as much ignorance on the part of Canadians about the United States as there is ignorance in the United States about Canada.

Senator Carter: It is this kind of ignorance that is the problem. Here we have two countries which are side by side and which have had very close contacts over so many years and which have, in many instances, a common press and media. Why is it that vital information does not get through, either from them to us or from us to them?

Hon. Mr. Sharp: I had a group of American editors in my office about a year ago, at which time I discussed with them the question of Canadian news in American newspapers. I raised the question as to why there was so little. I mentioned that the *New York Times* might carry a story every other day on Canada, but if you go outside the New York area you get practically no news about Canada, unless there is some sensational scandal or something of that nature.

Senator Cameron: Except for the *Los Angeles Times*, which gives pretty good coverage.

Hon. Mr. Sharp: Yes, generally speaking that is true. In response to my question the editor of one of the metropolitan newspapers said, "Well, you know, we don't get any more news about what is going on in the Midwest, either, in our metropolitan papers. It is not only Canada that misses; we don't get many stories about areas of the United States that are remote. Moreover, if we wanted to get adequate coverage about what is going on in Canada, where would we put one reporter?"

Senator Connolly: It would be a pretty large beat.

Hon. Mr. Sharp: Yes. Would they have their reporter here in Ottawa, in Toronto, in Montreal, in Vancouver? He said, "If we wanted to get adequate coverage of what is going on in Canada, we would have to have a reporter in each part of the country, and it is impossible for us even to contemplate that. We do not even do that in the United States."

Senator Connolly: These were editors of metropolitan newspapers?

Hon. Mr. Sharp: Yes.

Senator Carter: I know everyone wants to ask questions of the minister, Mr. Chairman, so I will cut mine short. Perhaps you can put me down for another round later. There is one final question just before I conclude.

Mr. Minister, you mentioned that we are opting for the third option, and we are going to take a new sense of

direction and develop new initiatives. I presume that means we are going to take a look at the way we are developing our resources with a view to getting as much manufacturing done in Canada as we can, but I will leave that to someone else.

I am more interested in the "new initiatives" which we are taking with respect to Arctic sovereignty and the 200-mile limit at sea for our ocean resources. What are the prospects for progress in those two areas?

Hon. Mr. Sharp: Mr. Chairman, I assume that this is all in the context of Canadian-American relations.

The Chairman: Yes.

Hon. Mr. Sharp: As far as sovereignty in the Arctic is concerned, the Americans have never challenged Canadian sovereignty in the Arctic islands, nor effectively, so far as I know, challenged our sovereignty over the waters between the islands. I am not saying that they have acknowledged our sovereignty, but as far as I know in recent years they have never really challenged it. Admittedly, if I were to put that question to them I might get a very dry answer. I am just talking in terms of practice.

The Americans, for example, do not recognize the unilateral declaration that we made about the 100-mile zone offshore limit to protect the environment, but neither have they challenged it. That, factually, remains the situation.

On the Law of the Sea, we will have some differences with the Americans. Our principal difference, however, I think, will relate to channels where the great maritime powers such as the United States will want to continue to have unrestricted freedom of passage.

On the question of the 200-mile limit for resource exploitation, I am not absolutely sure where the Americans stand on that. If I may say so, however, I believe that there is a very considerable international movement towards a concept of this kind. It all depends upon what one is claiming. We do not claim sovereignty. What we are concerned about is conservation and exploitation; the right of the coastal state to have priority and to have responsibilities and rights superior to those of other countries.

Senator Carter: Are we opting for the continental shelf, or is it just for the straight 200-mile limit?

Hon. Mr. Sharp: So far we are opting for the continental shelf. However, you must bear in mind that on the Pacific coast that would not take us very far out into the sea. It would take us farther on the east coast. So that we have not gone contrary to the 200-mile concept. What we have said, in effect, is: 200 miles plus any of the shelf that extends beyond 200 miles; that is to the limits of exploitability. This is our concept. It does not mean that we would refuse to go along with the 200-mile concept as such, because if we did not do that we would be cutting ourselves off from rights that would otherwise exist in areas where the shelf does not extend.

Senator van Roggen: I should like to ask a supplementary question about the 200-mile limit. Would it be fair to say that there are a number of nations, such as the United States and Britain, who are anxious not to recognize the 200-mile limit, who are sufficiently small in number that when this thing comes to the Law of the Sea Conference,

the smaller nations, such as Canada, will probably carry the vote?

Hon. Mr. Sharp: What has to be recognized about international conferences of this kind is that numbers are not the only factor involved. There has to be acceptance. That is why in this conference the rule of consensus will be followed, as far as it can be followed. One would prefer to get acceptance of changes rather than have them imposed, because such rules cannot be imposed upon reluctant great powers. The rule of consensus will be the one that will be followed as long as it continues making progress. There may come a time when there will be a direct conflict of interest, when voting may be resorted to, but even if it is, that does not mean that particular rule would be accepted where it counted. We are hoping that all countries will begin to see the wisdom of going along with a rule like the 200-mile rule. It is becoming more and more accepted, I quite agree.

Senator Macnaughton: On this 200-mile rule projection I am a little confused. If you do not mean jurisdiction, do you mean control, or do you mean trusteeship? I know it is very hard to determine the law when there is not any, but there is still a little confusion there.

Hon. Mr. Sharp: I suppose there will be until the Law of the Sea is accepted, the changed rules. We do not mean that they should have the same characteristics as the territorial sea. We have a 12-mile territorial sea which is our territory; we have the right of controlling everything within that 12-mile limit. We are not seeking the same sort of control over a 200-mile wide area. What we are seeking in that 200-mile wide area is the right to regulate fishing and exploitation. How it will finally be agreed upon I really do not know, and I do not think anybody else does.

Senator Macnaughton: That is what I was calling trusteeship.

Hon. Mr. Sharp: It is a form of trusteeship, yes, with some priority for the state whose waters are in question.

Senator Cameron: I thought I detected a distinction being made between sovereignty and control. That seems to be a rather fine distinction, and I would like you to elaborate on that.

Hon. Mr. Sharp: Take the question of ships at sea. Ships that are travelling within the 12-mile territorial seas of Canada are within the control of Canada; they can be directed or they can be excluded. No one suggests that ships travelling within the 200-mile zone carrying passengers or freight would be under the control of the coastal state. Not at all. However, if they were engaged in fishing there would be some right to control their activities. If they were boring holes in the continental shelf they would be under the control, and perhaps under the licensing, of the coastal state. That is the difference. We are talking here not about control over the waters as such, but about control over the exploitation of the area.

Senator Cameron: What about a ship going through the Northwest Passage? It is interesting to note a report in tonight's *Ottawa Citizen*, that apparently a Dr. Pharand, speaking at the Law Faculty of the University of Ottawa, dealt with this and said that Canada is likely to sail into some rough waters. That is on the question of the Northwest Passage.

Hon. Mr. Sharp: Let me comment briefly on that. We do not recognize that there is a passage! Historically it has never been used, so how can there be an international passage? That is our position.

Senator Grosart: Admitting, Mr. Minister, that some of the developing nations are perhaps even in the forefront of the movement for an extension of the nationally controlled waters, using that phrase in the broad sense, is there not a very great danger that countries such as Canada are denying to many of the developing nations the last free source of food and other resources, which are the seas above and, to some extent, beyond the continental shelf? It seems to me that the vague terms you are using, and which have been used in all the discussions in the two Conferences on the Law of the Sea, are highly defensive of what seems to me to be a point of view of the "have" nations to extend their "have" control. Why should not Chad, to take an example, a developing nation, landlocked in Africa, have the right to explore for oil on our continental shelf? If every nation is going to move out to the 200-mile limit, surely we are extending the very thing that is the cause of most of the trouble in the world.

Hon. Mr. Sharp: I am not quite sure whether I understand this. This would apply also to Switzerland.

Senator Grosart: Yes.

Hon. Mr. Sharp: I am not sure that I can think of another one that is landlocked that is rich.

Senator Yuzyk: Czechoslovakia.

The Chairman: I think the genesis of Senator Grosart's question lies with the less developed countries. I think this is the point.

Senator Grosart: Yes, I am speaking largely of the less developed countries. I will go further and say that the developed nations have now come up with a number of international treaties for the control of fisheries and so on, which again shut out the small nations. They say, "There are 12 of us; we are going to carve up the whale fishery here." Jamaica, for example, as a small nation, has not the money to develop deep sea trawlers, so the rest of us have carved this up. We say, "It's conservation and we are going to do this." It seems to me that we are going contrary to our great professions of faith in the necessity of the "have" nations sharing the resources of the world with the developing nations.

In my own view—and I think I have read pretty well everything that has been put forward in defence of the Canadian position; some excellent work by Mr. Beesley, for example—it all comes back to this, that we are saying, "We are going to grab this." You say, "We are going to control fishing; we are going to control exploration of the resources of the seas out to 200 miles." Surely this is an extension of this land mass resource advantage, which does not seem to me to make any sense, in view of our professions about our concern for the redistribution of the resources of the world with the developing nations.

Hon. Mr. Sharp: May I just offer two brief comments on this, Mr. Chairman? First of all, we have been very strong supporters of the idea that the resources beyond the shelf, or whatever is defined, should be for the common use of mankind, and we have generally supported the idea that they should be used to help the underdeveloped countries

of the world. This has been part of the approach of the Canadian government.

The second comment—which you may think is a bit unfair, Mr. Chairman or Senator Grosart—is that if we were to take that attitude towards the salmon, there would be no salmon to exploit, available to anybody.

Senator Grosart: That is quite true, but we would have to go to 600 miles to protect the salmon.

Hon. Mr. Sharp: We have taken an even more, shall I say, nationalistic view about salmon than we have about fish generally. We have said that this fish should never be fished except at the mouths of the rivers, and that means close to us, close to our shores or the American shores. That is why we have been trying to get an agreement that the salmon should not be fished out off the south shore of Greenland or wherever it is that they feed, because if they fish there there will not be any spawning.

If you look at the problem from that point of view, conservation does become extremely important, even though it looks very nationalistic. It may be that what we are trying to do is to protect a source of income to ourselves; but we are also trying to protect a source of food for mankind, which is going to disappear unless we do find some way of reducing the fishing in the oceans. It is not going to help the underdeveloped countries of the world if the oceans are over-fished or if the waters off Canada are over-fished.

Senator Grosart: I agree with that, in principle, Mr. Minister, but it seems to me that your description of the second part completely supports my argument, because in the same way we are only going to fish when they have got to the mouths of our rivers. Surely, there are other ways of conserving, let us say, the fish resources, to speak of only one, than this extension of the 100- or 200-mile limit? There are lots of other ways.

Hon. Mr. Sharp: So far we have not found any effective way of getting international agreement on fishing. Whales are a case in point; herring another. Where these resources have been over-fished, the result is a potential reduction in the total amount of food in the world.

In the world that is emerging, food may be the crucial problem, not energy. Indeed, as I have said a number of times recently, the world stocks of grain are so low that if by chance there is a poor crop in this coming year people are going to starve to death. It does not matter where the food is, it is going to be for the use of mankind.

Senator Grosart: I am not a fishery expert, but I would rather doubt if there is a single case where the extension of national control to 200 miles will preserve a single fish resource in the world, because most of the problems are out beyond the 200 miles.

Senator van Roggen: Coming from a fishing province, I would say that is not right.

Senator Grosart: It is.

Senator van Roggen: No, the bottom fish are in on the shelf.

Senator Connolly: This discussion about the 200-mile limit has been interesting, but it only indirectly affects Canada's relations with the United States. I would like to come back to a question that I had originally intended. I

am sorry that you saw Senator Carter first, because all of the premises he laid down are premises for my question.

He talked, first of all, about the "Connally"—not mine—"irritant" of 1970-71, which was related of course to the imbalance of payments the United States was faced with. As far as Canada was concerned, the threat seemed to be to the continued functioning of the auto pact.

I also premise the question upon another item that Senator Carter mentioned, namely, the energy crisis, and the fact that very shortly after we imposed an export charge we began to be called "blue eyed Arabs." Senator Carter said quite rightly that even today the president of some American oil company talked about a Canadian rip-off, which was in the news today.

I do not approach this from the point of view of Senator Carter. I approach it rather from this point of view, that it seems to me that lately, when issues arise as between Canada and the United States, there is more of a crisis atmosphere that seems to be generated. I have always felt, and I think a great many people have felt, that if we are not going to be understood by the Americans and they by us, there is very little likelihood of international understanding, because so many of the ways we think and believe and act are so similar. Regarding the co-operation we have had between the two countries, for example, in a time of real crisis during the war, there was never I think anything comparable to the criticism back and forth across the border that we find today.

So, really, my question is directed to the issue of the crisis element that seems to be developing in the relationships between the two countries. Do you look for that to continue? Do you think that this is a serious development that might ultimately disaffect our relationships, perhaps to the mutual disadvantage of both countries?

Hon. Mr. Sharp: Mr. Chairman, my answer is in the negative to that question. I do not expect, however, that our relationships are going to be smooth, because I do not expect that Canadian and American policies are always going to agree, either internationally or on bilateral issues.

It was my distinguished predecessor, Mr. Pearson, who quite a long time ago said that the era of easy relationships was a thing of the past. That statement was made at least 15 years ago.

What is notable about the periods when there seemed to be increased tensions was when the United States was in serious difficulties. The comments of Secretary Connally, to which Canadians took such exception, were made when the United States was facing a major crisis in its balance of payments which had continued over many, many years. Notwithstanding the efforts that the United States government had made in various ways to rectify the situation, it continued to deteriorate. Indeed, its balance of payments continued to deteriorate almost up to the time of the emergence of the recent energy crisis. It had begun to improve somewhat, but that improvement did not pre-date the energy crisis by many months.

Secretary Connally complained about the automobile agreement because he claimed this was contributing to the balance of payment deficits of the United States. He complained about our arrangements on tourist exemptions, for the same reason; and on the imbalance in the defence production agreement, for the same reason.

As I said in my opening comments, these are now looked upon as rather minor irritants in the situation, because the problem facing the United States now is not the same as it was then. The balance of payments of the United States is very much better than it was. What we are going to face, it seems to me, are problems of a different kind, related perhaps to energy, where the United States energy requirements are rising rapidly, where they are going to continue to be very dependent upon imports, where we will look relatively comfortable in these respects, as we do today.

Senator Connolly: And, in fact—if I may interject and perhaps ask you to comment—the supply of our energy requirements, particularly oil, is bound in time to decrease our shipments to the United States.

Hon. Mr. Sharp: Yes. As an illustration, during the tenure of Secretary Connally, when the United States was concerned about these balance of payments problems and was beginning to look at what might happen if there was to be a shortage of energy, their concern was whether they were going to be asked by Canada to offset a deficiency in eastern Canada in the event of a shortage of oil. They recommended to us at that time that we should complete the pipe line across to Montreal so as to reduce our potential dependency upon the United States for oil to offset our deficiency in this area.

But when the energy crisis emerged as it did and it became clear that our known supplies of oil might be more limited than at one time seemed likely, the prospect of building the pipe line faced the United States with the very real possibility that our shipments of oil into the Midwest would decline because we were supplying our requirements in eastern Canada.

So this is an illustration of how the tensions can change in character. I see no reason to think that there will not be periodic tensions. I do find myself, however, Mr. Chairman, somewhat in disagreement with Senator Connolly in the suggestion that relations between Canada and the United States are, shall I say, worse than they have been at any time in the past.

Senator Connolly: I do not really say that at all. What I say is that, when there is a disagreement, the immediate tendency is for the public opinion moulders to say that we have a great crisis. I am wondering whether the propagation of the concept, or idea that there is a crisis between the two is going to disaffect the relationship or perhaps undermine the kind of co-operation that has existed.

Hon. Mr. Sharp: I do not think this is something only to be found in relations between Canada and the United States. There is a tendency in the media to create crises over many issues. Quite recently, for example—in fact only in the last day or so, one heard the newspapermen say, "Oh, there was no crisis; it was all solved." Apparently the oil price problem was all solved quite effortlessly, although I do not think it was. However, they said, "Where was this crisis that everybody was talking about?" Well, who was talking about the crisis? It was the newspapers which created an atmosphere of crisis. Incidentally, it was most satisfactory to be able to solve it.

The Chairman: If Senator Connolly will permit me to ask a supplementary question, perhaps prefaced by a remark, Mr. Minister, from my own experience in dealing with officials in the United States I would suggest to you that perhaps too much emphasis is put on the word "consult".

I think that the word today gets to be "advised," and I think that some of the shortfalls which Senator Carter and Senator Connolly are both talking about lie in the advice area. I often think it is perhaps far too much to expect nations today to consult about the wide range of problems that come before them, either bilaterally or multilaterally, and I would put it to you—and I would be interested in your comment—that I think it is in the area of advice that the shortfall lies.

Hon. Mr. Sharp: I think there is a good deal to be said for that, Mr. Chairman, and it arises out of the rapidity of change in our society and in technological developments.

There are many instances of that nowadays. For example, we have seen it most vividly recently in relations between the United States and Europe, where a good deal of the difficulty seems to have arisen out of the process of consultation or of advising; where the Europeans criticized the United States for not having kept the Europeans well informed on the development of American policy in relation to the Soviet Union, and, on the other side, the complaint of Dr. Kissinger that the Europeans made up their minds on an issue and confronted the Americans with the result and were reluctant to re-open decisions which it had taken them a long time to arrive at in the process of consultation among the Nine. It is a problem that faces all countries and, particularly, foreign ministers.

Senator Grosart: Mr. Chairman, I was particularly interested in your comment on the difference between "advice" and "consultation," as this was one of the questions I had intended to ask. Of course, I would have to ask you do you mean "advice" or "advise"? There is a tremendous difference. Are you merely advising them that "this is what we are going to do"—which is the old story or complaint of the provinces in federal-provincial relations that the federal government says, "This is what we are going to do. Take it or leave it!" This, I suppose, is "advise".

The Chairman: Yes, sir.

Senator Grosart: But if you have "advice," you must seek advice; so therefore you have consultation, obviously.

The Chairman: But you have to do something about advice, Senator Grosart. You don't have to do anything when you have been advised.

Senator Grosart: Well, yes. Advice, of course, is a two-way street, but it is a matter of semantics and I won't push it any further than to say that the minister mentioned that this whole area is one of the main problems confronting U.S.-European relations, which, as I think I said the other day, some people have said if it is not solved may jeopardize the democratic governments of Western Europe. And there are references to this throughout the minister's statement.

I would ask the minister what exactly our policy is in respect to, whatever you call it, advising, giving advice to, or consulting with, the United States. Do we say that there are certain matters in which we will consult them in advance, or advise them in advance, and that there are other matters that are not that important? And do we have any kind of mutual understanding that we will fill each other in before we move into certain policies? To make it specific, did we consult with our American

friends before we decided to recognize mainland China? What happened there?

Hon. Mr. Sharp: That is the case I was going to base my reply upon.

When the government decided to have as an objective the recognition of Peking, although it was announced as a general objective, in advance of advising the United States that this was our general objective, as soon as it had been announced we kept the United States informed about the general course of our negotiations. The United States' attitude toward that announcement, or that advice that we gave them, was that that was a matter for us to decide, and they thanked us for letting them know what we were doing.

At that particular point, Secretary Rogers asked me, "What are you going to do about the United Nations?"

Senator Grosart: Yes.

Hon. Mr. Sharp: To which I replied that if we were successful in our negotiations, and we replaced Peking as the representative of China rather than Taiwan, then of course we would follow that by recognizing that the representative of the People's Republic of China should sit in the seat in the United Nations instead of the representative of the Republic of China. He pointed out to me that we had, over the years, taken the view that that was "an important question." His next query to me—

Senator Grosart: Did he point out the assurances we had given to Taiwan that we would not take that attitude?

Hon. Mr. Sharp: No. I do not remember him saying that to me. Whether it was true or not, I do not really know. In any event, he did not say that. He said, "You have always joined with us in saying that this is an important question." And I said, "Well, we might have to change our attitude towards that," which, as you will recognize, caused him considerable distress because the United States, you may recall, resisted very strongly the seating of the People's Republic of China in the China seat.

We also kept them generally informed about the way our negotiations were going. We did not seek their advice—and here I accept the distinction between "advice" and "advise". We kept them informed. We did not ask them for their approval, but we felt, in the interests of good relations between our two countries, that this was an issue about which they were very sensitive, and that they should understand what we were doing so that there would be no cause for misunderstanding.

As you know, the United States itself subsequently changed its attitude toward China. Mr. Nixon went there and visited Mao Tse-tung, who is the President of the People's Republic.

Senator Grosart: Without advising Japan.

Hon. Mr. Sharp: Yes. Well, it is another symptom of this changing international environment that even though the presidents of these two countries met, they still do not recognize one another, formally, in diplomatic language.

Senator Grosart: Mr. Chairman, I know we will be coming to a more detailed examination of the institutions and arrangements for this "advice/advise" consultation process, but I wonder if the minister could give us just a brief outline of the levels at which this process takes place.

You say, "We advise." Who is "we," and at what levels does it happen, and how is it done?

Hon. Mr. Sharp: We use mainly what I have referred to as "the classical method," that is, the embassy. Our ambassador is instructed to inform the Secretary of State of the United States on various developments in our policy that we would like the United States to know about. He might do that by a personal interview, if he could see the Secretary of State; but, if not, he would see one of the other officials in the Department of State. On certain questions of a specialized character the contact might be between the Canadian minister and his counterpart in the United States.

Let me give an illustration. When Canada was trying to make up its mind as to whether to withdraw from the International Control Commission in Vietnam I had a number of conversations with the Secretary of State, both on the telephone and in Washington—

Senator Grosart: You have a "semi-hot line," or a "luke-warm line."

Hon. Mr. Sharp: I do not use that one. I just use the ordinary telephone. When we had decided that we were going to withdraw, we advised the Secretary of State, through the embassy, that we had made that decision, and I received a telephone call from Dr. Kissinger, who was then in the White House, and not the Secretary of State, asking if we would delay this announcement for a period, to permit him to conclude his negotiations in Paris with Le Duc Tho. I informed him that, no, we had made up our minds to make our decision this week, which was the week of the announcement, but that if it would assist him in his negotiations, we would delay our withdrawal from Vietnam by thirty days. He said, "I would like you to do that." So we did it, in order to accommodate a friend and because we did not want in any way to be responsible for the breakdown of those peace talks. That is an example of how this kind of advice and consultation is carried on.

My colleague, the Minister of Finance, kept very closely in touch with Secretary Shultz from time to time on some of the main issues facing the international financial world, and kept him advised as to Canadian attitudes, and asked him as to American attitudes. On agricultural matters, I know my colleague Mr. Whelan is from time to time in touch with his counterpart in the United States on some of these issues that have been in the news recently.

Senator Grosart: Then is there a lower level of contacts, as I understand there is, sometimes called the administrative or departmental or public servant level? How are they integrated with these higher level consultations or contacts?

Hon. Mr. Sharp: Well, they are done only with the authority of the minister of the department. I am sure my colleague, Mr. Turner, asks his deputy minister, or one of the assistant deputy ministers, to get in touch with his counterpart, or somebody at about his level, to exchange views, and these are reported to the minister.

My Under-Secretary, Mr. Ritchie, does not do this very frequently, because we have in Washington an ambassador who is under the authority of the Under-Secretary, and he can use the ambassador to do this kind of thing, which is not, of course, open to other departments where they have some specialized question that they would like to talk about. But, of course, the ambassador does often

act on behalf of other departments than that of the Secretary of State for External Affairs.

Senator Connolly: Senator Grosart, may I ask one supplementary question?

Senator Grosart: Well, may I ask one first, Senator Connolly, because it follows right on from this.

To give a quantitative value to this, would you say in general that the totality of these contacts in a year would be in the scores, the hundreds or thousands?

Hon. Mr. Sharp: At least hundreds. It might be in the thousands, but it certainly is in the hundreds.

Senator Connolly: I have a supplementary question on the point where you speak about the duties of an ambassador. In an embassy—and I suppose this applies to many embassies—there are a number of specialized officials: there is a defence man, a trade man, perhaps an energy man, a food and agriculture man. Would you mind saying something about what these people do in the matter of relationships between the two countries?

Hon. Mr. Sharp: The members of the embassy staff engage themselves in two general types of activities: one is to gather information by contacts with the members of the administration in their specialized fields; and also to pass along information about Canadian developments that they think would be useful for the American government to know.

We have in Washington a number of specialists: we have some on trade, some on finance; and we have had an energy man in Washington for many, many years and, of course, we have had agricultural specialists. They spend the whole of their time gathering or supplying information, sometimes in response to questions from American officials and sometimes the information is offered so as to keep as general an understanding as possible. There is also an effort made in the embassy to convey information other than to the government itself. We have, of course, information officers who spend all their time supplying information about Canada to the media, to senators, to representatives, to their staffs and so on. To some extent also the ambassador and his staff have contacts with members of the Congress, whether senators or representatives.

One has to be careful, however, that one does not create the impression that the embassy is engaged in trying to circumvent the administration. Here in Canada, for example, if members of foreign embassies were to try to convert members of Parliament or senators to their point of view in a conflict or a difference of opinion between the government of that country and the Government of Canada, we would take the strongest exception. We would say to those representatives that they must not engage in trying to deal with the legislature rather than with the administration. They are accredited to the Government of Canada and they should deal with the Government of Canada. That does not mean that if a member of Parliament wanted to get information that they should refuse to give it to him, but they would have to be circumspect in their dealings or they might make themselves not very acceptable to the government in dealings between their government and ours.

Senator Grosart: Should all senators and members of Parliament report any such incidents to you?

Senator Connolly: There was one member of Parliament, and I don't know if they ever put him in jail or not, but he certainly was convicted of dealing with foreign embassies here.

Senator Grosart: Then I take it you are not registering any lobbyists in Washington!

On the great question of diversification which seems to be the major theme of our present policy—and here I should say that I recognize that a former distinguished Prime Minister might have regretted trying to put a quantum percentage on a certain switch of trade at one time—perhaps it is not an unfair question to ask you if you really believe that there is any realistic hope of diversifying our trade, in other words changing the 70/70 per cent level.

Hon. Mr. Sharp: Well, you have put the question in a form that I think is somewhat unrealistic. There has been an enormous diversification in trade in recent years. Japan, for example, in the last 20 years—even more so in the last 30 years—but certainly in the last 20 to 25 years has been transformed from a relatively minor factor in Canadian trade to being now our second or third largest market. Europe—that is, excluding Britain—in other words, the Continent of Europe has become a much more important trading partner of Canada and so have China and the Soviet Union. However, if you are talking in terms of proportions of trade, then it is quite clear, as you say, that there has been very little change in the proportion of our trade that we do with the United States. It remains at between 65 and 70 per cent. And as far as I can see, in the near-term future it is likely to continue at about that level. However, we do have many more outlets now for particular goods outside of the United States than we had before. So our trade has become diversified in that sense. But it has not altered the proportions of our trade that we do with the United States, and there is very little chance that it will change in the near-term future.

Senator Grosart: So, would it be fair to say that in terms of Canada-United States trade relations further diversification is not an objective? That is to say that further diversification in that percentage level is really not an objective of our policy?

Hon. Mr. Sharp: What we are trying to do in a policy of diversification is to be sure that we are exploiting the possibilities for trade in all directions. It has almost become a cliché to say that we are unique among the countries of the world in the diversity of our relations because of our geographic location. We are an American nation, we are an Atlantic nation, we are a Pacific nation and we are an Arctic nation. It had been our feeling that in recent years we had not been taking advantage of this location to exploit our possibilities as fully as we should have across the Atlantic, across the Pacific, across the Arctic, and that this was increasing our vulnerability to events in the United States. It was not directed against the United States, but it was directed in favour of diversifying, as far as the possibilities existed, and we have accomplished a good deal in this direction. It remains true, however, that the best and the richest market for our goods, and particularly for manufactured goods, is the United States market.

Senator Grosart: Then would you agree, sir, that in terms of Canada-United States trade relations it is not terribly important whether we switch the other 30 per cent from

Commonwealth countries to Japan, or South-East Asian countries? In terms of Canada-United States relations, as long as we are going to stay at that 70 per cent, it is not really a very important policy in that particular context.

Hon. Mr. Sharp: Shall I put it this way; I do not think that our efforts to diversify should cause any concern in the United States.

Senator Grosart: At page 5 of your statement, Mr. Minister, you seem to indicate that Canada and the United States are today placing less emphasis on continentalism in their policy. I am sure this is so as far as Canada is concerned. Have you indications that this is so as far as the American policy is concerned, that they are less continentalist in their objectives?

Hon. Mr. Sharp: I would hesitate to say so, senator.

Senator Grosart: You seem to indicate here that we are both going in the same direction.

Hon. Mr. Sharp: No. The United States policy is perhaps characterized by something that leads in the same direction. The United States policy in the Nixon doctrine is to limit the responsibilities of the United States in world affairs to those responsibilities that they can discharge, and it is, as reflected in President Nixon's speech here to Parliament, directed to encouraging the independence of their friends and neighbours. It was not in favour of increasing the dependency of Canada upon the United States. In other words, the President said, "I understand and applaud your efforts to be independent." In that sense the United States is not, I think, determined to integrate Canada with the United States, so that I believe it is true to say that they do not have a continental policy in that sense.

On the other hand, if you ask me whether they would like to have access to as much as possible of Canadian resources, I think I would have to say that is part of their policy.

Senator Grosart: But no manifest destiny.

Hon. Mr. Sharp: No, I do not think so.

Senator Laird: Mr. Minister, I would like to ask you a couple of direct and practical questions. If you think they are unfair, I am sure you will tell me so. I say they are "practical", because they have to do with current problems which affect large sections of the Canadian public, and I am sure you will agree that to achieve eventual approval of a foreign policy you must take care of individual problems of individual Canadians.

In your green paper, "International Perspectives", page 15, I read this statement:

Experience with the Automotive Products Agreement suggests that, in any such sectoral arrangements, there may be difficulty in maintaining an equal voice with the United States over time.

That, of course, implies a degree of pessimism and, frankly, I wonder whether you share that pessimism to the extent that you think it will handicap arriving at a solution of the auto pact problem.

Hon. Mr. Sharp: The automobile agreement was one of the few "exclusive" arrangements that we had with any country. There were at the time some who advocated the extension of this principle into other fields. What I was

saying in that paper that you have quoted is that in any such exclusive arrangement Canada is not likely to be as influential as would be the United States, because of the difference in size and power. Indeed, this is the general argument against the second option. It is that if you get into an exclusive arrangement with the United States you get into an exclusive arrangement with a country of much greater size and much greater power, and that in such an arrangement the tendency would be for Canada to want to be represented at the centre of power in the United States, rather than simply to try to exercise its influence as a separate country.

That is why the implication of the third option is against the extension of arrangements such as the automobile agreement into other fields. It is not that the automobile agreement in itself did not work out well. The agreement did work well from our point of view, but it does expose us to the overwhelming influence of the United States. Indeed, in that agreement, as you know, many safeguards were put in for the very purpose of preventing developments occurring that would be detrimental to Canada because of decisions being made in the United States which would be contrary to the interests of this country.

Senator Laird: Do you feel, then, that we are in such disadvantageous position now that we have no reasonable hope of maintaining the status quo in the auto pact?

Hon. Mr. Sharp: No, we have not in that agreement withdrawn all the safeguards. This is the essence of the discussions that are going on now between the two countries, and I can assure you that the Canadian government is very much aware of the dangers, as well as the possibilities of trade in automobiles.

As things developed we did very well. We think that agreement was mutually advantageous. It was certainly advantageous to us, but also to the United States, and it restored a proper balance in trade in automobiles and automobile parts. However, we still see dangers that if there were no safeguards, or no arrangements for keeping that trade in balance, it could become unbalanced.

Senator Laird: Is it likely to do so?

Hon. Mr. Sharp: I do not think so. I think the way it has worked out, there have been good reasons for the investments in Canada to be made. The outcome has been in the interests of the automobile manufacturers to have efficient operations in Canada. There has been an enormous increase in the volume of trade and even though the balance is not quite as favourable to us now as it was, nevertheless it remains very much in Canada's interest to continue that agreement.

Senator Laird: Just one other quick question in connection with the matter of the Great Lakes pollution. It is very disturbing to many, many Canadians and it hits them rather directly. This is why it becomes so important to solve it. Has it not been due to the failure of President Nixon to agree to the allotment of sums that the problem has not proceeded more quickly to a solution?

Hon. Mr. Sharp: I think it is premature to say that. We are reviewing the agreement. We do not think the United States has failed to live up to the agreement. We would like to have seen greater progress in the control of pollution coming into the Great Lakes from the United States, but things are improving.

I suppose in all great enterprises of this kind we sometimes fall a little short of what it is that we are striving for, but I would not say that the United States has broken that agreement.

Senator Laird: Then you are still optimistic of an eventual solution?

Hon. Mr. Sharp: Yes. Progress is being made—not as rapid as we should like to see, and I do not think the Americans have made as great progress on their side of the border as we have made on ours.

Senator Laird: Have we made any progress on air pollution, which affects us in Windsor very badly? There is all kinds of pollution from Detroit.

Hon. Mr. Sharp: Yes. I have forgotten where it stands now. I am wondering whether one of my officials is an expert on this. Are you, Mr. MacLellan?

Mr. K. W. MacLellan, Director, U.S.A. Division, Department of External Affairs: I am not very expert, sir, but there is an arrangement being made, I understand, to reduce the sulphur content of the firing of the boilers at the American generating plant which will reduce the amount, depending on which way the wind blows, of pollution towards Windsor. But Ontario feels that it has this matter very much in hand and that it is Ontario's regulations that really ought to apply. We have consultations coming up quite shortly with the Americans on this question.

Senator Laird: It has not worked very well yet. If you were in Windsor, you would know.

Senator Grosart: In discussing this second option in the "International Perspectives" paper, the minister said—I take it the minister said it:

We might seek, for example, to adapt to other industries the approach reflected in the Automotive Products Agreement. The chemical industry is one such industry that could lend itself to rationalization on a North-South basis. The aerospace industry might well be another. We might also endeavour to negotiate a continental arrangement with the United States covering energy resources.

And so on. That was in discussing the second option.

Do we take it that it is now general policy not to pursue this type of limited integration?

Hon. Mr. Sharp: It seems to us that to pursue exclusive arrangements of that kind would not promote the objective of as much independence as we can manage. Nor do we believe that it is necessary to the achievement of our objectives in improving the standard of living in Canada.

Senator McNamara: Mr. Chairman, I realize it is getting late. When this idea was first broached, I welcomed it. It seemed to me that we on the committee might be able to do something to materially assist our government in American-Canadian relations with the ultimate object of trying to improve those relations and being helpful in our own sphere of influence.

The minister, in his remarks, mentioned three points which intrigued me. He said that one of the things that we as Canadians could do was to consult with and inform the Americans. He mentioned the tension existing between the EEC and the United States of America, and concluded by commenting on how Canada-United States relations should be managed.

This brings me to something about which I have not been clear—namely, how we as a group of parliamentarians can assist without interfering with normal diplomatic relations in trying to solve problems which are of great magnitude, such as the Law of the Sea, the auto pact, and so on.

I am wondering whether there is some way whereby we can start off on a somewhat lower level by making contacts which might eventually be expanded into a broader field.

The minister mentioned also that it is possible that a food crisis might develop into a crisis which might be as serious, if not more so, than the energy crisis through which we have just passed.

It seems to me that even without a crisis there is mutual interest between Canada and the United States as major exporters of food grains, and we could start exploring what steps to take should certain contingencies arise.

I should like to ask the minister how we can function, or be more helpful to his department, and what should be our approach. My own thought is that if we could turn to something like the commodity agreement in the event of a food crisis developing, we could co-operate with the United States and European countries by providing leadership, or work together on a project that might be of mutual benefit to both countries, thereby helping in a small way to solve some of the larger questions which have been introduced today.

Could the minister give us some idea how he feels this committee could most effectively move forward in the study of these relations?

Hon. Mr. Sharp: Mr. Chairman, perhaps I should not compliment the Senate—it is not very popular in the Commons—

An hon. Senator: It is mutual!

Hon. Mr. Sharp: But I do want to congratulate this committee on the work it has done in the past. I think it has been very useful to have had reports of the kind it has produced on European questions, the Caribbean, the Pacific Rim, and so on. There is not sufficient of this kind of work done in Canada. We do not have centres in many places where solid work can be done.

Even though the Senate committee has not always been complimentary to the Canadian government—it has pointed out deficiencies—that has not caused me or the government any concern. We have been gratified that someone is paying attention.

So I would think Mr. Chairman, in answer to Senator McNamara, that if the committee wants to concentrate its work, it might do so in the field of dissemination of information and in the study of the mechanisms that are available for the education of Americans and Canadians on relations between our two great countries.

We take a good deal of this for granted. We have developed mechanisms, but no one has taken time to sit down and look at them to see how they are functioning, how they look to an outsider, or make suggestions for improvement of the machinery.

My one word of warning to you would be not to spread your net too widely. If you think you are going to bring out a report on Canadian-American relations that is going to be very influential over the whole range of issues, then

you are trying to do too much. It would be better for you to limit the scope of your study to something that can be managed within a reasonable space of time.

If I might illustrate that point. When we were producing our first "Foreign Policy for Canadians" study, it was remarked that there was no separate study on the United States. I was criticized, I am sure in the Senate as well as elsewhere, for having produced Hamlet without the Prince of Denmark. I did point out, however, that throughout the whole of the "Foreign Policy for Canadians" study was an underlying thread which permeated everything, namely our relations with our great neighbour to the south. On one occasion at a meeting with some academics, who took me apart on the fact that I did not produce a separate report on Canadian-American relations, I pointed out that the Canadian Institute of International Affairs, through the International Journal, had produced a review of, I believe, 25 years of Canadian foreign policy in which there was not a single chapter devoted to Canadian-American relations. The reason for that, of course, as I said, was that it is so all permeating that it is very difficult, without writing a book of many chapters, to deal with all aspects of Canadian-American relations. What was produced in "International Perspectives" was, in a sense, a narrowly based study of the general directions of Canadian-American relations. In order to keep the study within reasonable limits, we examined three options, three general directions. But that by no means constitutes a complete study of Canadian-American relations. I do not know how long a report would have to be in order to make it complete, but as soon as it was published it would be obsolete.

That is my only advice to the committee, Mr. Chairman. It is not "advising" but "advice." I do hope the committee can produce a report in this area. It would certainly be valuable to us and even more valuable, I think, to the public at large and to Parliament.

The Chairman: I am pleased that Senator McNamara asked that question. We are complimented by your reply, Mr. Minister. I think it is a very important question. I was interested in your reply in which you indicated your agreement that the bilateral machinery is an appropriate target for us in this first phase.

However, I think there was something a little deeper in Senator McNamara's mind, Mr. Minister, and I think it probably comes from his background. When he talks about food, he really knows what he is talking about. The idea we have had in the committee—and we have not discussed it in any great detail—is that we might go to subcommittees on a project of that nature, which would certainly have my support.

Hon. Mr. Sharp: As it would mine. I am as anxious about the food situation as I know Senator McNamara is. We have had a common background in this respect. I am alarmed about the possibility of the world not facing up to the nature of the problem. I am sure Senator McNamara would agree with me when I say the food problem of the world is not going to be solved in Canada or the United States, but rather in such places as India, China and other areas of the world where the possibilities for improvement of production are much greater than they are on this continent.

Senator Zuzyk: Mr. Minister, my question relates to the multi-lateral relations in our dealings with a third power, particularly with the People's Republic of China. You

have already partially answered my question, but I should like to follow through on it because we still have dealings with China and with the United States.

As I understand what you have said, when Canada was in the process of establishing diplomatic relations with the People's Republic of China we did not inform the United States about it. However, you did not say whether or not there was any consultation. Sometime after we started the process of establishing diplomatic relations with China, President Nixon visited that country. I am wondering whether there was any consultation with Canada in respect of that visit, or were we just informed about it?

Hon. Mr. Sharp: Not even that.

Senator Grosart: We read it in the papers.

Hon. Mr. Sharp: The visit of President Nixon to China was not something that was publicized. As far as I know, no one was informed in advance of that visit. As I recall, Dr. Kissinger went first. He was thought to have been off on a weekend holiday some place, but he was in China. The United States did not inform us about that. We were not particularly aggrieved. Other countries felt that they should have been informed, but we did not feel that it was of sufficient importance to us. By that time, of course, we had been moving ahead in our own efforts. It did not in any way cross our policies. It did produce some embarrassment for the Japanese who, apparently, had no forewarning of that change in American policy.

Senator Yuzyk: It did not embarrass us in our relations with the United States?

Hon. Mr. Sharp: No; as a matter of fact, it made me seem respectable.

Senator Yuzyk: We are looking at the United States from the point of view of Canada. Could you inform us, in a general way, as to the attitude of the Government of the United States with respect to our dealings with other powers? Are we, for example, at any time on a consultative basis?

Hon. Mr. Sharp: Have you any particular point in mind, senator?

Senator Yuzyk: Well, I would not accuse the United States of not having goodwill towards Canada. I think it

applies both ways: we have reasonable goodwill between our two countries. However, such matters as the recognition of the People's Republic of China do affect our relations in the United Nations, and on such occasions it can look as though we are at great loggerheads with the United States. Some would like to say that our alliance is weakening as a result of such problems.

From your experience with the Americans, would you say that we are on some kind of consultative basis with them, or does it have to be established every time? Do we have to force such a thing, so to speak? Do they ask for consultation at times?

Hon. Mr. Sharp: I do not think that the United States would naturally consult with us about a major change in American policy, no. On the other hand, I think that the consultation between Canada and the United States, generally speaking, is more regular than between the United States and any other country, principally because of the number of contacts that exist. It may be, for example, that Dr. Kissinger has visited the Soviet Union more often than he has visited Canada. He has certainly visited the Middle East many more times than he has visited Canada. On the other hand, the extent of the consultation between Canada and the United States is far greater, in general, than the consultations between Dr. Kissinger and any Arab country or Israel, or the Soviet Union or Europe, just in the very nature of things. As I said in my opening statement, the consultation between us is so thorough and widespread and continuous. However, it does not mean that the United States informs us in advance of major shifts in their foreign policy; we would not claim that.

Senator Yuzyk: Thank you.

The Chairman: Mr. Minister, we have been sitting for two hours and fifteen minutes. Thank you very much, sir. I think the committee is also very grateful for the turnout of the first team.

Mr. A. E. Ritchie, Under-secretary of State for External Affairs: The second team!

The Chairman: Or is it the second team? It is very kind of you to bring them, sir, and on behalf of everyone I thank you very much.

The committee adjourned.

APPENDIX "A"

STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS
STUDY ON CANADA-UNITED STATES RELATIONS

ANNEX I

List of Treaties and Agreements entered
between
Canada and the United States
in force February 1, 1974

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March 28, 1974

Senator Yip's MS. Minister, my attention to the...
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particular... with the People's Republic of China. You

AERONAUTICAL RESEARCH

Agreement concerning a cooperative project to design, develop and test an aircraft embodying the "Augmentor Wing System", with annex. Exchange of notes at Ottawa October 19 and November 10, 1970; entered into force November 10, 1970.

AMITY

Treaty of amity, commerce and navigation between the United States and Great Britain (Jay Treaty).¹ Signed at London November 19, 1794; entered into force October 28, 1795.

Explanatory article to article 3 of the November 19, 1794 treaty of amity, commerce and navigation between the United States and Great Britain.¹ Signed at Philadelphia May 4, 1796; entered into force October 6, 1796.

Treaty of peace and amity between the United States and Great Britain. Signed at Ghent December 24, 1814; entered into force February 17, 1815.

Treaty for an amicable settlement of all causes of differences between the United States and Great Britain (Treaty of Washington).² Signed at Washington May 8, 1871; entered into force June 17, 1871.

ATOMIC ENERGY

Agreement for cooperation on civil uses of atomic energy. Signed at Washington June 15, 1955; entered into force July 21, 1955.

Extension and amendments:
June 26, 1956

May 22, 1959

June 11, 1960

May 25, 1962

Agreement for cooperation regarding atomic information for mutual defense purposes. Signed at Washington June 15, 1955; entered into force July 22, 1955.

Amendment:
May 22, 1959

¹Only art. 3 so far as it relates to the right of Indians to pass across the border, and arts. 9 and 10 appear to remain in force.

²Arts. I-XVII and XXXIV - XLII have been executed; arts. XVIII - XXV, XXX, and XXXII terminated July 1, 1885; arts. XXVIII and XXIX not considered in force.

Agreement for cooperation on uses of atomic energy for mutual defense purposes. Signed at Washington May 22, 1959; entered into force July 27, 1959.

Agreement relating to the application of safeguards on small quantities of natural uranium transferred from Canada to the United States. Exchange of notes at Washington January 28 and 30, 1969; entered into force January 30, 1969.

AVIATION

Agreement relating to air navigation. Exchange of notes at Washington July 28, 1938; entered into force August 1, 1938.

Arrangement relating to the issuance of certificates of competency or licenses for the piloting of civil aircraft. Exchange of notes at Washington July 28, 1938; entered into force August 1, 1938.

Arrangement relating to certificates of airworthiness for export. Exchange of notes at Washington July 28, 1938; entered into force August 1, 1938.

Amendment:
August 12, 1970 and February 18, 1971

Agreement relating to cooperation between the United States and Canada in air search and rescue operations along the common boundary. Exchange of notes at Washington January 24 and 31, 1949; entered into force January 31, 1949.

Agreement relating to the use by civil aircraft of Stephenville and Argentia military air bases in Newfoundland. Exchange of notes at Ottawa June 4, 1949; entered into force June 4, 1949.

Agreement concerning air traffic control. Exchange of notes at Ottawa December 20 and 27, 1963; entered into force December 27, 1963.

Air transport agreement with exchanges of notes.
Signed at Ottawa January 17, 1966; entered into force January 17, 1966.

BOUNDARIES (See also AMITY)

Convention respecting fisheries, boundary, and the restoration of slaves.
Signed at London October 20, 1818; entered into force January 30, 1819.

Treaty to settle and define the boundaries between the territories of the United States and the possessions of Her Britannic Majesty in North America; for the final suppression of the African slave trade, and for the giving up of criminals, fugitive from justice, in certain cases (Webster-Ashburton Treaty).^{*}
Signed at Washington August 9, 1842; entered into force October 13, 1842.

Treaty establishing the boundary in the territory on the northwest coast of America lying westward of the Rocky Mountains (Oregon Treaty).
Signed at Washington June 15, 1846; entered into force July 17, 1846.

Declaration adopting maps of boundary prepared by the Joint Commission of the Northwest Boundary for surveying and marking the boundaries between the United States and British possessions on the forty-ninth parallel of north latitude, under the first article of the treaty of June 15, 1846 between the United States and the United Kingdom.
Signed at Washington February 24, 1870; entered into force February 24, 1870.

Protocol of a conference respecting the northwest water boundary.
Signed at Washington March 10, 1873; entered into force March 10, 1873.

Convention providing for the settlement of questions between the United States and the United Kingdom with respect to the boundary line between the territory of Alaska and the British possessions in North America.¹
Signed at Washington January 24, 1903; entered into force March 3, 1903;

Acceptance of the report of the commissioners to complete the award under the convention of January 24, 1903 respecting the boundary line between Alaska and the British North American possessions. Exchange of notes at Washington March 25, 1905; entered into force March 25, 1905.

^{*}Art. 10 supplemented by convention of July 12, 1889 (See under CANADA, Extradition).

¹Obsolete except for first paragraph of art. VI.

Convention providing for the surveying and marking out upon the ground of the 141st degree of west longitude where said meridian forms the boundary line between Alaska and the British possessions in North America.²
Signed at Washington April 21, 1906; entered into force August 16, 1906.

Treaty concerning the Canadian international boundary.
Signed at Washington April 11, 1908; entered into force June 4, 1908.

Treaty relating to boundary waters and questions arising along the boundary between the United States and Canada.³
Signed at Washington January 11, 1909; entered into force May 5, 1910.

Treaty concerning the boundary line in Passamaquoddy Bay.
Signed at Washington May 21, 1910; entered into force August 2^o 1910.

Treaty in regard to the boundary between the United States and Canada.
Signed at Washington February 24, 1925; entered into force July 17, 1925.

BOUNDARY WATERS (See also AMITY, BOUNDARIES, and MARITIME MATTERS)
Convention to regulate the level of the Lake of the Woods, with an accompanying protocol and an agreement.
Signed at Washington February 24, 1925; entered into force July 17, 1925.

Arrangement relating to the level of Lake Memphremagog.
Exchange of notes at Ottawa September 20 and November 6, 1935; entered into force November 6, 1935.

Convention providing for emergency regulation of the level of Rainy Lake and of certain other boundary waters.
Signed at Ottawa September 15, 1938; entered into force October 3, 1940.

Arrangement relating to the early development of certain portions of the Great Lakes-St. Lawrence Basin project (Long Lac-Ogoki Works).
Exchange of notes at Washington October 14 and 31 and November 7, 1940; entered into force November 7, 1940.

²Obsolete except for art. II.

³Paragraphs 3,4, and 5 of art. V terminated October 10, 1950 upon the entry into force of the treaty relating to uses of waters of the Niagara River, signed February 27, 1950

Agreement relating to the St. Lawrence seaway project for the construction of certain navigation facilities.
Exchange of notes at Washington June 30, 1952; entered into force June 30, 1952.

Agreement establishing the St. Lawrence River Joint Board of Engineers.
Exchange of notes at Washington November 12, 1953; entered into force November 12, 1953.

Agreement relating to the St. Lawrence seaway project for the construction of certain navigation facilities.
Exchange of notes at Ottawa August 17, 1954; entered into force August 17, 1954.

Agreement regarding the relocation of that part of Roosevelt Bridge which crosses the Cornwall south channel of the St. Lawrence River.
Exchange of notes at Washington October 24, 1956; entered into force October 24, 1956.

Agreement relating to the dredging of the north channel of Cornwall Island.
Exchange of notes at Ottawa November 7 and December 4, 1956; entered into force December 4, 1956.

Agreement relating to certain navigation improvements in Canadian waters of the Detroit River section of the Great Lakes connecting channel.
Exchange of notes at Ottawa July 23 and October 26, 1956, and February 26, 1957; entered into force October 26, 1956.

Agreement relating to navigation improvements in waters of the St. Mary's River and the St. Clair River sections of the Great Lakes connecting channels.
Exchange of notes at Ottawa November 30, 1956, and April 8 and 9, 1957; entered into force April 9, 1957.

Agreement for construction and dredging of a new cut-off channel in the St. Clair River section of Great Lakes connecting channels under art. III of the treaty of January 11, 1909.
Exchange of notes at Ottawa May 19, 1955 and February 27, 1959; entered into force February 27, 1959.

Agreement governing tolls on the St. Lawrence Seaway.
Exchange of notes at Ottawa March 9, 1959; entered into force March 9, 1959.

Amendments:
July 3 and 13, 1962

June 30, 1964

March 31, 1967

July 27, 1977

Agreement relating to the dredging of Wolfe Island Cut in the St. Lawrence River.
Exchange of notes at Ottawa October 17, 1961; entered into force October 17, 1961.

Agreement relating to channel improvement work in Pelee Passage area of Lake Erie.
Exchange of notes at Ottawa June 8, 1959 and October 17, 1961; entered into force October 17, 1961.

Agreement relating to the temporary raising of level of Lake St. Francis during low-water periods.
Exchange of notes at Washington November 10, 1941; entered into force November 10, 1941.

Extension:
August 31 and September 7, 1944

Agreement relating to the Upper Columbia River Basin.
Exchange of notes at Ottawa February 25 and March 3, 1944; entered into force March 3, 1944.

Treaty relating to uses of waters of the Niagara River.
Signed at Washington February 27, 1950; entered into force October 10, 1950;

Agreement relating to the payment of costs of remedial work at Niagara Falls pursuant to art. II of the treaty of February 27, 1950.
Exchange of notes at Ottawa September 13, 1954; entered into force September 13, 1954.

Treaty relating to cooperative development of the water resources of the Columbia River Basin.
Signed at Washington January 17, 1961; entered into force September 16, 1964, with related agreements effected by exchanges of notes at Washington January 22, 1964, and at Ottawa September 16, 1964.

Agreement implementing sec.(4) of Art. XV of the treaty of January 17, 1961 relating to cooperative development of the water resources of the Columbia River Basin.
Exchange of notes at Washington October 4, 1965; entered into force October 4, 1965.

Agreement governing the operation of pilotage on the Great Lakes and St. Lawrence Seaway with memorandum of arrangements.
Exchange of notes at Washington July 6, 1970; entered into force July 6, 1970; operative July 7, 1970.

Amendment:
August 11, 1970

Agreement between Canada and the U.S.A. on Great Lakes Water Quality
Signed at Ottawa April 15, 1972.
Entered into Force April 17, 1972.

Exchange of Notes between Canada and the U.S.A. amending the Agreement of March 9, 1959, concerning the Tariff of Tolls on the St. Lawrence Seaway (with Memorandum of Agreement)
Signed at Washington July 27, 1972
Entered into Force July 27, 1972.

Exchange of Notes between Canada and the U.S.A. regarding the Preservation of the Quality of Water in the International Section of the St. John River
Signed at Washington Sept 21, 1972
Entered into Force Sept 21, 1972

Exchange of Notes between Canada and the U.S.A. constituting an Agreement to Facilitate Joint Co-Operation in a Research Project entitled "The International Field Year for the Great Lakes"
Signed at Ottawa May 24 & June 7, 1973
Entered into Force June 7, 1973
(with effect from April 1, 1972)

CAMPOBELLO

Agreement relating to the establishment of the Roosevelt Campobello International Park,
Signed at Washington January 22, 1964;
entered into force August 14, 1964.

CLAIMS

Convention for the establishment of a tribunal to decide questions of indemnity arising from the operation of the smelter at Trail, British Columbia.
Signed at Ottawa April 15, 1935; entered into force August 3, 1935.

Agreement supplementary to the convention signed April 15, 1935 for the establishment of a tribunal to decide questions of indemnity and future regime arising from the operation of the smelter at Trail, British Columbia.
Exchange of notes at Washington November 17, 1949 and January 24, 1950;
entered into force January 24, 1950.

Agreement relating to claims arising out of traffic accidents involving vehicles of the armed forces of the United States and Canada.
Exchange of notes at Ottawa March 1 and 23, 1944; entered into force March 23, 1944.

Agreement relating to waiver of certain claims involving Government vessels.
Exchange of notes at Washington September 28 and November 13 and 15, 1946;
entered into force November 15, 1946.

Agreement relating to the settlement of certain war accounts and claims.
Exchange of notes at Washington March 14, 1949; entered into force March 14, 1949.

COLUMBIA RIVER (See BOUNDARY WATERS)

CONSULS

Convention to regulate commerce (art. IV) between the United States and the United Kingdom.
Signed at London July 3, 1815; effective July 3, 1815.

Arrangement relating to visits of consular officers to citizens of their own country serving sentences in penal institutions.
Exchange of notes at Ottawa July 29 and September 19, 1935; entered into force September 19, 1935.

COPYRIGHT (See APPENDIX)

CUSTOMS

Agreement relating to importation privileges for government officials and employees.
Exchanges of notes at Ottawa July 21, October 29, and November 9, 1942; entered into force November 9, 1942.

DEFENSE

Declaration by the Prime Minister of Canada and the President of the United States of America regarding the establishing of a Permanent Joint Board on Defense.
Made at Ogdensburg, New York, August 18, 1940.

Protocol concerning the defense of Newfoundland.
Signed at London March 27, 1941; entered into force March 27, 1941.

Hyde Park agreement. Announcement made at Hyde Park April 20, 1941 by the President of the United States of America and the Prime Minister of Canada.

Arrangement relating to visits in uniform by members of defense forces.
Exchange of notes at Ottawa August 28 and September 4, 1941; entered into force September 11, 1941.

Agreement relating to payment for certain defense installations in Canada and at Goose Bay, Labrador.
Exchange of notes at Washington June 23 and 27, 1944; entered into force June 27, 1944.

Agreement relating to reconversion of industry.
Exchange of notes at Ottawa May 7 and 15, 1945; entered into force May 15, 1945.

United States-Canadian Permanent Joint Board on Defense to continue collaboration for security purposes.
Announced in Ottawa and in Washington February 12, 1947.

Agreement delimiting area within Newfoundland territorial waters adjacent to the leased naval base at Argentia, Newfoundland.
Exchange of notes at London August 13 and October 23, 1947; entered into force October 23, 1947.

Agreement establishing a Joint Industrial Mobilization Committee.
Exchange of notes at Ottawa April 12, 1949; entered into force April 12, 1949.

Agreement relating to a final settlement for all war surplus property disposed of pursuant to the agreements effected by exchanges of notes of November 22 and December 20, 1944; March 30, 1946; and July 11 and 15, 1946.
Exchange of notes at Ottawa June 17 and 18, 1949; entered into force June 18, 1949.

Agreement relating to economic cooperation for defense.
Exchange of notes at Washington October 26, 1950; entered into force October 26, 1950.

Agreement relating to the extension and coordination of the continental radar defense system.¹
Exchange of notes at Washington August 1, 1951; entered into force August 1, 1951.

Agreement relating to the phase out of certain radar stations established under the agreement of August 1, 1951.
Exchange of notes at Washington May 25, 1964; entered into force May 25, 1964.

Agreement relating to the phase out of certain radar stations established under the agreement of August 1, 1951.
Exchange of notes at Washington September 30, 1966; entered into force September 30, 1966.

Agreement relating to the deactivation of the radar stations at Stephenville, Newfoundland and Melville, Labrador established under the agreement of August 1, 1951 relating to the coordination of the continental radar defense system.
Exchange of notes at Ottawa April 15 and June 30, 1971; entered into force June 30, 1971.

Agreement modifying the leased bases agreement of March 27, 1941 with the United Kingdom concerning bases in Canada in accordance with the recommendations of the Permanent Joint Board on Defense.
Exchange of notes at Washington February 13 and March 19, 1952; entered into force March 19, 1952.

Agreement relating to the application of the NATO status of forces agreement to U.S. forces in Canada, including those at the leased bases in Newfoundland and Goose Bay, Labrador except for certain arrangements under the leased bases agreement.
Exchange of notes at Washington April 28 and 30, 1952; entered into force September 27, 1953.

Agreement relating to the construction and operation of communications facilities on certain lands in the vicinity of Stephenville, Newfoundland.
Exchange of notes at Ottawa November 4 and 8, 1952; entered into force November 8, 1952.

Amendments:
May 1 and July 31, 1953
March 31 and June 8, 1955

United States-Canada Haines-Fairbanks pipeline agreement.¹
Exchanges of notes at Ottawa June 30, 1953; entered into force June 30, 1953.

¹Provisions are terminated to the extent that they are inconsistent with the agreement of August 16, 1971

¹Paragraph 5 of the Annex was amended by the Agreement of March 31, 1960 relating to disposition of the remaining elements of the CANOL pipeline facilities in Canada.

Agreement on the establishment and operation of a distant early warning system between the United States and Canada. Exchange of notes, with annex, at Washington, May 5, 1955; entered into force May 5, 1955.

Agreement relating to communications facilities at Cape Dyer, Baffin Island to support the Greenland extension of the distant early warning system. Exchange of notes at Ottawa April 13, 1959; entered into force April 13, 1959, operative January 15, 1959.

Agreement relating to the establishment and operation of certain radar stations in the Newfoundland-Labrador area. Exchange of notes at Ottawa June 13, 1955; entered into force June 13, 1955.

Agreement relating to the construction and operation of certain radar stations in British Columbia, Ontario, and Nova Scotia.¹ Exchange of notes at Ottawa June 15, 1955; entered into force June 15, 1955.

Agreement relating to the construction of a petroleum products pipeline between the United States Air Force dock at St. John's, Newfoundland, and Pepperrell Air Force Base, Newfoundland, with annex. Exchange of notes at Ottawa September 22, 1955; entered into force September 22, 1955.

Agreement relating to the construction of family housing units at Pepperrell Air Force Base, St. John's, Newfoundland, with contract attached. Exchange of notes at Ottawa April 18 and 19, 1956; entered into force April 19, 1956.

Agreement relating to the organization and operations of the North American Air Defense Command (NORAD). Exchange of notes at Washington May 12, 1958; entered into force May 12, 1958.

Extension:
March 30, 1968

Agreement providing for the establishment of a Canada-United States Committee on Joint Defense. Exchange of notes at Ottawa August 29 and September 2, 1958; entered into force September 2, 1958.

Agreement relating to the establishment, maintenance and operation of short range tactical air navigation (TACAN) facilities in Canada, with annex. Exchange of notes at Ottawa May 1, 1959; entered into force May 1, 1959.

Amendment:
September 19 and 23, 1961

¹Provisions are terminated to the extent that they are inconsistent with the agreement of August 16, 1971

Agreement relating to the establishment of a ballistic missile early warning system. Exchange of notes at Ottawa July 13, 1959; entered into force July 13, 1959.

Agreement relating to the disposition of the remaining elements of the Canol pipeline facilities in Canada. Exchange of notes at Washington March 31, 1960; entered into force March 31, 1960.

Agreement relating to the extension and strengthening of the continental air defense system (CADIN). Exchange of notes at Ottawa September 27, 1961; entered into force September 27, 1961.

Amendments:
May 6, 1964

November 24, 1965

Agreement for the construction on Canadian territory of three additional pumping stations on the Haines-Fairbanks pipeline. Exchange of notes at Ottawa April 19, 1962; entered into force April 19, 1962.

Agreement relating to the establishment, operation, and maintenance of a torpedo range in the Strait of Georgia, with annex. Exchange of notes at Ottawa May 12, 1965; entered into force May 12, 1965.

Agreement concerning the establishment, operation and maintenance of certain ground-to-air communications facilities in northern Canada, with annex. Exchange of notes at Ottawa December 1, 1965; entered into force December 1, 1965.

Agreement relating to the establishment of a ferry service between North Sydney, Nova Scotia and Argentia, Newfoundland, with annex. Exchange of notes at Washington June 6 and 10, 1966; entered into force June 10, 1966.

Agreement relating to the winter maintenance of the Haines Road. Exchange of notes at Ottawa May 10 and June 23, 1967; entered into force June 23, 1967.

Agreement relating to cooperation on civil emergency planning, with statement of principles. Exchange of notes at Ottawa August 8, 1967; entered into force August 8, 1967.

Agreement relating to the release of certain leased areas in Goose Bay, Newfoundland to Canada for the extension of Churchill Dam Road, with annex.
Exchange of notes at Washington January 31, 1969; entered into force January 31, 1969.

Agreement relating to the use of certain facilities at the United States Air Force Pinetree radar site at Hopedale, Labrador.
Exchange of notes at Ottawa June 11, September 19, 1969 and February 24, 1970; entered into force February 24, 1970.

Agreement relating to the transfer of the Redcliff site to Canada.
Exchange of notes at Ottawa May 10, 1971; entered into force May 10, 1971.

Agreement relating to new financial arrangements to govern the operation and maintenance of Pinetree radar stations in Canada with annex.
Exchange of notes at Ottawa August 16, 1971; entered into force August 16, 1971; operative August 1, 1971.

Exchange of Notes between Canada and the U.S.A. governing the Use of Facilities at the Goose Bay Airport by the U.S.A.
Signed at Ottawa June 29, 1973
Entered into Force July 1, 1973

Exchange of Notes between Canada and the U.S.A. constituting an Agreement to extend the Agreement of May 12, 1958 as extended on March 30, 1968 relating to the Organization and Operation of NORAD
Signed at Washington May 10, 1973
Entered into Force May 10, 1973

ECONOMIC AND TECHNICAL COOPERATION
Agreement relating to post-war economic settlements.
Exchange of notes at Washington November 30, 1942; entered into force November 30, 1942.

EXTRADITION
Conventions between the United States and the United Kingdom applicable to Canada:

Article 10 of treaty of August 9, 1842
(Webster-Ashburton Treaty)

Extradition convention signed at Washington July 12, 1869

Supplementary extradition convention signed at Washington December 13, 1900

Supplementary extradition convention signed at London April 12, 1905

Treaty providing for reciprocal rights for United States and Canada in matters of conveyance of prisoners and wrecking and salvage.
Signed at Washington May 18, 1908; entered into force June 30, 1908.

Supplementary extradition convention.
Signed at London May 15, 1922; entered into force November 3, 1922.

Convention to provide for extradition on account of crimes or offenses against narcotic laws.
Signed at Washington January 8, 1925; entered into force July 27, 1925.

Supplementary convention to the supplementary convention between the United States and the United Kingdom for the mutual extradition of fugitive criminals signed December 13, 1900.
Signed at Ottawa October 26, 1951; entered into force July 11, 1952.

FINANCE

Agreement relating to exemptions from exchange control measures.
Exchange of notes at Ottawa June 18, 1940; entered into force June 18, 1940.

FIRE PROTECTION

Agreement relating to the participation of the Provinces of New Brunswick and Quebec in the north-eastern interstate forest fire protection compact.
Exchange of notes at Washington January 29, 1970; entered into force January 29, 1970.

Agreement concerning cooperation in the detection and suppression of forest fires along the boundary between the Yukon Territory and Alaska with memorandum of agreement.
Exchange of notes at Washington June 1, 1971; entered into force June 1, 1971.

FISHERIES

Agreement adopting, with certain modifications, the rules and method of procedure recommended in the award of September 7, 1910, of the North Atlantic Coast Fisheries Arbitration,
Signed at Washington July 20, 1912; entered into force November 15, 1912.

Convention for the protection, preservation, and extension of the sockeye salmon fishery of the Fraser River system.
Signed at Washington May 26, 1930;
entered into force July 28, 1937.

Protocol amending the convention of May 26, 1930 for the protection, preservation, and extension of the sockeye salmon fisheries to include pink salmon in the Fraser River system.
Signed at Ottawa December 28, 1956;
entered into force July 3, 1957.

Agreement to facilitate the ascent of salmon in Hell's Gate Canyon and elsewhere in the Fraser River system.
Exchange of notes at Washington July 21 and August 5, 1944; entered into force August 5, 1944.

Convention for the extension to halibut fishing vessels of port privileges on the Pacific Coasts of the United States of America and Canada.
Signed at Ottawa March 24, 1950; entered into force July 13, 1950.

Convention for the preservation of the halibut fishery of the Northern Pacific Ocean and Bering Sea.
Signed at Ottawa March 2, 1953; entered into force October 28, 1953.

Convention on Great Lakes fisheries.
Signed at Washington September 10, 1954;
entered into force October 11, 1955.

Amendment:
April 5, 1966 and May 19, 1967

Agreement between Canada and the U.S.A. on Reciprocal Fishing Privileges in Certain Areas of their Coasts
Signed at Ottawa June 15, 1973
Entered into Force June 16, 1973

HEALTH AND SANITATION

Arrangement concerning quarantine inspection of vessels entering Puget Sound and waters adjacent thereto or the Great Lakes via the St. Lawrence River.
Exchange of notes at Ottawa October 10 and 23, 1929; entered into force October 23, 1929.

HIGHWAYS

Agreement providing for the construction of a military highway to Alaska.
Exchange of notes at Ottawa March 17 and 18, 1942; entered into force March 18, 1942.

Agreement relating to the southern terminus of the Alaska Highway.
Exchange of notes at Ottawa May 4 and 9, 1942; entered into force May 9, 1942.

Agreement relating to the construction of flight strips along the Alaska Highway.
Exchange of notes at Ottawa August 26 and September 10, 1942; entered into force September 10, 1942.

Agreement relating to the construction of the Haines-Champagne section of the Alaska Highway.
Exchange of notes at Ottawa November 28 and December 7, 1942; entered into force December 7, 1942.

Agreement relating to access to the Alaska Highway.
Exchange of notes at Ottawa April 10, 1943;
entered into force April 10, 1943.

Agreement relating to the designation of the highway from Dawson Creek, British Columbia, to Fairbanks, Alaska, as the "Alaska Highway".
Exchange of notes at Washington July 19, 1943; entered into force July 19, 1943.

IONOSPHERIC RESEARCH

Agreement relating to a cooperative study by the National Aeronautics and Space Administration and the Canadian National Research Council of the polar cap ionosphere.
Exchange of notes at Ottawa August 9 and 11, 1967; entered into force August 11, 1967.

JUDICIAL PROCEDURE

Arrangement relating to the admission to practice before patent offices.
Exchanges of notes at Washington December 3 and 28, 1937, and January 24, 1938; operative January 1, 1938.

LABOR

Agreement relating to unemployment insurance benefits.
Exchange of notes at Ottawa March 6 and 12, 1942; entered into force April 12, 1942.

Amendment:
July 31 and September 11, 1951

Agreement relating to workmen's compensation and unemployment insurance in connection with construction projects in Canada.
Exchange of notes at Ottawa November 2 and 4, 1942; entered into force November 4, 1942.

Agreement relating to the extension of the Canadian Unemployment Insurance Act to Canadian employees of the United States Armed Services in Canada.
Exchange of notes at Washington December 20, 1955 and April 23, 1956; entered into force April 23, 1956.

Exchange of Notes concerning the seasonal movements of woodworkers between the two countries.
Ottawa, October 23 & 31, 1958
In force, October 31, 1958

MARITIME MATTERS (See also NAVAL VESSELS)

Treaty providing for reciprocal rights for United States and Canada in matters of conveyance of prisoners and wrecking and salvage.
Signed at Washington May 18, 1908; entered into force June 30, 1908.

Load line convention.
Signed at Washington December 9, 1933; entered into force July 26, 1934.

Agreement relating to reciprocal recognition of load line regulations for vessels engaged in international voyages on the Great Lakes.
Exchanges of notes at Ottawa April 29, August 24, and October 22, 1938, September 2 and October 18, 1939, and January 10 and March 4, 1940; entered into force March 4, 1940.

Agreement relating to the transfer to Canada of Loran stations at Port aux Basques, Battle Harbour, and Bonavista.
Exchange of notes at Ottawa June 26 and 30, 1953; entered into force June 30, 1953.

Agreement relating to the construction and operation of a Loran station at Cape Christian, Baffin Island.
Exchange of notes at Ottawa May 1 and 3, 1954; entered into force May 3, 1954.

Agreement for the construction, operation and maintenance of a LORAN-C Station in Newfoundland.
Exchange of notes at Ottawa September 16, 1964; entered into force September 16, 1964.

Agreement relating to the loan of certain Loran-A equipment for use in Canadian Loran-A stations.
Exchange of notes at Ottawa June 7 and 8, 1965; entered into force June 8, 1965.

Agreement relating to the loan of additional equipment for use in Canadian Loran-A stations.
Exchange of notes at Ottawa April 19 and July 28, 1966; entered into force July 28, 1966.

Agreement relating to the loan of additional equipment for use in Canadian Loran-A stations.
Exchange of notes at Ottawa July 27 and October 25, 1967; entered into force October 25, 1967.

Agreement relating to the establishment of a Loran-A station at Gray Point, British Columbia.
Exchange of notes at Ottawa April 8, 1971; entered into force April 8, 1971.

METEOROLOGICAL RESEARCH

Agreement relating to the establishment of a cooperative meteorological rocket project at Cold Lake, Alberta.
Exchange of notes at Ottawa September 29 and October 6, 1966; entered into force October 6, 1966.

Amendment:
February 13 and April 24, 1969

MIGRATORY BIRDS

Convention for the protection of migratory birds in the United States and Canada.
Signed at Washington August 16, 1916; entered into force December 7, 1916.

NAVAL VESSELS (See also MARITIME MATTERS)

Agreement relating to naval forces on the American Lakes (Rush-Bagot Agreement).
Exchange of notes at Washington April 28 and 29, 1817; entered into force April 29, 1817.

Agreement relating to the construction of naval vessels on the Great Lakes (interpretation of the Rush-Bagot Agreement).
Exchange of notes at Ottawa June 9 and 10, 1939; entered into force June 10, 1939.

Agreement relating to the armament of naval vessels to be incapable of immediate use (interpretation of the Rush-Bagot Agreement).
Exchange of notes at Ottawa October 30 and November 2, 1940; entered into force November 2, 1940.

Agreement relating to naval vessels for training naval reserve personnel (interpretation of the Rush-Bagot Agreement).
Exchange of notes at Washington November 18 and December 6, 1946; entered into force December 6, 1946.

PACIFIC SETTLEMENT OF DISPUTES
Treaty amending in their application to Canada certain provisions of the treaty for the advancement of peace between the United States and the United Kingdom signed at Washington September 15, 1914. Signed at Washington September 6, 1940; entered into force August 13, 1941.

PATENTS
Agreement relating to the mutual interchange of patent rights in connection with RDX and other explosives.
Exchange of notes at Washington September 3 and 27, 1946; entered into force September 27, 1946.

POLLUTION
Agreement on Great Lakes water quality with annexes.
Signed at Ottawa April 15, 1972; entered into force April 15, 1972.

Agreement relating to the establishment of a Canada-United States committee on water quality in the St. John River and its tributary rivers and streams which cross the Canada-United States boundary, with annex.
Exchange of notes at Ottawa September 21, 1972; entered into force September 21, 1972.

POSTAL MATTERS
Money order agreement.
Signed at Washington September 30 and at Ottawa October 3, 1901; operative July 1, 1901.

Postal convention.
Signed at Ottawa January 12 and at Washington January 13, 1961; entered into force July 1, 1961.

PROPERTY
Convention between the United States and the United Kingdom relating to tenure and disposition of real and personal property. Signed at Washington March 2, 1899; applicable to Canada June 17, 1922.

Supplementary convention providing for the accession of the Dominion of Canada to the real and personal property convention of March 2, 1899.
Signed at Washington October 21, 1921; entered into force June 17, 1922.

REMOTE SENSING
Agreement regarding a joint program in the field of experimental remote sensing from satellites and aircraft.
Exchange of notes at Washington May 14, 1971; entered into force May 14, 1971.

SATELLITES
Agreement on cooperation in intercontinental testing in connection with experimental communications satellites.
Exchange of notes at Washington August 13 and 23, 1963; entered into force August 23, 1963.

Agreement regarding an experimental communications technology satellite project with memorandum of understanding.
Exchange of notes at Washington April 21 and 27, 1971; entered into force April 27, 1971.

SCIENTIFIC COOPERATION
Agreement concerning activities of the United States at the Churchill Research Range with annex.
Exchange of notes at Ottawa November 16 and December 18, 1970; entered into force July 1, 1970.

Exchange of Notes between Canada and the USA concerning the Establishment of a Temporary Space Tracking Facility in Newfoundland in connection with Project SKYLAB.
Signed at Ottawa Dec 20, 1971 & Feb 22, 1972
Entered into Force Feb 23, 1972

Exchange of Notes between Canada and the constituting an Agreement concerning the continued use of the Churchill Research Range.
Signed at Ottawa June 29, 1973
Entered into Force July 1, 1973.

Exchange of Notes constituting an Agreement concerning a joint program in the field of experimental remote sensing from Satellites and Aircraft (ERTS)
Washington - May 14, 1971
In force - May 14, 1971

SEISMIC OBSERVATIONS

Agreement relating to a seismic research program known as VELA UNIFORM. Exchange of notes at Ottawa May 18 and June 28 and 29, 1965; entered into force June 29, 1965, operative June 28, 1965.

Extensions and amendment:
June 26 and 27, 1968

March 25 and April 5, 1971

SEWAGE DISPOSAL SYSTEM

Agreement relating to the construction of a sewage line from Dunseith, North Dakota to Boissevain, Manitoba. Exchange of notes at Ottawa January 13, April 22 and June 9, 1966; entered into force June 9, 1966.

SHELLFISH

Agreement providing for cooperative efforts to be directed toward sanitary control of the shellfish industry. Exchange of notes at Washington March 4 and April 30, 1948; entered into force April 30, 1948.

SMUGGLING

Convention to suppress smuggling. Signed at Washington June 6, 1924; entered into force July 27, 1925.

SOCIAL SECURITY

Agreement relating to Canada Pension Plan. Signed at Ottawa May 5, 1967; entered into force May 5, 1967; effective January 1, 1967.

SURPLUS PROPERTY

Agreement relating to the disposal of government-owned surplus property. Exchange of notes at Ottawa January 9, 1947; entered into force January 9, 1947.

Agreement relating to the disposal of surplus United States property in Canada. Exchange of notes at Ottawa August 28 and September 1, 1961; entered into force September 1, 1961.

TAXATION

Arrangement relating to relief from double income tax on shipping profits. Exchange of notes at Washington August 2 and September 17, 1928; entered into force September 17, 1928; operative January 1, 1921.

Agreement relating to provincial and municipal taxation of United States defense projects in Canada. Exchange of notes at Ottawa August 6 and 9, 1943; entered into force August 9, 1943.

Convention and protocol for the avoidance of double taxation and prevention of fiscal evasion in the case of income taxes.* Signed at Washington March 4, 1942; entered into force June 15, 1942; operative January 1, 1941.

Convention modifying and supplementing the convention and accompanying protocol of March 4, 1942 for the avoidance of double taxation and the prevention of fiscal evasion in the case of income taxes. Signed at Ottawa June 12, 1950; entered into force November 21, 1951.

Convention further modifying and supplementing the convention and accompanying protocol of March 4, 1942 for the avoidance of double taxation and the prevention of fiscal evasion in the case of income taxes, as modified by the supplementary convention of June 12, 1950. Signed at Ottawa August 8, 1956; entered into force September 26, 1957.

Convention further modifying and supplementing the convention and accompanying protocol of March 4, 1942 for the avoidance of double taxation and the prevention of fiscal evasion in the case of income taxes, as modified by the supplementary conventions of June 12, 1950 and August 8, 1956. Signed at Washington October 25, 1966; entered into force December 20, 1967.

Convention for the avoidance of double taxation and the prevention of fiscal evasion in the case of estate taxes and succession duties.¹ Signed at Ottawa June 8, 1944; entered into force February 6, 1945; operative June 14, 1941.

Convention modifying and supplementing the convention of June 8, 1944 for the avoidance of double taxation and the prevention of fiscal evasion in the case of estate taxes and succession duties.¹ Signed at Ottawa June 12, 1950; entered into force November 21, 1951.

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on the estates of deceased persons. Signed at Washington February 17, 1961; entered into force April 9, 1962; operative January 1, 1959.

* Paragraph 2 of Article XI terminated December 20, 1960.

¹ Superseded by convention signed February 17, 1961 with respect to estates of decedents dying prior to January 1, 1959.

Exchange of Notes between Canada and the U.S.A. constituting an Agreement concerning the Administration of Income Tax in Canada affecting Employees within Canada of the U.S.A. Subject to such Taxation.
Signed at Ottawa Aug 1 & Sept 17, 1973
Entered into Force Sept 17, 1973

TELECOMMUNICATION

Agreement between the United States and Great Britain (for Canada and Newfoundland) for the prevention of interference by ships off the coasts of these countries with radio broadcasting.
Exchange of notes at Manchester, Mass., and Washington September 18 and 23, and October 1, 1925; entered into force October 1, 1925.

Arrangement governing radio communications between private experimental stations.
Exchanges of notes at Washington October 2 and December 29, 1928 and January 12, 1929; operative January 1, 1929.

Extension:
April 23 and May 2 and 4, 1934

Arrangement relative to the assignment of frequencies on the North American continent.
Exchange of notes at Ottawa February 26 and 28, 1929; entered into force March 1, 1929.

Regional arrangement governing the use of radio for civil aeronautical services.
Exchange of notes at Washington February 20, 1939; entered into force February 20, 1939.

Agreement providing for the allocation of channels in the radio frequency band 88 to 108 megacycles for frequency modulation broadcasting.
Exchange of notes at Washington January 8 and October 15, 1947; entered into force October 15, 1947.

Agreement relating to the operation and maintenance of the land line communication facilities between Edmonton, Alberta, and Fairbanks, Alaska.
Exchange of notes at Washington March 1 and 31, 1948; entered into force March 31, 1948.

Convention relating to the operation by citizens of either country of certain radio equipment or stations in the other country.
Signed at Ottawa February 8, 1951; entered into force May 15, 1952.

Agreement for the promotion of safety on the Great Lakes by means of radio.
Signed at Ottawa February 21, 1952; entered into force November 13, 1954.

Agreement relating to the allocation of television channels.
Exchange of notes at Ottawa April 23 and June 23, 1952; entered into force June 23, 1952.

Agreement relating to the sealing of mobile radio transmitting equipment.
Exchange of notes at Washington March 9 and 17, 1953; entered into force March 17, 1953.

Agreement concerning the coordination and use of radio frequencies above thirty megacycles per second, with annex.
Exchange of notes at Ottawa October 24, 1962; entered into force October 24, 1962.

Amendment:
June 16 and 24, 1965

Agreement relating to pre-sunrise operation of certain standard (AM) radio broadcasting stations.
Exchange of notes at Ottawa March 31 and June 12, 1967; entered into force June 12, 1967.

Amendment:
April 18, 1968 and January 31, 1969

Agreement relating to the operation of radio telephone stations.
Signed at Ottawa November 19, 1969; entered into force July 24, 1970.

TERRITORIAL ACQUISITION

Protocol of the cession of Horseshoe Reef.
Signed at London December 9, 1850; entered into force December 9, 1850.

TRACKING STATIONS

Agreement concerning the establishment and operation of a temporary space tracking facility in connection with Project Skylab with annex.
Exchange of notes at Ottawa December 20, 1971 and February 23, 1972; entered into force February 23, 1972.

TRADE AND COMMERCE

Agreement supplementary to the General Agreement on Tariffs and Trade, with exchange of notes.
Signed at Geneva October 30, 1947; entered into force October 30, 1947; operative January 1, 1948.

[Agreements rendered inoperative by the above-listed agreement of October 30, 1947, for such time as the United States and Canada are both contracting parties to the General Agreement on Tariffs and Trade:
Trade agreement signed November 17, 1938

Agreement terminating quota on imports of fox furs and restoring duty as fixed by the trade agreement of November 17, 1938, effected by exchange of notes of March 18, 1947, and proclamation

Agreement relating to the establishment of a Joint United States-Canadian Committee on Trade and Economic Affairs. Exchange of notes at Washington November 12, 1953; entered into force November 12, 1953.

Amendments:
October 2, 1961

September 17, 1963

Agreement relating to tariff duty on certain fish and fish products. Signed at Geneva June 8, 1955; entered into force July 24, 1955.

Agreement concerning automotive products. Signed at Johnson City, Texas January 16, 1965; entered into force provisionally January 16, 1965 and definitively September 16, 1966.

Interim agreement relating to the renegotiation of schedule XX (United States) to the General Agreement on Tariffs and Trade. Signed at Washington December 17, 1965; entered into force December 17, 1965.

Amendment:
June 30, 1967

WEATHER STATIONS

Agreement establishing a Pacific Ocean weather station program. Exchange of notes at Washington June 8 and 22, 1950; entered into force June 22, 1950.

Amendments:
September 25, 1950 and February 16, 1951
January 22 and February 22, 1952
June 4 and 28, 1954

- a) That there shall be established a Canada-United States Committee on Joint Defense to consist:
 - For Canada, of the Secretary of State for External Affairs, the Minister of National Defence and the Minister of Finance; and
 - For the United States, of the Secretary of State, the Secretary of Defense and the Secretary of the Treasury together with such other appropriate Cabinet Members or other Government employees as they may designate from time to time as the need arises;
- b) That the Committee's functions shall be:

1) To consult periodically on any matters affecting the joint defense of Canada and the United States;

2) In particular, to exchange information and views at the Ministerial level on problems that may arise with a view to strengthening further the close and intimate co-operation between the two Governments in joint defense matters;

APPENDIX "B"

STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS
STUDY ON CANADA-UNITED STATES RELATIONS

ANNEX II

List of Canada-United States Intergovernmental Bodies

Regional intergovernmental governing the use of radio in the Arctic region. Agreement signed at Ottawa, Ontario, February 28 and 29, 1943; entered into force March 1, 1943.

Agreement providing for the allocation of channels in the radio frequency band 15 to 16 megacycles for temporary mobile use. Signed at Washington, D.C., December 16, 1947; entered into force October 15, 1948.

Agreement relating to the operation and maintenance of the land line connecting the territories of Yukon, Northwest Territories and Yukon, Alaska. Signed at Ottawa, Ontario, February 5, 1955; entered into force March 1, 1955.

Agreement relating to the operation by the United States of certain radio stations in the Yukon Territory. Signed at Ottawa, Ontario, February 5, 1955; entered into force March 1, 1955.

March 28, 1974

Agreement relating to the operation and maintenance of the land line connecting the territories of Yukon, Northwest Territories and Yukon, Alaska. Signed at Ottawa, Ontario, February 5, 1955; entered into force March 1, 1955.

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1. The Canada-United States Inter-Parliamentary Group

This autonomous, non-governmental group was established in 1958 to provide a forum in which Canadian Parliamentarians and United States Congressmen could exchange views on matters of common concern to their countries. The Group consists of 24 Parliamentarians from each country with the Canada section being headed by the Speakers of the House of Commons and of the Senate and with the United States section being led by a Senator and a Representative. The host country provides the chairman of the meetings which take place once a year with the site alternating between Canada and the United States. The Group divides into a Defence and Security Committee and a Trade and Economic Affairs Committee and discussions are held in camera and off-the-record. A joint communiqué is issued at the close of each meeting outlining in a general way the course of the discussions.

2. Canada-U.S.A. Ministerial Committee on Trade and Economic Affairs

This Committee was established in 1953 by an exchange of notes which provided that the Canadian members would be the "Secretary of State for External Affairs and the Ministers of Finance, Trade and Commerce and either the Minister of Agriculture or the Minister of Fisheries, as appropriate" and for the United States of America "the Secretaries of State, the Treasury, Agriculture and Commerce, together with such other officials of Cabinet rank as either Government may designate from time to time, as the need arises." The notes further provided that the Committee's functions were to be:

- "(1) To consider matters affecting the harmonious economic relations between the two countries;
- (2) In particular, to exchange information and views on matters which might adversely affect the high level of mutually profitable trade which has been built up;
- (3) To report to the respective Governments on such discussions in order that consideration may be given to measures deemed appropriate and necessary to improve economic relations and to encourage the flow of trade;"

The most recent of the 13 meetings held to date, took place in November 1970. They alternate between Canada and the United States.

3. The Canada-United States Ministerial Committee on Joint Defence

The purposes and composition of this Committee are set out in the Exchange of Notes of September 1958, by which the Committee was established, as follows:

- "A) That there shall be established a Canada-United States Committee on Joint Defence to consist
 - For Canada, of the Secretary of State for External Affairs, the Minister of National Defence and the Minister of Finance;
 - and
 - For the United States, of the Secretary of State, the Secretary of Defence and the Secretary of the Treasury
 together with such other appropriate Cabinet Members as either Government may designate from time to time as the need arises;
- B) That the Committee's function shall be:
 - 1) To consult periodically on any matters affecting the joint defence of Canada and the United States;
 - 2) In particular, to exchange information and views at the Ministerial level on problems that may arise, with a view to strengthening further the close and intimate co-operation between the two Governments on joint defence matters;

3) To report to the respective Governments on such discussions in order that consideration may be given to measures deemed appropriate and necessary to improve defence co-operation;

C) That the Committee shall meet once a year or more often as may be considered necessary by the two Governments;

D) That the Committee shall meet alternatively in Washington, D.C., and Ottawa, the chairman to be a Canadian member when the meetings are held in Canada and a United States member when meetings are held in the United States."
This Committee has met four times: in 1958, 1959, 1960 and 1964.

4. The Permanent Joint Board on Defence

The Canada-United States Permanent Joint Board on Defence was established in August, 1940 by Prime Minister King and President Roosevelt when they met at Ogdensburg, New York, to discuss the problems of mutual defence. The conversations that took place resulted in the press release of August 18 known as the "Ogdensburg Declaration". The text was passed as an Order-in-Council and published in the Canada Treaty Series.

The Permanent Joint Board on Defence is established with a United States Section and a Canadian Section. Each Section has its own chairman (a civilian), 3 representatives of General rank from the armed services, 3 assistant members, and two civilian representatives from the Department of External Affairs for Canada and from the State Department for the United States. During the last several years, it has become customary for representatives of the Canadian Departments of Transport and Industry, Trade and Commerce also to attend meetings of the Board as observers. Last year a General rank officer from the policy branch of DND joined the Canadian Section and this year, two Generals from the Office of the Joint Staff and the International Security Affairs Office of the Department of Defence were added to U.S. Section.

The Board was designed to be an advisory rather than an executive body, with the prime purpose of making recommendations to the respective governments on joint defence questions. At present, it normally meets three times a year at defence establishments in the two countries. No voting procedure is used and formal recommendations are passed unanimously. When a formal recommendation is approved by both governments, this approval becomes the executive directive to the government agencies concerned.

Some of the Board's functions were taken over by the military departments of each government after the United States entered the war in 1941. In recent years it has found its most useful role in the broad area of helping to mesh military requirements with political, economic and other considerations in order to facilitate military co-operation in ways satisfactory to the two governments.

5. Military Co-operation Committee

The MCC was established in 1946 to supplement the Permanent Joint Board on Defence. In 1949 it was separated from the PJBD and became directly subordinated to the Chief of Defence Staff for Canada and the Joint Chiefs of Staff for the United States. It is composed of two national sections, each of which is designated to be chaired by an officer of Major-General rank. The MCC which meets twice yearly is concerned with military planning for the defence of North America.

6. Canada-U.S. Regional Planning Group (CUSRPG)

This planning group is a committee of the MCC and part of the NATO Command structure. It covers the North American area, and develops and recommends to the NATO Military Committee plans for the defence of the Canada/United States region. It meets alternately in the two countries.

7. The Senior Committee on United States/Canadian Defence Production-Development Sharing Programme

Although arrangements in this field date back to the Hyde Park Declaration of war years, the Senior Committee was organized in 1958. It originally met twice a year at the Deputy Minister/Assistant Secretary level but has not met since 1966. The Steering Group of the Senior Committee, chaired at the Assistant Deputy Minister level, was re-installed in 1972 and presently meets on a yearly basis.

Its objective is to co-ordinate so far as possible, the defence requirements, development, production and procurement for the two countries in order to achieve the best use of their respective production resources for common defence.

8. The United States-Canada Civil Emergency Planning Committee

Co-operation between Canada and the United States in the field of Civil Emergency Planning is governed by the Agreement effected in the Exchange of Notes of August 8, 1967. The United States-Canada Civil Emergency Planning Committee, which is dealt with in the Agreement, meets at the senior official level. The Agreement stipulates that the Committee will "meet at least once each year at such times and places to be agreed upon".

In this Committee the two countries co-operate on civil emergency planning (including civil defence) in order to achieve the maximum degree of compatibility feasible between emergency plans or systems within each of the two countries and to recommend to their respective governments co-operative arrangements for mutual assistance in the event of armed attack on either country in North America.

9. North American Air Defence Command

In 1957 the Minister of National Defence of Canada and the Secretary of Defence of the United States announced agreement to the setting up of a system of integrated operational control for the air defences "in continental United States, Canada and Alaska" under an integrated command responsible to the Chiefs of Staff of both countries. The understanding was finalized by an Exchange of Notes on May 12, 1958 which provided for the agreement to run to ten years. In May, 1968 it was renewed for a further five years, it being understood that a review of the Agreement may be undertaken at any time at the request of either Party and that the agreement may be terminated by either Government after such review following a period of notice of one year. Last May, in view of the evolving strategic situation and the need to further examine the component elements of the concept for a modernized air defence system, the Agreement was renewed for only another two years, i.e. until May 1975.

NORAD is a joint command for air defence and includes such combat units as are specifically assigned to it by the two governments. The appointments of the Commander and his deputy must be approved by both governments and both officers cannot be nationals of the same country.

10. International Joint Commission

The International Joint Commission was established in 1911 under Article VII of the 1909 Canada-United States Boundary Waters Treaty.

The Commission's functions encompass finding equitable solutions to a wide variety of problems arising along the Canada-United States boundary. However, over the years it has dealt mainly with questions involving the regulation of the flows of boundary waters and the abatement of boundary waters pollution and trans air pollution.

The Commission is composed of six commissioners, three appointed by the Government of the United States and three appointed by the Government of Canada. The Canadian section is responsible to the Secretary of State for External Affairs. The Commission meets semi-annually and alternates the site of its meetings between Canada and the United States.

11. International Boundary Commission

The International Boundary Commission was established under Article I of the Canada-United States 1908 International Boundary Demarcation Treaty. This treaty was later amended by the 1925 Canada-United States Boundary Demarcation Treaty.

The functions of the Commission include inspecting the boundary; repairing, relocating and rebuilding boundary monuments; keeping boundary vistas open; maintaining at all times an effective boundary line and determining the location of any point of the boundary which may become necessary in the settlement of any question between the two governments. In order to give appropriate support to the increasingly complicated problems stemming from the natural growth along the boundary line it was found necessary within Canada to enact the 1960 International Boundary Commission Act.

The Commission is composed of two commissioners, one appointed by each government. The staff of the Canadian section of the Commission is provided by the Department of Energy, Mines & Resources but the Canadian Commissioner reports to the Secretary of State for External Affairs. There is at least one meeting annually alternately in Ottawa and Washington.

12. Great Lakes Fisheries Commission

The Great Lakes Fisheries Convention which set up the Commission came into force in 1955 upon ratification. The Canadian Act to implement the convention was assented to on June 28, 1955. The Convention represented some 50 years of attempts by both countries to adopt a common approach to the conservation and development of the Great Lakes Fisheries. The Commission is divided into two national sections, each of three members. The Canadian agent for the Commission is the Department of Fisheries and Forestry and it works in close co-operation with the Government of Ontario for re-stocking the lakes as lamprey control becomes effective. The Commission has no regulatory powers; it can only make recommendations.

13. The International Pacific Halibut Commission

The Convention between Canada and the United States for the preservation of the halibut fishery in the North Pacific and Bering Sea was first negotiated in 1923. It was revised in 1930, 1937 and again in March, 1953. The original Convention set up the International Fisheries Commission, but in 1953, the name was changed to its present one.

Under the original treaty the Commission was divided into two national sections, with two Commissioners from each country. However, the present Convention increased the membership to 3 from each country. The Commission meets annually.

14. Pacific Salmon Commission

The original Convention between Canada and the United States for the protection, preservation and extension of the sockeye salmon fisheries in the Fraser River system was signed on May 26, 1930. A protocol signed December 28, 1956 extended the agreement to include pink salmon. The Commission is responsible for regulating the fisheries for sockeye and for pink salmon with a view, where feasible, to allowing equal catches by each country's fishermen. The cost of all improvements in spawning grounds, the construction and maintenance of hatcheries, rearing ponds and other facilities for the propagation of salmon stocks and the cost of removal of obstructions is borne equally by the two governments on the basis of annual appropriations.

The Commission consists of six members with three members from each national unit. An advisory committee also exists, composed of various branches of industry to examine and comment on an informal basis on all proposed orders, regulations and recommendations.

There is an annual meeting. Interim meetings are held throughout the year when the situation requires them.

Each contracting party has agreed to enact and enforce such legislation as may be necessary to make effective provisions of the Convention and the orders and regulations adopted by the Commission.

15. Canada-U.S.A. Balance of Payments Committee

This Committee was established in 1963 in order to consider financial questions arising out of United States legislation designed to improve their balance of payment situation.

16. Canada-United States Technical Committee on Agricultural Marketing and Trade Problems

At the June, 1967 meeting of the Canada-United States Ministerial Committee on Trade and Economic Affairs, it was agreed to establish this Technical

Committee to consider questions of trade in agricultural products between the two countries. Its first meeting was held in Ottawa in November of the same year. The two governments are represented at meetings by senior officials in the agriculture and trade fields.

17. The Roosevelt Campobello International Park Commission

The agreement establishing the park was signed in January, 1964. Its establishment was prompted by the offer of the Hammer Family who donated the Roosevelt cottage and surrounding grounds on Campobello Island, New Brunswick to Canada and to the United States to commemorate President Franklin Roosevelt. The Commission is divided into two national sections, each with three members plus alternates. The positions of chairman and vice-chairman alternate between the two countries every two years.

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OF THE
STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable ALLISTER GROSART, *Deputy Chairman*

Issue No. 2

WEDNESDAY, APRIL 3, 1974

Second Proceedings Respecting:

Canadian Relations with the
United States

(Witness:—See Minutes of Proceedings)

Committee to consider questions of trade in agricultural products between the two countries. The first meeting was held in Ottawa in January of the same year. The two governments are represented at meetings by senior officials. The Committee is composed of representatives of the two countries and is organized on a reciprocal basis.

17. The Economic Commission for Latin America

The agreement establishing the Commission was signed in January, 1960. The Commission was created by the Office of the Secretary of State, who headed the Roosevelt Institute and Economic Council in Washington, D.C. The Commission's mandate is to study and report on the economic situation of Latin American countries. The Commission is a permanent body and its members are appointed by the two governments. The Commission's work is carried out through a series of meetings and reports. The Commission's first report was published in 1961 and is available from Information Canada, Ottawa, Canada.

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19. United States Commission

The original Commission between Canada and the United States for the protection, preservation and management of the white fishery in the Pacific Ocean was signed on May 24, 1959. A protocol signed December 28, 1959 amended the agreement to include pink salmon. The Commission is responsible for regulating the fisheries for herring and pink salmon with a view to the conservation of the fishery resources. The Commission's work is carried out through a series of meetings and reports. The Commission's first report was published in 1961 and is available from Information Canada, Ottawa, Canada.

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20. Canada-U.S.A. Joint Committee on Fisheries

This Committee was established in 1957 in order to consider fisheries questions arising out of the United States legislative proposals to increase the number of permits issued.

21. Canada-U.S.A. Joint Technical Committee on Agricultural Marketing

At the June, 1961 meeting of the Canada-United States Ministerial Conference on Agricultural Marketing, it was agreed to establish this Technical



SECOND SESSION—TWENTY-NINTH PARLIAMENT

1974

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE ON

FOREIGN AFFAIRS

The Honourable ALLISTER GROSART, *Deputy Chairman*

Issue No. 2

WEDNESDAY, APRIL 3, 1974

Second Proceedings Respecting:

Canadian Relations with the
United States

(Witness:—See Minutes of Proceedings)



SECOND SESSION—TWENTY-NINTH PARLIAMENT

THE STANDING SENATE COMMITTEE ON FOREIGN AFFAIRS

The Honourable John B. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

- | | |
|---------------|-------------|
| Asselin | Laird |
| Bélisle | Lapointe |
| Cameron | Macnaughton |
| Carter | McElman |
| Connolly | McNamara |
| (Ottawa West) | Rowe |
| Croll | Sparrow |
| Deschatelets | van Roggen |
| Hastings | Yuzyk—(20). |
| Lafond | |

Ex Officio Members: Flynn and Martin.

(Quorum 5)

Issue No. 2

WEDNESDAY, APRIL 3, 1974

Second Proceedings Respecting:

Canadian Relations with the United States

(Witness:—See Minutes of Proceedings)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Tuesday, March 26, 1974:

The Honourable Senator Aird moved, seconded by the Honourable Senator Grosart:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States; and

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Order of Reference

Wednesday, April 3, 1974.
(3)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 10.45 a.m. this day.

Present: The Honourable Senators Bélisle, Cameron, Carter, Connolly (*Ottawa West*), Grosart, Lafond, Laird, Lapointe, McElman, McNamara, Rowe, Sparrow, van Roggen and Yuzyk. (14)

Present but not of the Committee: The Honourable Senator McGrand. (1)

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

Due to the unavoidable absence of the Chairman, the Deputy Chairman, the Honourable Senator Grosart, took the Chair.

The Committee continued its study of Canadian Relations with the United States.

Witness: Mr. William Diebold, Jr., from the Council on Foreign Relations, New York.

At 12.55 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Wednesday, April 3, 1974.

The Standing Senate Committee on Foreign Affairs met this day at 10.45 a.m. to examine Canadian relations with the United States.

Senator Allister Grosart (*Deputy Chairman*) in the Chair.

The Deputy Chairman: Honourable senators, I am sorry to have to announce that Senator Aird, our distinguished chairman, will not be with us this morning. He is in Europe and he asked me to convey his regrets to you, Mr. Diebold. I think you will understand his unavoidable absence when I tell you that his is also co-chairman of the Canadian-American Defence Committee and on the famous Committee of Nine. So we do have to carry on without him at times.

This is the second meeting of the committee since we undertook our inquiry into some aspects of Canadian-American affairs. The Canadian Secretary of State for External Affairs was in attendance at our first meeting and gave a general explanation of government policy.

Today we have with us Mr. William Diebold, Jr., of the Council on Foreign Relations, of New York. He is, I believe, a senior research fellow at the Council at the moment. Honourable senators will remember that a colleague of his, Mr. Robert Schaetzel, was with us when we discussed Canadian-European Economic community affairs.

The Council on Foreign Relations is a distinguished American organization, somewhat similar to the Royal Institute of International Affairs in the United Kingdom or the Canadian Institute of International Affairs. It publishes the influential *Foreign Affairs* quarterly, which is the "Bible" of many in this field.

Mr. Diebold was born in New York, and has done graduate work at Yale and the London School of Economics. He has worked in the Office of Strategic Services and in the State Department. He returned to the Council in 1947.

Some honourable senators will be familiar with some of his publications. He has written a number of books and contributed a great many articles. Personally, I have only read one of your books, sir, so I am, you might say, an inconsistent reader.

Mr. William Diebold, Jr., Council on Foreign Relations, New York, N.Y.: It puts you well ahead of the crowd.

The Deputy Chairman: That is the book entitled *The United States and the Industrial World*, in which you discussed at some length some possible areas of limited or extended free trade between Canada and

the United States. I am quite sure you will have questions from the senators along those lines.

Mr. Diebold has prepared a brief opening statement. Perhaps I should tell him now how grateful we are to him for breaking into his very busy schedule to come here. He arrived on an aircraft at the airport not more than three-quarters of an hour ago, so if he is a little breathless at the start you will understand. Following his opening remarks I will call on Senator McElman to start the questioning, then recognize senators as they indicate their wish to direct questions to Mr. Diebold.

Mr. Diebold: Thank you very much, Mr. Chairman. I am very honoured that you have asked me to meet with you at this early stage of your re-assessment of Canadian relations with the United States. As a long-time student of the subject, I know I shall find this session interesting and I hope that, in the end, it will prove to be of some use to you, too. Allow me to take just a moment to explain the capacity in which I speak. It is an entirely personal capacity. The Council on Foreign Relations in New York for which I work, as the Chairman mentioned, is a private, non-profit organization concerned with the study and discussion of international affairs and the American interest in them. It is quite comparable in many ways to the Canadian Institute of International Affairs. As an organization, the Council, which has a very diverse membership, takes no position whatever on issues of United States foreign policy or, for that matter, on anything else. Members of the staff, however, or anyone else who undertakes work supported by the Council, are expected to think hard about the subjects on which they work and that, naturally enough, leads one to have opinions and to form conclusions. If we were not able to express those opinions and conclusions, we would feel that our work was rather barren. But what I say is what I think.

As the Chairman indicated, my work at the Council has been primarily concerned with international economic affairs and the foreign economic policy of the United States. Since I try to relate what I do in those fields to the real world, I cannot close my eyes entirely to international political considerations, or to the concern of everyone with security problems. My interest in Canadian affairs goes back quite a long way. I suppose it must have started in my childhood, with reading and visits to your country. It might have had a much earlier origin, because my father once told me that he came very close to going to the Klondike, but he did not. Professionally, I think my interest dates from the war, when I took part in a number of meetings with Canadian officials and economists to discuss problems of the post-war international order.

Senator Connolly: I am sorry, but what was it you discussed?

Mr. Diebold: This was at the time we were talking about the problems of the post-war world that was to come—Bretton Woods, GATT and the whole gamut of issues. I was much involved on the American side in preparing for them. We discussed them with Canadian officials and experts.

Since 1947 I have been a part-time Canada watcher, a frequent Canada visitor and a regular enough goer-to-conferences on both sides of the border to occasionally say some words on the subject of Canadian-American relations. Among those words were an initial reaction to Mitchell Sharp's statement on options for the future of Canadian-American relations, which was asked for by my friends at the Canadian Institute of International Affairs. I imagine that is what led to my being asked to come here. I shall, therefore, address myself, at least initially, to Mr. Sharp's paper without, if I can help it, repeating myself in too obvious a fashion. That is not altogether easy. For one thing, I do not really have a great deal more to say of a general nature than I wrote in that pamphlet published by the Canadian Institute. Secondly, I feel very strongly that, just as the options are posed for Canadians, so most of the discussion of the issues they raise should be among Canadians. You do not need a lot of advice from visitors. Finally, my reaction to the statement is not so strong, pro or con, that emotion or conviction give me any missionary zeal to set you right on the things it talks about.

Indeed, the tone, the style, the perceptiveness of that paper make it a really admirable statement, balanced, moderate and full of nuances. For me those are merits in dealing with a complex subject, especially when the author is a public official. The document is quite remarkable among state papers for its sensitive treatment of a number of key issues in the relations of our two countries. For example: the inevitable asymmetry which results from the difference in size of the two countries; the related matter of dependence; the fact that United States national policy is only rarely the main source of what many Canadians see as problems; the extent to which the basic question in Canadian-United States relations is often "What kind of Canada do Canadians want?"; and, finally, the great importance of what the paper calls "distinctness". I think that is an excellent term, which not only sums up many issues, but suggests the conclusion that to the extent distinctness is achieved and accepted quite a few other problems may disappear. A passage on page 12 of the statement says:

... more and more Canadians have come to conclude that the American model does not, when all is said and done, fit the Canadian condition.

If that is so, you have excellent defences, it seems to me, against much of what many people here fear. Whether Canadians would in fact do well to accept or reject all or any part of the American model should never, in my opinion, be a matter of official dispute between our two countries. That it must sometimes be a matter of dispute among Canadians seems to me inevitable.

One of the greatest strengths of Mr. Sharp's paper is its acute awareness of the extraordinary range of private and public affairs that become involved in Canadian-American relations. Far more issues arise between us than in the relations that either of us has with any other countries, or than are usually thought of as falling into the classical realm of "foreign policy". Consequently, many matters that are usually thought of as domestic are with us matters of international relations and many aspects that might be considered private affairs become public. To a degree, this is happening all over the world, particularly in the relations among the non-communist, industrialized countries. Canadians and the people of the United States, however, have really carried it very far. Maybe the whole world can learn something from these developments. What we see is something far more complex than is suggested by the usual claim of governments to represent "the national interest". We all know that this term, the national interest, is a term of art, especially in economic affairs, and that it really covers a particular kind of compromise among private views about what ought to be done. It hides conflicts of private interests as well, such as those that divide producer from consumer, farmer from city dweller and one section of the country from another. Often these lines of interest, or the conflicts of interest, cut across national boundaries and the interests could be better served by some kind of international co-operative arrangement than if each one has to be submerged in two separately defined sets of what are called "national interests". Whether that makes these problems any easier to deal with is not at all certain. I guess that many Canadians think that a good part of their problem is precisely how to find the true national interest in this welter of particular interests, yet unless we recognize the peculiar characteristics of the relation between our two societies and economies, we are not likely to satisfy anyone very well in the future.

Against these strengths in Mr. Sharp's statement that I have been talking about must be set some pretty obvious weaknesses. The greatest, and the one that has been most noticed, I think, is vagueness. It does not really tell you whether or not the Canadian economy is strengthened by a step that makes for more specialization in foreign trade or less, or whether or not vulnerability is reduced by borrowing in New York to develop resource production.

Maybe all you can do in an official statement of general policy is to point a direction, but I get the impression that not all Canadians agree in what direction the statement points. To my mind there is a clear clue to that matter in the fact that the three options are not symmetrical. There is none that matches the one that calls for integration with the United States. Thus the third option appears to be what might be called the most nationalistic of the three, but it does not go very far in that direction by the standards of some people in Canada—or the rest of the world these days.

My own assessment is that the third option is a policy of leaning. While the direction of the leaning is suggested, it is hard to get a firm grip on exactly what is being proposed.

Sometimes I think the best interpretation is that the minister is basically calling for the regular interposition of a Canadian governmental judgment about a wider

range of transactions with the United States than has existed in the past, but without saying in advance just what the content of this judgment should be. That would be something like your new investment legislation, if I understand it correctly.

In other words, if that interpretation is correct, the Sharp statement would be more procedural than substantive. I am not really in a position to say whether that is the correct interpretation. If it is, one would have to say that it left the economic meaning of the third option indeterminate until one got down to cases.

Let me conclude by a shift in focus away from the actual text of the statement. Mr. Sharp quite rightly stresses the fact that Canadian-United States relations are affected by changes in the global setting. That is a subject which I think is worth fuller exploration, especially as there are quite contradictory forces at work. Without elaborating, I should like to make three rather blunt statements about how the events of the last 18 months might affect the third option.

The increased economic and political power of countries outside North America is noted in the statement as giving Canada opportunities to dilute the bilateral relation. That is correct, provided these shifts in power lead toward a greater opening up of economic relations and a movement in the direction of what we used to call multilateralism, rather than in the direction, which many people see as being more likely, of a stress on blocs, poles, or bilateralism. There is nothing inevitable about these developments, so far as I can see. My own strong preference is for the more co-operative system, but my experience tells me that that is the most difficult of the results to achieve. It requires sustained attention by a number of governments who are in some measure agreed on their aims.

We have been through this once before. I referred to the fact that in the forties I was involved in what was then called post-war planning. Canada was one of the founders of the resulting system, which in my opinion served us very well for a quarter of a century. Difficulties later arose in the system and, in Canada's case, I would say that at some time, perhaps about the beginning of the Kennedy Round of trade negotiations in the early sixties, this country moved from becoming a leader in that system to becoming something of a laggard, I am afraid. I am not altogether clear how things stand right now, but I am quite sure that if the shift in international economic power does become a movement toward blocism, Canada will find that the pressures for continentalism, bilateralism, a special relation, dependence—use whatever terminology you like—will be strengthened both here and in the United States.

My second comment concerns American policy. The Sharp statement speaks of pragmatism in what the United States was doing. That pragmatism has been felt by a number of people in my country as a weakness, precisely because this old system of economic co-operation had gotten into serious disrepair, and it was not really going to be possible to rebuild it without a sense of direction and purpose. That is what pragmatism does not give you. Moreover, in the year after August 1971, the term "pragmatism" in the United States had distinct tones of economic nationalism, a kind

of "looking after our own interests" that could finally destroy the old open system.

Had development gone on in that direction, the pursuance of the third option might very well have posed some unpleasant choices between a sharper nationalistic reaction in the United States than was allowed for in the original paper, or accepting a higher degree of continentalism than I think was intended or that most people would find in the text. You can certainly still hear many echoes of those attitudes, but I would say that by the fall of 1973 a year after the paper was published, United States policy was fairly clearly set on a course of trying to rebuild the system of international economic co-operation. In those circumstances, inevitably, the prospects for the third option improved.

I come now to my third point, which is quite simply that the world has again changed since last fall. The combination of the energy crisis, high demand for food, and fear of a more general raw materials shortage over the foreseeable future has had three major consequences. The first is a great strain on international trade and payments. No one feels able to agree now to arrangements for monetary and trade reform that were shaping up as quite good possibilities six or nine months ago.

The second consequence is the strong shove that many countries feel toward the need for unilateral action to escape as best one can from a difficult situation without too much regard for what happens to others. Whether any significant degree of international co-operation can be salvaged from that kind of a situation is far from clear.

The third consequence is something that Canadians have known all along—producers of energy, food and raw materials have been given a new importance in the world. How long this will last, on what conditions they can make the most use of their power, and to what ends, are large and, on the whole, rather new questions. The old patterns of co-operation are inadequate to deal with them. What new ones would make sense is not so easy to see. The temptation to muscle flexing and unilateralism by producers is clearly very great. For Canada, in these circumstances, the third option seems to me to take on added dimensions, and perhaps added uncertainties as well. Thank you.

The Deputy Chairman: Thank you, Mr. Diebold.

Honourable senators, before I call on Senator McElman, I am sure you would want me to welcome Mr. Robert L. Funseth, who is sitting behind Senator Carter. He is Political Counselor at the United States Embassy. We extend to him a warm welcome.

Senator McElman?

Senator McElman: Mr. Chairman, perhaps I should start, through you, by saying to Mr. Diebold that I am a Maritimer from New Brunswick, and traditionally in that part of the country we support free trade, God, clam chowder, and more free trade—not necessarily in that order. That philosophy would normally lead one to support the second option, that of closer integration. Canada has gone for the third option, that being to lessen its vulnerability and to diversify its trade and other relations.

To get the discussion started, Mr. Diebold, perhaps you would permit me to change positions and say that were I a citizen of the United States today I would think it would be in the interest of my country to achieve three broad things, those being: first, a continental energy policy, taking into account the great hydroelectric power potential which still exists in Canada and the yet undeveloped oil and natural gas resources and, to a lesser degree, coal, and other resources such as tidal power; secondly, a continental resource policy, which would include many of those same things and, additionally, almost limitless supplies of fresh water and strategic minerals, and so forth; and, thirdly, a rapid expansion of free trade arrangements towards the ultimate elimination of all trade barriers between Canada and the United States.

I would ask you to cast yourself in the role of a Canadian and react to what would seem to be, from the United States standpoint, the desirable development of those three areas.

Mr. Diebold: As I have said I am not going to give you gratuitous advice, your asking me to play the role of a Canadian reacting to a Canadian's view of what American policy should be, which is not entirely my view of what American policy should be, creates a fairly complicated situation.

Senator McElman: I appreciate that.

Mr. Diebold: Taking the first two points, which I feel one can safely take together—energy and resources—I think I understand very well the feeling that since the ratio of demand to supply in the two areas is so different, and since there is a political division between two governments, each responsible only to part of the population of North America, there has to be a different calculation in Ottawa about what should be done from what would be the calculation in Washington. Were I a Canadian, I would say that something like the third option would be what I would look at. However, I would be quite puzzled—and here I am probably very close to the end of my knowledge of the ins and outs of your total resources and your capita supplies—I would be quite puzzled to know exactly how such a policy should shape up. No doubt I would want Canadian energy and raw materials to be used to the benefit of the Canadian economy. But what does that mean? The classic position says that I do not wish merely to export raw materials, but at the same time I need to export some of them in order to import the things I wanted from the rest of the world. There follows the familiar question of processing: If one comes to something like absolute limits—not enough to go around—the question becomes: “Can I keep Canadian resources here at home instead of letting the other people have them?” That is not quite as simple a question as it sounds. One naturally says that the domestic consumer would have first claim. But if resources are short throughout the world, then every government will seek to give priority to its own people for one thing or another. So export restrictions would become general and concern for one's position in world trade would have to focus on export restrictions as well as import restrictions. As a Canadian, I would feel just as I feel as an economist, that Canada is bound to benefit in the long run from a relatively open system of international trade. Canada is

far more vulnerable to what happens in that system than is, say, the United States. So as a Canadian, I would exercise my third option, but in a way that looks ahead and not simply by saying, “Here I am sitting on top of what is wanted.” I am indeed in a good position, but if I make it too difficult for others, or set the terms too high, then other nations will either find alternative sources or try to improve their bargaining position by putting export controls on something I want—possibly capital—or, by whatever means they can.

If one rejects the word “continentalism,” which, I am told, is not an okay word on this side of the border there still remains the fact that the greatest amount of trade on the part of our two countries is between them. The largest market for Canadian resources, in whatever form you wish to export them, is the United States. I should have thought that inevitably there would be the recognition—and I am playing the role of a Canadian now—that the Americans can re-assess this game as well as I can. They would say, “We cannot get Canadian resources except on terms that the Canadians agree to. Where, then, are the lines of mutual advantage?” There must be mutual advantage. We cannot just sit here on two separate sets of resources that happen to be in differently described political unions and think that this difference turns production and consumption into a zero-sum game. A zero sum game is one in which one party gains and another loses. That does not have to happen in international economics as a rule. (Though there are parts of it which come out that way). But you can make economics a zero-sum game if you treat it that way. Extreme economic nationalism assumes that my gain is always your loss. If you play that game you may both get less than if you play for the possibilities of mutual gain.

I apologize for being so vague, senator, but I do not know just how Canadians could maximize the bargaining power which their relatively great endowment of natural resources provides. I see difficulties; I see important differences of opinion among Canadians. I do not feel that I am able to drive some great clear line through, the issue—even playing the role of a Canadian—and say that this is how you ought to do it.

The Deputy Chairman: I can assure you, Mr. Diebold, that in this room you will find pretty well all of the extremes, from more or less extreme Canadian nationalism to more or less extreme Canadian continentalism.

Senator McElman: With the development of trading blocs in the world today and with what appears to be the defensive mechanism which is coming into place in the United States as a result of trade matters and the dreadful monetary concern, were Canada to be regarded by the United States as a nation which took advantage of the problems which it is currently experiencing, and were Canada to appear to be reluctant to ship raw resources to the United States, is the United States in a position to divert the trade it now has with Canada, to any degree, to other nations of the world as a retaliatory measure? I am not suggesting that this would be the case; I am just hypothesizing. We are the greatest trading partner of the United States, and the United States is our greatest trading partner.

Mr. Diebold: It would certainly be an extraordinarily difficult and very peculiar kind of activity. It reminds me

of the kinds of things nations had to do during the war when we had to combine adjusting ourselves to the enemy's taking over various pieces of the world from which we used to get supplies, while carrying on a form of economic warfare in which we took over the former economic activity of the enemy—for example, to buy and sell in Latin America in order to keep out Nazi economic penetration. That is precisely the kind of thing that I do not think we want to have our relations degenerate into.

I do not know the answer to your question in terms of what particular products could be gotten from alternative sources. That is a factual matter which I do not have command of the facts. Surely we are talking about a degree of dislocation which no one wants. The question is not, "Can you do it?" The question is, "Can you avoid getting to the point of having people think that is the problem?" Because it surely is not. If pushed, I suppose Americans could say, "Where else are the Canadians going to sell their resources if not to us?" For some things there are markets and for some things not, or not as advantageous a market. But this is not the way that I think it makes any sense to go at these problems.

Senator McElman: Taking into account that historically we are our mutually greatest trading partners, and that we would both have difficulties if that situation did deteriorate, what is the option? It is a combination of the three that will bring the best result for both the United States and Canada within the world we have today? Is it selective free trade between the two countries? Is it wide open? Is it a variation or a mix of all three?

Mr. Diebold: We have a high degree of free trade already. I think we sometimes forget that most of what goes across the border between the United States and Canada is outside the tariff already.

I did not respond to part of your earlier question. You hypothesized that it should be American policy to have free trade in everything with Canada. As an American, that causes me a little difficulty. As an economist, I think I can make a good argument as to why over-all free trade between the two countries would be desirable. From product to product, the value of getting rid of the remaining barriers differs considerably. The conclusion depends a bit on what you assume about each of our trade relations with the rest of the world. General economic benefit aside, if you ask what the United States interest in this is, I have to say that the discrepancy in the size of the two economies becomes very important. The gain to the United States from the elimination of Canadian tariffs on, let us say, all manufactured goods, must be far less than the potential gain, and also therefore more potential disturbance, to Canada, from free trade with the United States. I have felt for a long time that on this range of issues there is no reason why the Government of the United States should be pressing Canada to eliminate all import barriers.

I think the real problem for Canada is whether you gain or lose by tariffs protecting your industries against American competition. There you come to the kind of problem I touched on briefly when I said that what is traditionally called national interest is just a veil over a complex of consumer-producer interests. The same is true in the United States. But except possibly in certain

lines of production where Canada is the more important producer, the discrepancy in size of the two economies means that the adjustment to free trade would be larger in Canada, so it should be Canada's choice. That does not mean the United States would automatically agree to any given limited slice of free trade, just because Canada decided it was a good thing. Any proposal would normally be subject to bargaining. We too have our protected interests. While as a consumer I think probably we would be better off if the resources now shielded by tariffs were used in industries where we do not need to have protection, there is an adjustment problem; there might be unemployment; there would be people who would no longer be able to make their livelihood in the same way. Those things would have to be taken into account.

Now let me turn to your larger question of what kind of arrangements would be better for both of us in global terms. I lean very strongly to thinking that both of us would gain very substantially from the elimination of quite a wide range of trade barriers throughout the world. I do not really think that what has been left of the tariff in Western Europe, Japan and North America is anything like as important as what we have all succeeded in eliminating in the last 25 years. The lowness of trade barriers is extraordinary. There are awkwardnesses about that, but I find it very hard to believe that if we think we have all gained by what we have done in the last 25 years we do not all stand to gain by pushing it a bit farther.

We then come to this very difficult set of things labelled "non-tariff barriers." It is generally recognized now, I think, that this is not a proper term; that "trade distorting practices," or something of that kind, would be more accurate, because we are talking about subsidies as well as hidden protection, customs classification and that range of things.

There it seems to me some of the same logic that applies to the removal of tariffs and quotas also applies. In other words, the old general free trade logic, subject to all its qualifications about national security, time for adjustment, and so on, must apply. However, I do not think that is an adequate approach, because many so-called non-tariff barriers are really the by-product of domestic economic policies. When the management or shaping of a national economy also creates barriers to international trade, I do not think you can say *a priori* that the elimination of the barrier to trade is always more desirable than what is being done to shape the economy. The most obvious example is in some sorts of environmental controls. If it is necessary to impede trade to keep up national standards of pollution-free life that are higher than those other people want, you may very well have a case for saying that the interruption of trade is less important. If you are developing depressed areas you get into the same kind of calculation. But in either case you can get into some real problems because if you take measures that throw a burden on other countries, as trade barriers do, you cannot expect them to live by different rules from the rules that you live by. They can retaliate. They can take for themselves measures that throw the burden on you. Consequently, when one uses any one of the range of subsidies, governmental procurement, tax rebates and so on, that all

of us do, in order to develop a backward area or meet problems in a depressed area, we would be far better off if we were all agreed about what were proper methods and what were not proper methods. Take the kind of dispute we are having at the moment about the Michelin case. That is a classic example of everybody doing what—by a partial vision—seems right, but which adds up to a very difficult problem that is not black and white by any objective standard. What for Canada is a sensible means of creating employment and exports appears to American producers to be unfair competition and is plainly labelled as such in American law.

I would take that as an awfully good example of the kind of thing we all ought to be considering in a broad international forum. Not everybody in the world is interested in these problems, but we in North America and the Japanese and western Europeans certainly are. Such activities are central to a lot of what all these governments do. The United States has new kinds of tax regulations that worry others—they are called DISC. This practice is being challenged, and that is proper, but so should be what the rest of the world does to promote exports or apply turnover taxes to imports. Not all barriers can be eliminated. But you have to establish something like common standards. Minimal damage should be done to other people when you want to make a social adjustment in your own society. You ought not to thrust the burden on other people. In the United States we did that with our agricultural policy for a long time. We have moved to a point now where there is far less of that kind of thing in our agricultural policy. Both Canada and the United States are running into such difficulties in Europe. I think that a further freeing of international trade would benefit both Canada and the United States.

Senator Carter: I am going to ask Mr. Diebold to continue in his role as a Canadian *pro tem*, and I am going to approach the problem from a slightly different angle.

I should like you to think in terms of the forces that are at work with respect to the relationship between our two countries, Mr. Diebold. You have mentioned that Mr. Sharp's paper sort of leaned in the direction of nationalism, and that it was vague.

I think the reason for that is that the forces at work have not yet resolved themselves and nobody can tell until that has happened just in what direction the ultimate result will point.

What are those forces? I am only going to name a few of those forces. One of them is a tremendous fund of goodwill between our two peoples. Like Senator McEldon, I am a Maritimer. I come from Newfoundland, and I can say that our ties are perhaps even closer with the United States than those of any other maritime province because we had your people among us during the war. There is a tremendous amount of affection for them in Canada as a whole, but particularly in Newfoundland.

Then there is the question of national defence, in which our destinies are intertwined. We could not do away with that.

There is the tremendous trade between our two countries, which, so far as we can see into the future, is going to stay that way. We will always be each other's

best customers, and although your President does not always remember it, that does not alter the fact, which I think we will have to accept, that that situation is going to obtain, so far as we can see, into the future.

Then, of course, we have our relationships with other countries, and I will just leave that as one factor.

But then, on the other side, we have a tremendous, rapidly-growing labour force and we must find jobs for them. I think for that reason, if I may digress, when you say continentalism is not perhaps a very welcome word, it is because in Canada, at least for me personally, continentalism is almost synonymous with making Canada continue as a hewer of wood and drawer of water. That is something we are trying to get away from.

Then we have what I think is referred to in some countries in Europe as economic imperialism, where your tremendous economy and your multi-national organizations are putting other countries and other governments in jeopardy. Some countries and governments have developed a genuine fear of what is going to be the ultimate result of the impact of these tremendous companies on their economies and on their governments.

Then we have the other problem of the United States extending its law into other countries and into Canada. You said you were a "Canada watcher". Well, if you have been watching you know that quite recently we have had a problem involving a company in Quebec which had made a deal to sell locomotives to Cuba. The law of your country interfered with Canada's sovereignty in that situation. That is an irritant, which, to me, is of doubtful value.

What I am asking you now is to give us your assessment of these forces; tell us which of them you think will be modified in the course of time, and what the modifying factors will be. And, so far as you are able, would you give us your assessment of the result?

Mr. Diebold: That is quite an order. I would start by saying that it has become far more rewarding to be a hewer of wood and drawer of water than it used to be. And I do think that point is quite relevant. We are suddenly seeing that the value of resources, which we may all have been a little bit depreciatory of over a period of time, is great. Therefore, not only are those who have resources going to be more rewarded—immediately in terms of price—but also that the kind of consideration that goes into deciding where one does the development and where one does the processing gets changed. So that I should not have thought this was much of a weakness in the Canadian position. I should have thought the other way around.

Senator Carter: I only mentioned that as pushing us in the direction of nationalism.

Mr. Diebold: Right, except that it is a different kind of nationalism if it reflects the value of something which is now recognized by everybody than if it is based on the attitude that you somehow cannot be dignified if what you produce is "only" raw materials. I think things have turned around. The idea of *industries nobles* is no longer confined to high technology industries; it applies to anything that handles what is scarce.

You have touched on a number of such large issues that I am sure I cannot respond to all of them. On the matter of investment and multi-national corporations and so on, I quite understand why people should worry about having so much of the national economy run by companies which come from across the border. But I think that it is also clear that this relation is basically a development of the fact that our two economies are neighbouring and are so different in size. It has next to nothing to do with any deliberate action of the government of the United States, let alone the wish of the people of the United States to spread some form of imperialism. The question for Canada is on what terms to let people come in and to what end is that a debate you have had in the past, and, so long as I have been aware of it, there have been some people who worried more about this problem than others. Some people have said, "We need the capital", or "we need the jobs". Others have asked, "Can we control this phenomenon?"

I should have thought that the psychology of this matter would have been altered by recent events, at least if anybody believed the mythology that because big American-owned companies had a large stake in Canada's resources, they could dictate what happened to the use of those resources. If anybody believed that simplistic proposition, I don't see how he could explain your recent successful export tax on petroleum. It is perfectly apparent that the control of Canadian resources resides in the government in Ottawa, and not in New York, Houston, or any other American city. You can do what you like with what you have. What you like, and what is wise for you to do, and how you do it, are intra-Canadian questions of very considerable importance, I think, and I can see lots of arguments all the way around on that subject.

The matter of the extension of American legislation to U.S.-owned companies abroad has always been a troublesome subject. You can understand that consistency requires a government, when pursuing a policy, to reach as far as it can. Back in the days when we put great stress on restrictive trade with the Soviet Union, it was natural, though not necessarily proper, for people in Washington to try to make the law go as far as it could in applying to products from all sources. We have overcome a great deal of that difficulty, simply because our laws have caught up with yours in the matter of trade of that kind, though Cuba remains an important exception. On the other hand, when we come to the ban on trade with Rhodesia, this reaching out was not applied to companies in South Africa—which became the biggest leak in Rhodesian sanctions—because the British would not apply the same rules.

Senator Connolly: Would you say that again?

Mr. Diebold: Yes, of course. I am suggesting that up to a point it depends on whether you like the policies or not, whether you think it is right to extend the law to American—or, for that matter, Canadian—companies abroad. In applying the United Nations embargo of trade with Rhodesia, the rule the United States normally follows about subsidiaries was not followed. That was because the British have the policy of not reaching out and trying to control their subsidiaries. Therefore the American rule was not followed in South Africa because it

would have put those particular companies at a serious disadvantage.

There are two sides to this. Anti-trust is a far more complicated subject than trade embargoes. I could make an argument that there have been benefits to foreign economies, including, at least in spots, the Canadian economy, from the fact that American companies abroad are not allowed to do some things that foreign companies might be allowed to do. Now, you will not agree with that, necessarily, or you may say that it is none of the Americans' business; but there we come to a peculiar characteristic of foreign investment. It belongs to two economies and thus to two political entities. We have national sovereignty and international business and as long as we do we are never going to get out of the box, and there will be some conflict. I am rather surprised that we have this difference about Cuba, because I thought that as long ago as the Eisenhower administration there was worked out a reasonable system of consultation. Its basis was that the Americans recognized that it was a mug's game to get into disputes with your best friend about this kind of thing. I do not know enough about the particulars of this case to know whether it was worth fighting about or not.

On the large issues that you mentioned, senator, about the broad political, economic and security relations of the two countries, it seems to me that no fundamental change is to be expected. Still, it is inevitable that there should be some change as the Canadian economy grows and the importance of the Canadian economy in world trade and to the United States increases. I should think that Canadians would come to feel that a shift was in order of the place along the spectrum where the best trade-off could be found for, let us say, the terms on which foreign companies should enter. You might well say, "We do not really need all that capital as badly as we said we needed it 20 years ago, because we have more Canadian capital, and therefore, we will only accept foreign capital on such and such terms or keep it altogether out of certain fields." That sort of thing, it seems to me, will change without necessarily going to extremes.

Calculations about foreign investment will change in the United States, too. There is a lot of questioning in the United States about the traditional position of assuming that there should be governmental support for all American business abroad. That proposition is questioned on the government side, on the business side, and by the public. As part of that debate, I could make a good case for the view that there are quite a lot of issues that should never become issues between the two governments concerning the terms on which American business may come into Canada. Of course, that would not apply to all issues, and the more Canadians say that it is in the national interest to keep out American companies, the more Americans are going to wonder if that means it would be in the American interest to let them in. I do not think that is altogether logical, but I think it is political and will have some influence in Washington.

Another factor changing the calculation is that the amount of foreign direct investment in the United States is increasing very rapidly indeed. You are beginning to get, as I think was entirely predictable the reason—not

very important yet, but perceptible—of asking: “Is it a good idea to have foreigners doing this, that and the other?” This will create a little more understanding of other people’s attitudes. It will create issues domestically which will illustrate problems abroad.

There are special problems, I guess, if the investment from abroad comes in forms that are not just normal international business, but which look like foreign government enterprises. Questions have been raised about what is the status of various agencies of Arab countries. Should one distinguish between foreign public funds in general and what might be considered commercial investments owned by foreign governments or sovereigns? I should expect interesting questions to arise about other governmental or quasi-governmental, agencies such as the Canadian Development Corporation, if it wants to take over assets in the United States. I do not think any of these problems are beyond the bounds of what can be settled in an amicable fashion once one has clarified the issues. But these are changing factors, which is what you were asking about.

The Deputy Chairman: Senator Carter, if you do not mind my moving on, I have a long list here, and I will move on next, if I may, to Senator van Roggen, and then we will come back to you, Senator Carter, later.

Senator van Roggen: Mr. Diebold, I come from the other end of the country from my confrere, Senator McElman, and I can echo somewhat his opening remarks. I do not know if our clam chowder is as good, but I might add one thing to these three things he mentioned—namely, free trade, clam chowder and God—and I would add, assistance from Ottawa. At the other end of the country, however, we would say, “Free trade, clam chowder, God—and would Ottawa please leave us alone?” I do not say that unkindly of my Maritime friends, because it is not in any way anyone’s fault, but an accident of nature, that we are so endowed with wealth in western Canada that we hardly know what to do with it. It gives us a different approach to some of these matters.

I am thought of by many people as being an out-and-out free trader with the United States, which I am not, quite, because I have been associated with a lot of resolutions passed in party conventions, and one thing and another, which have all had in them—very deliberately—the words “study the subject.”

I would certainly like to look into it carefully, and I will come back to that later because I think this is such a huge subject that it is hard to bring it down to the point of being a simple question for you to deal with.

Coming, first, to Mr. Sharp’s paper and the third option, I personally do not think very much of the third option. I think it smacks of running for cover from the big bad American wolf next door and not facing the problem squarely. I do not think, if you analyze the third option, it will take you anywhere other than back to the first option, and maybe that is the best place to be.

The problem we have when we discuss trade, it seems to me, is that we can have all the trade we want in raw materials because nobody has any tariffs against raw materials. The Japanese want them, the Europeans want them and the Americans want them. This is true of trade both ways in most parts of the world. You very seldom find tariffs on raw materials; the tariffs go on when there is some labour added to the raw materials and

then, when you have that value added, your tariffs go on in direct proportion to the value added. So, if you want to expand trade, either multi-nationally or by free trade, with the United States you must first accept the premise that value added or more manufacturing is in itself good. That is an accepted concept in Canada today, and I will stay with that concept for the purpose of my question, although as a Westerner I could easily argue, as you yourself said a few moments ago, quite properly, that raw materials are not such a bad thing to have any more. Manufacturing, by the same token, is something you want to be very careful of because just labour intensive for the sake of labour intensive is not necessarily very good. The most labour-intensive nation in the world must be China or India, and I hope we do not want to emulate their standards of living. So, it is only a very highly sophisticated form of labour and manufacturing you want to get into, which means huge amounts of capital. You do not want to compete with the South Koreans or with Taiwan in the manufacturing of running shoes and ping-pong balls, or anything like that, I would think; and, therefore, you would have to have a highly technological and sophisticated industry if it is to provide you with as good a wage scale as the resource industries provide.

My premise is that only with a very large market available to you can you get into that high technology industry. We cannot do it in Canada with 20 million people and, therefore, we need to have the market of the world or the market of North America available to us.

It seems to me that in the broad look of the world, the raw materials, food and so on available to Europe—which is short of nearly everything you can think of, and Japan has nothing at all except its skilled labour—they are going to be inevitably, over the course of the next generation or two, at a lower wage scale and a lower standard of living than North America where we are blessed with raw materials, energy, food and a high technology.

So I visualize that if Canada wants to get into the higher levels of manufacturing and a highly efficient form of manufacturing with a high technology and high capital investment, we must do so as part of a North American unit.

Take as a precept that I do not think that while tariffs are deemed to be there for Canada’s benefit, I believe that it can be argued that the tariffs are things that create our problems and they are there to our detriment—and it could well be that our branch plant economy, our foreign ownership and a lot of the things that we have in Canada and that we do not like are there because of our own design and not because of anything the Americans have imposed on us. So, if you start dismantling these tariffs on manufactured goods in order to penetrate the American market you are going to have a great dislocation in Canada, and not in the United States. They would probably do what we do for that reason.

Now, my question to you as an economist is this—and again I am trying to confine this so that you can answer it as an economist *in vacuo*, as it were: Do you think that Canada would be justified in running the obvious substantial risks—because it is, in a sense, a bit of a blind alley, an unknown street—of trying to develop some form of continentalism with the United

States? And I am going to digress here to say that "continentalism" is a nasty word here because people here only relate it to raw materials, but I think if you are going to talk about continentalism, you are using your raw materials as a bargaining weapon to get in with your manufactured goods, so that maybe it should not be a bad word. Is going down that road, which is an unknown road, with great disruption to our economy, in your judgment worth the benefit—that is to say, are the risks worth the benefit that might well flow from it, as opposed to continuing with option one, namely, continued ad hockery which has not stood us that badly in the past and which I think is equivalent to option three anyway?

Mr. Diebold: The strongest case for the point you are making that Canada can benefit industrially from more free trade with the United States seems to me to rest entirely on Canadian studies, which were very voluminous and very well done. So it is very easy for me on that point. I think it has been shown that there are a number of cases in which a problem of scale has been created by the fact that much of your industrial structure has come out of your policy of imposing tariffs to generate domestic manufacturing. When a point has been reached where you can not, behind those barriers, produce at the most efficient level more specialization requires freer trade. We are talking on North American free trade but the logic would apply equally to more general free trade. Even if we confine ourselves to the north-south aspect, Canada would clearly have substantial benefits in a number of cases provided trade was free both ways, because your point about the structure of the American tariff militating against processing of raw materials in Canada is perfectly valid and there is no excuse for that.

Once one has said that, the next question is, "What about the long run worries?" I take it you are thinking that if there were complete free trade and the United States market continued to be substantially bigger than the Canadian, even if the Canadian were growing faster,—which in population terms is likely, and perhaps in overall terms as well,—there would be problems about where plants would be built. This seems to me to be an undesirable risk but I have no idea whether it is very serious. That probably depends on how the investment decisions are made. If I were a Canadian, I would argue along two different lines. To the extent that non-business factors might come into the investment decisions—if there was any risk that because Washington could lean more heavily on the industry than Ottawa. A plant would be put where it gave Americans employment and not Canadians.

I would have to have built into the system some kind of assurances. It would be a very iffy business to do this. A set of agreements like that accompanying the automobile pact, with assurances about investment in Canada and that sort of thing, are not likely to serve well in the long run even if they were accepted to start with.

The second argument would be that if one is to have an integrated manufacturing industry, then somehow the problems of dealing with the difficulties that would arise from shifts in production would have to be shared by those who share the benefits of the system. As it is now in both our countries, if, as a result of the operation of the free market, dislocation occurs because someone

closes down activities in one place to go elsewhere, there is a national responsibility not very well handled, mind you, but recognized, to cope with the problem.

Senator van Roggen: That is done in the Common Market?

Mr. Diebold: That is right. The alternatives for Canada to taking the risk of free trade with the U.S. are to take the opposite risk of living with the present trade barriers or to see if general free trade can be reached fast enough so that you can achieve the benefits of scale production without having free trade with the United States alone. Part of your tariff problem, as I see it, is that you are taxing your own producers. I know you have provisions in some of your laws for eliminating the tariff on certain types of machinery and so on because it simply raises costs of production and therefore exacerbates the whole problem of the limited market, but that is a pretty hard course to follow if the problem is general.

The final point that creates difficulties here is manufacturing as a creator of employment. There is no doubt in the world that further industrialization of the Canadian economy is natural and will take place in the normal course of events. Some governmental measures will hasten it, some will slow it, some will distort it and some will, perhaps, help give it useful guidance. There is, however, a real problem in linking trade policy to employment. We run into it in the United States when people say we had better put up some tariffs because otherwise we will have more unemployment due to foreign competition. Good economics tells you that, at least in an American-type of economy, that is not a good way to promote employment; you do better to promote employment by management of the economy. What you do with tariffs is to mess up efficiency and create more problems for the future. Trade policy should concern the use of global resources. Something like that must also be true of Canada, but the weight of different parts of the argument may be different simply because foreign trade is so much more important to you. I would not pretend to say in what circumstances, what rate of freeing, what rate of compensating, how much the investment for the change-over would be. That is a matter which requires a close look.

The short answer to your question, however, is that I think that there really are gains to be had in the Canadian economy by further trade liberalization. Whether you want them depends on many other things about which you must worry.

The Deputy Chairman: I must leave the Chair at 12.30, so, with your permission, I will call on Senator Cameron to ask his questions now before taking the Chair.

Senator Cameron: I will make them quite short. First of all, I think that Mr. Diebold's analysis of Mr. Sharp's statement was very good. I was particularly amused at his emphasis that it was vague, deliberately vague, in some cases. I think this was inevitable.

The Deputy Chairman: I do not believe he said "deliberately".

Mr. Diebold: I do not think it was accidental; I am sure the minister knew what he was doing.

Senator Cameron: He did not say that; I did. However, there was something that intrigued me about the discussion of the relationships. He emphasized the importance of the distinctness, and I think this is a very critical element in the relationship between the two countries. No one, certainly on this side of the line, has any hesitancy in agreeing that we must have closer relations with the United States. My question to you is: To what extent is this distinctness recognized in the United States? Because this is crucial to many other relationships.

Mr. Diebold: It is very difficult indeed to generalize about United States awareness of Canadian things. There are three kinds. There is unawareness; there is the sort of generalized awareness that Canada is there and it has certain manifestations; and then there is the somewhat more refined kind of awareness that some people have.

There is no doubt in the world that anyone who addresses himself to the problems of Canada or to relations between the two countries understands not only that there is a distinctness but that it is very important, that there should be one. There could not be a healthy relationship between the United States and Canada if Canadians did not feel this. Therefore Americans, to be aware of this relationship, must feel it.

That is why I thought it a good term. I really do not know anyone who does not want it that way and who does not understand that it is very important to the whole relationship. It is only then that you get to the question of what distinctness means—or requires—in any given set of circumstances. In other words, does distinctness have something to do with free trade or television? Of course it does, but it does not point to any single or clear-cut policy.

I do not like a lot of the blotting-out effects that take place in mass publications, television and radio, the blurring of differences, the standardization. I do not like it when that causes different regions of the United States or parts of the world to lose their special character.

But that sort of thing is not, if I may say so, best dealt with by legislation. Culture is people themselves. I think you import culture more than you export it, and if Canadians have problems they are your own problems, but they are my problems too as one who watches, likes, visits and enjoys Canada. I like distinctness because I think it makes the world a more vivid and interesting place.

To go back to your first question, I guess I would be willing to generalize to the point of saying that more people this year than 20 years ago are conscious of Canada as a distinct entity, that it is there, and will be. I do not think that is the worry.

Senator Cameron: So far as Canada is concerned, we are conscious of the impact of the non-governmental organizations in shaping government policy, but what is a matter of concern is that non-governmental agencies in the United States are having the same effect in shaping American government policy vis-à-vis Canada.

Senator Connolly: Might I ask Senator Cameron if he would elaborate on that? Is he talking, for example, about the banking institutions authorizing loans in Canada and supplying capital?

Senator Cameron: No. I am thinking of the whole climate of the relationship between the two countries, and

the acceptability that governments will come to as a result of feeling that people are concerned. In Canada, particularly, we have this whole question of biculturalism and multiculturalism, which is different from yours. There is no question that it is shaping a lot of our attitudes, vis-à-vis other countries and particularly the United States.

Senator Rowe: Mr. Chairman, I did not hear Senator Cameron's statement prior to the last one. Did Senator Cameron say—I ask this question purely for information—that Canada must have closer ties with the United States?

Senator Cameron: I did not say that we must, but that I think we will. It comes out of this greater understanding, particularly at the non-governmental level.

The Deputy Chairman: Perhaps we might come back to the main question. As I understand it, you asked: What is the comparison between the influence of non-governmental persons and institutions in Canada and the United States?

Mr. Diebold: I can only speak of the influence of American non-governmental bodies on Washington. We must distinguish between such non-governmental institutions as *Time* and the *Reader's Digest* on the one hand, and such non-governmental institutions as the Council on Foreign Relations or the Centre for Canadian Studies at Johns Hopkins on the other. I do not know what influence the latter two have. There is a record of the influence of the first two.

I think this is the kind of issue that is subject to change as the relations of the economies change. Naturally, all of the U.S. business interests which feel they have some problems in Canada on which they are making no headway will try to exercise some influence in Washington. That is the result of having national governments and international business. Yet there are exceptions to my statement. I know a good many businessmen who take the position that they can do better by themselves than with government help, not just in relation to their interests in Canada but to their affairs all over the world. They feel that if they rely too much on Washington they will get caught up in disputes which are not really of their making or be let down when Washington wants to avoid trouble. That view exists side-by-side with the view of a good many American businessmen that the American government does too little for American business interests abroad compared to, say, what is done by the Governments of Germany, France, the United Kingdom, or for that matter, Canada. So there are contrary forces at work. There are quite a number of American businessmen who feel they should come to terms with the Canadian government on their own. However, there are issues at times on which they will try to get help from Washington.

I suggested earlier that in my opinion it will not be considered automatic that government support should be given for everything. There will be doubts, particularly in as intimate a relation as ours, as to whether things ought to be achieved on the level of government to government. I do not think I can go any further on that point, Mr. Chairman. It is not something that is easy

to generalize. People will try to do it. What effect it will have is another question.

Senator Cameron: As far as *Time* is concerned, we hardly exist.

My second question arises out of Senator Carter's question to which you replied—and I am paraphrasing your reply—that we were not doing too badly as hewers of wood and drawers of water for the United States. I may have taken too simplistic an interpretation of your reply. You said it had become quite profitable for us. That is quite true at the present time, and here I find myself in an ambivalent position, because I come from Alberta which has been looked upon for many years down here as a sort of adjunct of Texas.

The Deputy Chairman: Sheiks!

Senator Cameron: That is where my ambivalence comes in. We are now being looked upon as the shiekdom of Alberta, so I am in a very difficult position. Like Senator van Roggen's province, my province is a rich one with tremendous resources.

As I say, your reply to Senator Carter's question that we were not doing too badly as hewers of wood and drawers of water for the United States is quite true, but what happens if the multinational corporations, because of United States policies, decide to close down some plants in Canada, thereby throwing people out of work? This creates tension as far as the government is concerned. For example, Senator Carter made mention of the Michelin project. The Americans said that this was, in effect, dumping by Canadians.

I am curious as to how you rationalize the fact that the exporting of our resources at the present time is a profitable venture with the implicit danger that, unless we control these resources and the labour necessary to operate them, we would be put in a very difficult position in terms of employment.

Mr. Diebold: I did not mean to say that you should not control them. I apologize for not having made myself clear about that. It seems to me that if you find it economic to develop processing and manufacturing industries in addition to the resources, then that is the way it will be. You ask what would happen if an American company closed down a plant, perhaps to do something some place else. Suppose it were a Canadian company? There must be a reason for closing down. If it is because a plant no longer pays, this is often an awkward social problem. A society must have a way of coping with such issues. Maybe the plant should go on operating, but if we were to suspend the bankruptcy laws I do not think we would get much economic progress after about ten years. There has to be change or the economy does not work.

However, if the change were in response to the kind of thing I tried to characterize when I spoke of an American company closing down a plant in Canada instead of one in the United States, not for business reasons but because it was under some sort of pressure, maybe from the government, maybe from a union, then I think you have to counter that pressure by your own pressure. That could be part of the terms on which you let them in. You might say, "If you are going to close

down you must give people this kind of notice, so much severance pay, and so on." The problem is, of course, the familiar one. If the terms are too stiff at the beginning investors will not come in.

Senator Laird: Due to the lateness of the hour, I will confine myself to one question.

Last week, in response to a question about the auto pact, Mr. Sharp made the rather starting statement that he thought we should never negotiate a trade arrangement for one product only, but presumably for several products at a time. This was startling enough to make the headlines, I noticed, in the *Toronto Star*. Obviously he had in mind that if you make a trade arrangement on one product, you get pressure from that group that is hard to resist, and we are not in an equal position with the United States; therefore, our objective should be to negotiate for several products.

My question is simply this: What would be the reaction of American officialdom, and also the American public, to an attempt so to do?

Mr. Diebold: To negotiate about several products at once?

Senator Laird: Yes.

Mr. Diebold: Obviously the first question would be what combination. There must be some rationale for putting them together rather than having just one. I do not know what Mr. Sharp had in mind. As you know, part of the problem in the auto pact is whether it covers enough products. What about used cars, replacement parts and tires? Defining a product or an industry is a problem too. Let us say he had the kind of general thought you have in mind, that bargaining about one industry is too concentrated. Many people I know who have experience in international trade negotiations greatly prefer to have several different things to deal with at the same time. Then the balance which is necessary, the perceived balance of advantage to two sides, does not have to come in one thing. You want this, I want that, and so we can trade. I do not know whether that is what Mr. Sharp had in mind. But if so I see no problem. Of course, if you come in with four products in which free trade is to the advantage only of Canada and all the adjustment is on the American side, you are going to end up with eight products or no products, I guess.

Apart from that, I think some clearer view of the ultimate shape of the automobile agreement is probably necessary before you can expect any positive response in the United States to any product or industry approach. I do not want to embark on a detailed discussion, I feel there has been much exaggeration of the issues, but there is no doubt that the auto pact is something less than a perfect instrument. Therefore let us clear that one up before we get into too many others.

There is a lot of interest in the industry by industry approach to trade negotiations more generally, than just with Canada. Sometimes the approach is ambiguous. The trade bill, when it went through the House of Representatives was in some ways improved over the Administration's bill, and in some ways, not. One new element introduced was the concept that in negotiating about non-tariff barriers, there must be sector-by-sector

reciprocity. There is some fuzziness as to what "sectors" are and also "reciprocity." Some people say the provision is not serious but others are worried because when you begin to narrow the area of bargaining, it becomes more difficult to see where a balance can be struck.

The Deputy Chairman: Honourable senators, may I say to Mr. Diebold that I know Senator Cameron will express the thanks of the committee to him for his appearance here and the excellent job he has done. If a few senators have to leave, I hope Mr. Diebold will understand that this is not an indication of disinterest. There are other commitments that some senators have. Senator Cameron will take the chair.

Senator Donald Cameron (*Acting Chairman*) in the Chair.

The Acting Chairman: Senator Rowe.

Senator Rowe: Most of the things I had in mind to comment on have been dealt with already by Mr. Diebold. There are two rather superficial questions that remain in my mind. One of these has been answered partly by Mr. Diebold.

I was intrigued by your statement that there was a "high degree"—that is the term you need—of free trade between Canada and the United States. I knew there was some, but I did not realize you could use the term "high degree." Would you offhand have a rough arithmetical figure for it?

Mr. Diebold: I would have a very rough one. I have a bad head for figures. My recollection is that it is well over 50 per cent. Does anybody know it? It is a figure I got worked out some years ago, that is, well over 50 per cent, more like 60 per cent.

Senator Connolly: I think it probably was.

Mr. Diebold: I wrote it down and I can find it, but I do not have it on me.

Senator Rowe: It would be interesting to some of us if we had that figure broken down in respect of raw materials, on the one side, and manufactured goods, on the other. For example, I am sure that the iron that we ship, 100 per cent of the iron ore, goes to the United States.

Senator Connolly: No, no.

Senator Rowe: A great deal of it goes—

Senator Connolly: No, it doesn't. Some of it goes to Europe and some to Japan.

Senator Rowe: I thought that was the iron ore company, but that is immaterial. There are two consortiums that are developing the iron ore there. I thought that one of them said they send their ore almost entirely to the United States.

The point is that we had a lot going in and I am sure there is no duty or tariff or excise on it. The same would apply to a lot of other things—our paper, for example.

Mr. Diebold: My figure came from the days when we had no tariff on oil, only quotas. We may have to re-do the number there.

Senator Rowe: If we could have that figure broken down into the two categories, it would be useful. Somebody must have it.

Senator Connolly: It might be something for the staff here to get.

The Acting Chairman: Apropos of that, I do not think the average Canadian has any idea that there is that much free trade between the two countries.

Senator Rowe: That is precisely the point I was making, that I had heard the term "high degree."

The other question I have is this—and it is not meant to be rhetorical: You said, Mr. Diebold, that events last year in respect of petroleum—and I am paraphrasing your comments now—had disproved the myth that the great American corporations controlled or held the Canadian development in their hands. You said that events have shown that, no matter what was proposed south of the border, the final disposition lay with the Canadian government.

Assuming that is so—and I am sure it is to a large degree—would you be prepared to make the same statement in respect of American corporations which have branches here in Canada making manufactured goods?

Mr. Diebold: You have a good point. It is quite a different matter because the activity is quite different. You said you didn't make your point rhetorical. My point was meant to be a little rhetorical. I said that one of the easy pictures of what multinational corporations mean to people is that "these guys take my resources and they do with them as they like." That is what I say has been disproved in the case of the oil companies.

With manufacturing industry it is a little harder to know quite how to take that. One makes the statement; but what is it they are doing? They are employing Canadian labour on Canadian soil; maybe they are using Canadian materials; maybe they are using Canadian machinery, et cetera. One does not know. They are producing something and they are selling. They can stop it or they can start it. That is perfectly true.

If they were making "widgets" in Winnipeg and you did not want them to export the "widgets", you could stop the export of that just as you could stop the export of the oil. They could then say, "Well, we will now stop the production." I suppose in a sense the oil companies could have said, "We will stop the production and go home," but, obviously, for good reasons they did not. It is true that the loss of the widget maker would be less than the loss of the oil producer if he went home. The bargaining position is somewhat different if you are not a resource-bound industry, but, you know, you would have to ask, "Why he would do that?" What would he do it for? He is there for his benefit. You have let him come for some benefit that you thought he brought. Maybe one of you is wrong. Maybe one of you is getting more or less out of the deal and maybe the conditions have been changed, but if there is no mutual benefit then one of you is not going to go on doing that, I don't think. Whether you are a private entrepreneur or whether you are government, you are going to stop this at some point.

I think there is a problem if you come to me and say that you badly need employment-producing factories of such and such a sort in some part of the province of Que-

bec and the only people who are interested in going in there are one American company. Well, if you are in that position you are going to have to induce them, probably, if they have any alternative. That is a very different kind of thing. But if all you are saying is, "We are opening it up. We want investment no matter where it comes from. Whether it comes from Toronto or the United States or whether it comes from Europe or comes from Japan is indifferent to us so long as it produces jobs in that part of Quebec"—if you are saying that, then you are in a good bargaining position.

I am sorry I got a little off your point about control, but, as I say, I think you are right that the situation is quite different because we are talking about a different sort of activity.

Senator Rowe: I have a final question on that. You remember, of course, the confrontation, I suppose you would put it, which developed in the Eisenhower days. In fact, you referred to it earlier. We had a somewhat similar situation in recent months in respect of Cuba. Has that same situation obtained vis-à-vis American investments in, say, England and Italy?

Mr. Diebold: Yes, indeed. We had all kinds of trouble during the fifties and sixties with almost every western European government you want to name, usually about trade with the communist countries. For a short period the laws were more or less uniform and then the Europeans were promoting East-West trade at a time when the U.S. was remaining more restrictive. One of the worst disputes we had, in which managers risked going to jail in two countries, was with the French government about a shipment of trucks to China. That was some time ago. Oh, yes, we have had the same problems. We are not picking on the Canadians.

Senator Connolly: Mr. Diebold, early in your opening remarks you used the expression "dilute the Canada-U.S. trade relationship". With respect to the question of diluting, or diverting Canadian trade from the United States elsewhere, again I quote: "It seems to me to be a mug's game." That is a negative thrust, and I really perhaps would rather say it this way, that I really do not think these three options which we have before us are mutually exclusive. It seems to me that they are not options. I think they are modalities of a course of dealing between interested traders on both sides of the border, and while governments can influence certain aspects of those relationships, you are probably going to have a great deal of each of these options in the actual course of dealings. What I prefer to say—and perhaps Mr. Diebold would comment on this—is that I prefer to see on the part of Canada a more positive thrust. In other words, perhaps, to try to get the best of both worlds, to maximize our trade relationships and our economic activity in respect of the United States—and I think any trader does this—but at the same time to try to find new markets elsewhere with a view to building our foreign trade, and perhaps our trade with the United States, but to increase it in other markets, like the Community, if it survives the onslaught of the last few weeks, or with Japan. Perhaps you would like to comment on that.

Mr. Diebold: Surely. I think that that effort, to diversify, is one that has been part of Canadian policy for a

long time, and I think you are absolutely right, sir, to distinguish between the positive diversification of the sort you are describing, and the idea you referred to when you used the words, "diverting trade."

Senator Connolly: Or diluting.

Mr. Diebold: When I used the word "diluting" I was thinking of a bit more than trade, but that is neither here nor there. However, if I am not mistaken, "diverting" was the word Mr. Diefenbaker used when he came into office and said he was going to divert 15 per cent of Canada's trade from the United States to the rest of the world. I think the sort of difficulty and troublesomeness that that concept led to was due to the weakness that you are describing. I think what you say is exactly right, that an increased development of Canada's trade with the rest of the world is very much in Canada's interest. It is natural, I would say, as an economist. It is also very central to the point I was making when I said that, although Mr. Sharp did not explore it in detail, he was right to say that the global setting has a great deal to do with what the options mean. One of the three points at the end of my opening statement stressed the interest that I believe Canada has in a general movement toward multilateralism and away from blocism. Otherwise you cannot develop the diversification that is desirable from your point of view, and, I think, ours as well. By "diluting,"—perhaps it was a bad word—I meant only to remove some of the strain. If everybody is dealing with everybody you are not penned in, two by two.

Senator Connolly: I think, in deference to Mr. Diefenbaker, I am not too sure that he meant literally what came out of that statement. I have never been able to clear the point up myself, but I do not think he actually really believed that we should go as far as to attempt to divert. I think probably he had the positive idea of diversification rather than diversion in his mind. However, the record is there, and it is for him to explain it, not me.

The other question is quite different from any of the questions that have been asked, I think, and I think it is a consideration that we should bear in mind in these investigations that we make.

Our study of Canada-United States relations is bound to be looked upon, I think, certainly by people in the Third World, who are interested, as another attempt on the part of the rich to get richer. Perhaps we justify the idea of promoting trade and enlarging trade and developing commercial interests in different parts of the world, first of all, because it is wise national policy to strengthen the economy and to broaden it and to get growth. Perhaps it is also justifiable on a larger basis, on the ground that the West must protect itself by remaining strong. But I would like to ask Mr. Diebold whether in these discussions, which we will be conducting over a long period of time, we should, in his view, keep in mind also the repercussions that might develop in the Third World if we in North America try to expand our two big economies in Canada and the United States.

When you hear the reports of the meetings on international monetary policy, you inevitably hear remarks about the effect of international monetary arrangements on the underdeveloped world. Just to take a specific example, I understand that with the increase in the cost

of Middle East oil to the underdeveloped world, the whole value of foreign aid is automatically wiped out.

It seems to me that in all of our discussions and all our anxieties to strengthen and develop our two economies, we have to keep in mind what our responsibilities are in respect of the Third World, and what, in effect and in reality, our own development will do to those very sensitive economies.

Mr. Diebold: I certainly agree with that. I think the problems of coping with the difficulties of the poorer parts of the world are probably going to increase. We both separately recognize it and have done something about it in the past. I guess I would say a couple of different things. One is that if we don't handle our affairs on the North American Continent well, and if we divert a lot of our attention to disputes amongst ourselves about things that could be otherwise settled, we are likely to do less well rather than better in dealing with the problems of the Third World. I think there is a very specific aspect that is usually overlooked when we talk about special trading arrangements and free trade, or something of this sort, between the United States and Canada. It was easy for us to say in the case of the automobile pact that third parties were hardly affected at all, but it begins to be a little difficult when you get to some other products to see whether there are not some other countries that might be hurt by our mutual preferential bargains. The one who might most often be affected is Mexico. Very little attention has been paid to this aspect of Canadian-U.S. relation and I think it is worth some attention. Mention of Mexico is a good example of how difficult it is to generalize about our relations with the poorer countries. Mexico is no longer a country that needs foreign aid or a great deal of other kinds of assistance. It is a rapidly growing, increasingly important country. We do not have very good arrangements to bring countries like Mexico and Brazil into fuller participation in international co-operation. This is one of the reasons, I think, that the multilateral approach and not the bloc approach is terribly important in terms of the future.

On the matter of oil, you are quite right that for some countries the higher cost has wiped out the value of aid. Aid is not so terribly great in too many cases, I am afraid. With or without aid the impact of higher costs for fuel and fertilizer is very serious. Some countries have had some offsetting advantages through the increase in raw material prices, but the disconcerting facts that showed up in a couple of recent studies is that after the oil price increase the source of the greatest trouble for many of the poorer countries, notably India, is the increase in the price of wheat. You and we and other wheat producers are getting some offset to our higher import bills by payments from the poor countries. This is the kind of problem we can do something about if we want to.

I might say we have not talked very much this morning about food. It goes right along with oil and raw materials as one of the big problems in which North America has a different position from Western Europe, Japan or the remainder of the world.

However, I agree with you entirely, sir, that as you go on with this you must always ask yourself what is

the bearing of United States-Canadian relations on the third world? There is, indeed, a question about inducing the rich under-developed countries, Arab and non-Arab, to take on new responsibilities to match their new wealth and power. They must find a place, whether it is in monetary arrangements or other matters.

Senator Connolly: Perhaps it is a little hard to say it this way, but the Arabs and those in the Middle East who have the oil have said, why should they not increase their prices because they are paying so much more for wheat, for food and commodities of that nature? However, I have heard others say, no, these countries are fundamentally underdeveloped and it happens that they have a commodity needed by everyone else. What we have been doing is to develop them, I suppose, and they have received some benefits from the foreign aid programs, just as have some of the countries in Africa which are not in as strategic positions as those in the Middle East.

I suppose the question is a logical one: If we continue building up those countries—it is a terribly selfish statement to make—will they ultimately, when they are in a position such as some of the Arab countries are to control a strategic resource, turn upon the West, perhaps with the connivance of anti-western powers such as Russia or China? To leave the impression that we should let them go their own way, let them starve and let them die is not the attitude that anyone would take. We hope—perhaps this comes back to your simple point that you work for international co-operation in this field with a view to building up these countries—to help their peoples, but at the same time to endeavour to make them realize that they have some responsibility for international co-operation.

Mr. Diebold: Something along those lines must certainly be correct. The problem is thrust on us so suddenly that I do not have a sense that people are sure of their touch, but there certainly is groping in that direction.

Senator Connolly: I think we are all groping.

Senator van Roggen: I have one question, Mr. Chairman. I hope it will not involve too long an answer, although I admit it is difficult. Will multi-national wheat trade negotiation win the day, or will the blocs win it? I ask that question in full realization that I am not just speaking of trade, but the non-tariff barriers which you mentioned.

Another question which is important to me is the enforceability. It seems to me that if the non-tariff barriers are the main problem, then on a multi-national basis it is a hopeless task to police them, whereas in the case of a deal within the European Common Market it can be policed a little more easily. If we had one in North America, we could police it a little easier. In other words, will the blocs, no matter how much we bring down trade barriers of whatever nature on a multi-national basis, not basically still exist, and if we do not join them ourselves will we not be left out in the cold?

Mr. Diebold: That possibility certainly comes to mind when we consider some of the things that the Europeans were working on until their attention was diverted to

other things more recently. These were a series of things concerning European-wide corporations, the development of the computer industry in Europe, merging government procurement onto a Community basis instead of a national basis, and other matters summed up as being an industrial policy for Europe. Progress in these matters would indeed alter the trade barrier situation, because like the original creation of the Common Market they would remove an internal barrier but leave—and maybe not necessarily worsen—a barrier between members and non-members. You could regard this as an improvement—because you have widened the area of free trade—or as a deterioration because it sharpens the difference, the discrimination against the outsider. Taken in combination with problems about the regulation of investment, and whether, for example, a European computer industry means a European-owned computer industry or a European-located computer industry, which might be partly owned outside, you then got into the kind of problems which I think you have in mind.

I believe you are right, that there will continue to be less than global co-operation on these matters. However, Japan, we, you and the Western Europeans affect one another more than most countries. The Europeans represent the only true bloc. They are not doing very well at present. While the issues I have been discussing are not the main source of their difficulty, there are quite a few things among these which could be done better if we were all to do them without waiting to go through a separate European stage.

The most obvious is the monetary issue. The Europeans have not done very well among themselves, but even if they had, it would not have solved very much. The monetary issues are inherently global, or at least as wide as those countries wishing to participate, and you cannot settle them on a limited bloc basis. Other matters are different. You have a mixed situation in which some things could be agreed on a broad basis—say in the OECD—while the Europeans went ahead on a bloc basis to do others.

Whether there is an important offsetting United States-Canadian gain when the Europeans do this depends, it seems to me, on circumstance. I do not think it is an easy thing to generalize.

Senator van Roggen: It might eventually mean the whole of the Western industrialized world against everyone else.

Mr. Diebold: That raises the question of whether closer cooperation among the OECD countries is good or bad for the rest of the world. I could write a scenario to go either way; the choice is very important.

Senator Carter: Could I get a brief reaction to a problem facing Canada at the present time? We have some cheap gas in the West at the present time. What should we do with it? Should we sell it to the United States, should we keep it for ourselves, or should we sell it to the United States and buy your expensive gas in say 10 or 15 years time?

Mr. Diebold: I do not know enough about the situation to provide an answer. You may have it, but can you keep it?

Senator Carter: We could keep it. That is a decision which we have to make before too long.

Mr. Diebold: Suppose you follow the plain old economic rule and say you will sell it in the best market. What would happen then?

Senator Carter: There is only one market for it, and that is the United States. We can pipe it down. We can hold it for future use, where we have cheap gas for cheap energy in say 10 years time. If we sold it to the United States within the next 10 years we would have to buy your expensive gas from Alaska or some other place. What are the pros and cons of that?

Mr. Diebold: I do not believe there is going to be any cheap gas in 10 years time. If you keep it for 10 years, it will then be no longer cheap. So the question of whether you are better off by using it in 10 years time or by selling it now is almost an accounting problem.

Senator van Roggen: We put an export tax on oil. Oil was not on long-term contract, but gas is. We must honour our contracts. We sell our gas on contracts, the signing of which enabled us to build the pipeline. When the contracts come up for renewal we shall sell it at higher prices. But you have to be careful about breaching those contracts. The Province of British Columbia used a very clever mechanism. It said that it must be 105 per cent of what they charged British Columbia consumers, so they raised the rate to the British Columbia consumers in order to get more money from the United States. But that is different from oil, because you do not have the contracts to cope with.

Senator McElman: Earlier on, Mr. Diebold, you remarked that in very recent times there has been a much greater awareness on the part of Americans of Canada and Canadians. Since all matters such as trade, and so forth, work best within a good climate of feeling, is that greater awareness regarded in favourable terms or unfavourable terms over these very recent times?

Mr. Diebold: Interestingly enough, I cannot think of any example of unfavourable terms. I am a little bit surprised, because I thought that there would have been some grumbling and grouching about oil and things of that sort. Perhaps there has been and it has not reached my ears. I am certainly not aware of it.

I was not thinking in terms of as recently as the last 18 months, but rather over the last five years. In my view there has been a sharper awareness of Canada among people in the United States over the last five years than there was, say, for the 20 years previous. Perhaps I am wrong. This is a subjective judgment. Perhaps I have just been talking to the wrong people.

I do not think there is much doubt that the Vietnam war had a good deal to do with this. While I am sure that in some places in the United States there are people who are taking negative views of Canada, I do not find them to any great degree. I think it is more the other side of the coin. I really did not mean anything more than awareness, plus or minus. I think it is inevitable that when more people become aware of something, the more good and bad some people will see in it. I hope you

will not be sensitive to what is bound to be an increase in the criticism that will eventually come as a result of this increased awareness.

The Acting Chairman: Mr. Diebold, this has been an excellent discussion. It has served to underline the magnitude of the assignment we have undertaken for this year. There are many facets of the discussion which we could have pursued for the whole period of time. Your presence here today has been a very welcome one. The organization of which you are a part has a very warm following in Canada, and your participation with us this morning has been most helpful. It has underlined the need for the type of thing we have been talking about, a greater

dialogue between Americans and Canadians than we have had in the past. There is some urgency to that.

On behalf of my colleagues on the committee and myself, I would like to express our deep appreciation to you for having taken the time to appear before us and answer our questions in the very frank manner in which you have. There are many areas where we might not agree entirely with what you have said, but it is out of those nuances of disagreement that we will arrive at something that is better for all concerned.

Mr. Diebold: As I said at the beginning, Mr. Chairman, I knew it was going to be interesting for me. I look forward to reading your report.

The Committee adjourned.

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SECOND SESSION—TWENTY-NINTH PARLIAMENT

1974

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

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 3

THURSDAY, MAY 2, 1974

Third Proceedings Respecting:
Canadian Relations with the
United States

(Witnesses:—See Minutes of Proceedings)

THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable John A. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Laird
Bélisle	Lapointe
Cameron	Macnaughton
Carter	McElman
Connolly	McNamara
(Ottawa West)	Rowe
Croll	Sparrow
Deschatelets	van Roggen
Hastings	Yuzyk—(20).
Lafond	

Ex Officio Members: Flynn and Martin.
(Quorum 5)

Issue No. 3

THURSDAY, MAY 2, 1974

Third Proceedings Respecting

Canadian Relations with the
United States

(Witnesses:—See Minutes of Proceedings)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Tuesday, March 26, 1974:

The Honourable Senator Aird moved, seconded by the Honourable Senator Grosart:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States; and

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

Minutes of Proceedings

Thursday, May 2, 1974.
(5)

Pursuant to adjournment and notice the Standing Senate Committee on Foreign Affairs met at 9.35 a.m. this day.

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

Present but not of the Committee: The Honourable Senators Haig, Hays and Perrault. (3)

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

The Committee continued its study of Canadian Relations with the United States.

Witness: Professor Harry Johnson, Professor of Economics, University of Chicago, Chicago, U.S.A.

At 12.15 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Thursday, May 2, 1974.

The Standing Senate Committee on Foreign Affairs met this day at 9.30 a.m. to examine Canadian relations with the United States.

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

The Chairman: Honourable senators, this morning the committee is pleased to welcome Dr. Harry Johnson, Professor of Economics at the University of Chicago and at the London School of Economics. I may also say we are delighted to have Mrs. Johnson with us this morning. You are most welcome, Mrs. Johnson.

Dr. Johnson is recognized as one of the world's leading economists and has written and lectured widely on all aspects of that subject. He has been an early advocate of the reduction or elimination of tariff barriers between the United States and Canada and has generally advocated closer economic integration between the two countries.

Born in Toronto—and I understand that Senator Croll is an old friend of the family—he holds degrees from universities in Canada, the United Kingdom and the United States. His publications include *The Canadian Quandary, Canada in a Changing World Economy, International Trade and Economic Growth, The World Economy at the Crossroads*, as well as numerous articles in professional economic journals.

We are very happy that Dr. Johnson's busy schedule between London and Chicago has permitted him to come before us today. I understand he has just come from Chicago to this nice warm climate here in Ottawa that we have specially arranged for him. Members of this committee who were members of the Senate Finance Committee in 1971 will recall his appearance in Ottawa at that time.

I have discussed with Dr. Johnson the method of procedure and he has indicated he would like to make an introductory statement, although it is not a prepared one. I have asked Senator Macnaughton, and he has agreed, to lead the questioning, and I have an indication also that Senator Grosart would like to participate. You are most welcome, sir, and the floor is yours.

Dr. Harry Johnson, Professor of Economics, University of Chicago and The London School of Economics: Thank you, Mr. Chairman.

Honourable senators, I do have a small physical problem such that it may be necessary for me to use this

microphone. If I am not audible at the back, please indicate so, because I am only too aware of the shortcomings of my voice at this point.

I am very pleased to be here this morning. As a student at Toronto, every once in a while the question of Senate reform came up, as it does in the Senate, and I am very pleased at the way in which the Canadian Senate has adapted itself towards fulfilling a useful and important function in Canadian life. Consequently I am always very happy whenever I can be of assistance to come here and give the benefit of whatever I have in the way of knowledge to the Senate. I feel that it is becoming a much more important body and that it is essential for Canada as a nation to have a group which can look at Canadian problems as Canadians and not simply as representatives of particular cities.

In introducing me, the chairman said I had long advocated closer relations with the United States. I am rather unhappy with that description. Many years ago, about 1960, in fact, I was asked to do some thinking about Canada's role in the world trading system and I came to the conclusion that there should be a movement towards closer relations with the United States. But that was very much as a second best. At that time I was examining the question of the future development of world trade and I could see that the European Economic Community was going to be a divisive force in the world. I myself believe in free trade without any particular commitment as to partners is the best policy, but as an observer of politics I have noticed that the public and the politicians do not like to offer something for what they think is nothing. There must be some agreement with some other country to sanctify the idea of improving things for yourself, and trade policy is always thought of in terms of relations with particular other countries.

It seemed to me that there was no future for Canada in any attempt to go back to the British Commonwealth as a trading framework. And that Britain itself, as it actually has done, would opt for Europe in a way that would not leave any particular room for Canada, and that Canada was too small economically to pursue the kinds of policies that had been pursued up to that time profitably for Canada, and I felt profitably for Canadians. Given that you have to have an agreement with somebody, the only one that was obviously going to be to Canada's advantage was the possibility of an agreement with the United States. But that was not in any sense a feeling that we must surrender national sovereignty or anything of that kind. Rather my feeling was one which I still believe very strongly, that the future of Canada lies in being as rich and powerful economically as possible. Our Achilles heel in the past has very often been that we opt for a lower standard of

living and when that gets too tough we lose people. Anything that could raise the Canadian standard of living and give Canadians more resources to spend on being themselves would be an advantage. It is from that standpoint that I look at trade policy. I do not look at trade policy as a question of political involvement, but rather the opposite, that we can only be an independent nation if we can afford to pay our own way, and if we can afford to risk something on pursuing our own objectives. The worst situation for us is to be a very small poor country right next to a rich one. We would be much better off, and better off than they are, if we were a rich country on a rich continent and able to carry our own responsibilities.

It is in that sense that I have been what I believe people call a continentalist. I do not like that kind of language. It seems to me that sending people to college for four years just so that they can learn to divide the world into continentalists and others is a waste of educational investment. I do not like the phrase; either it is a truism—because we are on a continent, we cannot move off it; the best chance for us is as an efficient and profitable development of the continent as possible—or else it means that somehow I want to throw away Canadian individuality in favour of being an American, and I certainly do not want that. I have lived in the United States a long time now. I lived in the United Kingdom a long time before that. I never wanted to give up my Canadian citizenship, and I never felt obliged to. I would regard it as a real loss, which I probably would not want to take, if somebody insisted I had to. On the other hand, I do not think that Canadian individuality is well served by the effort to be independent just like that without some cause, particularly as our tendency in Canada is to look for independence only in terms of being different from the United States. It is not real individuality to be dressed like everybody else, or to be not dressed like everybody else. Real individuality is choosing your own dress to suit yourself.

The meetings of this committee are occurring at a very crucial time in the evolution of the structure of the world economy as I see it. The thinking that led me into the views I had was related to the development of the European Economic Community. It seemed as little as two years ago that that development was going through. However, the difficulties within the European Economic Community and the effects of the oil crisis have led to a shake-up of the whole international situation, which I think is at a crucial point at which a committee of this kind should be taking thought of what we do next. There is a tremendous danger of carrying on into a new situation policies that would have been appropriate to an old one. That may well apply to the question of free trade with the United States. In fact, I would myself say at the present time that the optimal strategy for Canada might well be to try to steer the whole ballgame back towards more multilateralism. The movement towards regionalism seems to be in some prospect of breaking down. The European countries, faced with a choice between being a Europe and being themselves, have been themselves, attractive or not as that may be. The United States, on the other hand, has reacted by pulling itself out of the commitments that it previously had to the world economy. At the same time, the admin-

istration has done many important things towards cooling off world political tensions. Relations with China and previous to that the accommodation with the Russians have meant that we have been moving into a more peaceful world in which much of the thinking that was done in the immediate post-war period about the shape of the world and about where the problems were has changed.

I think it would be a mistake if Canadian thinking were to stay with the 1960s situation when we are moving into the 1970s and 1980s situations. In that circumstance it may well be that the idea of regional arrangements which was sparked off by the European Economic Community is no longer appropriate. It may be possible to get back to what I think is the prime interest of Canada, which is as peaceful a world and as liberal a world as possible.

I presume, since I am invited to come here and follow Mr. Sharp, I should get myself involved in an argument I have had with him for many, many years, in which I am supposed to be an ardent continentalist and he is a wise Canadian. I do not like that role very much. I always lose in a competition of that kind. My main worry about the kind of policies suggested in his essay, which was a well written and thoughtful one, is that when we start using big adjectives and adverbs and nouns like "independent", "independence" and so on, the first thing we do, having patted ourselves on the back or the chest, wherever we can reach, for our greatness and independence, is that we then proceed to be about as small-minded as we possibly can. That is the real problem I find with the desire for Canadian independence as such.

I think Canadians on the whole are probably at least as good a people as most in their willingness to bear international burdens, to cooperate, but when it gets down to national independence it usually turns out to be a matter of snatching a little something or other from the Americans in the hope that they won't notice, and if they do notice we then start talking about national independence. That does not seem to me as a Canadian to be a very desirable kind of role for us to have; that is, of making big speeches advertising our independence, then taking policy actions that require that we get something for nothing, and then protesting about national independence when we are found out.

I think we have a major role in the world for our size; we have a political personality in the world that suits us, and it is not that common that we should be ashamed of it. However, when we start talking about national independence, self-determination and things like that, we really do not know what we mean, and we use the language to disguise from ourself the fact that we are really snatching the advantages we get from being a small country next to a big one.

The issues involved there are things which change every month or two months. I note, from 30 years of observing Canadian policy, that there is always a new issue to be anti-American about. I certainly do not try to keep a mental record of everything there is to argue about, though in the discussion, to the best of my knowledge, which is not all that great, I am prepared to comment on any issue that anyone wishes to raise.

The Chairman: Thank you very much, Dr. Johnson.

Senator Macnaughton: Mr. Chairman, I want, on behalf of our fellow members, to express to Dr. Johnson our appreciation at his coming here this morning and his extremely provocative statements so far.

I know that the purpose of the meeting today is discussion, but you do not mind cut and thrust. I think you used the wrong adjective with regard to the "wise" Mr. Sharp and running yourself down. It is quite obvious that you have a great deal of experience and a great deal of knowledge. On the other hand, we do not have a great deal of experience necessary in your field, and we are after knowledge. I am sure you do not mind if we try to attack you, because that is the way we get to the bottom of things.

You referred to the national independence of Canadians; you said that we snatch from the United States any advantage we can get, that we are getting something for nothing, we raise self-determination whenever they want something from us, that we are anti-American. I think that is a lot of hog-wash, to put it mildly. First of all, it is not true. Have we not a right to be nationally independent? Aren't we a Canadian people? Do we have to ape our neighbours to the south, no matter how nice they are? Incidentally, I have an American wife and three American kids, but I still remember the revolution and how so many Canadians came north for certain ideals. That is on the political side, and perhaps it may be unfair to attack you along that line.

I cannot accept your definition that good Canadians should become mirrors of Americans. It is just awful to think about it in manner, in political thought, in daily activities, in their worship of money, in their worship of power, in their political system, in their economic system, in their social system.

In my opinion, we have much to offer to the people to the south, rather than endeavouring to steal all their defects and the public image which they certainly create outside their own country. This is a little hard on my wife and children, but—

The Chairman: They will not read the record!

Senator Macnaughton: No, they will not read the record. I am glad to see that you support the Senate and I am delighted that you have not written a book, so far, about its proposed abolition.

You made other comments which are just extraordinary: "The European Common Market is a divisive force in trade." Well, there are two sides to that argument. "There is no future for Canada in the Commonwealth." Then we should return to what? The U.S.A., I suppose. We are a small country against a great big rich and powerful country. "Our trade policy is not political." If it is not political, what is the purpose of having existed for over 100 years? I have not belonged to the Conservative Party in the past, but there is such a thing as "the national dream." That is just an outright denial of everything you say. However, you are the economist and I am just an amateur.

It is true, is it not, to say that you are a great believer in free trade and that you wish to see, if not integration,

certainly much more free trade between our two countries?

Dr. Johnson: May I raise a small point, senator? I am a free trader, but that does not necessarily imply integration with the United States, because any such arrangement involves free trade in one sense, but discrimination against outsiders in the other. I made it very clear that my views on relations with the United States are in a particular political context in the world, in which I consider it desirable for Canada to move to free trade. The political process, however, dictates that this must be done by agreement with some other country. My concern is about which countries it is worth while to consider as possible partners and where might we gain something and where might we very well lose?

Senator Macnaughton: That is the purport of my question: How would you propose to establish free trade between our two countries? What would you do with the existing Canadian industrial establishment? What effect would it have on the processing of raw materials? What do you say with regard to the dislocation of the Canadian employment scene? What safeguards for Canadian financial institutions, newspapers, magazines and all the rest of it would be provided? How would you protect or include Canadian agriculture? Last, but not least, what would happen to our continental resources, or the resources in Canada? Would we just hand them on a platter to the U.S.A.? What about investment in those resources and the processing of them? Would we ship all our resources down to the U.S.A.? What about eventual depletion of Canadian resources? Would we not be just a backyard full of nice commodities for the U.S.A.? How would you propose this integration?

Dr. Johnson: Senator, I was beginning to assume that this was Sunday, rather than Thursday, by the manner in which you are carrying on this discussion. I find it difficult to cope with these points because of the way you are presenting them, with such a mixture of emotional feeling and lack of analysis.

Take one issue, which is not the major one, I presume, to you, but the question of processing materials. The main reason for materials being exported in the raw state is because of the American tariff on the finished goods. I would predict that if we were to have free trade, genuinely free trade I mean, it would be found much more economical to process up here. The minute you turn a hand towards processing the materials, you face a higher tariff. One of the effects of the American tariff which we would eliminate by free trade in a comprehensive fashion is precisely this tendency as, indeed, is true of the tariffs of all countries to the extent that they have the power to do it, to keep the later stages of manufacture to themselves and import only the raw materials. This is basically the characteristic of every tariff structure of every country. It is just our misfortune that we are resource-rich and at the receiving end of this, but that is because of the American tariff. However, given that there is the American tariff, there is no particular point in saying well, we are going to process anyway and bear the costs of producing and at such a low price we can overcome the American tariff. That tariff existing, the economic thing to do is to process in the United

States. If we wish to do it here, we have two choices: One is that we subsidize it. In other words, we buy our way past the American tariffs and, while I am as independent a Canadian as you, I do not particularly fancy spending my money to buy our way into the American market. The second approach would be to attempt to negotiate that tariff away. I would like to see it negotiated away as part of a world negotiation. I do not particularly see an advantage to us in having a purely American relationship if we can achieve a world one. However, the rest of the world, as was the case until recently and still may be the case, was not interested in that. If the Europeans want to keep the rest of the world out and if we as a country have the major disadvantage of being small in terms of our own market and having resources which require a world market, then in my opinion free trade with the United States is the right policy. As I said repeatedly this morning, I do not know, under present circumstances, whether that kind of thinking, which grew out of the whole post-war trend of international relations, is valid now. I would not like, either, to let you get away with the idea that somehow I am in favour of us becoming American. I am not, but I think we are much more likely to want to become Americans—and this has been documented by past Canadian history—if our independence costs us so much. There comes a time when the average man would rather eat better than be independent. Independence usually means not that the average man is independent, but that you and the leaders of the country can be independent in your actions. However, when the average man finds that it is costing him too much in terms of the standard of living he begins to vote with his feet. Our whole history of population development here has been to some extent serving as a half-way house to which Europeans frightened of America may come. Then they find they are not so frightened after all and can cope, so they move on to where the big money is. I would like to see some of the big money in Canada.

Senator Macnaughton: Well, doctor, that is very interesting and I appreciate your reply. If I mix politics and economics, they must be mixed to a certain degree because this country decided many years ago—it may now have changed its direction—that we enter into these economic pictures.

Could I suggest to you that Mr. Sharp's option paper discards the idea of free trade with the United States on four grounds? These are that it would be irreversible for Canada, once we embark upon it and would lead to full customs or economic union. Again, it might encourage and intensify the polarization of the world into trading blocs and, indeed, it might eventually entail some form of political union. Do you agree or disagree?

Dr. Johnson: Would you like me to comment on those points?

Senator Macnaughton: Yes, indeed.

Dr. Johnson: As far as the irreversibility is concerned, first of all we see in what is going on in Britain that something that the Europeans regard as irreversible the British are now not regarding as irreversible. The legal argument as to Britain's position in the Common Market at the present time is whether Britain can leave it or

not. The British think they can, but the others say they cannot. My bet would be that if the British want to go out, they can. However, that irreversibility argument in my opinion cuts both ways. It is in our favour, because much of our economic problem has been that the United States policy has changed. Very often the United States policy has changed on a global basis, without really any thought being given to the impact on Canada. Our problem in the 1930s was very largely that. We have experienced that, in much smaller ways fortunately, at various points in the post-war period. This is evidenced by the application of the balance of payments controls to the special kind of investment relation between Canada and the United States and so on.

Irreversibility is probably one of the factors we might like to have on the part of the United States. The trouble with them is that they are not entirely calculable. The more calculable they are, the better for us. We have large numbers of people in this country trying to make a living and some of them are pretty hard hit when the United States changes its policy, in a way the United States does not even know it is happening.

So, first, irreversibility in international politics is one of those things and just a question of degree. I used to be a frequent visitor to Pakistan, where union of the east and west wings was regarded as absolutely necessary. Well, now there are two different countries, because the pressure became intolerable and there were military engagements and so on. However, it certainly is possible to change anything you wish to if people feel strongly enough. It seems to be rather presumptuous on the part of Mr. Sharp and others to say we cannot do anything because it would bind future generations. This implies that the future generations will be more stupid than the present, or that we are to legislate for them. Either way it implies that Canadians of the future will not be as smart as they are now. That kind of argument does not seem to make much sense.

With regard to full customs union, I do not know about that. My attitude is that we had moved very far on the world scene toward lower tariffs anyway. The major argument about being involved in a customs union is that you take on a batch of protective measures that suit the other guy but not you. The possibility of losing by that kind of thing is dependent on how high those barriers are and how special are those protective measures. It is a technical kind of question to get into. I do not think it would help to get into it.

I do not think that is a major worry for us, given there has been this movement toward freer trade.

Let me pick up the next question—polarization. That represents, I think, 1960's thinking being transferred to the 1970s.

Firstly, it greatly overstates Canada's importance. The Canadian attitude on the Common Market had no influence whatever on anyone. The factors which influenced that, on the one hand, was the desire of the Europeans to have a Common Market, and they are quite prepared to shuck off their colonies and former colonies. The British themselves are willing to do that. One of the things that caused consternation throughout the former British Empire was the willingness of Britain to get

herself advantages at the expense of countries which thought they had binding obligations.

The other factor was American desires based on a view of the world as divided by the Cold War. Two things have happened since then. One is that the Cold War situation has changed completely. A lot of the logic behind the Common Market and other things has disappeared. The idea that the Russians and the Americans would be locked at each other's throats, that it took European civilization to civilize those two barbarians, has been reversed. Those two barbarians have done a lot better at running the world without war than the Europeans ever did, and they will continue to do that.

The importance of building Europe as a counterweight to those two barbarian forces seems to me now to be nonsense.

Anyway, Canada is not going to have an influence one way or the other on polarization if other countries, bigger and more determined, have the determination to become more polarized.

I do not think polarization will be a problem, because the European Common Market itself is falling apart. Its agricultural policy, which is supposed to cement everything together, fell apart. It is still in a mess. Its force for political union has gone. Its common currency proposal, which was to be the next step, has disappeared because they cannot manage it. The oil crisis showed that when it is a question of giving up oil for someone else, or getting it for yourself and the devil take the hindmost, then let the other guys be the hindmost, and so forth.

Finally, we come to political union. It is complete nonsense to say that economic union leads to political union. The facts of history for hundreds of years show that there have been free trade arrangements without there being political union. And there have been lots of political unions without free trade arrangements.

My attitude is that we are most likely to go for political union when the world is so divided that we as a nation, which exports and trades in many different kinds of things, find ourselves cramped and our population suffering from discrimination. We will then throw in the towel and say, "If we either have to starve to death up here or join the United States and be rich, we will join the United States." If we do not have that alternative, we won't, if we can be reasonably well off without becoming American.

I see no forces in Canadian society that are strongly in favour of becoming American. I see no forces in the United States that want Canada to be part of the United States. I can see political union with the United States only as a result of a desperate effort by Canadians to save something for themselves out of this disintegrating world.

That is why I think that in a sense free trade is the best guarantee we have against that, because free trade will guarantee us the opportunity to markets which we might otherwise not have without meeting the cost of political union in order to gain access. When it is a choice between starving to death and giving up some independence, Canadians are not unique in preferring

to live, and live reasonably well, rather than demonstrate for a political principle.

Senator Macnaughton: Doctor, I am afraid you are beginning to shake the foundations of the Department of External Affairs. Perhaps they will not read these remarks either. How do you consider the new Foreign Investment Review Act? Do you think it will be an effective way of controlling the growth of foreign ownership in Canada?

Dr. Johnson: I am not particularly familiar with that legislation. I must plead illness as partial excuse. The other is that I find it very difficult, reading Canadian history in the last few years, to know just what is going on. I read newspaper reports that we are going to do something, and we do not do it; and then we are going to do something else, and we do not do it.

As an economist, I am not particularly concerned about this foreign ownership business. I think we did get straightened out in Canada on that to some extent some years ago when we started off, you will recall, thinking that the problem of foreign ownership was that they were going to do bad things for us economically. That got straightened out as a result of the work of a lot of Canadian economists researching this question and seeing what the facts were, whether American enterprise discriminated against employing Canadians, and so forth; and they came up with a pretty clean bill of health.

At that point the American government decided to use its corporations as a means of implementing its balance of payments policy, and the complaints had a new lease on life on that.

It seems to me that the major issue in foreign investment is really this question of use by the home government politically of the corporations for its own means rather than economic ones.

Your attitude is probably different from mine. I do not want to impute something to you. As a boy who grew up in Toronto, it did not really make much difference to me if it was Timothy Eaton or some American company that was running the big store. I did not have shares in it, and I did not have much chance of getting any. What I wanted was good service. If the Canadians were not prepared to provide it and the Americans were, fine, it would not make much difference to me.

I think that this concern about ownership is a mixture of two kinds of ideas, both of which are wrong. The first idea is simply that a nice clean-cut young Canadian is going to be a nicer fellow to do business with than the same crew-cut American type. I do not believe that at all. When the chips are down in business they have to be businesslike.

The other is a mixture of strange ideas about the nature of society, which come to us essentially not from our own country but from European ideas. There is the idea that somehow ownership is tremendous power.

I have met many people who owned businesses who were sweating blood all the time. They did not have much power, they had a lot of responsibility. The notion that somehow ownership conveys tremendous power does not really impress me as being very realistic. There is the belief that our society is divided into a few who

own things and a lot who don't and that a few guys like myself who are radical minority would like to own and run them instead. I do not like that kind of politics. It is an elitist kind of politics which has nothing to do with the common man. It is just a question of who, presumably, of two small groups will run things for the rest of the people. I do not believe it is realistic and I do not believe that is the kind of country we want. But we still have that kind of tradition, and part of it is our own weakness as an ex-colonial country in not doing our own thinking. We import ideas and those ideas do not necessarily fit our situation.

Again we go back to the question that you mentioned about Canada being settled by the losing side of the American Revolution. To some extent that is true. But a lot of Canadians were the losing side in the class war in England, not of the American Revolution.

My family were not Empire Loyalists. They were refugees from Scotland and Ireland. They came here because they wanted a better chance than they got out of the British class system. I am not entirely sure that the implantation of Empire Loyalists did not do something to hold Canada in the British class system relationship, which is not too good either socially or politically.

Senator Macnaughton: We are getting back to the political side again. I have one final question. As a result of the recent oil state moves, would you think that the position of Canada has been very materially improved vis-à-vis the United States?

Dr. Johnson: Yes, indeed. I would say the position of Canada for Canadians has been vastly improved because we turn out to be well supplied with oil. Perhaps we have done some foolish things with that asset. If we get something that becomes valuable there is no particular reason why you should make it cheap to Canadians and expensive to other people. It is an expensive thing, and you should treat it that way. But all countries are alike in not doing that. They try to respond to the increased value of something by cushioning some of their own people from having to recognize this value.

Our position has improved. This is only part of a long process. I feel, just because I have grown up myself so to speak in the same sort of historical process. In the 1930s we felt pretty poorly about Canada. Here we were, we had all this wheat and nobody wanted to buy it, we didn't have oil and we felt ourselves disadvantaged compared to other countries. We got our first big shot when the atom bomb was invented and we could brag that we have uranium. Then we developed steel and iron and oil and we found that what we used to say about Canada was true, that it was a country with tremendous natural resources. That has been one of our big strengths.

Any demonstration that our possession of resources gives us importance and income in the world is a good thing for us, because in the long run it is going to wear down that inferiority complex we have got because we are not British and we are not American. It is a tremendous load to the average Canadian, particularly when he has been taught by people to believe it. I do not believe it. As a modernized liberalized Canadian, I don't believe that we are disadvantaged in this country from not being British and having a British class system, or from not

being American and having tremendous power. I like things the way they are. But many of our people think somehow we are nationally disadvantaged by not being that, by not being European or something, not having an empire behind us. I think we have got a great advantage and the more it can be shown that we have an advantage the better.

Senator Macnaughton: Thank you, sir.

Senator Grosart: Mr. Chairman, perhaps I should apologize right now as I shall have to leave very shortly to go to a meeting of another committee. I would like to ask Dr. Johnson a few questions, particularly since the last time we were together he was questioning a paper that I gave. However, I am not taking a critical position at this time, Dr. Johnson.

You seem to indicate that Canada is in a position where we may be faced with this alternative, of starving to death or integrating more with the United States. As an economist, do you see any reasons why this may be more imminent at the present time than it has been over, say, the last hundred years?

Dr. Johnson: Senator, I have not really made myself clear, apparently. What I said was that the pressures for unification of the United States and Canada have always come at times when Canada has been suffering tremendously economically. It has been as an alternative to economic ruin as seen by some people, that has led Canadians to talk about unification with the United States. I think that both the political appeal and the danger of political unification are very much a myth. I am often wondering why Canadians either assume that other Canadians want so much to join with the United States or assume that the United States wants to have us. The United States does not want to have us and certainly if I were the American president—not this one but some other one—I would not want to have us either. When we get down to the economic problem we begin to think of ways out and contemplate joining the United States. My argument is that the richer we are and the better we are organized, the less chance there is that anybody in this country would ever want to join the United States or ever feel that they have to join the United States. Contrary to the idea that becoming richer will make us want to become more American, I think it will make us want to become Americans less, because we can afford to be ourselves. It is when we are really up against it economically, when we have got lots of unemployed as we had in the 1930s, or away back in the middle of the nineteenth century when we had a movement towards joining the United States again, and again it was a matter of American trade policy or American depression.

I do not think that depression is going to be a big problem in the future, but trade policy might be. I see free trade with the United States, or did see it, as a way by which we could avoid them passing their burdens on to us, because they could pass the burdens on and think they are passing them on to the world as a whole and they all come home to us and when we go down to Washington and complain they say they did not realize that they were going to do us that harm.

Senator Grosart: I was not thinking of the alternative of joining the United States; I was thinking of the alternative of more integration. We have had reciprocity movements at various times, almost in cycles, in Canada. What I am asking you is, as an economist do you see the present or comparable circumstances, Canada vis-à-vis the United States, as vital or more pressing reasons now for integration than at any time in our history?

Dr. Johnson: No, senator. On the contrary, at the present time one of our problems in forming views about this kind of thing is that the world changes and we think of the world as it was before. As I said earlier on, I came to the idea of integration not with any great happiness but as the best alternative open to us in a particular situation in a world in which there was a strong trend developing towards regionalism and that the other kinds of regions that we might be interested in would not be advantageous to us.

I spoke of Europe and also the Commonwealth. The Commonwealth used to be a fairly complementary relationship between countries like Canada, Australia, South Africa which produced food and which imported manufactures from Britain. All of these have now become industrial powers. We and the Australians used to think of ourselves as being primarily food producers but in fact our industrial structure is very close in its composition, in terms of the number of people who are actually involved in agriculture compared to those involved in industry, to that of the European countries. In fact, we have fewer farmers than some of the major European countries, simply because we have gone further with mechanization.

So my feeling is that at the present time, with the world being shaken up through the oil crisis, we should start thinking again and think of what other ways might the world be organized.

The idea of integration with the United States is a product of a particular historical period when the world seemed to be squeezing into economic blocs. Now that is up for grabs and it is possible that Canadian policy might do something to move it towards what we would all prefer a system which did not involve Canada in being too dependent on the United States. But we can only do that on the basis of having a world system to deal with.

Senator Grosart: Are you really saying that we are facing a trade bloc war or something equivalent to a war, and that we had better join one of them and the best one to join is the United States—and when I say “join” I mean get into closer relation?

Dr. Johnson: No. On the contrary, senator, my feeling on the point is that up until the last year and a half we did seem to be marching towards regionalization and blocism, with the British going into the Common Market, with the Americans turning protectionist and with movements towards bloc arrangements in other parts of the world like Asia and Latin America it did seem that blocs was the way the world was going to be organized, and for us there was not much in any of these other blocs, and a lot was to be said for coming to terms with the United States. But my feeling now is that, after the last year and a half, that danger has receded a great deal, because the Europeans are not able to manage a bloc.

They still think nationally and when the chips are down they are prepared to use their own individual power to pull off a deal for themselves and not to recognize any real responsibility to each other. They have not been able to run a common currency, their agricultural policy is in a mess, on oil they were not able to devise a common policy, each has gone off in his own direction. This creates some possibility that the movement towards regionalism may be halted. The question then is, do we have individual anarchy and anomie, and so on, or do we move back into the idea of a world system rather than a bloc system.

I am trying to argue this morning that Canadian thinking ought to be thinking not in terms of the bloc tendencies of up to a few years ago and casting a policy against that background, but thinking in terms of what is happening now and what Canada's best interest ought to be in this situation.

Senator Grosart: Do you not see the possibility of the bloc system hanging over us like the Sword of Damocles? The mere fact that the European Community is experiencing some internal trouble at the moment does not seem to make it inevitable that we will not return to the high optimism that the world had about the European Community a few years ago.

Dr. Johnson: I think that is extremely unlikely, for two reasons. If you look at the history of the Common Market you can see General de Gaulle really put paid to the Common Market in a long run sense, because he killed off the idea of European political unification in favour of a club of imperial powers, although he did not put it that way. He put it as a “Europe des patries”, of fatherlands, or something like that. Given that General de Gaulle is still with us in the sense that the upper French civil servants and politicians are de Gaullists in their thinking, that killed off the idea of European unity as a political force.

If we look at developments in world politics in terms of relations between the Americans and the Russians, and still more recently relations between the Americans and the Chinese, there is really no point in a European political union these days, it does not have any function other than to keep these countries influential, and I am not sure I would like to see them very influential in the world; they are typically dead. They are not outward looking like we are; they are inward looking, either because they are living in a dead era of history, or because, like the Germans and Italians, they have been defeated a couple of times and they are not interested in this world politics game any more. You spoke about the Sword of Damocles. I think the problem is that the thread broke on the Sword of Damocles, the thing fell and nobody was underneath it, and nobody has managed to hang it up again where it can be a danger.

Senator Grosart: In the event of free trade arrangements coming about between Canada and the United States, what kind of dislocations do you see in our economy, and how do you think they could be handled? I refer, of course, to such things as a movement away from the centralization of industrial production in the middle, and so on.

Dr. Johnson: By and large, there is a limit to what policy can do about this kind of thing. One of the facts we have to recognize is that the centre of economic gravity in the United States has shifted very rapidly westward. For that reason we have a western White House, for example. There is a great deal of American industry now on the west coast that is influential. That is a long run factor important for Canadians to think about, because among other things it implies that Ontario and Quebec will no longer be right next to the American industrial heartland; places like British Columbia and Alberta may well have better advantages than Ontario and Quebec industry in the long run. I cannot give a calendar time to this, but it seems to me that there are big changes occurring, and likely to continue to occur, in American population location and so on, which have implications for Canada.

You asked about the question of how we adjust to the effects of, say, closer trade with the United States, or, as I like to put it rather more openly, freer trade generally. I would like to recall that Canada has played a fairly important part in a development that is from an economic point of view one of the keys to this. The world in general has a very antiquated view of how to run a free enterprise system. Such a system involves people taking decisions on the basis of information which cannot be complete. The old view of capitalism was that if the worker took a job in an industry and the industry folded up 25 years later, that was just too bad; he was on the shelf, too bad. We now think that human life is more valuable than that, and we have started to look at ways of retraining people, relocating people. Canada has, I think, been in the forefront of that kind of thing, compared with some of the European countries, where the old kind of thinking still holds.

That really is the solution. We have to stop viewing our human beings as specialized machines that are brought up for a certain purpose and either continue that purpose or go on the scrapheap, depending on how things turn out. We must regard people as resources of a fairly high degree of flexibility; they are valuable and we should be willing to move them, train them and retrain them. After all, we do not usually buy an automobile under the impression that it will run for 45 years. We turn out workers and put them to jobs; we turn out college students, who have 45 years to go between the time they graduate and the time they retire. We are not prepared to trust an automobile to run for 45 years without some help, some repairs and some maintenance. I do not see why we should treat people that way. It will take a positive attitude towards people instead of a negative attitude towards change.

Senator Grosart: People, particularly in the labour force, appear to have considerably less mobility than the automobile.

Dr. Johnson: I have never seen an automobile running by itself.

Senator Lapointe: What would happen to the United States subsidiaries in Canada if there was a free trade arrangement? Would they be closed? What would we do with them?

Dr. Johnson: That is a problem that produced some surprises as a result of the auto agreement. To some extent people who criticize the presence of subsidiaries do so in unawareness of the fact that subsidiaries are often creating make-work executive jobs for Canadian educated people. Some people in the automobile industry were quite surprised when they found that integration in the automobile industry meant they no longer needed a duplicate head office in Canada. I would expect that if you had free trade you would get a fair amount of rationalization of management, but I do not think that would necessarily be to Canada's disadvantage. If you really had the thing set up in an irreversible way, then there are many arguments for having management located in Canada rather than in the United States. Also, there would be Canadian companies—and there are plenty of those that operate in the United States—which would no longer need to have a management set-up in the United States to match its Canadian set-up. You would get a sorting out that would cut both ways. I myself do not get a lot of pleasure out of the idea that a lot of second rate Canadians are being hired as duplicate managers up here to do the job that better men down there can do, particularly as many of the better men are Canadians too. I am a little suspicious of arguments that object to changes which are for the good of the average Canadian, on the ground that they will mean less cushy jobs for well-educated well-off Canadians.

I cannot really predict. The only thing I can say is that it would be wrong to look at the thing in terms of the complete wiping out of American subsidiaries in Canada or anything of that kind. We have advantages that we could exploit if we had access to the United States. We have some advantages in terms of not being so crowded, having lots of lovely lake country for the summers. You would be surprised how miserable Americans in my part of the United States are in the summer, with very few lakes, and being so crowded. The opportunity to have a nice summer cottage in Canada is a great attraction for many of those people, or would be if they knew about it, which fortunately for us they do not all know about.

I am not sure I have answered the question. I have done the best I can with the ideas I have on it, and with what I interpret to be your major meaning. If there is something else, I will be only too glad to zero in more if I can.

Senator Carter: Many of my questions have been partially covered. I would like to start with the question raised by Senator Macnaughton. I think you answered pretty fully all of the points raised by Senator Macnaughton with the exception of that on resources. He was asked what would happen to our resources. Part of our concern now is that too many of our resources are owned outside of Canada, and to some extent are not subject to Canadian control. How do you see this being worked out in a freer trade atmosphere?

Dr. Johnson: You have mixed up two different questions. The question of ownership and the question of control of natural resources are quite separate. Governments retain powers to exercise control over the use of resources, although others own them. Many of the

problems which derive from ownership seem to me to be matters of ownership by someone, not ownership by Americans rather than by Canadians. I can think of cases in the past when Canadians have been just as bad in managing resources from the long-run Canadian standpoint as any foreigner could be. In fact, sometimes one suspects that Canadians are more willing to exploit their fellow citizens than foreigners would be. So the question of control and the question of ownership seem to be quite different.

On the control side we face a serious problem in the nature of the country as having a federal constitution. We have a tension between the provinces which want the development of the population and to get those resources out of the ground and into the market as fast as they can in order to build this population and political power. On the other hand we have the federal government, which is attempting to give some sort of rationale to the use of these resources.

I am not sure that the political structure of Canada makes it possible to speak very intelligently of resources policy. You will know more about that than I, the tensions between provincial prime ministers and the federal government over the use of the resources and sale abroad versus sale at home and so on. From that standpoint I think the problem is really our Canadian problem. If we did move to freer trade with the United States, this would change the profitability as it appeared to owners of resources and the exportation of those resources at certain times. It is quite possible that the private decisions about when to exploit resources would not be in the long-run interest of Canada. It seems to me, however, that is a question of attempting to define the long-run interest of Canada. It does not help much to identify the question of resource management, which is a very difficult question, in a world in which technology changes and in which resources may become useless by holding because something else is discovered to substitute for them. We can think, for example, of the value of Peruvian guano before chemical fertilizers were invented. These mountains of bird droppings were a tremendous natural resource. I do not imagine, however, that anyone would be too pleased to have mountains of bird droppings around now, because fertilizer can be produced much more easily through chemical processes. So it may well be that some of the things we think of as important resources now may well turn out not to be resources at all, but just excess baggage in the future.

We also have the final problem that we are learning continuously about substances that pollute our environment or endanger our lives. It may be that some resources we think at the present time are tremendously valuable will turn out to be things we will not dare to touch. Therefore those are the real problems, in my opinion. If you can solve them, you will evolve policies in which trade will still be the best policy, but you will not necessarily allow the owners, whether they are Canadian citizens or not, to do as they wish with the resources.

Senator Carter: I was not so interested in that and apparently did not make myself clear. A sovereign country must have an industrial strategy, which must change from time to time to meet the requirements of the country. You said earlier that if we had free trade and did away

with tariffs, there would be more manufacturing in Canada. I am not so sure that that is absolutely true. It may be so with regard to some things, but I would not say it would be generally true. Would you say that instead of taking our iron ore out of Labrador and carting it down to the United States they would move their plants up to Labrador?

Dr. Johnson: Well, I do not know whether they would move to Labrador or not. I do not know many Canadians who would like to move to Labrador either, if they could sit down here and have someone else fetch the ore out.

The Chairman: Senator Carter is from Newfoundland.

Dr. Johnson: I am sorry; I do not wish to be disrespectful to any Canadian, no matter where he lives.

However, I am a little troubled by the phrase "industrial strategy". I have seen a lot of industrial strategy, particularly in the United Kingdom. Industrial strategy usually consists mainly of deciding you do not like what businessmen wish to do and stopping it, or possibly granting them subsidies for doing something they do not do. It has never seemed to have been a great success. It seems to me that your best strategy as far as industry is concerned is not deciding what businessmen should do, but attempting to train them to be better businessmen. We know from studies carried out by the Economic Council of Canada that Canadian businessmen tend to be less well educated in terms of formal years of schooling than Americans and that this seems to have an effect on the productivity of Canadian industry. We also know, at least I know from knowing Canadians, that many Canadians are limited by the fact that they do not identify with Canada, but with a particular province or even a particular city. It is quite possible that by training Canadians to be more willing to move around Canada in addition to training them to be more rational in their analysis of business problems we will in the long run develop industry more effectively than by attempting to decide what industry should do and what it should not do.

The Chairman: If I may interject, Dr. Johnson, I think that your last point was very well taken. If I may say so, you certainly do identify yourself with Toronto.

Dr. Johnson: I do not actually. My first teaching job was in Nova Scotia.

The Chairman: You may not realize it.

Senator Carter: To take another example—and I am probably not so well informed as I should be in my premise on this, but Senator Cameron can correct me if I am wrong: We have gas in Canada in the northern areas and it must be sold in volume to compensate for its development. We do not have that market in Canada, and the only place we can sell such quantities is to the south. However, we now have a certain amount of gas in Alberta which can be developed and moved cheaply. You spoke of industrial strategy, and this is what I mean: Should the provincial government or the federal government encourage the development of this cheap gas now and its sale to our neighbours to the south at a relatively low price? Then, eventually, we have to buy their expensive gas from Alaska to replace ours. That is one facet

of industrial strategy. You did not think much of the phrase, but here is a concrete problem: What should be done in such a case? What is your opinion as an economist?

Dr. Johnson: The first thing I would do in that case would be to hire six economists, two Canadian and four from some other place, just to keep them honest.

Suppose I develop cheap gas now and import replacement gas later at a higher price and, for example, suppose I were to put the money into IBM or Xerox stock, I might well wind up better off 20 years from now than if I kept that gas in the ground or developed it more slowly. We must view resources in terms of time having a price and money being of greater value if it is in our pocket now than delivered 20 years ahead.

The political process usually does not allocate any value to time, which means that it does not properly deal with the question of whether it is worth obtaining a higher price later or to obtain cash now that we can invest. Now, the oil countries have experienced this problem and have begun to think about it. Sometimes the thinking is fairly primitive. Some of them have territories with which they can do nothing but produce oil, so they intend to plough the proceeds of the oil back into educating their people and developing their skills. Even if it is going to cost you a lot to import gas 25 years from now, it may be well worthwhile to get the money from selling it properly now and investing it. You might develop a better-educated population, say, if you put it into education, or you might develop some other resource that people can use which would pay the cost of expensive oil. You have to think of this in terms of alternatives and possibilities, and assign quite a lot of careful attention to this question of time.

Senator Carter: You have to think also in terms of shrinking resources everywhere.

Dr. Johnson: Any particular resource is likely to shrink.

Senator Carter: But these are non-renewable resources.

Dr. Johnson: If you want to be careful, you invest money instead of spending it. The early settlement of this part of Canada involved settlers cutting down a few trees and floating them down to Montreal to sell to the British Navy. In doing that they were destroying two or three hundred years of natural environment. But they needed to do that in order to get themselves the cash to set up their farms.

Nowadays you look around and see people busy buying trees and planting them. They can afford to do that because they transformed a resource in the form of trees into a more useful resource in the form of money which they made grow by working, and they were then able to buy back the kind of environment they started with and still be better off.

You have to consider that kind of thing. Individual resources, after all, are not valuable in themselves. They are valuable for the use of man. Provided you keep investing money in something else to replace something that you used to have but which has been used up, you are not worse off.

Senator Carter: You could save your money and invest it in nuclear plant to maintain your energy. If I follow your reasoning and your thesis this morning, Canada should never have come into existence, because the natural flow of trade is north and south. We have just listened to Pierre Berton's program, "The National Dream." The subject of the series was designed particularly to counteract these forces and to make Canada a separate country.

Dr. Johnson: It is much more complicated than that. I was a student of Harold Adams Innas, one of the greatest original minds Canada has ever produced. One of his basic points is that within certain limits the north-south thing is not right. If you look at the St. Lawrence, it is a natural seaway east and west.

The problem as Innas saw it was that the Hudson River was a competitor, encouraging a north-south movement. You only got one-third of the way across the continent westwards by water, which was the cheapest method of transport. We spent a lot of resources extending that by developing the transcontinental railway but we ran up against natural barriers. It is not really true to say it is only north-south. There is also east-west, but the east-west is not across the continent. It is from the east side of the continent toward Europe, which is where the country started from really, or from the West Coast, and possibly extending as far as Alberta—but you have the mountains in the way—out to the Pacific.

We have many different pressures pointing in different directions. We cannot really say north and south, or that the country should never really have existed. Actually it is a politician's dream, because the country existed long before it had a government. If we left it up to the Senate of Canada now it might not be allowed to exist, but it worked and prospered and became a government.

Senator Carter: Senator Grosart raised the question of people. The interests of the unions in the United States in connection with the automobile industry are almost directly opposite to those of automobile workers in Canada. How would that be affected?

Dr. Johnson: I would hope—and knowing some Canadian union leaders, I would have a fair amount of confidence—they would not be taken in by the American desire for brotherhood at the expense of jobs. Canadian labour is in competition with American labour. American labour talks a lot about the rights of workers, and so on, but a lot of its activity is designed to over-price foreign labour so that foreign labour cannot compete with it.

I think our unions are smart enough to see that. They have, of course, the problem that they do not want their labour to get too cheap or they will lose in relation to Canadian employers.

But I think that under a free trade situation we would have the possibility of raising Canadian wages, which I think would be a good thing in itself. Having a better-off working population is a good thing. There would be room for having a rise in wages and still being competitive.

If we look at the operations of American unions in, say, the West Indies, as well as in Canada, part of their interest has always been to try to price the labour in

those places out of the market in competition with them. If you look at the international labour organizations, which they have been very active in, part of the effect of those has been to make life more difficult for low-wage labour in places like Hong Kong, Singapore and Africa, under the guise of making life better for those guys. You don't guarantee them the jobs. You guarantee that if they could get a job they would be well paid. But wages are so high that they cannot get the job in the first place. That is not a contribution to human welfare.

Senator Croll: I presume that the Auto Pact is, in your view, an example of what would happen under what we call free trade?

Dr. Johnson: No.

Senator Croll: All right, show me the difference.

Dr. Johnson: The Auto Agreement seems to me to be a reflection of some of the worst things that Canada does. We did not really have free trade so far as Canadian consumers were concerned. We were keeping up the price of automobiles for Canadian consumers and giving companies an incentive to build factories and employ labour. That is not free trade.

Also, as it worked out, Canada started this whole thing and the United States paid the international price of it. The way it worked, Canada did not seem to be violating any international rules in getting, in effect, guaranteed employment for Canadian labour at the expense essentially of European and other automobile labour.

The United States was in technical violation of the rules of GATT in that it was discriminating in favour of Canada as opposed to other countries.

It was very definitely in violation of the rules of non-discrimination. The only way it got out of that was by arguing that since these companies were American companies, it really was not discrimination in favour of Canada, it was legitimate business on behalf of American companies.

This reflects something I said earlier on. It involved the United States carrying the can for violation of the principles of free trade while Canada got the benefit. I do not regard that as being a desirable situation.

Nor have I ever regarded the business of producing automobiles as necessarily man's highest contribution to civilization. I know that all countries I have visited, top and bottom, regard the automobile industry as a sign of industrial competence, but economically you are buying yourself fluctuating employment, soul-destroying kinds of work in assembly lines, and all sort of things which are not attractive in themselves, in order to have the advantage of saying, "That is a Canadian car being driven down the street."

Senator Croll: On the other side, the largest employer of labour in the United States is the automobile industry.

Dr. Johnson: That is no particular credit to anyone.

Senator Croll: Whether it is a credit or not, let us take a look at the Auto Pact for a moment. You said the consumer was at some disadvantage, that no advantage came to him; but to thousands of employees an advantage

did come to them when their rates were brought up to parity with American rates.

Dr. Johnson: That is all very well if you want to identify your social welfare with the happiness of automobile workers.

Senator Croll: But automobile workers are not a group aside. I was taking it as one example. I was going to bring in some other industries. I rather thought that it appeared to be an example of two countries doing some sort of trade—it might be considered free trade—and that there were some advantages and disadvantages. It cannot always be advantageous to both.

Dr. Johnson: That particular agreement gives you an appearance of free trade, but it is not too beneficial from the standpoint of the Canadian consumer, who is the person who is supposed to benefit from the trade. My second point is that I do not particularly see human happiness as consistent with everyone having a job in the automobile industry. In fact, many of the young people who go out protesting, protest against the soullessness of producing automobiles. I think they are right.

My third point is that it is not the automobile industry, or the government which encourages the automobile industry, that really provides jobs. What provides jobs is the government's willingness to provide a climate and level of aggregate demand that will provide jobs.

Senator Croll: A former Canadian, who is almost as distinguished as you are—Professor Galbraith—speaking yesterday in Calgary before the energy people, said that the trouble with our economy, and the reason for our inflation, was the fact that 50 per cent of what it is all about is in the hands of the national and multinational organizations, and they control as much of the economy as does the government.

Dr. Johnson: I would not want to put myself within even talking distance of Professor Galbraith as a great man, but as an economist I have no doubts at all as to who the economists of the world are, and he is not one of them. That is the fallacy of Galbraithian thinking about companies, and also of worries about Canadian ownership, companies do not raise prices because of sheer devilment, because they want to raise hell for the government, they raise prices because the government is pursuing an inflationary policy. It is visible when a company raises prices, but it is not visible when the price of hired help or haircuts or something like that goes up. You do not start lambasting the barbers because a haircut costs more than it used to, but you do lambaste the company. That is purely an accident. The cost of haircuts can rise and hurt you just as much, proportionately, as the cost of automobiles, but you do not notice it when the cost of haircuts goes up, you do not assume that some malevolent group is busily putting up the price of haircuts, just to get after you and they do this to spite the government. You notice it when a company has decided to raise prices, as the automobile companies do, because they take a decision on prices which go across the board and is very visible. It appears that the automobile companies decided out of sheer viciousness to raise prices. With the price of haircuts, no one in particular decided it, it just happened that

every barber simultaneously decided it was time to raise the price of haircuts.

I do not believe that any approach to questions of inflation which concentrates on finding a villain in the head office of General Motors is an intelligent approach to this question. I testified on this three years ago, as Senator Aird has pointed out, in a committee on inflation. It seems to me to be a complete distraction. I could if I wanted to, or at least if I felt malevolent enough, give some ideas on why Galbraith feels this way about big companies but it certainly is not economics and it really is not very helpful.

Senator Croll: Perhaps he is not convincing, but a great number of people read what he says. I am not questioning, and I know, your competence in the economic field and I will stay with it.

You talked about the Common Market and you indicated how you feel it is falling apart. What assurance could there be, if we integrated as you suggest with the Americans, that in the same way there was any performance that we could depend on?

Let me give you an example of what often happened in this country—and you are aware of it. A great number of purchasers of articles, particularly in the merchandise field, would have a man or a supplier over a long period of time, and then suddenly one morning the purchaser would say, "I am prepared to pay only X number of dollars for what you have been supplying to me," and the supplier would say, "I cannot do business on that basis; it is not possible. Could you give me thirty days in which to straighten it out?" Then he cannot straighten it out, he is gone. You know that happened very frequently, not only in Canada, but it has happened in the United States. Now, we are integrated with the United States and one morning we have one of the Texas group who suddenly says: "That's for you, Canada"—another Connally—and where are we?

Dr. Johnson: I am touched by the story but I don't feel particularly persuaded by the likelihood of it. It seems to me that our chances of waking up in the morning with that kind of position are minus. We have had it demonstrated plenty of times that with the tariffs on both sides and without Canada having any particular claim on the United States, and our own attitude is a matter of a variable, we have had plenty of cases of that happening to us without free trade. So why should the possibility of free trade suddenly stir up all these chances. You have already referred to the fact of businesses having this experience before.

If it is going to rain on some days in the week, regardless of what you do, then why tell me that if I don't go to church on Sunday I am going to be particularly bothered by rain, or if I don't do this or that I will be particularly saved from rain? That is going to happen in any kind of situation where you have centralized decision taking by a government which is not able to trace out all the possible implications.

Many of our difficulties in Canada have been simply that to the Americans, though we are their biggest customer, we are only a small part of the world they have to live in, and they take decisions that are involved in this

idea of non-discrimination and things like that, and they take decisions that really affect us and almost nobody else but which they take automatically and look on as applying to others at home. It is part of their mental image of their country. It is that they are not deeply involved in trade with Canada in the way we are conscious of being with them.

You are going to have that kind of thing but first of all this kind of thing is going to be less important. The major source of this kind of problem goes back to the 1930s and the world depression. When people are really fighting for jobs, you get this kind of behaviour. We have moved ahead as a result of the Keynesian revolution and the better thinking of economic policy, to a point where countries are not any longer really depending on cut throat activities towards each other to provide jobs. We know that all governments can provide jobs by providing demand and if you decide you do not want to provide the jobs for some reason you cut demand and you know what you are doing.

In the particular case you take of a supplier, I have always been puzzled by that kind of approach because no one ever bothers to fill in enough detail about this guy to know whether he is being screwed or not. I can see it is quite possible that the man who gets a special arrangement with a company may slack off a bit in keeping control of costs, he may not pay much attention to new developments in the technique. Then some guy comes along, younger and hungrier, and says "I do not see why you deal with that old guy when I can produce the stuff for you cheaper." I can also see the possibility of the company saying "We all know old Joe is really past it but we owe it to him in decency to give him a chance and we will give him the thirty days to see if he can smarten himself up."

As far as poor old Joe is concerned, this is unfair competition and he is being hard done by. As far as the company is concerned they may be spending a lot of money they need not spend in order to give old Joe the chance to modernize himself and be able to compete. As regards the young guy who is in the business of trying to produce the stuff and knows he can do it cheaper, what old Joe is saying is "That young guy should not have a chance, I got the market and I should keep it, and that poor fellow, he is not a poor fellow, he is an upstart, he must be put down and told that it is not within his competence to deal with this business when I am here."

I do not know what to make of that example, because you do not specify whether the company really has cheaper suppliers eager to find jobs for their people and make a living for them, it may be they are immigrants or something.

Senator Croll: The real point was that over a period of time there was a method and dependency one on the other that continued. The rest of it fits in, and they both sit back and say, "This is my customer; I am supplying; I provide the resources." Suddenly one day it is gone. I said the same thing might happen to the relationship between Canada and the United States. Is that not one of the great dangers in this integration you talk about?

Dr. Johnson: I am saying that it has nothing to do with integration. You gave an example of this happening without any integration.

Senator Croll: Yes.

Dr. Johnson: In fact in this example you used, you did not even specify that one is a foreign company and the other is a domestic one. You have this kind of thing going on.

Senator Croll: I took the domestic companies but the same kind of thing happens on the foreign scene.

Dr. Johnson: What is so special about the foreign company?

Senator Croll: I didn't say anything about foreign companies. This is a relationship with another country and since our own domestic relationship could fall apart that way, the foreign one could too. What is there that could give us security under those circumstances?

Dr. Johnson: Well, I don't think you are going to find security under any circumstances unless you can specify something that is really remedial in the conduct involved and which could be adjusted. This kind of example really poses a problem. You find this in magazine stories and all sorts of places about the faithful employee of 50 years' service and suddenly the boss comes in tells him that he is no longer doing satisfactory work. We are supposed to sympathize with the guy, but it may be that the guy was doing bad work for ten years and the boss didn't have the heart to tell him. He feels that perhaps it will not hurt too much now that he has reached this age and that he will have a pension and so on so now he can tell him goodbye and that he has put up for 10 years with his inefficiency. So you have that problem, and you cannot legislate for it or argue for it until you look at the circumstances. Clearly if a man is told that he is doing brilliantly and then he is called into the office next day and he is told goodbye, then that is unfair and incomprehensible, but if he has been doing business all these years and it is assumed, but it has not been tested out, that he has been doing a good job and the other side is a little reluctant to tell him every day, "Look, you did a lousy job on that," and finally he gets fed up, then who is to know what the fair procedure is and who is being victimized and who is not being victimized.

Senator Croll: Well, professor, you did say—and I have made a note of this here—that you didn't think it was wise for us to try to buy our way into the American market. But isn't the world doing that?

Dr. Johnson: What I meant by that was a specific example. The case I started with was one where because of the American tariff it pays to export materials in unprocessed form and then to process them within the United States. That is a distortion of natural efficiency caused by the American tariff, and I simply said in passing that you can do two things about that, either you can pay the American tariff and export the processed stuff, in which case you are paying the Americans for the privilege of having their tariff, or you can try to negotiate it downwards so that it doesn't have this effect. There have been cases of this from time to time. The British have involved themselves pretty heavily in this kind of thing, in effect subsidizing exports in order to overcome foreign barriers. You do this in all sorts of

ways. In government particularly you do this on highly technological products that you are proud of. You proceed to offer very special terms, for example, to airlines in the hope that they will buy the Concorde, for instance. They spent nearly one thousand million pounds on the Concorde and nobody wants to buy it, so you shave the price as much as you can and you offer all kinds of subsidies to the buyer just to give the world the impression that having produced this monster you have made a commercial profit out of it.

Countries occasionally do this; they absorb the loss of selling abroad because they want the demonstration effect of selling abroad.

I was arguing in this context that the cost of paying the American tariff in order to have the demonstration effect of having the stuff processed in Canada would be a very expensive way to living up to our image of ourselves as people who are capable of processing raw materials. It would be a lot better for us to try to negotiate that American tariff down on the grounds that it is doing them no good, and it is costing us, and their processors are not very good because otherwise they would not need the tariff, and so get a mutually beneficial arrangement than to use the old phrase of Mr. Bennett that we were going to blast our way into the world's markets. You can always blast your way into the world's markets, but you can also blast yourself at the same time.

Senator Croll: We are having this difficulty in this country; we are having a very hard time to convince our people that with the kind of resources we have in this country, natural resources, we can afford to export them and import the manufactured goods, and we really do not have an answer to this. Are we doing the right thing? Should we be playing some dog-in-the-manger act or what should our attitude be? How do we explain it to our people?

Dr. Johnson: I do not, as a Canadian, find myself charmed by the idea of regarding myself as a dog-in-the-manger under any circumstances. It is a problem, of course, and it is partly due to the fact that both the people and many of the decision-makers do not understand the economics involved here. They wonder, if we export resources and import manufactures, where are the jobs going to be in Canada. But if we manage our economy correctly—and I don't guarantee here that Canadians are any better at this than are the other countries—but if we try to manage it correctly, then we can produce something else with the people we have.

The problem posed here, obviously, is that the labour content of energy resource exports is very small compared with the labour content of manufacturing. One tends to be mistaken about this often, because one of the things that the less developed countries have been complaining about is the fact that despite their industrialization programs they provide very, very few jobs in the process of manufacturing. When we look at productivity in manufacturing, we find that manufacturing tends to kill off jobs, that its function is to increase efficiency by reducing the amount of labour it takes. So in that way we are in a losing game in trying to create jobs in manufacturing because the efficient manufacturer spends his time in trying to find out how he can make machinery do the work of

men. Just because resource products are less labour intensive than manufacturing does not mean that any time we move from manufacturing to resource production we must have unemployment. There are lots of other things that people can do, and one of the factors in all economies is that manufacturing has become less and less important compared with other things. I have a colleague in England who has a very old-fashioned idea about this kind of thing because he seems to feel that manufacturing is the great thing and everything else is dross and second-rate stuff.

Look at Canada, for example. Canada is highly competitive in the international banking business, and for the same sort of reason that the British are—we have a lot of Scots in the country. Scots make very good bankers.

The Chairman: Grandsons of Scots!

Dr. Johnson: The Canadian banking system is a home for Scots people. We are very good at banking; we have overseas banking operations, and we have been active all the time in the Euro-dollar market, and things like that. Our people are very good at that. That is something that they can do and they can survive until the world ends. There are other activities we do pretty well also and to summarize our problem in terms of, "Well, we must have jobs in manufacturing", is wrong. If you think about manufacturing it is one of the worst ways a human being can support himself. Almost every other kind of job you can think of requires people to use their intelligence and to think about things, and not simply to use their muscles to turn screws and so on. To go on doing that year after year is soul-destroying and that is what makes people old—doing the same thing all the time and never having to think and never being allowed to think. Many other activities are much more promising in terms of developing good citizenship, intelligent people, alert people, active people. Those are things which we could do, I would expect, if we exported more resource products and did less manufacturing. We would find that the results would be beneficial to the Canadian citizenship in the sense that our people would still manufacture but they might manufacture more interesting things.

Senator Lapointe: Dr. Johnson, do you think we should sell our resource products at higher prices?

Dr. Johnson: Well, as an economist I cannot really say that we should have a higher price or a lower price. Obviously a higher price is better than a lower price, everything else being the same. What I am saying is that, subject to a lot of problems involved in deciding when we should use our resources and what is the optimal time to use them, there is nothing wrong with exporting resources and using the money to create a better Canada. We must not get in the position of saying we must not export resource products at a profit. I will not use the steel industry as an example because Canadian steel is pretty good these days. There are other industries, such as furniture, at which we are very inefficient, and it seems to me it would be stupid to say we must not export resource products because then we would import furniture and lose the glories of having a Canadian furniture industry. There are lots of other things Canadians can make and do besides furniture making, which they might well

be happier doing than simply turning out poor imitations of English chairs and tables.

The problem I have as an economist, and that all economists have, is that everybody wants to think in terms of yes or no, black or white. Our problem is to recognize that it is never a question of black or white, all manufacturing or no manufacturing, all oil or no oil. It is a question of how much, what shade of grey is the best one. As soon as you start thinking about black or white, either I tell you grey is a colour that exists and is useful or else I am going to have to throw up my hands and say, "If you put the question that way I haven't got an answer to it."

The Chairman: Let me ask you a supplementary question that perhaps is in the grey area. We had Dr. Arthur Smith here last night, and one of the things we talked about was relative productivity between Canada and the United States. He made the point quite strongly that there was a disparity between the two sets of workers, and he saw no real prospect of it improving. Carrying through the rationale of your argument that free trade is perhaps the optimal situation, it seems to me that that clearly puts us at a disadvantage. That is the first point.

The second point is that the automobile agreement and the longer runs achieved therein certainly achieved the rationalization of an industry.

My question is: Given perhaps this factual disparity in productivity per worker between the two countries, and also the fact that there are not many other areas where long runs seem available, where rationalization seems available, do you see any other areas, such as the automobile area, with which you have indicated you disagree?

Dr. Johnson: I was brought up on this kind of thing, and I have followed it fairly closely, but I am beginning to have some doubts whether the conception of the problem and the way of thinking about it is the right one. I have been particularly impressed by some work done on differences between people who live in large cities and those who live in small towns. If you live in a large city there is almost nothing you can have without money, so you have to work. In cities like New York you find people holding two or three jobs and working very long hours, getting around the usual limitations of how many hours you can work at a particular job by having several jobs. The reason is that everything they consume involves spending money. In a small town you can do pretty well without too much money, because you can walk around outside, enjoy nature, hunt, fish, bask in the sun and so on. You can live fairly cheaply and you do not have to do that much work.

I think part of that is an explanation underlying the Canadian and American difference. We are accustomed to having a fair amount of time, spending a fair amount of time with nature, not consuming, and therefore not having to make money. That shows up in, among other things, labour practices. You could spend every single minute working, like the man in the Charlie Chaplin movie, turning screws, having the food come at him with mechanical arms to hold it at his mouth while he turns the screws, you can be much more efficient that way, but is that necessarily the way you want to live? From that

standpoint it may well be that Canadians would be quite satisfied to make a little less money and have a more attractive way of living.

You cannot really assume that the American system necessarily satisfies the Americans, but it does tend to be the style around the big cities. Part of that, of course, is tied up with their population structure, the immigrant background, and more recently the movement of negroes to the north. These people do not have a community that lives and enjoys itself apart from work; it is a community in which money is what counts. That is better than societies in which nothing counts but family, and you cannot get round that. It may well be that this is one of the things Canadians should be happy with rather than concerned about, that we do not have to be that efficient, we can have a little more control ourselves over how much work we do and how we live. Until we fathom that and decide that it really is something that is a great disadvantage to us and that Canadians do not want, I do not think we should be too concerned about it.

We do find in individual countries very big differences in the standard of living in different parts without it leading to what you would expect, which is to lead people to trying to leave the lower income parts and move to the higher income parts. That implies that in some sense people like it that way. In our economic measurements we may be missing part of what it is that makes people happy. If we are, then we cannot turn around and say it is a great disadvantage and we must do something about it.

The Chairman: I really posed the question in the context of competition, but I think we should move on.

Senator Cameron: I have many questions, but there is not time to deal with them all. One or two things struck me rather interestingly about the discussion this morning. Dr. Johnson has performed a valuable service in shaking our belief in the status quo. He has challenged some of our accepted ideas and concepts. My thinking is: My gosh, if ever there is a time we need to challenge the status quo it is now. I am going to say that if the Trudeau government falls next week it will be largely because they have followed the status quo in dealing with inflation and things like that. This may be heresy to some of my colleagues, but I believe it. I have enjoyed this morning's exercise, and philosophically I find myself in agreement with much of what you have said. I happen to come from that sheikdom of Alberta, so this may colour my thinking.

Senator Croll: What did he say about inflation that is different from what the Trudeau government has been practising?

Senator Cameron: I do not want to get into that.

Senator Croll: I was on the verge of asking Dr. Johnson how we set things right. However, I thought I would leave him alone for a while and let you ask him, but you asked him in the wrong way.

Senator Cameron: That is your point of view. What I am getting at is that philosophically I am inclined to agree with Dr. Johnson for the long term. It will take

a long time to bring some of these innovations in our thinking that you were talking about into effect.

I am concerned about the short range implementation of the program. You said something that intrigued me very greatly on the question of ownership. You said that ownership is a mixture of two kinds of ideas, both of which are wrong. You said ownership does not give power, it gives responsibility. I would like to think that ownership did not give omnipotent power. I think the challenge to our thinking today, if you accept the thesis that ownership does not give power, is the exercise of control by the government. I have always said that I do not care where the money comes from. I am not against foreign investment in this country; the more of it the better, so long as we have control. That is the crux of your argument, I think. I should like to see how you spell out the "control."

Senator Carter touched on another point when he talked about selling our cheap gas in the United States and 15 years from now buying it back expensively.

I was intrigued by your answer that there is a depreciation in the value of the dollar and I thought, "My gosh, what about the \$1,000 bond I bought in 1940? What will it buy today?" The same analogy can be applied to our gas.

I thought Senator Carter had been converted to a Tommy Douglas' philosophy. The question of ownership and control is a basic problem today. There are some people, usually on the left, who suggest that we have to curb the great corporations through government control. It then becomes a question of how much control and how that control is implemented. For example, are we going to wind up by having Exxon and all the others involved in that consortium controlling the Mackenzie Valley pipeline, which is going to be a \$6 billion to \$10 billion investment, even though Exxon is controlled by a good Canadian, Ken Jamieson? How do we attain that control without becoming a dictatorship?

Dr. Johnson: I find it difficult to cope with your question, senator, because I really do not know what you mean by it. There are different attitudes in respect of these kinds of things, one of which being that if the company is run by somebody I know personally and I can go in and see him, that is somehow better than if it is run by somebody I don't know. I think we in Canada are in danger of trying to go by what I take to be the British system of economic control, which is that you manage things so that your businessmen are always second rate and impressed by politicians, and when you want something done that is going to cost the shareholders money you call in the businessman and call him by his first name. I do not particularly like that way of doing things. A better way, it seems to me, assuming you want something done that is going to cost somebody something, is to lay everything on the table and have it argued about.

The issue as between American and Canadian control is mostly important in that kind of context in which politicians can use pressure to make businessmen lose money for their shareholders in order to keep in with the politicians. I do not like that way of running governments or business.

If we are not to go that way, then what we require is explicit government rules and decisions which apply to people, whether they are Canadians or Americans. Also, we are going to have to start thinking, sooner or later, about Japanese and German firms, because those two countries are going to become relatively more important and will be looking for overseas investment.

So it may well be that a good many of the things we in Canada think now will be quite anachronistic, because we will not be facing Americans so much as foreigners in general. We have never made up our minds as to whether it is Americans or foreigners generally that we do not like.

On the question of control, I think there is a rather unrealistic attitude. I have seen it in my own recent career where a radical student will say, "Well, if Professor Harry Johnson says we should have a course in Marxism, we will have a course in Marxism." To that I say, "Look, you don't understand this. I cannot introduce a course in Marxism and make you take it unless my colleagues are willing to subscribe to it and unless I can get a man to teach it who is acceptable to my colleagues in terms of his qualifications as an economist." I am a professor because people trust me to make reasonable decisions and not to do erratic things. If I begin to use the power of my position to make everything different, I will be out. I can only be a person in control provided I control it in a way that people accept.

It seems to me there is a lot of worrying about control. Somehow, it is believed, when people get to the top of a business by understanding that business and by having made the correct decisions, they suddenly turn around and start being crazy and "power mad." The view that, "If I were the head of the company I would not want things that way. I would instead use the money in fostering my political beliefs about South Africa, or something like that," just reflects a lack of knowledge of what the whole thing is about. You only have control provided you control things in ways that are acceptable to all of the people involved.

In everybody's backgrounds we have a lot of novels and myths about things the way they used to be. Well, in early nineteenth century Britain the man who owned the mill could fire his workers and do this and that only because there was unemployment all over the place and the worker had to toe line. We do not have that situation anymore. He also had his own money invested in the mill and if he wanted to waste it, he could do so. The man who is spending shareholders' money is in a different position, because if he starts losing money for the company the shareholders are going to complain. They may do so directly or they may do so by simply selling their shares and he will find himself in a position of not being able to raise capital to finance the business.

So, control is not absolute power in the way people tend to think of it. If it were, then there would be some point in saying that we should have Canadians controlling business to enable us to get at them. We could use all the power we have over a member of our own kinship group, or whatever you want to call it, and make that man do whatever we want him to do even though it is bad for him, bad for his employees and bad for his business.

If it is a question that we don't want certain things done in the extraction of our natural resources, then we want to legislate in that area, instead of thinking that if we only allow Canadians into that area, somehow everything will be done right, because it will not be.

Senator Macnaughton: Mr. Chairman, to quote a super power, "Parliament is the appropriate guardian of the public interest."

Do you remember who said that, Mr. Johnson?

Mr. Johnson: Yes, and I believe it, in spite of the many reasons I have had since then to doubt it.

Senator Macnaughton: That is from your own book.

Mr. Johnson: Yes, I know.

Senator Cameron: That is what I want to get into. Who is going to exercise that power? It must be the government in the long run. This question has been touched on peripherally in several questions posed this morning. What happens to Canadian industry in the event that we have free trade? Obviously, the test of industry would go down the drain, along with the employment related to it. On the other hand, the rubber people in Kitchener say that if they could just get into the American market they would compete with anybody, because they are talking about a market of 210 million as opposed to our 20 million.

We have certain levers of power nationally in this country which give the government control if they use those levers. The Tar Sands in terms of gas is one, but it isn't as big a lever as a lot of people think. I think our total resources are only about 6 per cent of what the Americans consume, but it is still a lever. Another lever is land. Americans are trying to buy up our land and we are controlling it. Probably the greatest lever of all is one we are not hearing so much about, but which we will in the future, and that is water. This is our greatest resource and the Americans have to have it. I am not thinking of this in a "dog-in-the-manger" sense, but how do we exercise those levers of power in terms of trade-offs? If we are going to lose some industries, as we would, how can we use those levers of power to protect employment in other areas?

Dr. Johnson: Again, I have some difficulty with that question. So far as I know, Canadian babies are not born with little tags around their necks saying, "I am a textile worker," or "I am a rubber worker," and so forth. They are not condemned to that. I think the important thing would be that there would be more money in rubber and less in textiles. There is more money in rubber because Canadians are good at it, whereas the textile industry is here for a lot of reasons which are not particularly desirable.

I have been inside both types of factories and I do not really see that it is important to spend your life inside a textile factory as opposed to a rubber factory. I don't think it makes that much difference. The money you make is the most important thing.

In large part we have control anyway, in the sense that national policy will determine whether many rubber and textile workers become unemployed. That is the main thing and the main things we do to ourselves. We

do tend, in my opinion, in Canada, to take the easy way out, of blaming the Americans or someone else. Really however, it is our own government which should be smarter than it is. However, the question is what happens if we have free trade. We have the Canadian-American committee and many Canadian experts on trade policy considering this very, very carefully and precisely because the question is asked how are we to make that change? The answer emerges that we will not introduce free trade over-night, but come to an agreement to introduce it by stages. If we consider the history of the European Common Market, they had even more reason than we have to worry about the effect of free European trade upon the industries of particular countries. Two developments took place: One was that the French were smart enough to change their competitive position by devaluing their currency before the Common Market was established. All of a sudden, instead of seeming to be a high-cost, non-competitive country, they were competitive with the best of them and they have done very well because they were smart enough to change their exchange rate to match what they considered to be changes in prices, costs and competitive position that eventuated. The second development was that they arranged to introduce free trade by stages on the basis of the assumption that businessmen needed all that time to adjust. In fact, the businessmen themselves started asking for it to be speeded up, saying they could make the adjustments. In the literature produced by the Canadian-American committee to which I referred, the idea was five years on the American side and 10 years on the Canadian side. I would think that, as was the case in Europe, once there is the idea that that is the direction in which we are going people will ask why waste time, let us get going now that we have made the decision.

Senator Grosart: Mr. Chairman, my supplementary is in connection with Dr. Johnson's reference to studies concerning the effect of the relocation of national productivity. What has been the general pattern that has emerged from those studies? Would you also give us the names of the authors, because I think it might be very important for us to have them appear at some time.

Dr. Johnson: The most important study that was made is a major study by Ronald and Paul Wonnacott. That was the most substantive one measured in various ways, but particularly in terms of the man years of highly qualified time. There were many other studies made and good studies, but rather smaller in scale. In other words, these studies undertaken by the Canadian-American committee attempted to take advantage of the fact that Canada had many good people, but not years and years to spend on it, so they broke the problem up.

The general result emerging is contrary to the picture conjured up by those who are against freer trade. Two aspects emerged, not necessarily equally useful. First, on the whole Canada would gain considerably and, on the whole, Canadian manufacturing would tend to benefit. This is particularly the case according to the results of the Wonnacott study, which is concerned with that. The reason is fairly simple: We have a much lower wage level and geographically our industry in southern Ontario and Quebec is part of the Michigan, New York, Boston,

et cetera, complex. We are located very much more attractively from the standpoint of industrial competition, transportation facilities and other requirements than, for instance, Denver, Colorado which, by the way, is a declining city, and some of the other mid-west cities, such as Minneapolis-St. Paul.

On the other hand, if we think in terms of Canada as a whole and consider the impact effect, this study tends to indicate that the benefits would go to Ontario and Quebec. The Maritimes on the one hand and the central provinces on the other would probably suffer more than they do now from their locational disadvantage. At the present time they do have some advantages given by tariffs and a preferred position in the central Canadian market as a result of various government policies which they would lose, of course, in a free trade arrangement. So would some American regions, however, which are also benefited by the American tariff, and would tend to lose out to Ontario, Quebec and also the West Coast, which has particular access to an industrial belt in that part of the United States. So on the one hand there would be a benefit to Canadian industry as a whole; on the other, some regions would lose.

We must bear in mind that ability to compete in industry is a matter not only of trade policy, but also of the kinds of people we train, the education we give them and the location in which manufacturing is carried out. We have a pretty well-educated population by comparison with most countries and a good location for this part of Canada in relation to the most high-powered industrial part of the United States as it has existed so far.

I mentioned earlier this broad but unmistakable drift in the United States toward the south-west. In the course of time that might well change the impact on Canada of free trade with the United States. Just as New England and New York are tending to decline, so Toronto and Montreal might decline relative to Vancouver, Calgary, Edmonton and other centres as United States industry moves out to the West Coast as it has been doing. Those parts of Canada, rather than this, may be the beneficiaries. There is the point there that the population is tending to move towards nicer climates. People can afford to live in nicer climates and they can afford to move industry there more easily than was previously the case. We may well find major changes in the whole politics and economics of North America, including both Canada and the United States, as a consequence. We could see it taking place in other continents. Because of air transport, air conditioning and many other developments the places in which we wish to live are becoming livable compared to those places in which people have lived without wishing to do so. We are experiencing important changes, which have political implications in addition to everything else.

In Europe the Mediterranean is being rejuvenated. Having been the centre of European civilization in ancient times and being in decay for a long time, it is now becoming again an active part of the European economy. However, I will not develop that historical aspect too much.

The answer to your question is that Canadian industry, taken in the aggregate, would do well. Broken down by provinces, however, some would do very well and some would not do well at all.

Senator Grosart: Do you see free trade as levelling out horizontally the productivity throughout the existing 10 or 12 members of our present common market in Canada, or an acceleration of the problems of regionalism which we already have?

Dr. Johnson: I believe there would be an accentuation of the problem of regions. One must also consider, however, the United States, because they have the same problem, also having regions which are not too viable and which would tend to lose through free trade, just as they lose from internal free trade. The Maritimes in Canada are protected against certain eventualities which might be caused by freer trade with the United States. However, we have more than a hundred years of experience of the Maritime problem within the Canadian free trade area. The reason is, in my opinion, very simple, that there is no law of nature that says that for ever after people who settle in one particular geographical location will continue to enjoy the relative income they had to start with. Important changes have occurred in the technology of shipbuilding and transportation which have tended to leave the Maritimes sort of high and dry. They would be receiving some of that back in so far as Confederation has meant cutting them off from their natural market in the New England States to some extent and they have been paid subsidies and so on to compensate. However, on the whole they would tend to lose.

Senator McElman: Mr. Chairman, the witness earlier referred to the great success of Scots in the Canadian and international banking fields, and you typified me as a Maritimer. I also must say I am a Scot who started out in banking and ended up in this place. To the minds of most Scots that would be an indication of total failure.

I would like to refer to a reference made by Senator Croll in connection with the dangers of closer integration and waking up one morning to find another Texan like John Connally throw the whole country into trauma. I think perhaps it is significant that Canada, après Connally, remains the largest customer of the United States in trade, and the United States remains the largest customer of Canada in trade, and Canada seems to be doing quite well economically, yet Senator Connally has largely disappeared, which brings me to the area I wanted to question the witness in.

Should not Canada, instead of trying to shape itself in trade within an aura of fear of what might be happening later in the world, shape itself to live within the real world which actually exists, and that world, in so far as Canada-U.S. trade relations are concerned, is one in which the U.S. does have a tariff structure which favours the use, to a great extent, of our natural resources, and militates against many of our manufactured products.

So what do we do? As some of the members of the committee have asked, do we sit on our resources? Do we play the dog-in-the-manger and wait for something to happen that would make us great world traders of manufactured goods?—which I suggest is not going to happen overnight.

Well, we are a nation with, without question, great surplus in some natural resources. Until that great period arrives later when everything is ours, particularly with

regard to the processing of those resources which are becoming distasteful to the environment and to the public, even more in Canada than in the United States, I suspect, would our interim answer not be to go into the multi-national field even more than we are, or duo-national field, looking at Canada-U.S. trade relations, and ship our resources on a selective basis, if it could be accomplished, to our own subsidiaries in the United States, get the profits, repatriate the profits to Canada, and then do those things in Canada that we want to do, in development, both industrially and socially? Surely what is happening with the OPEC countries today is a pattern. They have dollars coming out of their ears, by shipping a natural resource to the world. They are caught in the bind of trying to find out what to do with their money. They cannot use it all for social development, even as rapidly as they can bring it in. Is our answer to become the multi-national country—the duo-national country—and ship our resources into the United States on a selective basis?

Dr. Johnson: Well, that is a very difficult question because you have not really said very much about what “selective” means, and how you select it. Also the question is, how much would it cost, and here it seems to me that you have not made it clear whether you are thinking of using this kind of strategy, if you like, for Canadian development as a bargaining weapon, in trying to get the American tariff changed, so that it became less expensive to do this, or not.

My argument has been more about the possibility of getting the American tariff changed by willingness to negotiate over tariffs. Again I mention that things are really up for grabs now, compared with the way they used to be, in terms of Canadian-American relations, as in the case of protection for Canada against duties imposed elsewhere; but it does seem to me to raise a whole lot of issues there about “selective” and so on, and I think this is one of the problems one gets into in political discussions in this country. People like to use nice adjectives like “selective,” and “imaginative,” and “adventurous,” and “independent,” and so on, without specifying what exactly they mean. I am, of course, in favour of “selective” as compared to “non-selective” anything, assuming I do the selecting, and that I am smart. I am in favour of independence as compared to dependence, and so forth, but I do not really have any basis for discussing these things, because all you are asking me so far is, do I like one kind of adjective rather than another, rather than, do I favour one kind of particular strategy in policy rather than another, which is concrete enough for me to make some kind of statement about.

On the question of pollution, which you started from, it seems to me to raise the question of, where does the pollution start? Does it start with the production of the product, as in fact used to be true around Sudbury, that the forest was blasted for miles and miles around by the sulphurous acid coming down from the copper smelter, or does it come from, as many people tend to identify it, from the cities being littered with pieces of old copper or tin cans? Is it the consumption of the goods, or the production of the goods, which causes the pollution? It

seems to me that that kind of thing makes a difference with regard to what you think about as a way of getting the pollution off your doorstep and on to somebody else's. If production of natural resource products involves some kind of destruction of the Canadian environment, then we have to look at it in one way; if production of these things enables us to avoid all the problems of urban life and spoilage of the environment by littering tin cans around, and so forth, that is something else again. One cannot really discuss this kind of question, as to what the right strategy is, until one knows where the differences are going to arise from having that strategy as compared to another.

One might argue in the case of Sudbury, which was the awful example in my youth, you know—all those hills around, with no trees on them, and this sulphurous acid dripping down—that in Ontario most of us did not go to Sudbury, anyway, and so we did not see the hills destroyed like that, and the people who worked up there—and there's a certain amount of racialism in this—were your central European immigrants, and they did not know any better, and it did not bother them that they had these trees blasted; they like to have the pay packet, and life in Canada, and they could put up with it.

Well, we have a problem with Canadian resources. It may be that it is optimal from one point of view for us to produce these things, because we have lots of places where nobody goes anyway so they might as well be polluted as not. On the other hand, if we think of ourselves as producing a great industrial civilization on the basis of resources, we might well be creating for ourselves the very problems we have avoided so far; that is, if we really were to build a Canadian population on an industrial manufacturing basis, we might well be creating for ourselves the kind of problems we look south and see and are appalled by, in terms of city sprawl, urban congestion, destruction of the natural environment to make room for tall apartment buildings—all this kind of thing; and I just do not know how to come to grips with that kind of question.

Senator McElman: Well, for the moment, let us forget about the environment. Let us forget about selectivity of exports. Let us just come instead to the question as to whether it is in Canada's interests, since the tariff structure is not going to change on December 31 of this year or for some time to come, to the degree where there will be free trade, and looking in realities, to consciously develop as a policy that we have resources which we cannot use to the optimum within our own country, and that it might be advantageous to us, not only in the United States but in other of the developed nations, to move in with our own subsidiaries, to ship resources to them that are surplus to our own requirements, and thereby generate the cash flows back into this country that will enable it to do the things it needs to do.

Dr. Johnson: I would be pretty suspicious of that proposal, because it seems to me that, as shown by experience in many different countries, the use of subsidiaries does have costs attached to it. The use of subsidiaries often is a what we call a minimax strategy. It involves costs in one direction and benefits in the other.

If you establish a subsidiary, as the Americans and others have found when they establish subsidiaries in Europe or less developed countries, you have to learn a whole new set of rules, usually a different legal and tax system, and so forth. In some cases you save money by not getting into that business, which is a big learning process, but by selling the commodity to some guy who knows the local situation.

If you look at American enterprises abroad, for example, you find Coca-Cola bottling plants all over the world. There are arrangements whereby the company sells the syrup and the local guy does the bottling. That saves the company having to learn the local laws, do the local bribing, or whatever may be involved.

Colonel Sanders now sells his fried chicken in Australia on the usual basis of one cent per chicken. The local capital puts up the management and looks after the property. It knows the laws and it takes all that cost.

It might well be that the cost to a Canadian firm of developing an American subsidiary in order to get the benefits of producing with the materials they are selling might involve a pretty substantial cost compared with just selling the materials and letting some American who knows the ropes down there produce the stuff.

There is no particular proof, or reason to assume, that you make money by conducting operations that you do not know how to conduct.

We know the history of Henry Ford, who nearly went bankrupt with the idea that because he could make cars he could also make glass, headlights and all sorts of other things. He got himself heavily involved in producing parts and had to cut the whole thing out because the guys that produced the parts were better at producing them than he was.

You cannot assume that simply because it seems to you that you can do better than the other guy, that that is the truth.

It is not at all clear, if we do have surplus materials, that the best way to make money out of them for Canada is to start trying to build plants in Mobile, New Orleans, and all over the place, to use those materials, when there are guys on the spot who are much better at using the local labour, wangling the local laws, and getting the local garbage collected, than you are likely to be.

Senator McElman: Coming from New Brunswick, we have an ultimate expert in horizontal integration of corporate structures in our province, who is proving that it can work, that the Canadian can work in the United States under the U.S. laws, as he has done under Canadian laws.

There is one other area that I would like to probe for a moment. We have discussed with a number of witnesses the fact that Canadians are very well informed on what happens in the United States, but that Americans are not well informed on what takes place in Canada. In many cases they could not care less.

For a continuing good relationship, something needs to be done to correct that negative attitude. There should be a two-way street of information.

We had one witness who suggested that perhaps we could create more scandal here, and in that way hit the

large American newspapers. I do not subscribe to that. It seems to me that those in positions of authority in the United States, or many of them, are aware of Canada and are familiar with it, even though the President of the United States recently put himself with the masses in not knowing too much about Canada when he suggested that Japan was their best trading partner.

It seems to me that we are moving into a period where the masses of the United States will become aware of Canada, or more aware of Canada, but in a most unsatisfactory way.

We currently protest the proposal for shipping oil to the West Coast, and many Americans are aware of that. Some Canadians have gone into United States courts to try to prevent that shipment. We have the immediate case of Canada stating that it will be reducing its oil exports to the United States on a diminishing scale over a period of time, and many Americans are aware of that. It is an awareness that does not endear Canada to the United States. We have many Canadians who are protesting—I am not one of them—shipment of resources, and more Americans are becoming aware of that.

Do you feel, as I do, that the things are happening between our two countries that will not endear Canadians to the masses in the United States as they become aware of us in this fashion—that the masses will, as always, have an effect upon the government in not improving relations?

Dr. Johnson: Senator, I detect in all this questioning what is known by those of the radical side as American cultural penetration of Canada. The idea that somehow you ought to endear yourself to the masses is an idea which the British never had when they ran their empire. They did not give a damn about the masses.

It is the American belief that somehow being beloved by the masses of other countries is a great thing. This may be a tremendous handicap.

I start from the fairly economic view of things, which ties up with what I said earlier about the relation between Southern Ontario and Northern New York. The vast mass of Americans do not know anything about Canada because they do not live close to Canada.

What we get essentially is the fact that we are part of a cultural drainage area which involves both New York and us, focused on Washington and New York. We get all this information about the United States because we happen to live close to it and our major media are within a catchment area like the American ones.

Even living in Chicago you learn a lot less about Canada than you would in New York or Washington, but you would learn also less about the United States. If you went to New Orleans or out to California you would learn very little about the United States, at thought of in terms of New York and Washington.

They are mostly concerned about their own problems. Their newspapers are full of gossip about people you have never heard of. They are the local bigwigs, industrialists and political leaders.

They are not much concerned about what goes on elsewhere. It just happens that our population is strung out along the border, whereas theirs is mostly far to the

South of the border. That is why they do not have much news of us. They do not have much news of their own government either. They might get a headline on the front page about Nixon, but when it comes down to political events, mostly what they are getting is what is going on in the state legislature.

That is natural enough. That is what they are interested in. That is where they live. They do not live in Washington or in a big world where they are making policy. They live in a state, or a city, and their main interest is in that.

I do not think you are going to get this mutual knowledge you want. Newspapers are dependent on sales in a particular geographical area. If you watch television in the New Orleans area, or in California, mostly what you get is what is going on in some town nearby.

My wife and I were in California a week ago, and we were getting tremendous television coverage of a black man who was murdering white people in San Francisco. He had killed about 12 so far.

The whole issue was, "Is it legitimate for the police to stop coloured people on the grounds that this guy is known to be coloured, or is it an invasion of their democratic rights?"

I do not know whether anyone in Canada heard about that one. We did not hear much about it in Chicago, but that was the hot news in the bay area.

That is characteristic of the geographical limitation of newspapers. They have to sell their newspapers by producing stuff that people want to read. They are too far away from Washington or Canada to care much about what goes on there.

Perhaps we are safest on that basis, that they do not know much about us. We have to have a protest from them every year or two about something we have done, and maybe on the whole that is less troublesome than having to tell them every time we do anything.

Senator McElman: Perhaps I should say to you, sir, that this simply proves that the U.S. news gets to us very quickly, because we have it before you. It was not one zebra; they caught seven yesterday.

I suggest that what you are saying refers to the past. What I am concerned about is the future—the future of the attitude of Canadians to Americans and Americans to Canadians and that it should be good. And I am afraid that it is not going to be good.

Contrary to what you have said, two years ago the ordinary American on the street did not know anything much about the OPEC countries and cared a hell or a lot less; but today the average American knows about OPEC countries and what he knows he does not like.

What I am concerned about is that the things the American people are now beginning to know about Canada are things they don't like. I want to see excellent trade and other relations between Canada and the U.S., going both ways, and I am concerned.

Dr. Johnson: I take a somewhat different attitude. It does not bother me too much that Americans don't like what they see, because very often what they really like to see is other people sacrificing for the benefit of Americans. I don't see any point in that. I don't see why

an Arab should lower the price of oil in order to make Americans think well of him. If he does lower the price of oil the Americans just forget about it and he doesn't get anything out of it anyway. So I would be just as happy if Americans saw things happening in Canada that they didn't like, providing those things were good for Canadians and providing that it was not a matter of chiselling Americans for the benefit of Canadians but was just something that Canadians ought to do.

I don't see any particular virtue in Canada having good relations with the United States on the basis of holding the price of Canadian oil down below the price the Arabs charge, or anything like that. But again I have this joke I made about cultural penetration. We do tend to want to be loved, but there come times in life when you have to be unloved and put up with it. It is part of the business of being an adult that you recognize that sometimes you do things that other people don't love. But it is a matter of doing things that you think are right or things that are not stupid to do.

So the Americans are going to find a lot of that. The British and the Europeans found a lot of that. Lots of people are certainly annoyed at the Middle East countries by the fact that the price of oil went up. Nobody likes to have his bills rise. Even if it is a matter of poor people getting more money, most of us are not prepared to carry our love of poor people and our desire to do something for them to the point of actually giving them a lot of money out of our own pockets.

We would be quite happy to vote that other people with more money than we have should have to pay their

money to poor people, but when it comes to our voluntarily doing something about it we don't like it.

I think one of the things Canadians are going to have to do if they are going to become more independent in any real sense is to tolerate the idea that Americans find things about Canada that they don't like. We are much better off with that in the long run than trying to pretend that the things we are doing should be liked when they are not, which I find one of the worst things about Canadians—in other words, that we should steal something from them and yet they should love us because we are Canadians. If we are going to cost them money we are going to have to get used to the idea of not being loved.

Senator McElman: Mr. Chairman, I was not interested in love or in the price of love, although, of course, things can be priced. I was very much interested as to whether you had any thoughts about what I consider a developing trend, which is not good for Canadian-U.S. relations or Canadian-U.S. future trade. Thank you, Mr. Chairman.

Senator Grosart: Mr. Chairman, isn't the answer the old newspaper aphorism that bad news is good news?

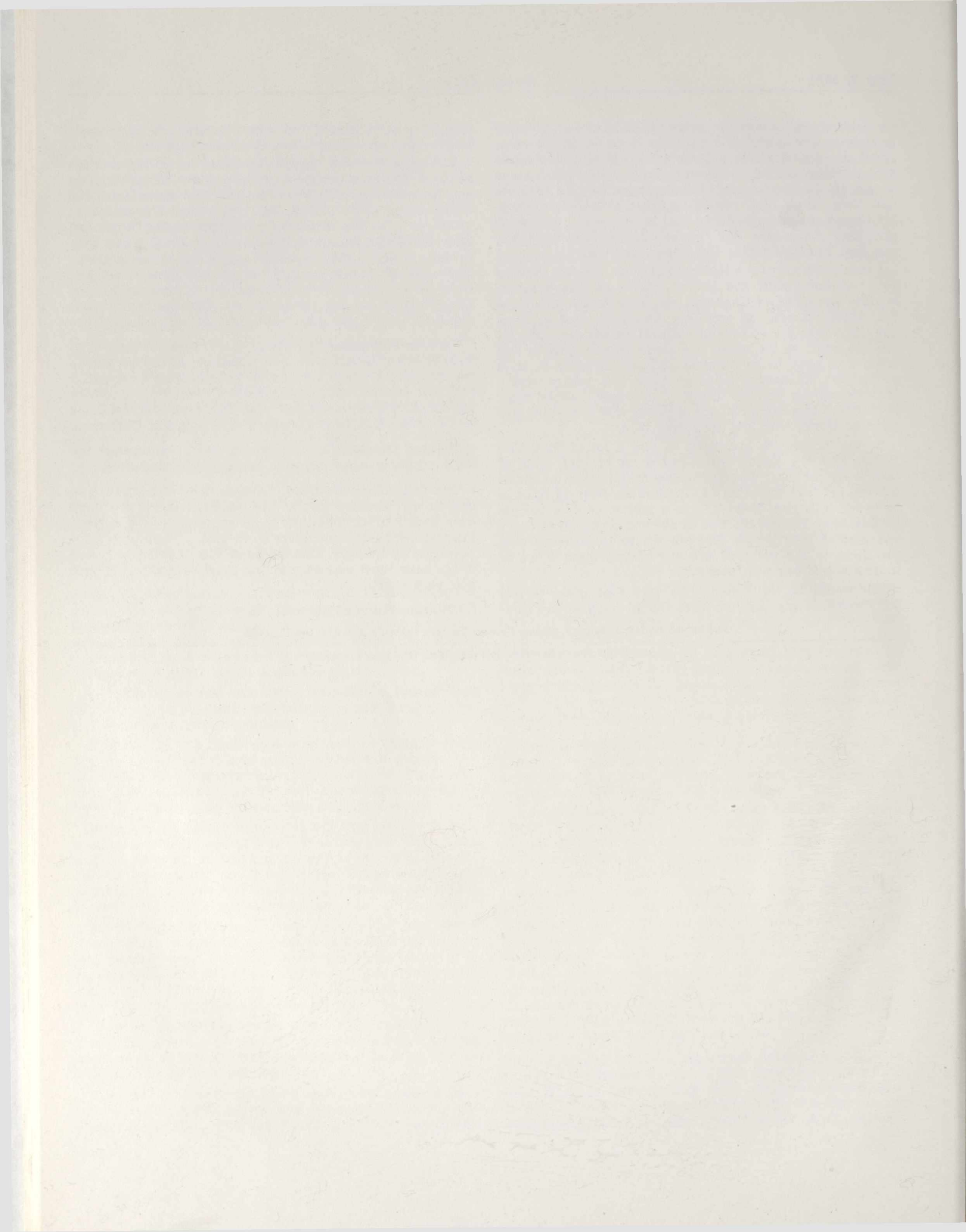
The Chairman: Well, Dr. Johnson, it is now 12.15 p.m. and in my memory this is the longest hearing we have ever had. I think that that is an expression of the great interest which the members have had. It has been provocative, as Senator Macnaughton has pointed out, and it has been most educational and most rewarding. Thank you very much.

The committee adjourned.

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SECOND SESSION—TWENTY-NINTH PARLIAMENT
—1974

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

The Honourable JOHN B. AIRD, *Chairman*

Issue No. 4

THURSDAY, MAY 9, 1974

Fourth Proceedings Respecting:

Canadian Relations with the United States

(Witnesses—See Minutes of Proceedings)



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THE STANDING SENATE COMMITTEE ON
FOREIGN AFFAIRS

The Honourable John A. Aird, *Chairman*

The Honourable Allister Grosart, *Deputy Chairman*

and

The Honourable Senators:

Asselin	Laird
Bélisle	Lapointe
Cameron	Macnaughton
Carter	McElman
Connolly	McNamara
(Ottawa West)	Rowe
Croll	Sparrow
Deschatelets	van Roggen
Hastings	Yuzyk—(20).
Lafond	

Ex Officio Members: Flynn and Martin.

(Quorum 5)

Order of Reference

Extract from the Minutes of the Proceedings of the Senate, Tuesday, March 26, 1974:

The Honourable Senator Aird moved, seconded by the Honourable Senator Grosart:

That the Standing Senate Committee on Foreign Affairs be authorized to examine and report upon Canadian relations with the United States; and

That the Committee be empowered to engage the services of such counsel and technical, clerical and other personnel as may be required for the purpose of the said examination, at such rates of remuneration and reimbursement as the Committee may determine, and to compensate witnesses by reimbursement of travelling and living expenses, if required, in such amount as the Committee may determine.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

Robert Fortier,
Clerk of the Senate.

The United States-Canadian Trade Statistics Committee was set up in the fall of 1971 to try to reconcile the growing gap between the trade figures published by Canada and those published by the United States. In her capacity as Chief Statistician of Canada, Dr. Ostry acts as the Canadian co-chairman of this committee. Mr. Byten, Director of the External Trade Division, is also a member and serves as an alternate co-chairman. Mr. Carty, special adviser on balance of payments questions, was a member of an earlier joint working group on balance of payments statistics and has had long experience in trying to sort out where the discrepancies in the figures lie.

It seems to me that, given the magnitude of the problem, the fact that the joint committee has already issued two reports with reconciled trade figures for the years 1970, 1971 and 1972 and preliminary figures for 1973 is no mean achievement.

What the committee is interested in particularly is the way the governmental machinery regarding such a collaboration was put to work to solve a problem that was arising out of a very hot issue in bilateral relations. What provisions are the two countries working together, what problems did they face, how were they solved and what provisions made for an ongoing procedure to prevent recurrence? These are some of the questions that will be looking at

Minutes of Proceedings

Thursday, May 8, 1974

Present: The Honourable Senator Aird (Chairman), The Honourable Senator Grosart, The Honourable Senator Macdonald, The Honourable Senator Ostry, The Honourable Senator St. Laurent, The Honourable Senator Young.

The Chairman reported that the committee had held a meeting on Tuesday, March 26, 1974, at which the motion was adopted. He also reported that the committee had received a letter from the Honourable Senator Aird dated March 26, 1974, in which he stated that the committee should be authorized to examine and report upon Canadian relations with the United States.

The Chairman stated that the committee would be holding a meeting on Thursday, May 8, 1974, at which time he would be reporting to the Senate on the progress of the committee's work.

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Minutes of Proceedings

Thursday, May 9, 1974.

(7)

Pursuant to adjournment and notice, the Standing Senate Committee on Foreign Affairs met at 9.33 a.m. this day.

Present: The Honourable Senators Aird (*Chairman*), Cameron, Carter, Lafond, Lapointe, Macnaughton, McElderman, Rowe and Yuzyk. (9)

Present but not of the Committee: Honourable Senator Molson.

In attendance: Mrs. Carol Seaborn, Special Assistant to the Committee.

The Committee continued its study of Canadian Relations with the United States.

Witnesses: From Statistics Canada:

Dr. Sylvia Ostry, Chief Statistician of Canada;
Mr. Jacob Ryten, Director, External Trade Division;
and Mr. E. B. Carty, Special Adviser on Balance of Payments.

Dr. Ostry submitted a document entitled "A Comparison of two Measures of the Canadian Bilateral Trade Balance with the United States". That document was identified as *Exhibit "3"* and is printed as *Appendix "A"* to these proceedings.

At 10.10 a.m. the Committee adjourned to the call of the Chairman.

ATTEST:

E. W. Innes,
Clerk of the Committee.

The Standing Senate Committee on Foreign Affairs

Evidence

Ottawa, Thursday, May 9, 1974

The Standing Senate Committee on Foreign Affairs met this day at 9.30 a.m. to examine Canadian relations with the United States.

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

The Chairman: Honourable senators, it is past 9.30, I see a quorum and I declare the meeting legally constituted.

It gives me great pleasure this morning to welcome Dr. Sylvia Ostry, Chief Statistician of Canada, to our hearings on Canadian relations with the United States. Accompanying Dr. Ostry are two senior officials from her department, Mr. Jacob Ryten and Mr. E. B. Carty.

Dr. Ostry was born in Winnipeg and trained as an economist at McGill and Cambridge. She holds a Ph.D. in Economics from these universities and six Canadian universities have conferred honorary doctorates on her. Before coming to Ottawa she pursued an academic career at McGill, Sir George Williams and the University of Montreal. From 1964-65 she worked as consultant on manpower studies with the Economic Council of Canada. She was director of special manpower studies and consultations in the Dominion Bureau of Statistics from 1965 to 1969 and did research during this period for the Department of Manpower and Immigration. From 1969-72 she was Director of the Economic Council of Canada. In June, 1972, she was appointed as head of Statistics Canada.

The United States-Canadian Trade Statistics Committee was set up in the fall of 1971 to try to reconcile the growing gap between the trade figures published by Canada and those published by the United States. In her capacity as Chief Statistician of Canada, Dr. Ostry acts as the Canadian co-chairman of this committee. Mr. Ryten, Director of the External Trade Division, is also a member and serves as an alternate co-chairman. Mr. Carty, special adviser on balance of payments questions, was a member of an earlier joint working group on balance of payments statistics and has had long experience in trying to sort out where the discrepancies in the figures lie.

It seems to me that, given the magnitude of the problem, the fact that the joint committee has already issued two reports with reconciled trade figures for the years 1970, 1971 and 1972 and preliminary figures for 1973 is no mean achievement.

What the committee is interested in particularly is the way the governmental machinery existing in each country was put to work to solve a problem that was adding fuel to a very hot issue in bilateral relations. What procedures got the two elements working together, what problems did they face, how were they solved and was there provision made for an ongoing procedure to prevent recurrence? These are some of the questions we will be looking at

when we hear about the formation and workings of the bilateral trade statistics committee.

Dr. Ostry, I understand you have a paper which is being distributed to committee members now.

I am told that all members of the committee have a copy of that paper and the chart that goes with it.

I have spoken to Dr. Ostry and she indicates that she would like to make an introductory statement which she tells me will take about 15 or 20 minutes. I have asked Senator Carter if he would be kind enough to lead the questioning. I think it is appropriate that I should note that this morning we are operating under very peculiar circumstances having regard to both the time of the meeting and even the actual holding of this meeting. I would therefore ask that we keep our eye on the clock and set a deadline for approximately 10.30. I shall do my best to equalize amongst you all the questions you may have in the usual way.

Senator Macnaughton: Mr. Chairman, as of the moment we are perfectly legal, aren't we?

The Chairman: Yes, we are perfectly legal.

Senator Macnaughton: There has been no public notification.

The Chairman: No. The point I was making, was that it is an unusual situation. I wish really to emphasize how grateful we are to Dr. Ostry and her colleagues for coming here this morning, because under ordinary circumstances, perhaps, this committee meeting might not have taken place.

So, Dr. Ostry, with those remarks I would turn to you.

Dr. Sylvia Ostry, Chief Statistician of Canada, Statistics Canada: Thank you, Mr. Chairman. May I return that statement: We are indeed grateful to have this opportunity this morning. We know there is nothing else on your minds except the question of the reconciliation of Canadian-U.S. statistics! . . . This account of the reconciliation of the Canada-U.S. trade statistics is presented here both because it has intrinsic interest, we feel, and because it may suggest more general principles applicable to different problems, or different circumstances. We have undertaken mainly to describe the project as we perceived it. We have made some modest attempt to move from the specific to the more general. We hope, however, that when placed within the context of the full range and richness of your committee hearings and your own knowledge, our project will prove a useful contribution to your far broader objectives.

The project concerns statistics; primarily statistics which deal with the flow of merchandise, trade and services between two countries, Canada and the United States. There is something special about international statistics, though not unique to them: they can be measured

independently from two sides, from the side of the seller and the buyer and from the side of the country of origin and the country of destination. This feature has a peculiar consequence: Rarely do two measures of the same set of events yield the same result, especially when these measures originate in different countries with different needs and statistical systems embedded in the context of different priorities and methods. These differences are extremely challenging to technicians motivated to solve problems and improve their craft, but if they become unduly large they can seriously distort the perception of policymakers in a particularly vital area of policy.

That is what this story is about.

The story starts when the United States and Canada found that they were in the process of measuring the same northbound and southbound flows of goods and services between them, but the gap between their respective measures had grown to such an extent that it alone was worth more than one per cent of the Canadian gross national product in 1970. A large gap in measuring the bilateral flows of trade and payments between the two countries was not new to either policy makers or statisticians. Both were well aware of its history and some, at least, were conscious of the speed at which it was growing. Both had kept up some form of pressure to mobilize available resources to tackle what had ceased to be a mere statistical challenge and had grown into a real stumbling block to meaningful negotiation.

Between the United States and Canada there had been, for a long time, some institutional arrangements designed to deal with the statistics. In the 1960s, the rising concern of policy makers and statisticians led to the establishment of a Technical Working Group on Canada-United States Balance of Payments Statistics, with wide representation from economic policy and statistical agencies on both sides of the border. The Technical Group soon found out that the gap in the current account of the balance of payments could not be explained as long as there was no solution to the immense problem presented by merchandise trade. Merchandise trade is the major component of the current account between the two countries and it is so by a fair margin. Furthermore, it is a relatively rare statistic, arrived at as a result of a complete count of all transactions that occur between the two countries over a period of time. In conducting this complete count, statisticians are dependent on their respective customs administrations which, of course, exercise regulatory and enforcement roles in collecting the statistics and in ensuring the completeness of their coverage. Accordingly, the question that struck the Technical Committee was, why, in spite of originating in similar administratively enforced systems, the data on merchandise trade differed so profoundly between one country and the other.

The group did not meet this question with one answer, but with several. It drew up a catalogue of explanations based on the different definitions of scope and coverage used by each of the two countries, and tested these against the gap. But as time went on, even though the differences were considerably narrowed, the remaining gap was far too wide to be acceptable. Besides, many of the adjustments made to the trade figures for use in the balance of payments, could only be applied at the most aggregate level. Sufficient knowledge was not available to apply them to the very detailed commodity statistics that are associated with the publication of totals of merchandise exports and imports. Unfortunately, it is precisely these

trade figures, issued outside the context of the balance of payments, that are published faster and more frequently, and it was the enormous gap between them that attracted public concern.

On the chart that has been distributed Mr. Ryten will point out the pieces relevant to the point we are making regarding the visibility of the trade gap. (*Note: For Chart—See Appendix "A" to these Proceedings.*)

Mr. Jacob Ryten, Director, External Trade Division, Statistics Canada: Mr. Chairman, this chart corresponds to the one that was distributed to the committee members at the outset of the meeting. On its left-hand side you see the gap as measured by the merchandise trade figures which, of course, is growing very, very rapidly between 1965 and 1973, to attain a level of approximately \$2 billion, in our latest figures. On the other hand, the gap as measured in the balance of payments figures—we do not have the 1973 discrepancy figure—is much, much narrower and does not grow as rapidly. It remains almost steady between 1969 and 1972 at a level of approximately half a billion dollars.

The Chairman: Thank you very much.

Dr. Ostry: In the mid-sixties, some trade statisticians decided to find out more about the problems in their figures by a field experiment. In co-operation with customs authorities, statisticians were stationed at three sets of facing customs ports, such as, for example, Windsor and Detroit. At the end of every day, their task was to compare the number and value of documents filed by truckers at one end of no man's land with the corresponding value and number of documents filed, presumably by the very same truckers, at the other end.

It would have been interesting to have heard what the truckers said about this experiment. The experiment came to naught because the differences were so large and so unexplainable, that there was no way to predict them or to apply them to other situations arising along the border.

So if an *a priori* list of answers drawn from different conceptual arrangements was not adequate, because it could no longer predict the size of the gap, and if the physical solution of comparing documents filed on both sides of the border did not work either, what could statisticians do to both explain and put a stop to this growing error?

In the year 1971 the disagreement in the figures attained monumental proportions. This was emphasized by the dramatic context in which it occurred—at least as far as the United States was concerned. On the one hand there was little if any domestic economic growth in that country. And on the other, there was an unprecedented deficit on the overall balance of payments, including a merchandise trade deficit, in startling contrast to a practically unbroken procession of surpluses in this century. It was at this crucial point that a very rare convergence of interests, objectives, and understanding at different levels of government occurred.

The Canadian Minister of Industry, Trade and Commerce had talks with his United States counterpart very shortly after President Nixon imposed restrictive trade measures in mid-August 1971 and equally shortly after the confrontation between Mr. Benson and Secretary Connally. Both deplored the fact that issues could not be discussed sensibly in the absence of a common set of figures measuring the trade between the two countries. Following the meeting, Mr. Stans wrote a letter to the Canadian

Minister stressing this fact and requesting the formation of a new institutional arrangement to help officials in both countries come to grips with the problem and to do so reasonably quickly. Of course the Minister of Industry, Trade and Commerce's answer was favourable, and the exchange led to the formation of the United States-Canada Trade Statistics Committee. But these events did not take place in a vacuum. The discussion between the ministers was being echoed by intense discussion at a lower level—at the level of technical experts who now found that the immediate relevancy of policy needs had provided the necessary impetus to the solution of one of their outstanding concerns.

One week after President Nixon imposed the restrictive measures of mid-August 1971, a United States trade statistician arrived at Statistics Canada for talks with his Canadian counterparts. The timing of the visit might seem strange—perhaps you do not understand the meaning of that, but statisticians are usually not that rapid—but in fact was totally independent of the President's measures. The visit was the result of careful preparation by the statistical agencies in both countries over a period of at least six months. Its purpose was to discuss a series of new proposals to deal with statistics on the bilateral merchandise trade, reflecting the growing perplexity over what was happening to the gap, and to its potentially damaging consequences. In Canada, the policy implications of a reconciliation exercise were clearly of great significance, and, under the circumstances, budgetary support for the large scale undertaking involved was readily granted.

The talks between the United States and Canadian statisticians held in Ottawa in August 1971, one week after President Nixon's measures, mirrored at the technical level the Pepin-Stans talks. Together they touched off a process that culminated 16 months later with the publication of the first reconciled figures on trade between the two countries for the benchmark year of 1970.

It is interesting to note that the exercise undertaken by the statisticians responded not only to immediate policy needs but also to a set of problems of a longer term nature. But the point we wish to emphasize is that when, in the fall of 1971, the two ministers agreed to form a United States-Canada Trade Statistics Committee as a means to arrive at broad agreement on a set of figures for the use of negotiators, this converged most fortuitously with a number of other objectives, all dependent on the exact same technical exercise.

Of course, the United States measures of August 1971 and Connally's strictures against Canada gave the final push to the strengthening of joint institutional arrangements, to the financing of the exercise, and to the atmosphere of urgency required for the project to gain an irreversible momentum. Perhaps, to that extent, the events of 1971 were unique. However, it should not be overlooked that, given the long-standing public interest in the problem, and given the fact that technicians had a reasonable idea of what was expected, an eventual solution was in the making.

Since we are discussing the project in the light of its success, it might be worth trying to answer some of the many questions that can be formulated in retrospect. In particular, what essential features of this exercise can be distilled and applied to future situations?

Probably the successful achievement of an agreed set of figures, within such a relatively short span, was due to this unique convergence of an immediate policy need, an

intense technical interest, and the availability of the right technology. It is certain that technology was the midwife.

This is a recipe that cannot easily be duplicated. By mid-1971, statisticians in both countries were ready to try out this exercise. They had been discussing it for some time and they knew how they were going to proceed. They were aware of the techniques that were available in order to bring the exercise to a successful conclusion. In fact, immediately after the meeting in August 1971 a detailed outline of what had to be done was drafted, and very little was added to it in the years that followed. That this could be done at short notice indicated how far statisticians had thought about the problem and how aware they were of the means available to solve it.

It should not be ingored that for the exercise to be successful it had to be conducted in a strict atmosphere of scientific objectivity. Indeed, it required, paradoxically, that statisticians leave aside the purpose of the figures and throughout the exercise consider the differences solely as an intellectual puzzle. Had statisticians approached the problem otherwise, and attempted to explain the gap from what they understood to be their country's negotiating position, the chances of agreeing would have been seriously compromised. As it turned out, at the technical level it became a pure problem of statistics, with officers of both countries organized as a single research team.

Both sides felt that they had reached the right stage in their ability to use the techniques required to manipulate large masses of data by computer. It was this which made possible the reconciliation of the figures at the level of detail required by the complex commercial relations between the United States and Canada. This point should not be overlooked. Previously, even though the number of figure was somewhat smaller, it nevertheless presented an almost insuperable obstacle to a detailed study. At the time when the exercise was conducted, over 10 million figures were involved, and, of course, if they could not be organized, manipulated, and displayed by computer, the chances of a successful reconciliation were almost nil.

Statisticians had not only established how they were going to explain the differences, but had recognized that they had to specify a reconciliation procedure, a recipe for dealing with the gap in an almost mechanical way, as soon as the trade or payments figures were published by the United States and Canada. An automated procedure to make the two sets of figures agree was probably the major technical innovation in the work of the United States-Canada Trade Statistics Committee. The computer was totally apolitical . . .

At the outset, neither side could foretell the outcome of the exercise. This may have been a blessing. In a situation where the outcome would not be perceived in the same way by policy makers in both countries, there might be some inhibitions on the part of a participant who foresaw a weakened bargaining position. However, given the nature of this exercise, given the formidable logistic problem of assembling the information, and arriving at a final figure, there just could not be any idea of the final outcome. The very procedure adopted was such that no one had an inkling of what was to happen until the very last moment.

Some 30 people went through figure after figure, document after document, painstakingly and meticulously. They sorted, matched, and tabulated. Differences, whether in one sense or another, were posted, and not until the

final moment did both sides add up these differences to emerge with a reconciled trade balance.

Actually, in a sensitive situation of this sort, the ultimate acceptability of the results rested completely upon their objective and scientific foundation—in short, on their integrity.

In summary, technically this kind of detailed reconciliation could not have been achieved much earlier. The participants combined the immediate objectives with a series of useful by-products. Both, at a very early stage, submerged their national identities and worked together as a single task force.

Just as the statisticians supplemented the objectives of policy makers by other objectives, so the benefits of the exercise extend further than the benefits envisaged at the outset. One benefit was that at the working level the relations between officials in both countries were cemented within a single task force. This has turned out to be a permanent gain. The logic of reconciliation forces the task force to come together at every stage, to adopt a common set of standards in interpreting North American trade with other countries, and to move towards a harmonization of statistical concepts and definitions.

Another benefit, which is still potential but looms larger as the work of reconciliation goes on, is that exporters may be exempted from filing customs documents related to trade between the United States and Canada. It just so happens that in the case of Canada, two-thirds of the total volume of paper filed by exporters is accounted for by exports to the United States, and in the case of the United States the corresponding figure is of the order of two-fifths.

The possibility that there will be an exchange of information that will make such an exemption possible is of enormous consequence. To a great extent, technological developments may, in fact, create such a situation willy-nilly. Multinational corporations for example, are tending to issue one single report on an international transaction, and filing it with the administration of the two countries concerned.

The development of special techniques to deal with the statistical problems described earlier has not been ignored either by statisticians or by trade negotiators in other countries. In fact, it holds a number of possibilities in the context of future rounds of tariff talks. Many of these flounder over statistical differences, and a recipe such as that developed by the United States and Canada in the course of reconciling their trade figures could very well defuse heated discussions.

Thank you, Mr. Chairman.

The Chairman: Thank you, Dr. Ostry. Your paper obviously will be of great assistance to us. I am sure a great deal of time and effort has been put into its preparation. I am particularly pleased that it does not deal only with procedures, but to a large extent with the philosophy, history and background that went into the entire effort.

We now turn directly to the questioning.

Senator Carter: Dr. Ostry has given us a history of the events leading to the formation of the United States-Canada Trade Statistics Committee. This appears to be the product of a crisis, but I gather from what you have said, Dr. Ostry, that is not so. You say the committee

would have been established in any event. Did the crisis atmosphere speed things up at all?

Dr. Ostry: Yes. The point we were trying to make, senator, is that the statisticians had been working on the formation of this committee for some time prior to its being instituted. The major constraint, if there were constraints, was a technological one, and that would have been solved eventually. The set of circumstances which occurred at the policy level gave an enormous impetus to it at that time. That, really, is the point we are trying to make.

Senator Carter: So, the need for this had been recognized quite some time prior to its formation and some machinery had been set up to deal with it, though apparently without much success. I get the impression that they became discouraged and gave up on the idea. Were there any prior attempts at reconciliation?

Dr. Ostry: Yes, indeed. I think perhaps Mr. Carty, who was involved in earlier activity in this regard, can say something on that, and then perhaps Mr. Ryten can add something further.

Mr. E. B. Carty, Special Adviser on Balance of Payments, Statistics Canada: Mr. Chairman, the situation was that some people within the Canadian technical and policy community became disturbed about this in 1963, and the joint ministerial committee instructed that some attempt be made to resolve the problem. This was done from the overall balance of payments point of view. As Mr. Ryten pointed out on the chart, that committee did manage to hold down the growing discrepancy within the broader frame of the balance of payments. The committee was able to identify that the problem largely rested within the measurement of trade. As Dr. Ostry has indicated, trade represented a formidable logistical problem of dealing with many, many millions of documents at a microlevel of examination. This, as Dr. Ostry has indicated, was resolved in 1971 with the added push of the U.S. restrictive measures.

Senator Carter: I gather from the paper and the presentation that this could not have been solved before the advent of the computer.

Dr. Ostry: That is right. The computer was a necessary, but not a sufficient, condition of its solution.

Senator Carter: Yes. What amazes me is that two countries with so much in common as the United States and Canada, in their exchange of trade statistics can come up with such wide discrepancies. Taking Windsor and Detroit as an example, the information fed into that "pipeline" at Windsor comes out totally different at the Detroit end. How is that explained? Does the answer lie in a difference of objectives on the part of each country, or the type of information which each country is seeking to obtain? Does each country strive for different objectives in their forms and data?

Dr. Ostry: Perhaps Mr. Ryten can deal with that from the customs forms point of view.

Mr. Ryten: Mr. Chairman, a problem does arise with the customs origin of the documents. The problem does not lie in the proximity of Windsor to Detroit. The problem arising from the customs origin of documents is that the revenue authorities are very interested in the import side of the collection of documents as they have to do with revenue; exports, on the other hand, do not affect revenue

and as a result are not subject to the same degree of scrutiny and control that applies to imports. However, when you compare the figures, what you compare is the exports of one country, which are, let's say, lightly controlled, with the imports of the other, which are heavily controlled. Because exports are not subject to a high degree of inspection, many exports go unreported. This results in one of the most fundamental weaknesses in the collection of documents from a statistical point of view.

It was found that in the case of the U.S., half a billion dollars of exports were not recorded at all and in our own case something of the order of \$180 million worth of exports went by unnoticed. In other words, there were no documents accompanying those exports.

Senator Carter: The reason, then, lies in the extent of control?

Dr. Ostry: The source of the data is an administrative source, and the administrative incentive on the import side is revenue-based. There is no real administrative incentive with respect to exports. That is really the nub of the thing. It is not a statistical exercise, au fond, but rather an administrative exercise.

Senator Carter: Yes, I understand that. There are no basic differences, then, in the types of data that each country is interested in obtaining. Rather, we are interested in obtaining data on the revenue side and so is the United States.

Dr. Ostry: Both countries have an interest in the data on the revenue side.

Senator Carter: This problem could not have been solved prior to the advent of the computer. Apparently, you needed the computer to deal with the great mass of data involved. In addition, without the computer you could not have treated it as a mathematical problem. In other words, you could not have eliminated the self-interest of the two countries involved.

Dr. Ostry: Well, we would have had to negotiate some agreement in that respect.

Senator Carter: You worked out some reconciliation procedures. I presume these are by way of mathematical formulae which you apply to the different types of trade. Is that correct?

Mr. Ryten: Partly, senator. We did not eliminate the need to look at the specific documents. What the computer did for us was to identify those areas where fundamental differences occurred. It enabled us to select immediately the documents that corresponded to the areas where the major problems were to be found. This was not only in reference to 1970. What we established was that these problems were inherent in the collection of trade statistics and, therefore, would occur in 1971, 1972 and future years. In addition, there was also, as you suggested, a purely statistical procedure to estimate the missing data.

Senator Carter: The formulae still do not seem to be working all that well. We still seem to be coming up with different figures which each country revises after looking at them.

Dr. Ostry: We are still not publishing the reconciliation figures on a current basis. The purpose of the exercise was to conduct a benchmark experiment in 1970. That was published as the first report. The purpose of that was not

simply to achieve reconciliation, but rather to establish a major strategy and to discover the source of errors which would allow us to find out whether these were peculiar to 1970 or were, in fact, a continuing pattern. The 1971 and 1972 exercises confirmed that the 1970 exercise was not *sui generis* but was, in fact, the basis for a continuing reconciliation. We are now catching up; we have just now released the preliminary reconciliation for 1973. We hope within a reasonable period of time to be on a current basis so that we will be publishing the same figures.

Mr. Ryten: If I might supplement Dr. Ostry's remarks, let me add that reconciliation, as it stands now, does not prevent both countries from publishing different figures. It tells each country what to do once each has published its figures, in order to get to a reconciled set of figures, it will be only at a second or third stage that we hope to succeed in actually coming out with figures that are sufficiently close to each other to be taken as identical.

Senator Carter: It becomes a mathematical problem. The United States publish their figures on the auto pact and Canada publishes its figures on the auto pact; you take the formula and the computer works out what the true reconciled figure should be. Did I understand you to say that 1971 was a sort of base year?

Dr. Ostry: 1970 was the benchmark year.

Senator Carter: That is the benchmark year and you relate all others to that?

Dr. Ostry: No. We relate the findings of the 1970 reconciliation to subsequent reconciliations. I think the point we are making might be amplified a bit.

Mr. Ryten: Perhaps I might bring to your attention a release that comes out immediately after the official figures on automotive products come out, which is agreed to by both countries and constitutes a unique set of figures. It is one area where I would say reconciliation has been sufficiently successful to allow the agreed figures to follow the official figures by a matter of weeks.

Senator Carter: In the meantime the published figures will give rise to tensions. I have been talking with our friends south of the border and they are fully convinced that Canada is getting a "steal" from them on the auto pact. I am sure that the labour unions in the United States have the same idea. What more can we do to eliminate that? Are there any more procedures?

Dr. Ostry: I do not think the purpose of the reconciled figures is to do other than focus the discussion on real flows and not on statistical discrepancies. I am not sure whether your friends are saying that there is something wrong with the figures, or whether there is a genuine policy difference, or a different perception of the facts.

The Chairman: Perhaps I might try to put the question in the way I think Senator Carter intends it. Starting with your benchmark year, 1970, you did have a discrepancy, and as reconciled it came back to 1.4. As this exercise has proceeded and we now look at the 1973 figures, we see that Canada's published figure is 0.6 and the United States' figure is 2.6; the reconciliation is 1.2. My interpretation of what Senator Carter is suggesting is that this discrepancy is, in effect, growing as between the two countries, and this exacerbates the feeling in the United States, so we are coming up with a reconciliation. To go back to your introduction and your reference to integrity and so on, and the

fact that this is, in effect, an intellectual or statistical puzzle, the overtone of the political situation is still very much in evidence because of this widening gap. I think perhaps that is the thrust of Senator Carter's question.

Mr. Carty: Perhaps I should not be speaking for you on this, Dr. Ostry, but my understanding of it is that at the moment we have a reconciliation at an annual level, but trade figures come out monthly. It is hoped that in due course the figures published first will be of the same general order of magnitude, if not precisely the same. Only when that stage is fully reached will all of the political difficulties that arise from misinformation or different perceptions be resolved but that is a little while off yet.

Dr. Ostry: Exactly. However, that will not remove whatever political difficulties arise. The differing perception is very startling in 1973. If the argument in the U.S. is that there is a very large surplus, I would say there is a surplus which is a lot smaller than their published figures present. If the surplus *per se* is a matter of concern, that is a policy matter and nothing in the reconciliation exercise will change its reality. But it will allow the policymakers to focus on the real dimensions of the problem and not on a combination of reality and statistical error.

Senator Carter: Thank you, Mr. Chairman. That is all I will ask for now, although I have some other questions.

The Chairman: Perhaps we will come back to you later. It is now 10.15.

Senator Cameron: I wanted to be sure I understood this correctly. I understood you to say that there was about \$150 million to \$200 million of exports to the United States that were not recorded and \$500 million of exports from the United States to Canada not recorded. Does that not mean the figures we had before were almost meaningless?

Dr. Ostry: They had very large errors.

Senator Cameron: We hope that as a result of our late unlamented friend Mr. Connally's confrontation with Mr. Benson we are getting these figures. Have you any assurance that we are getting accurate figures today, granted that the imports to one country and the exports from the other are not necessarily statistically the same. If our figures are to be meaningful at all, should we not have the complete record?

Dr. Ostry: In principle it would be desirable to have the complete record of the exports. In practice it is simply not feasible, because they are administrative records, and we have suggested there is no real incentive to count them fully. The objective of the exercise is to permit us to do one of two things: to make adjustments of a statistical nature based on a better set of records, which are the import records; or, the ultimate implication, to explore—indeed we may be forced into this—the possibility of abandoning an incomplete set of export records and agreeing that we use only one set of records. We are saying that this is a possibility to be explored, or that it may in fact happen without our wanting it to happen, because of the growing development of multinational corporations with unique sets of records.

Senator Cameron: Who makes the decision on what is going to be a relevant figure and what is not?

Dr. Ostry: Since the export of the United States to us is captured as an import by us, and since there is reasonable certainty that the import coverage is adequate—although

there are some problems with respect to the measure that is used—our safeguard is that the measure of our imports measures better their exports. We know, of course, that the export figures are bound to be less efficient. Am I over-simplifying it?

Mr. Ryten: No, I do not think so. In trade statistics the margin of under-counting is not all that significant. If you consider that our annual exports to all countries are of the order of \$20 billion, and that in all probability our total under-counting is \$200 million, this is not an error that would make the overall statistic unintelligible or useless. However, if we are reasoning in terms of our trade balance with a specific country, then the margin of under-counting by both countries becomes quite important. This is why one of the benefits of this exercise is to enable us to get evidence from the other side to measure by how much we are undercounting our own statistics.

Senator Cameron: It is not as bad as it sounded. There is some evidence as to what is happening.

Mr. Ryten: The finding is that because of the administrative origin of these statistics, import statistics, not just Canadian or U.S., but import statistics at large have better quality and better coverage than export statistics. Countries will have to learn how to live with this deficiency and to make adjustments to overcome it.

Senator Lapointe: Do you think that Canadian statistics were nearer the reconciliation figures than the U.S. statistics?

Dr. Ostry: Yes, indeed. We came off better on that one.

Senator Lapointe: Apart from merchandise trade, did you deal with things like travel expenditures and dividends and so on?

Dr. Ostry: Not in this exercise. I would like Mr. Carty to speak to that.

Mr. Carty: Travel statistics are special because they have been collected for many years through a joint arrangement worked out by the two countries. There is no problem, really, of reconciliation caused by them. The other invisibles, the other service transactions were reconciled as a separate exercise but building on the trade statistics. The statisticians from the two countries examined their estimates, assessed the quality and reached conclusions about each individual item. There is a press release and we could make it available to you.

The Chairman: It would be useful.

Dr. Ostry: After the reconciliation of the trade statistics, the balance of payments statisticians met and reached agreement on the reconciliation of the rest of the current balance. That took place immediately after the benchmark reconciliation but not as part of the trade exercise. We will certainly provide you with the balance of payments material.

The Chairman: Thank you very much.

Senator Carter: Do you have a separate set of formulae for invisible trade—insurance, capital flows and that sort of thing?

Mr. Carty: Because of the nature of surveys of invisibles, the procedures are necessarily different from the merchandise counts that you make at the border. It is not a computer process. The number of items of information is

much smaller. But the statisticians sit down with their records on each side, examine them and agree on what basis one figure is better than another. Indeed, for many years there has been some exchange of data so that Canada has obtained directly from the United States information on certain types of transactions. It would be very difficult, for example, for Canada to collect here the amount of pensions paid to Canadians by Americans; but it is quite easy to get that information from the American authorities. Similarly, we provide that sort of data to the United States.

Dr. Ostry: I should like to emphasize at this point, because I think it is important, that the working relations with our counterparts in the United States have been superb. I mean the amount of goodwill and co-operation on this particular exercise is, in my view, remarkable, and one would hope that that kind of spirit is extended—and I am sure it is—in other kinds of relations, to the whole nexus of relationships we have with our professional colleagues in the United States.

The Chairman: I think that is a very interesting point, because in answer to an earlier question you said, "Well, we would have had to negotiate." I therefore interpret your last remark to mean that you do not regard yourselves as having been in any kind of negotiation at all.

Dr. Ostry: Not at all. There was a spirit of complete professionalism to achieve the conclusion of this exercise in an objective way.

The Chairman: Thank you very much.

Senator Macnaughton: Mr. Chairman, 100 years ago when I was at McGill Professor Leacock was head of the Department of Economics and he said, "I don't know what 'statistics' means so, therefore, I won't teach it." I am very glad to see that at long last the department has modernized itself with such a distinguished graduate as Dr. Ostry. As a consequence of this lack of knowledge, I have only a simple question. Is there any move towards standardization of documentation in transport or trade? It seems to me that that would be step one.

Dr. Ostry: Perhaps you would find it interesting if Mr. Ryten were to give some description of that, and of our own experiment with our customs people.

Mr. Ryten: I don't know about the latter, because I think that might get us into a different subject, but on the former, there are two types of attempts at standardization. One is on an international basis. It is being conducted right now in Brussels. Both the United States and Canada are participants. The idea is to have a single document which will accompany the merchandise in an international transaction. Carbon copies of it will serve the exporter, the carrier, the importer and the inland carrier.

The fact that both Canada and the United States are represented at the meetings and discussions in Brussels has ensured that our own experience has become an element in the decisions which will eventually be taken by this international body, the Customs Co-operation Council.

In addition, we have been thinking of what possibilities there are between the two North American countries of standardizing documents, if the broader, international, attempt does not prove to be fruitful.

Senator Macnaughton: Thank you.

Senator Lapointe: Are there differences in philosophy between statisticians according to the different universities at which they have studied or according to the countries they come from?

Dr. Ostry: I would not call them philosophical differences. One of the things which emerged from this is that there were conceptual differences. There were differences in definition and part of the reconciliation exercise was a yielding on both sides with respect to these differences. I don't think they are related to differing philosophies. They are related to differing practices and differing customs in different countries, and it was necessary to reach agreement on these problems of definition as well as on the seeking out of actual errors.

Mr. Ryten: If I may just supplement that with one remark. The trade statistics of the United States and the trade statistics of Canada are related to the concepts that Canada and the United States each use to measure domestic flows. They are more related to their own production statistics or to their own transportation statistics than to each other. It is very difficult to take two sets of statistics, each in their own national context, and to say, "Let us agree," because in order to agree you are in fact taking them out of their country's definitions, their country's concepts, their country's way of measuring things.

So, in ensuring the success of this exercise, we had to take decisions on neutral grounds. We both had to agree to change our definitions so that we could agree on the statistics.

Senator Lapointe: What is your answer when someone says that statisticians are the biggest liars in the world?

The Chairman: Why don't you give that to one of your colleagues, doctor?

Dr. Ostry: I view that more in pity than in anger. How is that?

The Chairman: I gave you time to think of your answer.

Senator Macnaughton: It is still a quasi-science.

Mr. Ryten: I would say that it is difficult to make two liars agree!

Senator Carter: Mr. Chairman, at the very beginning I think you told Dr. Ostry that the purpose of this committee was to find the how, when, where, why, what and a few other things. I do not know if we have covered all that you outlined to us there, but there are just one or two points I would like to pursue a little further.

Dr. Ostry said that the success we have had so far is due to the fact that we approached the problem purely as a mathematical or statistical one, and had it been approached from the standpoint of the national interest of the two countries involved, there would be no possibility of getting very far because of the differences in the national interest. I would like to look into the future a bit, or ask Dr. Ostry to do it for us. Does she see any refinements of this process in the future and does she see any problems connected with them that are likely to arise in the future that would require political solutions? I am not talking about policy, but about problems arising out of the process, that would require political solutions rather than mathematical solutions.

Dr. Ostry: I hope that this procedure will eventually reach a stage where we are on a current basis. I do not

foresee any major problems with that. There is, I suppose, a remote possibility that there would be a budgetary withdrawal, or something, which would slow our work down, but that seems to me to be extremely unlikely.

Let me backtrack for a minute, because I think perhaps I have been misunderstood. I said that the exercise was viewed at differing levels with differing perceptions, and that at the technical level it was viewed as a technical problem.

It is perfectly possible that one could have reached a reconciliation between statisticians of a different sort—not a different sort of statistician, but a different sort of reconciliation—in which the aggregate approach, the conceptual approach, all in good faith, were agreed upon, and a set of figures published. Now, that is without implying that they were negotiating or representing national interests. The reason I think that that would have been a far less acceptable solution is that it could have been reopened at any point in time. It could have been said, "We have changed our minds. We now want to get into the nitty gritty." But once our agreement was arrived at, in a totally detached and neutral way, and sent to the computer, that prevented backtracking and saying, "Sorry, the ball game is over because we have now changed our minds." That is why, unless I do not foresee something which is visible to you, but not to me, I think it would be extraordinarily difficult now for the agreement to be washed away.

Senator Carter: But it was set up when relations were pretty hot between the two countries, at the time of Connally's high-handed tactics and Nixon's protectionist restrictive trade measures, and all these things; but it has succeeded in cooling off that hot relationship between the two countries.

Dr. Ostry: I am not sure. The objective was to arrive at a more precise estimate of very vital areas of mutual interest. The reality of the situation was that there still might be very serious policy problems, but at least we will be forced to deal with a mutually agreed-upon set of facts. I suppose that is all. I mean, there is no way that the statistics themselves can change reality. One hopes they can mirror it without undue error. That is all they can do.

Senator Carter: Yes, and without emotions based on wrong interpretations.

The Chairman: I suppose one of the really fundamental necessities in your production is the almost immediate release of this information. Are you satisfied about that at the moment? Are you working towards more needed releases? I understand you to say, Mr. Ryten, that you are talking about, you hope, almost monthly reporting on commercial accounts, and so on. Are we at that stage?

Dr. Ostry: I am not sure I understand your question. The simultaneous release of information?

The Chairman: Yes.

Dr. Ostry: Yes. We certainly are working towards that. I am not sure what the schedule is.

Mr. Ryten: It is for quarterly reconciliation, not monthly. The problems of agreeing on monthly figures would be formidable at this point in time, but we think that we have the techniques to reconcile on a quarterly basis. Our schedule is to start this by the first quarter of next year.

The Chairman: That is a very interesting piece of information.

Mr. Ryten: It is a hope.

Senator Cameron: In view of the critical role of statistics as a tool for decision-making and policy formulation, time is of the essence.

Dr. Ostry: Yes.

Senator Cameron: I remember we had Statistics Canada before our Science Policy Committee about three years ago and we registered a very strong complaint at that time about getting statistics that were two years out of date, and it was admitted that these were useless, literally, in many cases. I believe there has been very great improvement since that time. But now, with the role of the computer in this area, are you satisfied with the progress you are making, and do you see a time frame in which we will get statistics sufficiently rapidly that they will be much more valuable, even if they are six months late, in formulating decisions and policies?

Dr. Ostry: Certainly it is a matter of enormous concern to us to produce more timely statistics, and the computer, everybody hoped, would be a great aid in this. There is a terrible period when the computer acts almost perversely, because one finds out that it requires a much different level of management to deal with it. As you know, we have fourth generation computers and first generation people still handling them. However, we are moving forward, and in this instance, with respect to trade statistics, we are dependent on administrative data. But there are plans well under way for a computerization of that whole operation. Linked with that, there are plans also underway to have a very closely knit working relationship between Statistics Canada and Customs at the ports of entry, to ensure that the coding of customs documents is accurate. When that is in full bloom, one consequence of it, one hopes, will be more timely and better data.

Introduction of automation, however, is a very painful process.

Mr. Ryten: May I supplement these remarks with one word in defence of the computer?

Dr. Ostry: You are fourth generation, not first generation.

Mr. Ryten: In the case of commercial statistics the computer actually processes them in something like 48 hours. However, the assistance we get from the post office in collecting three quarters of a million documents from all 360 ports in the country, is such that it delays our production by something like two weeks.

Senator Macnaughton: Now that we are on the way to solving the problem with the United States, what about other countries? Do you have similar problems there?

Dr. Ostry: Oh yes. We are already beginning to move in that direction. We have made a beginning with the United Nations Statistical Commission, and we have had discussions with other international agencies. We have also had negotiations with Mexico which have been very successful.

Senator Lapointe: Were you the ones who measured the effects of the DISC policy, for example, You said they were not too serious.

Mr. Carty: I believe that was a survey carried out by the Department of Industry, Trade and Commerce.

Senator Carter: One last question on this. This is with regard to the task force. We did not explore this. Is it at work all the time, or does it have to wait for information to be submitted? And are you there in the offices yourselves, getting this information as it becomes available?

Dr. Ostry: The Task Force is a permanent working group with its people working in their respective countries and which meets regularly.

Senator Carter: In all phases?

Dr. Ostry: Yes.

Mr. Ryten: In addition it speaks to itself over the telephone for something like 10 hours a week!

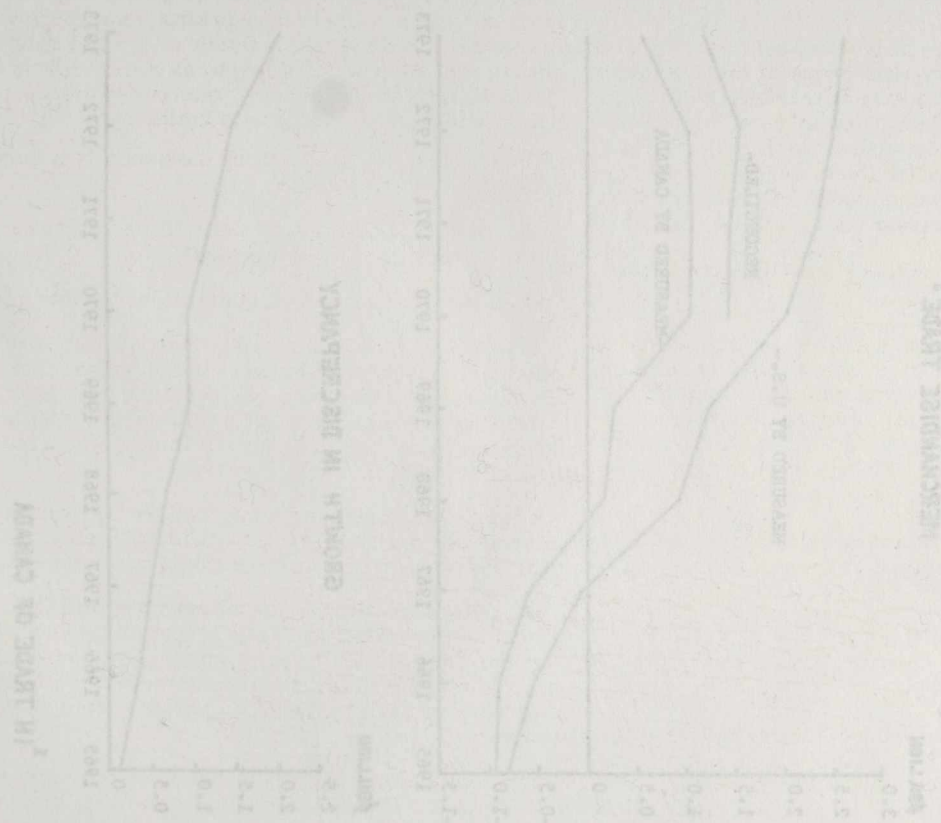
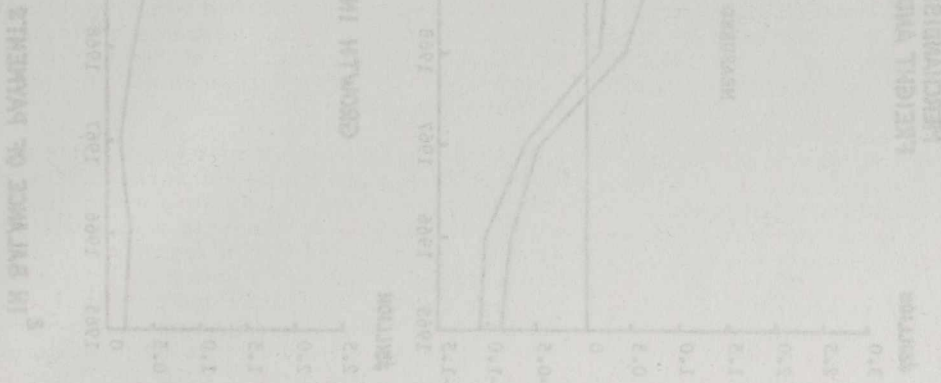
The Chairman: Honourable senators, we have done pretty well. It is now 10.40 a.m. You can see, Dr. Ostry, that the Chairman's inability to curtail the questioning is an indication of the great interest we have in your subject. We are grateful to all of you and thank you very much.

Dr. Ostry: We do wish to thank you for your interest. We have very much enjoyed it. Thank you.

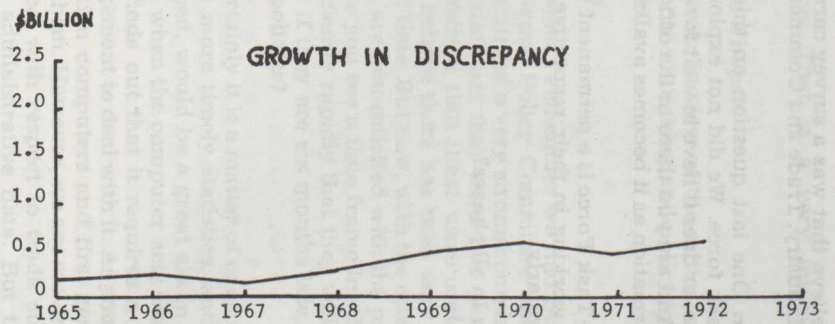
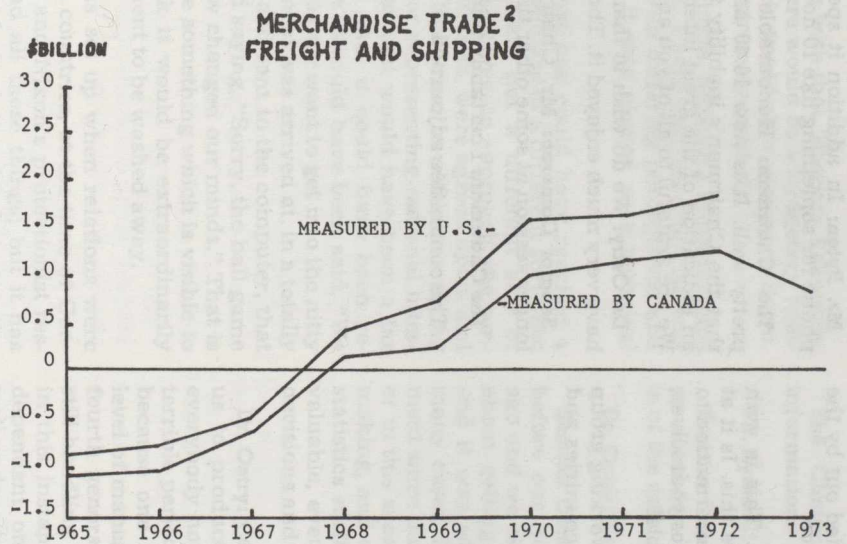
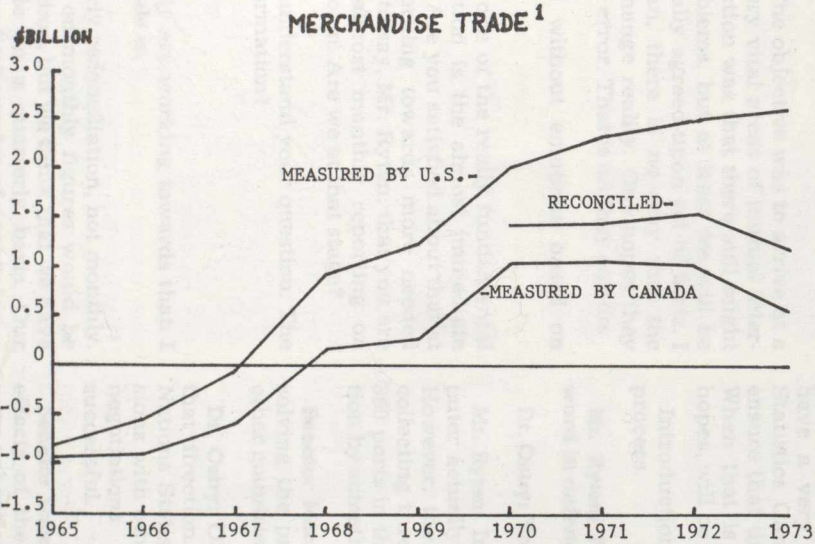
Senator Cameron: Mr. Chairman, we could profit by a longer session at some other time.

The Chairman: I certainly think so. Thank you.

The committee adjourned.

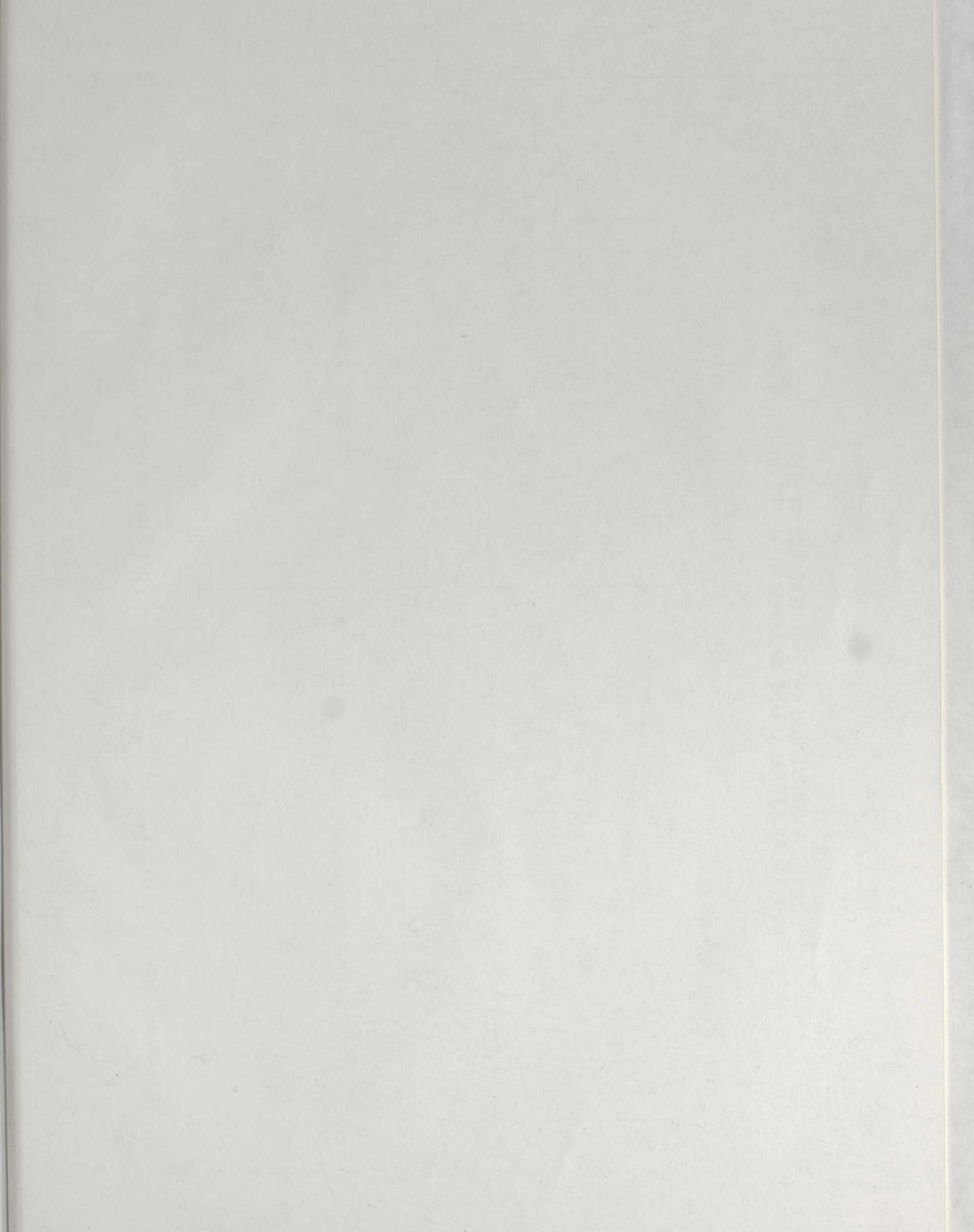


A COMPARISON OF TWO MEASURES OF THE CANADIAN BILATERAL TRADE BALANCE WITH THE UNITED STATES



¹ IN TRADE OF CANADA

² IN BALANCE OF PAYMENTS





Second Session—Twenty-Ninth Parliament

1974

THE SENATE OF CANADA

STANDING SENATE COMMITTEE

ON

FOREIGN AFFAIRS

The Honourable JOHN B. AIRD, *Chairman*

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