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THE CHOICES IN CANADA-U.S. RELATIONS

A Statement by the Secretary of State for External Affairs, the Honourable Mitchell Sharp, to the Rotary Club of Armour Heights, Toronto, June 20, 1972.

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...I thought I might say something about a subject which has given Canadians more concern lately and which is more controversial -- relations between Canada and the United States. For this purpose I shall first review briefly some important recent developments and then go on to comment on them.

First, then, the events themselves. Whether this has been a good year or a bad year for Canadian-American relations is something we can discuss; it has undeniably been a big year. More persistently than any others, economic issues have caught the headlines. Last August 15 came the dramatic announcement of President Nixon's new economic policy. This carried a number of implications for Canada. Some of these are only now coming fully into focus. At the time, you will recall, Canadian interest centred on the American decision to impose a temporary import-surcharge as one of a number of measures designed to deal decisively with the chronic problem of the United States balance of payments. We spent a good deal of the late summer and autumn locked in discussion, both in Canada and abroad, about the wisdom, equity and probable effects of the surcharge. Finally, toward the end of the year, the United States agreed to drop the surcharge as part of a bargain involving the readjustment of the parities of the major international currencies.

For Canada, the vital element of this bargain was that our case for allowing the Canadian dollar to continue to float received international recognition. The Smithsonian agreement dealt for the time being with the monetary side of the problem. Attention then turned to bilateral trade issues. A number of the issues in Canadian-American trade relations were long-standing. They had been only temporarily pushed into the background by concern over the surcharge. The notable example is the Auto Pact. This subject had already been under discussion between the two countries for some time. A new complication was added, however, with the introduction of the DISC legislation in the United States. There were other trade "irritants" on both sides. An

attempt was made to dispose of some of these outstanding issues in the winter by negotiating a package of reciprocal and balanced concessions with the United States. The Canadian Government's position was put confidentially to the United States in this context at the time. The attempt at negotiation was not successful. At the moment, the position is that negotiations on outstanding trade issues are to be resumed at a time still to be fixed. Pending resumption, each side is reviewing its negotiating position.

Meanwhile the Government has introduced legislation to control take-overs of Canadian firms by foreign capital.... Strictly speaking, this is a Canadian, not a bilateral issue. Everybody knows, of course, that the capital involved is largely capital from the United States, and that the issue of American ownership of Canadian business and industry is a matter of intense debate in Canada.

These, then, have been the most important economic questions for relations between Canada and the United States in recent months. Other issues have leaped into prominence as well -- notably energy questions and environmental issues. Last autumn, the United States Administration proceeded to conduct an underground nuclear test on Amchitka Island. This spring, it has authorized the construction of the Trans-Alaska Pipeline, thereby strengthening fears that the two countries will face a serious danger from oil-spills if ever Alaskan oil begins to move through the narrow waters of the Straits of Georgia and Juan de Fuca. An ominous foreshadowing of these dangers was provided only two weeks ago, when there was a spill -- fortunately small -- from a tanker unloading at the Cherry Point Refinery just south of the Canada-United States border.

Both the decision to conduct the Amchitka test and the decision to authorize the Trans-Alaska Pipeline produced widespread protest in Canada. The House of Commons adopted resolutions expressing Canadian concern, by one vote short of unanimity in the case of the resolution on the Amchitka test and unanimously in the case of the resolution on West Coast pollution dangers. As a result of the oil-spill at Cherry Point, a further resolution was also adopted unanimously. This calls for a reference of the problem to the International Joint Commission. All these resolutions were promptly transmitted to the United States Government. We understand that they have received attention at the highest level. This form of solemn parliamentary protest is unprecedented in Canada-United States relations.

Recently, the revival of the war in Vietnam has returned that subject to a high place on the list of issues complicating relations between Canada and the United States.

On the other side of the ledger, we have had a highly successful visit of President Nixon to Canada. In what he said while he was in Ottawa, the President showed a perceptive sensitivity to some of the issues that concern Canadians most. His clear acknowledgement of the separate identities of our two countries is one example of this; what he said about foreign ownership was another. The visit was capped by the signature of an important new agreement on a joint approach to cleaning up the Great Lakes. And, from the discussion of international questions that took place, it was clear also that the two Governments hold convergent views about the international order that is now emerging.

Now let me comment on some of the developments I have listed from the Government's point of view....

As to the question of exchange-rates, it has been a great success for the Minister of Finance and for his predecessor to have so solidly established the case for allowing the Canadian dollar to continue to float. At the same time, the Government's recent measures to encourage lower interest-rates ought to prevent our dollar from moving upwards to the point where exports are seriously affected. With the problem of parities resolved, attention can now turn in monetary matters to reform of the international monetary system. Canada will be making its contribution to that process. Reform is not, of course, a matter for today or tomorrow. For our purposes today, let me simply record that I expect Canada to work in close consultation with the United States on this question and see no reason why it need become an issue dividing us.

As to the trade irritants, it is impossible to say now what the outcome of the next round of negotiations may be. Nor can I tell you the details of the Government's negotiating position. I can say, however, that the offer the Government made to the United States several months ago was perfectly reasonable. If some of these issues remain unresolved, it is not because of any rooted refusal on the Canadian side to bargain sensibly.

While I cannot speak for the United States, I should warn against seeing patterns in various actions by the United States where none exist. The fact that there are by now a number of outstanding issues to be negotiated is, to an important degree, fortuitous. Without seeking to belittle these problems, I suggest that none of them -- not even the Auto Pact -- goes to the heart of the relationship between the two countries. In so complex a relationship, we should not be surprised at any particular time to find a question of the order, say, of the Michelin Tire problem awaiting solution. But there are no fundamental differences of principle between Canada and the United States in these matters. Canada has every sympathy for the United States Government's desire to correct imbalances in its trade. By allowing the Canadian dollar to float upward months before President Nixon announced his new economic policy, we gave evidence of our willingness to contribute to the necessary process of multi-lateral adjustment.

In Canada, the most controversial of these economic questions is obviously that of foreign ownership. I have already drawn attention to the fact that this is more our problem than it is a bilateral problem. I venture to say it is more a problem of federal-provincial relations than of international relations. All we can expect from the United States is sympathetic understanding of the difficult choices which confront us. At the moment, I should say that we have that sympathetic understanding. Whatever future developments there may be in this field, I expect Canada to remain liberal in its economic policy. Therefore, I see no reason why we should forfeit this understanding. While debate will continue in Canada -- often intense debate -- I do not expect the fact that Canadians must go on struggling with this issue to become in turn an issue in relations between the two Governments.

It hardly needs saying that there is no national consensus on this question. The warmth of the continuing controversy is proof enough of that. Some regions of Canada are vigorously searching for capital and enterprise and are less concerned about its origin than about the availability. All regions are understandably concerned that national policy should recognize their particular needs and aspirations. The Federal Government considers that Canada can now afford to be more selective about the terms on which foreign capital enters the country. Some 17 per cent of the net annual capital inflow to Canada has been going to purchase existing concerns rather than to develop or expand industries. This sort of inflow may or may not be in the national interest. The Government wishes to ensure that it is. The purpose of the Government's legislation is, therefore, to ensure that this kind of capital inflow will only be approved when a particular take-over will, on balance, be of significant benefit to Canada.

Broadly speaking, there does not seem to be great opposition to the idea that legislation for this purpose is appropriate. The criticism is rather that the legislation does not go far enough. What can one say to this? If there is general agreement that the legislation is sensible and timely, surely it should be adopted. For my own part, I would be reluctant to say what the next step in the evolution of the question of foreign ownership may be. Obviously what we are witnessing is a continuing process. In the past, Canadian Governments acted to protect particularly sensitive sectors from foreign take-over. Broadcasting, banking and newspapers are examples. On the positive side, we have given encouragement through the tax laws to Canadian ownership. We have established the Canada Development Corporation and we are participating directly in oil and gas exploration through Pan-Arctic. The provinces are moving on land ownership. Now we in Ottawa are taking another step which is fully justified on its own merits. This does not preclude us from further discussion. If past experience is any guide, we may well find that, at some stage in the future, measures which do not now command a national consensus, or measures which we have not so far even envisaged, will turn out to be the best way of serving national needs.

The Prime Minister has said that, if the provinces wish to supplement federal legislation in this field with legislation of their own, they are free within their powers to do so. And some of them are. I have already mentioned provincial legislation on land ownership. This audience will be more aware, of course, of the legislation introduced last week into the Ontario Legislature which requires companies operating in Ontario to have a majority of resident Canadians on their boards of directors. This legislation would not conflict with federal legislation. It does, however, represent a rather different approach to the foreign-ownership problem. It is not an approach which the Federal Government has neglected. The studies which the Government authorized devoted a fair amount of attention to this approach to the problem.

Our conclusion in Ottawa was that to insist that the boards of Canadian companies should contain a certain proportion of Canadian directors fixed by law would not have high priority in achieving national objectives. Such measures, unless they are part of a larger and more substantial package, tend to be of symbolic rather than real significance. I do not deny the importance of symbols -- especially in an emotionally-charged issue of this

sort. But the Federal Government was aware that many foreign subsidiaries already had a high proportion of Canadians on their boards. It was aware that a firm required to alter the composition of its board by law might simply seek out passive directors. And it was aware that key decisions were often taken not by the board of a subsidiary but by the board of the parent company itself. For these and other valid reasons, the Federal Government has preferred to approach the problem of foreign ownership instead from the point of view of corporate performance and economic benefit to Canada. This is the approach embodied in the Federal Government's legislation on foreign take-overs. But, as I have suggested, a problem as deep-rooted and complex as this is not going to be solved by one single act at one point in time. It is something the country at large has to go on struggling with.

In the years immediately ahead, then, there will continue to be particular problems -- difficult, although not fundamental problems -- which will complicate our economic relations with the United States. Canada will continue to diversify its trade, with a view to becoming less dependent on the United States market. The United States will, however, undoubtedly remain Canada's most important trading partner and it would, in my view, be a mistake not to exploit fully the possibilities of that market. The relationship will also be complicated, no doubt, by a continuing discussion within Canada of the problems of foreign ownership, with the United States as a generally sympathetic bystander. In international discussions, I foresee no serious complications likely to arise between Canada and the United States so far as the search for an improved international monetary system is concerned. As for international trade, Canada will continue to look to the United States for leadership in moves towards non-discriminatory multilateralism to minimize the effects of the formation of trading blocs like the EEC. The Government has already declared its support for the Administration's proposal that there should be a new round of international negotiations for this purpose.

What of some of the other issues? In environmental matters, the Great Lakes Water Quality Agreement represents a real step forward. The Government is now urging on the United States the importance of giving the International Joint Commission an enhanced role in the protection of boundary waters. Fortunately, on these environmental questions, there is growing and shared public concern in Canada and the United States. We can count on it to ensure that problems like the oil-pollution danger in coastal waters receive the fullest consideration of both Governments. The general prospect, then, is for further joint action by Canada and the United States to meet some of these threats to the environment.

I should not care to say whether, in the case of the oil-transportation problem on the West Coast, the insistent repetition of Canadian concern, and of the concern of environmentalists in the United States as well, will finally succeed in excluding large tankers from western coastal waters. All we can do is keep pressing our case. At the same time, we can draw attention to the alternatives for moving northern oil to southern markets and insist that all the options be kept open for careful examination. On the whole, I should expect energy problems to continue giving Canada and the United States a fair number of headaches in the Seventies, but I foresee no problem which will not respond to the exercise of patience and imagination.

Finally, what of some of the political issues over which there have been differences in the past? One of the most important still exists, the war in Vietnam. The Government has expressed its serious concern over the renewed violence there. We have said that Canadians want to see this war ended soon by negotiation, and that they will be relieved when the United States has been able to withdraw from Vietnam. For our purposes today, we are surely safe in assuming that the war in Vietnam is going to end in some reasonably near future, and that Vietnam as an issue in Canadian-American relations, as well as of discord within the United States, will disappear accordingly.

At a more fundamental level in our political relations with the United States, an extremely interesting pattern is emerging. All of us students of the relationship are conscious that basic shifts have been taking place in the world view of both countries. The implications of these shifts are only beginning to become apparent. I suspect we will spend the rest of the Seventies working out some of their implications. In the process, Canadians may find themselves giving up a good deal of the "conventional wisdom" about relations with the United States. It seems obvious to me that the options for Canadian-American relations, and for Canadian foreign policy generally, are already proving to be markedly different from what they were even five years ago. In a world where the two super-powers conceive their roles with a new and refreshing sense of limitation, and where new power-centres are arising, the smaller countries, freed from the constraints -- and perhaps deprived of the advantages -- of alliance diplomacy, have freedom to manoeuvre unprecedented in this generation. Anxious to assert its identity and to diversify its contacts and its markets, Canada will surely find this a world of opportunity. To a visible extent we have already done so. Without immodesty, we can claim to have led even our great neighbour to take advantage of some of the opportunities of this changing world. To the extent we take advantage of this world -- created in part, let us remember, by the constructive action of the United States itself -- we ought surely to find relatively greater fulfilment, and correspondingly less frustration, in our international role. And this, in turn, ought to help us come to grips with the inevitable problems of the Canadian-American relationship with wisdom and equanimity.

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