

## STATEMENTS AND SPEECHES

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### EUROPE IN THE WORLD ECONOMY

A statement to the House of Commons on January 18, by Mr. Donald Fleming, Minister of Finance.

I should like at this time to make a report to the House on important meetings which took place last week in Paris on broad economic matters. My colleague the Minister of Trade and Commerce and I represented the Canadian Government.

Before describing the events of last week it might be helpful if I were to outline the events which led up to the meetings. In what I have to say, when I am referring to Europe, I am including the United Kingdom in that designation.

Immediately after the war, the United States made reconstruction loans to Europe; and Canada made, on a proportional basis, even greater loans to Europe. It soon became clear, however, that these loans were not enough to ensure full European recovery. We all recall the wave of hope and encouragement that ran through Europe and around the world when, in June, 1947, General Marshall announced the famous Marshall Plan. Under that Plan, with its massive economic aid from the United States, Europe carried forward its post-war economic recovery. While the Marshall Plan was essentially economic, it was, of course, of great political significance. It fostered closer relations between European countries, especially through a new body known as the Organization for European Economic Co-operation or, more briefly, OEEC. Canada and the United States both became associate members of OEEC in 1950, reflecting the contributions that both made to European recovery and common membership in NATO.

Then came a development of a rather different nature. Six countries of Europe began to lay plans for a very much closer form of association. They are France, Germany, Italy, the Netherlands, Belgium and Luxembourg. In these plans the establishment of strong ties between France and Germany was particularly important. In the succeeding years The Six have agreed amongst themselves to form the European Coal and Steel Community, the European Atomic Energy Agency known as EURATOM, and the European Economic

Community or Common Market. GATT permits the formation of common markets under specified conditions. Accordingly, The Six are, over 12 or 15 years, abolishing trade restrictions of every kind between themselves and developing a common tariff which they would apply to imports from the rest of the world.

While these developments were understandable, it is also understandable that the other European countries, which participated in the earlier post-war European initiatives but which, for political or economic reasons, were unable to join with The Six, should regard the plans of The Six with mixed feelings. If they could not share in all the political activities of The Six, could they not at least share in the economic arrangements? Hence emerged the proposal by the United Kingdom for a Europe-wide industrial free trade area. Unfortunately, however, the two movements, one for a close association of six and the other for a much looser association of 17, reached an impasse at a ministerial meeting of the OEEC in December, 1958.

Faced with this situation, seven European countries including the United Kingdom, Sweden, Norway, Denmark, Switzerland, Austria and Portugal, quickly decided to form a free-trade area among themselves. They did this partly for the benefits it would bring to its members but also in the hope that, in due course, The Six might find the idea of a Europe-wide free-trade area more acceptable, and in the fear that without such an arrangement The Six, from a position of strength, might make separate trade arrangements with each of the seven individually. Thus, by the end of last year, the 18 full members of OEEC were divided into The Six and The Seven, and a remaining five have no special association with each other.

Since the breakdown of negotiations in OEEC in December, 1958, no common ground has been found for substantial discussions between The Six and The Seven, and growing concern was expressed about a possible split between European countries with effects running far beyond the economic field.

Politically as well as economically, Canadians must be apprehensive of any division that emerges amongst our partners in NATO. We depend in no small measure for our common defence on the strength and solidarity of Western Europe. Although, of course, the Paris meetings were not in any sense, and by their composition could not have been, NATO meetings, Canada naturally approached last week's meetings having in mind article 2 of the North Atlantic Treaty, requiring members to "seek to eliminate conflict in their international economic policies".

Our economic concern was twofold. We feared lest the situation developing in Europe should lead to trade barriers against outside goods more restrictive than were necessary or indeed justifiable. We also feared that some new form of discrimination against Canadian goods, some new European preferential system from which we were excluded, might emerge to the detriment of our exporters.

These concerns were voiced very clearly and very forcefully when, in the opening meeting last week, my colleague the Minister of Trade and Commerce spoke in part as follows:

"I need hardly remind those present here of the great importance of international trade to Canada--We have large markets in Europe, accounting for 30 per cent of our total exports, and most European countries have large and expanding markets in Canada--Canada has been anxious lest the policies of the European Economic Community and the European Free Trade Association be restrictive in their effects on world trade--All of us--have an obvious interest in maintaining generally accepted rules which provide reasonable and fair access to markets throughout the world."

Any protectionist or discriminatory development in Europe against imports from Canada would, in our view, be particularly indefensible in the light of the great increase in prosperity and economic strength in Europe during the past two or three years. This strength has brought with it the long sought for convertibility of European currencies and a rapid and welcome process of dismantling trade restrictions. Europe has built up its gold and dollar reserves to a substantial level, much of this inflow coming from the United States. Indeed, the situation is now such that European countries are in a position to review in a new light not only their trade and tariff policies but also their capacity to extend aid to the world's under-developed countries. This marked improvement in the balance of the world's economic strength was an important part of the background of last week's meetings.

Meanwhile the OEEC stood at a cross-roads, and the widest divergence of views existed regarding the roles which it ought and ought not to play in the future.

The growing concern over these matters that was entertained in Ottawa was entertained also in Washington. In November and December of last year the United States Under-secretary of State, Mr. Douglas Dillon, visited Europe to explore the problems. His visit resulted in a more rapid crystallization of ideas and a more rapid series of events than he or anyone else had anticipated. It was not only clear that something should be done, but also that it should be done quickly.

Mr. Dillon was in Paris just before the NATO Council meetings began in mid-December, and a week before the Western "summit" meeting. Ministers on the Canadian Delegation to NATO were able to discuss the rapidly evolving situation with ministers of the United States, the United Kingdom and other countries...

The four Heads of State and Government on December 20 decided that an invitation should be issued to 13 countries, including Canada, and also to the European Economic Commission, to attend the meeting that began in Paris last Tuesday.

In the week before that meeting the Minister of Trade and Commerce and I went to Washington to hold preliminary informal discussions with Mr. Dillon and also with Mr. Anderson, the Secretary of the Treasury. These talks were most constructive. In the course thereof the United States Secretaries assured us that they shared our concerns regarding access to European markets, not only for manufactured goods but also for materials and food-stuffs in which Canada is particularly interested.

Immediately the Canadian Delegation arrived in Paris we had useful talks with the French authorities and valuable discussions with the Chancellor of the Exchequer and the President of the Board of Trade.

Thirteen, as we ourselves had feared, turned out to be an unlucky number. The thirteen were made up of two from North America, five from The Six, five from The Seven, and one so-called "European neutral". This left seven European countries off the invitation list, and very naturally most of them were dissatisfied and critical. The reason against a meeting of twenty was the feeling on the part of some European countries, who were dissatisfied with the recent role of the OEEC, that such a meeting would be considered as a meeting of the OEEC itself.

Nor were these seven the only countries in the world that were perturbed by the course of events. As the date for Paris drew near the Canadian Government received inquiries and representations from a number of other governments, some in the Commonwealth and others outside. All of them were worried by the possibility that important movements were on foot, and important decisions were to be taken, in which their interests were involved but in relation to which they had no direct voice. These governments may rest assured that in the recent meetings the Canadian Delegation did all that it could, and not without some success, to ensure that their interests were not neglected.

These representations served to remind us vividly of the dangers and damage that could attend restrictive regionalism, whether in Europe or elsewhere. Political and commercial interests go hand in hand. The most constructive, least divisive, solutions for commercial problems are to be sought not by one region of the world seeking insulation from the rest, but in arrangements that can encompass all free nations on a basis of harmony and equality.

It may simplify matters at this point if I explain that in Paris last week there were in fact three successive, and in a sense quite separate, meetings, and that three themes ran through all three of them. The first meeting was of the thirteen; the second was of the twenty, as independent equals; the third meeting was of the OEEC Council, where all twenty were present but where Canada and the United States were only associate members, without voting rights and without obligations. This was the first occasion on which Canadian ministers had attended an OEEC meeting. In the past Canada's representation has been by officials rather than ministers.

The three themes of the meetings were trade, aid, and organization; that is to say, the reorganization of OEEC. Each issued in a resolution, which was first adopted by the thirteen, and then adopted without alteration in the twenty....

It is convenient to begin by reporting what developed in the field of organization. It quickly became clear that there was widespread support amongst European countries for a revision or reconstitution of OEEC that would fit it for the tasks of the 1960's, rather than the Marshall Plan and the 1950's, and would at the same time make it suitable for adherence by Canada and the United States as full members.

This task of reconstitution is to be undertaken in two stages. First, four experts in their personal capacities are to compile a report with recommendations. After that there will be such meetings and discussions among the twenty governments as the matter may require. The first meeting will take place on April 19. The whole process of approval, including ratification by the United States Congress, would inevitably last well into next year. One of the experts will come from The Six, one from The Seven, one from the United States, and one from the remaining countries.

During the meetings the United States representative declared the willingness of his Government to join the reconstituted organization, subject to agreement on a satisfactory constitution and subject to Congressional approval. As for the Canadian Government, our wish would be that Canada would also find it possible to become a member. Europe has now fully emerged from the period of post-war economic difficulties and is an increasingly important force in world affairs. In these circumstances Canada, with vital European and world interests engaged, should be prepared for full participation.

The second theme in Paris was aid, and on this I can speak briefly. European countries are showing not only an increased capacity but an increased disposition to provide aid, not only through multilateral organizations such as the United Nations and the International Bank for Reconstruction and Development, but also bilaterally, just as we have done for nearly ten years under the Colombo Plan and in other ways. It has been agreed that, pending reconstitution of the OEEC, eight countries should pool their experience and know-how with regard to aid programmes. No financial commitments are involved, and no change in Canada's aid programme, as included in the estimates for the coming fiscal year, is to be anticipated. The members of this group, in addition to ourselves, are Belgium, France, Germany, Italy, Portugal, the United Kingdom and the United States, together with the Commission of the European Economic Community. The committee has power to add to its numbers. The group will consult the International Bank, and thus avoid overlapping of activities with that or other international institutions.

The third theme was trade, and for Canada, of course, this was the most important. There was general agreement that, at least pending reconstitution of the OEEC, some forum should be set up in which it would prove possible to discuss the problems of The Six and The Seven in their European and world-wide contexts. In the face of strong differences as to the precise terms of reference of the new trade committee and the number of countries to serve on it, the Canadian Delegation put forward proposals which formed the basis of the resolution eventually adopted as the unanimous decision of the conference. A committee of 20, of which Canada is, of course, a member, with power to establish subcommittees was agreed on. The terms of reference, while according priority to the relationship between The Six and The Seven, are not confined solely to European aspects of trade relations. It was also decided that the committee should include the Executive Secretary of GATT. He will, I am sure, play a constructive role and his presence on the committee should, at least in a measure, allay the apprehensions of the many countries outside Europe who have been worried that the Europeans, preoccupied by their own difficulties, might disregard the interests and the rights of outsiders.

In regard to all three resolutions, but particularly in regard to that on trade, the Canadian Delegation was successful in its attempt to promote acceptable solutions for general problems while protecting Canadian interests.

In the short time available, last week's meetings did not attempt to grapple with substantive issues of trade. What was required was agreed machinery which could come to grips with these issues. This will now be done in the trade committee and its subcommittees. It is now for countries involved to put this machinery to the best possible use in solving their problems without sacrificing the interests of others. It is the sincere hope of the Government of Canada that all the countries concerned will effectively employ this opportunity.

In this regard we must recognize that the outcome of current economic issues in Europe will have significant effects throughout the world. Trade policies are not made in isolation, but through interaction. The commercial policies to be followed in Europe cannot fail to influence United States policies, and both are of critical importance to Canada.

The meetings of the past week may well prove to be memorable. At these meetings the United States displayed, once again, leadership of a very constructive nature; and this leadership involved the relationships between the United States, Europe, and the rest of the world. Since the war the United States, abandoning its historic isolationism, has been willing to recognize its own interest in the reconstruction of a devastated continent and in the defence of that continent against the danger of expansion and aggression from the east.

Last week, European countries and the United States, together with Canada, came together as equals around a table to discuss common economic problems. Let it be remembered that there was not only the problem of the threatened trade split in Europe but there were also the problems of balances of payments and of enlarging the aid given by the more industrialized countries of the free world to the less-developed. The countries participating were ready to concern themselves not merely with the responsibilities of the Atlantic Community within itself but with its responsibilities in the world at large. No development could more closely serve the interests of this country.

Canada has been historically a North Atlantic country. Its history has been bound up with the United Kingdom, Western Europe and the United States. We can expect to achieve our full stature only if Europe and the United States are in harmony. But Canada is also a member of the Commonwealth and the free world, with trading interests in every quarter of the globe. Just as we have urged that the European Common Market and the European Free Trade Association should be outward looking, so we should hold to the view that all North Atlantic countries should be outward looking....

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