



House of Commons
Canada

CANADA'S RELATIONS WITH THE NEW EUROPE

STANDING COMMITTEE ON EXTERNAL AFFAIRS AND
INTERNATIONAL TRADE

SUB-COMMITTEE ON INTERNATIONAL TRADE

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JOHN BOSLEY, P.C., M.P.
Chairman

June 1992

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HOUSE OF COMMONS

Issue No. 11

Thursday, June 4, 1992

Tuesday, June 9, 1992

Chairperson: John W. Bosley

CHAMBRE DES COMMUNES

Édition n° 11

Le jeudi 4 juin 1992

Le mardi 9 juin 1992

Président: John W. Bosley

Minutes of Proceedings and Evidence of the Sub-Committee on

Procès-verbaux et témoignages du Sous-comité de

International Trade

Commerce extérieur

of the Standing Committee on External Affairs and International Trade

du Comité permanent des affaires étrangères et du commerce extérieur

CANADA'S RELATIONS WITH THE NEW EUROPE

Pursuant to Standing Order 108
First report on Canada Trade Relations

à l'article 108(3) du Règlement, étude de
rapport concernant les relations
commerciales canadiennes avec la CEE

INCLUDING:

Y COMPRIS:

The First Report of the Sub-Committee to the Standing Committee on External Affairs and International Trade

Le Premier Rapport du Sous-comité au Comité permanent des affaires étrangères et de commerce extérieur

STANDING COMMITTEE ON EXTERNAL AFFAIRS AND INTERNATIONAL TRADE

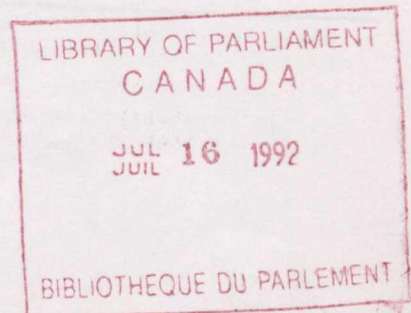
SUB-COMMITTEE ON INTERNATIONAL TRADE

Third Session of the Thirty-fourth Parliament, 1991-92

Troisième session de la trente-quatrième législature, 1991-1992

JOHN BOSLEY, P.C., M.P.
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of the Standing Committee on External Affairs and International Trade

Procès-verbaux et témoignages du Sous-comité du

Commerce extérieur

du Comité permanent des affaires étrangères et du commerce extérieur

RESPECTING:

Pursuant to Standing Order 108(2), consideration of a draft report on Canada Trade Relations with the EC

INCLUDING:

The First Report of the Sub-Committee to the Standing Committee on External Affairs and International Trade

CONCERNANT:

Conformément à l'article 108(2) du Règlement, étude de l'ébauche de rapport concernant les relations commerciales canadiennes avec la CEE

Y COMPRIS:

Le Premier Rapport du Sous-comité au Comité permanent des affaires étrangères et du commerce extérieur

Third Session of the Thirty-fourth Parliament,
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SUB-COMMITTEE ON INTERNATIONAL TRADE OF
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HOUSE OF COMMONS
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Ellen Savage

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The Standing Committee on External Affairs and International Trade has the honour to present its

FOURTH REPORT

In accordance with its general mandate under Standing Order 108(2), the *Sub-Committee on International Trade* of the Standing Committee on External Affairs and International Trade has examined the subject of Canada's relations with the New Europe. The Sub-Committee on International Trade has submitted its First Report to the Committee. Your Committee has adopted this Report unanimously and without amendments. It reads as follows:

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CANADA'S RELATIONS WITH THE NEW EUROPE

INTRODUCTION

Europe is currently undergoing major transformations. The European Community (EC) is implementing its single market program as well as moving toward further integration through Economic and Monetary Union and Political Union. At the same time, the EC and the European Free Trade Area (EFTA) countries recently reached an agreement to create a European Economic Space (EES).

Although important for Canada's future, these developments, except for the dramatic highlights, have not captured a great deal of attention in our country. However, many experts believe that if Canada wants to take advantage of changes occurring in Europe, it has to be done now. The Sub-Committee wants to seize the opportunity of this report to contribute usefully to the redefinition and development of Canada's European Policy.

In examining Canada's economic relations with the EC countries, the Sub-Committee became aware of the need for our country to be better equipped generally to perform in an increasingly competitive world economy. In that connection, Canada's trade promotion programs have recently been criticized as too costly and not always effective. Accordingly, the Sub-Committee has taken advantage of this study of Canada-EC relations to make some observations and recommendations aimed at increasing Canada's economic presence throughout the world.

In carrying out this study, the Sub-Committee held a series of public meetings in Ottawa with government officials, and experts and business people heavily involved in Canada-EC relations or trade promotion. In addition, we met with representatives from the French and the German governments. From May 18 to 24, Sub-Committee Members and staff visited Bonn, Brussels and Paris.

I. RECENT EVOLUTION OF THE EUROPEAN COMMUNITY AND IMPLICATIONS FOR CANADA

For the benefit of readers, the Sub-Committee wishes to begin its report by describing four elements in the current evolution of Europe and their immediate implications for Canada: the single market program, the European Economic Space, the Maastricht Summit and the EC and Eastern Europe.

The Single Market Program

The mid-1980s revival of the process of building the EC has stemmed, firstly, from the desire to complete the work that had been under-way since the 1950s and, secondly, from the desire to react to increasing competition from the United States, Japan and newly industrializing countries such as South Korea, Hong Kong and Taiwan. The *Single Act*, ratified in 1986, has provided the means for this revival. It improves the decision-making process by extending the practice of qualified majority vote to

the Council of Ministers,¹ and it broadens EC jurisdiction. The *Single Act* also involves the European Parliament more directly in the development of EC law and, most importantly, expresses a commitment by Member States to making the European internal market a reality by January 1, 1993.

The objective of the single market program — known popularly as “Europe 92” — is to complete the work initiated by the *Treaty of Rome* and eliminate the last barriers to the free circulation of persons, goods, services and capital within the EC. To this end, the EC set out a program of some 300 measures whose purpose was to eliminate physical, technical and tax barriers among Member States.

Eliminating physical barriers means eliminating customs and goods control posts for traffic within the Community.

Eliminating tax barriers — the area in which the most work still remains to be done — consists in harmonizing as much as possible the rates and bases of value-added tax, corporate income taxes and taxes on savings.

Eliminating technical barriers refers to those barriers created by differing governmental regulations and standards which affect goods, services and persons. With regard to goods, free circulation is ensured by means of harmonization or mutual recognition. Mutual recognition means that any product that is brought into EC territory and satisfies the legislation of the country of entry will benefit from the principle of free circulation within the entire EC. The EC also favours opening up government contracts to foreign competition and eliminating discriminatory practices in this area. With regard to services, the EC also intends to create an internal market and eliminate existing fragmentation. To achieve this, harmonization is sought for certain basic aspects of services and the rule of mutual recognition is applied as broadly as possible, as is done for trade in goods. Lastly, with regard to workers, the single market program calls for strengthening the free circulation of salaried workers, and guaranteeing the right of establishment for members of liberal professions.

The total potential economic gain from the single market has been estimated by the EC at 200 billion European currency units (ECUs),² or almost 300 billion dollars Canadian. At this rate, the EC's gross domestic product (GDP) would rise by 5 per cent. These figures are evidence of savings from eliminating physical barriers to intra-EC trade, but also of the advantages that would result from eliminating technical barriers to the various national markets, thereby ensuring free competition throughout the EC.

A few months before the January 1, 1993 deadline, it can be said that, overall, the establishment of the single market is proceeding on schedule. Nonetheless, some problems remain. The 12 EC Member States have had great difficulty agreeing on a number of matters, including: harmonizing indirect taxation systems, the free circulation of persons; and opening up national air, sea and land transportation markets. In addition, EC directives are not being incorporated into national legislations as quickly as the Community desired.

Overall, the evidence gathered by the Sub-Committee shows that the EC's market will be more open than before and that the fears of a fortress Europe have been exaggerated. In fact, our main concern is with the lack of enthusiasm of Canadian business. The high stakes for Canada were well described by Mr. Ed Neufeld (Executive Vice-President, Economic and Corporate Affairs, Royal Bank of Canada):

¹ For Council deliberations that require a qualified majority, members' votes are weighted as follows: Belgium 5, Denmark 3, Germany 10, Greece 5, Spain 8, France 10, Ireland 3, Italy 10, Luxembourg 2, the Netherlands 5, Portugal 5, the United Kingdom 10. Deliberations are approved if they obtain at least 54 votes out of this total of 76.

² On February 28, 1991, one ECU was equal to CA\$ 1.4761.

With a population of 340 million people and combined GNP exceeding \$6 trillion U.S., the European Community represents a huge market that Canada and Canadian business simply cannot afford to ignore. (*Proceedings*, Issue 5:4)

There are several compelling reasons for Canadian business to pay closer attention to Europe. The single market program, deregulation and the dramatic concentration and rationalization of European industry will make European firms much more competitive at home and abroad. By establishing a presence in Europe, Canadian firms will be better prepared to stand up to the new level of competition which can be expected from European firms.

The single market program will also make the European market more attractive for Canadian firms. Canadian suppliers will benefit from the elimination of technical barriers within the Community and will be provided with new market opportunities. In contrast to the present situation, where exporters have to meet different standards depending on the country they wish to enter, harmonization or mutual recognition will allow them to meet a single — or nearer to single — European standard.

There remain some uncertainties and concerns about the European standard-making process and the implementation of this new policy. Canadians fear that standards could be elaborated so as to temporarily restrain competition by outsiders. For example, Canada's forest industry, with annual sales in the EC of more than \$3 billion, is monitoring closely the European Committee for Standardization on which are represented all of the major Scandinavian producers. Canada must be very attentive to this process, although the dangers should not be exaggerated. Most EC standards are based on international standards. Furthermore, under U.S. pressure, the EC has recently agreed to increase the transparency of its standard-making process.

Of more concern is the lack of clarity of the whole process during the transition period. For instance, for goods needing a directive establishing essential requirements related to health, safety and environment, there is a kind of "no man's land" when these directives have not yet been adopted. In addition, the Sub-Committee's meetings in Europe raised doubts in our minds as to whether the principle of mutual recognition will be accepted invariably. For example, German officials questioned whether Greek standards will easily qualify in Germany.

The EC policy on testing and certification is another major concern for Canadian producers. They fear having to undergo much more costly and time-consuming approval procedures than their EC-based competitors. To deal with this issue, the Canadian government has already held initial discussions with the EC concerning an agreement on mutual recognition of testing and certification of standards.

Anti-dumping and anti-subsidy law is one of the Community's most effective weapons of industrial/commercial policy. In the past few years, reinforcement of dumping rules and the EC's more aggressive use of them have caused growing concerns outside the Community. So far, non-market economies as well as Japan and other Asian countries have been the major targets of the EC anti-dumping policy, although Canadian firms could also find themselves subject to a forceful application of the policy. This is especially likely to happen if the GATT negotiations were to fail and a period of "trade wars" was to follow.

Local content requirements are another source of concern. For example, in the proposed EC directive on competitive bidding procedures in four important sectors — water, energy, transport and telecommunication — bidders having more than 50 per cent European "content" would be given a 3 per cent price preference over bids with less than the required content. This would present a significant market barrier for Canadian firms without manufacturing facilities in the EC.

According to a study done by the Royal Bank (Europe 1992: Is Canada ready?) and presented to the Sub-Committee by Ed Neufeld, the Europe 1992 program will also have some sectoral repercussions for Canadian industry. Some sectors, such as food processing, food products, metals and minerals, as well as telecommunication equipment, are likely to benefit to a small degree. By contrast, machinery and equipment may be adversely affected, as Canadian firms will likely meet increased competition from efficient European producers.

The European Economic Space (EES)

In January 1989, Jacques Delors introduced the idea of achieving closer association among the countries of the EFTA³ and the EC by going beyond the existing bilateral free trade agreements between each of these countries and the EC. During the subsequent two years of negotiations, the main points of dispute were fishing and trade in fish; road transit rights for EC trucks in Swiss and Austrian Alpine passes; and loans and subsidies by EFTA countries to poorer EC countries. On October 22, 1991, these differences were resolved and the agreement to create the EES was signed. However, following a negative opinion by the EC Court of Justice, some adjustments had to be made to the text, the new version of which was adopted on February 14, 1992.

The terms of this agreement provide for the free circulation of goods within the EES starting in 1993 and, for that purpose, the EC and the EFTA must agree on a system of rules of origin. As well, the EFTA will integrate what are referred to as *acquis communautaires*, that is some 1,400 EC regulations regarding corporate law, consumer protection, education, environment, research and development and social policy. The EFTA will also adopt EC competition regulations on the elimination of combines, abuse of dominant position, government contracts, mergers and government assistance. Only the EC Court of Justice will be competent to rule on any issue of competition; an arbitration procedure will be set up to settle disputes in other areas.

Starting in 1993, individuals will be able to live, work and offer their services anywhere in the EES. Professional and occupational diplomas and certificates earned in one country will be recognized throughout the EES. In addition, subject to certain restrictions, the banking, insurance and securities sectors will be liberalized, as will telecommunications, information and transportation services.

Before the EES agreement comes into force, it must be approved by the European Parliament and ratified by the parliament of each EC and EFTA Member State.

Although the EES agreement is important, many observers regard it as already outdated. Initially conceived as an alternative to EC membership, most EFTA Member States now considered it to be no more than a step towards EC membership. This conclusion is underlined by the fact that three Member States of EFTA—Sweden, Austria and Finland—, have already officially requested EC membership.

The creation of a EES is of great interest for Canada, in as much as the Nordic EFTA countries, Sweden, Norway and Finland, are Canada's main competitors in wood and related-wood products' trade. In fact, Canada is the only industrialized country exporter of wood products to the EC which does not enjoy a preferential access to the Community. Canadian wood pulp enters the EC duty-free because the Community is a wood-pulp-poor region but Canadian newsprint, which is the industry's most important export product, is subject to a quota scheme; 600 000 tons annually enter the EC duty free, with any amount above that subject to a 9 per cent tariff.

³ The EFTA includes seven countries: Austria, Switzerland, Sweden, Liechtenstein, Norway, Finland and Iceland.

While the EES will not confer on the EFTA countries any greater preferential access than they now enjoy, it might allow them to promote the adoption of technical regulations detrimental to Canadian interests. There are also concerns that the creation of the EES might cause problems for the fishing industry.

The Maastricht Summit

The Maastricht Summit, which took place on December 9 and 10, 1991, brought to a close over a year of difficult negotiations among the 12 EC Member States on plans for economic and monetary union and political union. Although the most pro-federalist Europeans expressed disappointment at the Maastricht compromises, there is no doubt that the Summit was an important step in building the EC.

Economic and Monetary Union (EMU)

Agreement on Economic and Monetary Union, qualified though it was, represents an immense step forward for Europe. It provides for the adoption of a single currency unit by the end of the century and the creation of a central common bank.

It should be noted, however, that the Agreement is subject to ratification by the European Parliament and by the member countries either through their national parliaments or by popular referenda. The risks and uncertainties of this process have just been illustrated by the Danish referendum which narrowly rejected the treaty and raised legal and other questions about its future. In addition to the hazards of the ratification process, the United Kingdom was granted an exemption clause in the Treaty in response to its refusal to support monetary union. After ratifying the treaty, the U.K. will be authorized to have its Parliament confirm the transition to a single currency unit when and if it chooses to do so.

The British and Danish cases highlight the fact that the process of European integration is fraught with political risks. Throughout the history of the community, political and economic leaders have tended to be more enthusiastic about the process than have the people of Europe and some countries, particularly the wealthiest and the smallest, have had deep reservations. There are fears of loss of national identity, of the erosion of economic and social benefits and of being compelled to support policies, for example defense policies, that run contrary to national traditions.

These uncertainties found expression in some of the testimony received by the Sub-Committee.

Despite progress at Maastricht, several witnesses expressed doubts about the realisation of the EMU timetable. Doctor Jurgen Hellner of the German Embassy and John Halstead, former Canadian Ambassador to the Federal Republic of Germany, were confident of its ultimate creation, but questioned the possibility of achieving it by the year 2000. They noted that union would impose very strict economic conditions and that agreement still remains to be reached on the details of the future European Central Bank. During the Sub-Committee's trip, we encountered some other concerns regarding the realization of a EMU. The fact that Greece, Portugal and above all Italy do not, as of today, meet any of the five criteria set for integrating the EMU, troubles some Commission and German officials. It also seems that the Germans are not ready to compromise their principles regarding monetary policy, nor willing to give away control on the currency. Some witnesses even told the Sub-Committee that the name ECU could be replaced by Euro-mark. How far the other States will be willing to apply a strict monetary policy is open to question. It is very likely that some of the weakest countries will remain outside of the final stage of Economic and Monetary Union until their economies catch up to the rest of the EC.

As for the implications of the EMU for Canada, a single currency will eliminate the costs associated with converting one EC currency into another. The resulting savings can be estimated at more than ECU 15 billion per annum, or about 0.4 per cent of Community's GDP. The main Canadian beneficiaries will be firms operating on a transeuropean basis, such as Bombardier and McCain.

A potentially very important gain arises if EMU reduces the overall uncertainty for investors associated with the existence of national currencies and independent monetary policies. A reduction of overall uncertainty could lower the risk-premium firms have to pay on equity and would greatly stimulate investment. Preliminary estimates show that a reduction of the risk premium by only 0.5 per cent could raise income in the Community by as much as 5-10 per cent in the long run. This would make the EC an even more attractive trading partner, but also a more efficient competitor.

Political Union

The results of Maastricht in the area of political union were less spectacular than progress toward economic and monetary union and some observers have not hesitated to express disappointment. Nonetheless, on closer observation it appears that the EC has made progress, although admittedly in small steps, toward increasing political integration.

With regard to foreign policy, the objective is to be able to react more quickly and effectively than is now possible through intergovernmental co-operation. The treaty specifies that the 12 EC Member States may take joint action and accelerate implementation of the treaty by means of qualified majority decisions. However, the heads of State and heads of government must decide unanimously on the specific issues to which the qualified majority procedure will be applied.

In the area of defence, progress is still halting, though the objective of common defence is stated in the treaty. The Western European Union (WEU) will be responsible for developing the common defence policy and will implement its decisions in cooperation with NATO. Although WEU relations with NATO and its links with the European Union (EU) are the subject of a statement appended to the treaty, the fact that this statement has given rise to differing interpretations by Member States will undoubtedly create some tensions in future.

Another important aspect of the treaty is the broadening of the EC jurisdiction in certain areas in which qualified majority decisions are made: technological research and development, environment and social policy.

Broader EC jurisdiction in the area of social policy has given rise to another confrontation between the UK and the 11 other EC Member States. In the same way as it refused to sign the social charter in December 1989, the UK rejected the inclusion of any kind of social policy chapter in the new treaty. In order to circumvent this impasse, the other Member States signed a protocol authorizing them to apply qualified majority decisions by and to the other 11 countries in the areas of occupational health and safety, worker information and participation, and equality of the sexes at work. In other areas of social policy, unanimity is still required. In all cases, however, if the UK does not participate in the adoption of a social policy decision, that regulation will not apply to it. In this way, the 11 other Member States will make social policy, sometimes by majority, as if the UK did not exist. Clearly, putting this compromise into action will prove to be a particularly delicate operation, although experience has shown that all countries that have enjoyed special status eventually come under EC sway. It is not unreasonable to suggest that the special social policy provisions applicable to the UK may be of short duration.

The treaty on political union that has been signed also opens up new areas of EC jurisdiction: development of trans-European networks in transportation, telecommunications, energy, consumer protection, industrial policy, health and culture. In the last three areas, however, decisions will be

made unanimously. The treaty also includes provisions to strengthen the poorest regions of Europe, to develop policing and legal cooperation. As well, it grants European citizens the right to vote in municipal and European elections, and the right to be candidates in those elections wherever they reside.

There are a number of possible consequences of the political union for Canada. The extension of the Community's competence in areas such as environmental and social policy will imply some changes in the rules applied by the EC. Obviously, Canada should monitor these closely, as any change in EC regulations could have some direct or indirect consequences on Canadian business. For example, new EC-wide regulations on social issues, from which the United Kingdom will be excluded, could influence Canadian business decisions regarding investments in the EC and could also play a role in determining the location of the investment. The extension of the Community's competence in matters related to international and defense policy gives a new dimension to the drive towards a European federation. Such an evolution will have to be included in Canada's perception of Europe and the future of our bilateral relations.

EC and Eastern Europe

The dramatic changes that have occurred in Eastern Europe⁴ have created a new European context and increased pressures for enlargement of the EC. The old situation where Europe was divided into three blocks, EC, EFTA and COMECON, no longer exists. The EC has become the anchor of a new Europe and its power of attraction is greater than ever before.

In this context, not only EFTA countries but also Eastern European countries are knocking at the EC door. This poses serious questions for the EC but also for Canada, as such a radical transformation of EC structures could mean a change in the nature of the Community and, possibly, increased pressures for protectionism.

The first EC reaction to the transformation in the former COMECON states was to provide short-term and medium-term support to the reform process; thus, the Phare program was initiated in 1989. Then, the EC concluded trade and cooperation agreements with Poland, Hungary, Czechoslovakia, Bulgaria, and Rumania, measures which only whetted the appetite of these countries for closer relations with the EC. The next step was for the EC to conclude so-called European Agreements with Poland, Czechoslovakia and Hungary, agreements which amount to free trade. Finally, the possibility of accession to the EC at some future date is mentioned in the preamble of the Agreements.

There are deep disagreements among EC Member States on the widening and deepening of the EC. The Government of the United Kingdom favours a rapid accession of Central and Eastern European states because it thinks this could slow the EC drive towards federalism. Germany favours the accession of these States on political grounds, but admits that a transitional period is necessary for economic reasons. France's position is less clear. President Mitterrand tried last year, without great success, to promote the idea of a European Confederation which would have deepened the integration of the 12 while putting on hold the countries of Eastern Europe.

One option is for the Community to employ what Jacques Delors called the concentric circles approach, consisting of an inner circle of countries, perhaps fewer than twelve, with freedom of movement of people, and a single currency; a second circle of the twelve, making up the Community; a

⁴ For the purposes of this report, Eastern Europe refers to Poland, Hungary, Czechoslovakia, Bulgaria and Rumania.

third circle that would include the EFTA countries, and correspond to the EES; finally, the outer circle would include the countries of Central and Eastern Europe. In this model, the inner circle would gradually expand until — hypothetically — it embraced all of the countries in a United States of Europe.

Whether or not the future proves to be as neat as that, the Sub-Committee comes back from its visit to Europe convinced that the accession of other countries, including Eastern European countries, is only a question of time. Moreover it is clear that an EC of more than 25 countries will not function as the current one does. While it is for the EC to solve its internal problems, Canada should follow these developments very closely and assess the evolution on Europe's trade policy and foreign policies. While the current EC has adopted a rather open trade policy, the accession of some weaker countries eager for protection might change that. Moreover, the decision making process of a 25 member EC will be difficult to manage and could be an ideal recipe for immobilism. When one sees the current difficulties the Community is facing internally adjusting to the GATT negotiations, the enlargement of the EC is bound to multiply the problems of policy making.

II. IMPROVING CANADA — EC ECONOMIC RELATIONS

This review of recent and prospective developments in the EC makes one thing perfectly clear: we are witnessing one of the great economic and political transformations of the century, less dramatic than the changes in Eastern Europe but with equal — perhaps greater — significance for the future. The Europe of the nation-state is giving way unmistakably to a federated Europe, whatever one chooses to call it. Come slowly or quickly, with greater or lesser difficulty, Europe is emerging as a great new political formation.

As with all such events, perceptions lag behind the reality, especially in Canada which is so preoccupied with itself these days. Thus the vast majority of Canadians still see a Europe made up of Germany and France, Great Britain and the Netherlands, and so on. This traditional Europe of nation states, with national parliaments, flags and anthems, is still the most visible Europe. Meanwhile, however, the Europe beneath the surface — its communications systems, its decision-making systems — is being transformed. It is to this Europe that Canada must now adjust.

Toward a New Deal

In 1976, Canada and the EC signed a Framework Agreement to give shape to the third option policy of the Canadian government. It was intended to foster economic co-operation in all fields of interest, such as technology and science, and to provide the impetus for the formation of joint ventures between Canadian and European firms.

The debate in Canada on the success or failure of the Framework Agreement continues to this day. The Europeans view it as a skeleton, meant to encourage cooperation in some areas and, seen in that light, it has not been a failure. Over the last fifteen years, the Agreement has fostered regular contacts between EC and Canadian officials and has promoted scientific cooperation in such areas as information technology and biotechnology. On the other hand, if one approaches the Agreement as Canadians tend to do — as a tool to intensify economic relations — the Framework Agreement has been a failure. Its impact in terms of trade and investment has been quite limited. Furthermore, it has neither prevented, nor helped to resolve, several bilateral irritants over the last ten years.

Several factors help explain the failure of the Framework Agreement. The Agreement was not powerful or binding enough to promote better economic relations between Canada and the EC. It used soft words like “facilitate”, “encourage” and “promote”, and it failed to establish a structure able to

deal with bilateral irritants. The timing of the Agreement, 1976, was far from ideal in terms of improving Canada-EC relations inasmuch as shortly before, in 1973, the United Kingdom joined the EC and Canada lost its preferential access to its major partner in Europe. Finally, there is the undeniable reality that the United States is a much more accessible market.

Aside from the Framework Agreement, Canada is trying to develop new areas of cooperation with the EC on matters of mutual interest. For instance, Canada is seeking a Science and Technology agreement. Canada and the EC are also negotiating a Memorandum of Understanding on competition policy, which will consist in exchanging information and promoting a better understanding of each other's competition policy. This kind of agreement would not have prevented the rejection of the takeover of De Havilland by a European consortium, but it would have avoided the nasty Canadian surprise by sending earlier warning signals. Another important area where negotiations are scheduled to begin in the next few months is the mutual recognition of national testing and certification procedures. This would enable Canadian laboratories to certify the Euroworthiness of Canadian exports and would level the playing field for Canadian business. Of course there would be a requirement for reciprocity, meaning that European notified bodies should also be able to test and certify conformity to Canadian standards.

The Sub-Committee is persuaded that the Framework Agreement is no longer an adequate tool for the promotion of Canada-Europe relations. The question is what more can be done? First, it is worth noting that the outcome of the Uruguay Round will have important repercussions on Canada-EC relations. A successful round will decrease tariff barriers that Canadian exporters are facing in Europe. It will also improve the conditions of international trade with regards to market access, subsidies, countervailing and anti-dumping duties, and dispute settlement. Also and very importantly, a successful round would contribute to solving the ongoing issue of agricultural trade and subsidies. Still, it is hard to predict the outcome of the GATT negotiations and, however successful, the new agreement will be no panacea.

During our European trip, the question of a Free Trade agreement with the EC was raised and the European answer was: "yes, but please not now". At the present time, the EC is preoccupied with its own problems — the implementation of the single market, the economic and monetary union, the political union, the question of enlargement, relations with Eastern Europe — and by the Uruguay Round negotiations. In the meantime, while aiming in the longer run for a free trade agreement with the EC, Canada must start working now toward a new deal with the European Community.

- 1. The Sub-Committee is now convinced that Europe will be a dynamic outward-looking group of countries and that the European market will offer significant and numerous opportunities for Canadian business. The Sub-Committee recommends that Canada pursue closer economic relations with the EC, including Canada-EC free trade. ***

Improving Canada's Trade Promotion in Europe

One concrete step in the right direction is to improve the effectiveness of Canadian trade promotion in Europe. External Affairs and International Trade Canada (EAITC) is the leading federal department responsible for Canada's trade promotion. EAITC offers a vast array of programs and assistance, from financial assistance to training and the provision of trade data and publications. The program for export market development (PEMD) is the department's primary export promotion

* The Sub-committee wishes to indicate that the NDP Member of the Sub-Committee, Mr. Barrett, does not agree with this recommendation. He prefers the words "freer-trade".

program, supporting a variety of activities to help Canadian companies expand into export markets. PEMD assists Canadian companies financially to participate in trade shows, visit export markets, bid for projects abroad and set up overseas sales offices.

To improve Canada's performance abroad, the Canadian government launched a new initiative in 1989 — Going Global. The program is a five-year, \$93.6 million package of initiatives aimed at boosting Canada's trade. This represents an increase of approximately 15 per cent in the international trade effort by EAITC. The three pillars of the Going Global strategy are the United States, the Pacific and Europe.

Over the past few months, Canada's trade promotion program has come under intense criticism. It has been described as costly and inefficient. Given that an efficient trade promotion system is essential to the development of economic relations with Europe — although not Europe alone — the Sub-Committee decided to investigate this matter further. We found that despite the large resources devoted to trade promotion, about 100 Canadian companies still account for over half of Canada's total exports. Only 32 per cent of manufacturing firms export at all and only 16 per cent of Canadian-owned companies are exporters. Small and medium-sized companies with less than \$20 million in annual sales account for less than 7 per cent of Canada's exports.

A study tabled before the Sub-Committee and recently released by professor Diddy Hitchins of the University of Alaska,⁵ examined the trade promotion programs of a number of industrialized countries. Canada was the largest spender on trade promotion and the country offering the most complete services and absorbing the biggest share of exporters' costs. While the Department of External Affairs questioned the accuracy of the international comparisons included in the study, and especially the validity of the U.S. figures, it did not challenge the total expenditure by Canada — approximately \$600 million annually. Given the size of these expenditures, the author criticized the absence of any satisfactory evaluation of returns. The only information provided to the Sub-Committee was the claim that every dollar spent on PEMD generated \$40 in exports.

We are concerned by the absence of any in-depth study on the cost effectiveness of Canadian export promotion programs.

- 2. The Sub-Committee recommends that the Department of External Affairs and International Trade complete and make public as soon as possible the three year review of the Going Global initiative which was originally scheduled to be released on December 1991. The Sub-Committee also requests that the Department release all studies of the cost-effectiveness of its trade promotion programs.**

During the Sub-Committee hearings, several specific criticisms were made of Canada's trade promotion programs. Despite the efforts of the Department of External Affairs, and all kinds of glossy publications, it seems that information does not reach most of the small and medium-sized Canadian firms. In his appearance before the Sub-Committee, Mr. James Taylor, President of the Canadian Exporters' Association concluded:

I don't think we're really delivering the goods amongst us all in terms of identifying, working with and helping make export-ready companies before they go abroad.(4:8)

Other criticisms included the costly duplication of services by provincial and federal governments and the weak process whereby firms are selected to participate in trade missions.

⁵ "Canadian Trade Promotion Policies in Comparative Perspective", Diddy Hitchins, University of Alaska, Anchorage, Draft as of November 1991.

The German trade commissioner in Canada, Mr. Uwe Harnack, compared the attitude of German and Canadian business towards trade promotion. He suggested that small and medium-sized Canadian firms were introverted and lacking in initiative in international markets partly because they were too "pampered" by their governments:

The federal and provincial governments pamper Canadian companies to an extent where the average Canadian business... is just waiting for someone else to take over his role and tell him that they will take him to this or that market, they will pay for that, of course, and please be so kind to accompany them to this fair or market and they will help him. (8.16)

As a result of the meetings in Ottawa and its trip to Europe, the Sub-Committee was struck by the fact that the two most successful exporters in the world, Japan and Germany, have systems of trade promotion that depend primarily on private business. While we recognize that it is not possible to simply transpose the German or Japanese systems to Canada, we do believe that some of their features might improve the effectiveness of Canadian trade promotion. For example, PEMD funds up to 50 per cent of eligible expenses for industry-initiated activities. While a portion must be repaid if the activity generates export sales, less than 10 per cent of expenses have been reimbursed over the last twenty years. (The figures look better for 1990-91 — \$3.5 million was reimbursed on expenditures of 18 million.)

The Sub-Committee is convinced that the idea of cost-sharing and costing of services could certainly be expanded in order to improve the effectiveness of our programs. According to James Taylor, the business community is not opposed to cost-recovery or cost-sharing, but it would like the money to be kept in a sort of revolving fund. This idea appeals to the Sub-Committee. Such a fund would be a useful tool in improving the quality of services and the greater cost recovery would help to ensure that only export-ready companies participated in these programs.

- 3. The Sub-Committee recommends that cost-sharing and cost recovery be expanded for PEMD and other trade promotion programs. We further recommend that the recovered costs be put in a revolving fund to improve the quality of export promotion programs.**

The Sub-Committee is concerned by the lack of export-readiness of many small and medium-sized Canadian firms. With only 12 International Trade Centres within Canada, the federal government has limited resources, but together, federal, provincial governments and private associations, such as the Canadian Exporters' Association or the Canadian Chamber of Commerce, could do more to stimulate export promotion. The Sub-Committee is of the view that closer collaboration between the federal and provincial governments, business and labour is necessary to improve our efforts of trade promotion and to institute a genuine trade culture within Canada.

- 4. Federal and provincial governments, business and labour have a collective interest in trade promotion. The Sub-Committee believes that this common interest should bring them together more often to improve Canada's trade promotion.**

As stated already, the primary responsibility for developing economic relations rests with Canadian business. As Ambassador Halstead explained it, essentially it was the lack of business interest in Europe which caused the failure of the Framework Agreement.

It (the Framework Agreement) was designed to set a favourable framework, open doors to a more active two-way trade and economic cooperation. Unfortunately, and I can only speak here for the Canadian side, the Canadian private sector did not go through that door. (8:12)

In Europe, the Sub-Committee met with several Canadian business people and representatives of Canadian firms. While members were expecting discussion of tariffs and technical barriers, most of the discussion focused on the difficulties of entering the European market because of differences in culture and mentality. This reflects a lack of knowledge and understanding of Europe and also a lack of confidence. These same witnesses pointed out the good reputation which Canada and Canadian products enjoy in Europe, once again proving that Canada is missing major opportunities on the European continent. Despite efforts by the Department of External Affairs, information on the European market does not reach the business community as a whole. More importantly, it seems that Canadian business fails to realize that the economy is no longer national or continental, but increasingly global.

Canadian business people frequently complained about the near-absence of Canadian banks in Europe. We are disturbed by the fact that the banks withdrew from Brussels a number of years ago and that their activities on the European continent have been greatly reduced in the last few years.⁶ The reasons given for this strategy were once again that the U.S. market was more attractive and the European market was fiercely competitive. In addition, Canadian banking regulations put them at a competitive disadvantage with their European counterparts who offer all kind of services through universal banking.

We wonder, however, whether the absence of Canadian banks is a real hurdle or mostly an excuse for lack of initiative. Doing business in Europe is not easy and requires the cooperation of people who know the market. That being so, association with a European bank might be more advantageous to Canadian exporters and might open more doors. For example, the National Bank is trying to find an European partner in each EC country and act mostly as an intermediary between the Canadian businessman and the European bank.

The Sub-Committee heard the same message over and over again: to succeed in Europe, a Canadian firm must have a presence or at least some kind of partnership with a European firm. Canadian business needs to develop more alliances and to cooperate more closely with European companies. This can take many forms, ranging from joint-ventures to licensing agreements, cross-licensing, cross-manufacturing agreements and export co-marketing and co-promotion agreements.

In that connection, Canadian business people need more information on linkages with European partners. According to the business people we met, this kind of information is missing, although the Sub-Committee is aware of a recent publication from EAITC — Moving into Europe.

- 5. The Sub-Committee notes that information on linkages with European firms is very useful to Canadian business and should be further developed and disseminated.**

Managing Bilateral Irritants

If Canada and the EC are to develop closer economic relations over the longer run, it is necessary that we become better able to manage the bilateral conflicts and irritants that arise from time to time. Our recent track record in this regard is not terribly impressive.

The most important issue for Canada and the EC is the dispute on the fishery which has become even more acute since the large Spanish and Portuguese fleets have come under the aegis of the EC. The Canadian government has banned the Community's fishermen from Canadian waters and has closed Canadian ports to all EC fishing vessels.

⁶ It is particularly ironic that the Royal Bank which has produced a seminal document on the importance of the EC for Canada has itself recently reduced its presence in Europe.

Outside Canada's 200-mile economic zone, fishing quotas are administered by the North Atlantic Fisheries Organization (NAFO). However, since 1985, the EC has not abided by fishing quotas allocated to it by NAFO and has, instead, set its own quotas for some species at a much higher level.⁷ The Canadian government argues that the Europeans are overfishing and dangerously depleting fish stocks in this area at a time when Canada is reducing its own quotas for conservation purposes.

In February 1992, scientific evidence revealed a major decline in Grand Banks fish stocks. Canada announced a significant reduction in quotas in order to conserve stocks, resulting in severe economic hardships for the industry in Atlantic Canada. In these circumstances, it is hardly surprising that Canada requested that the EC curtail its own fishing activities to protect the dwindling resource.

The EC was initially unresponsive to Canada's requests and asked for time to allow the Portuguese and Spanish fishing industries to restructure to lower quotas. However, its position has begun to soften over the last few weeks. Although the EC insists that its own fleet is not the main cause of the depletion of fish stocks, it now acknowledges that it is a contributing factor.

According to officials of the Canadian mission to the EC, the current Commissioner responsible for fishery is more environmentally concerned than his predecessors. During our visit to Brussels, the Sub-Committee raised the fishery issue with Commission officials and Europarliamentarians and we sensed both an awareness of the issue and a willingness to find a solution in a cooperative manner. This was also reflected in the recent meeting in Ottawa between Prime Minister Mulroney, Portuguese Prime Minister Anibal Cavaco Silva, and the President of the European Commission, Jacques Delors. It was indicated that EC member countries are willing to reduce their catch of North Atlantic cod if scientific evidence shows the stock is endangered by overfishing.

The issue is still far from being resolved. The next important step will be the examination by the EC of its own scientific evidence. Then, the Commission will make proposals to the Council of Ministers. Although the chances of reaching a satisfactory solution are better than ever, the complexity of the EC decision-making process means that problems could still arise. In addition, once a decision is adopted, the problem of ensuring effective EC control of its fleets and the implementation of the decision will still remain. This calls for ongoing political and diplomatic pressure, both directly on the EC and on Member States.

Environmental concerns, under the pressure of the European Greens, play a growing role in the EC. These concerns affect several products exported by Canada and could become a major source of conflict in the near future.

There are growing tensions around trade in forestry products. For example, a 1977 Council Directive required that as of January 1, 1991, all shipments of pinewood using pinewood nematode (PNW) be prohibited, unless they were kiln-dried. The EC has allowed an exception from this directive to December 31, 1992 for Canada and the United States and a major Canada-EC research project is under way (under the aegis of the Canada-EC Framework Agreement) to identify an alternative to kiln-drying. A revised directive, no longer requiring kiln drying, is to be put forward before the end of the year, but the Canadian industry is concerned that there will not be sufficient time to implement the new control system before the expiration of the current exception for Canada.

The major effect of environmentalism is being felt by the pulp and paper industry. The EC is an important market for the Canadian industry, taking 17 per cent of our exports, valued at \$2.3 billion, in 1991. Moreover, there is potential for expanded trade because European demand is rising faster than

⁷ For 1991, the EC accepted NAFO quotas for eight of the ten stocks managed by NAFO, setting unilateral quotas for three stocks.

North American. Given the importance of the market, the concern in the industry about environmental trade barriers is understandable. When he appeared before the Sub-Committee, Mr. Brian McClay, Vice-President, Trade Affairs and Markets, Canadian Pulp and Paper Association, described the situation in this way:

The three major pulp and paper environmental issues today are recycling, chlorine bleaching of pulp, and forest management. Consumers' perceptions of how the industry is addressing these issues is beginning to influence their purchasing decisions, and in some cases those perceptions are driving the imposition of regulations.(5:8)

In the case of recycling, there is a possibility that new EC regulations will require that products such as newsprint contain high levels of waste paper. In Germany, they are looking at a minimum content standard of 70 per cent waste paper which would effectively close down the European market to Canadian exports. There is also the question of forest management, a very emotional issue. Canada, which some Europeans call the Brazil of the North, is on the spot. Boycotts against the purchase of Canadian forest products have already been organized and carried out in the United Kingdom, and others are likely in the future.

The Sub-Committee is of the opinion that international trade rules related to the environment should be developed carefully in the GATT, so as to prevent their use as bilateral non-tariff barriers. Nonetheless, the issues have to be dealt with on a bilateral basis in the short term. In this regard there is an urgent need to address the paucity and the inaccuracy of European information on the Canadian industry. We welcome the initiative of the Canadian Pulp and Paper Association to open an office in Brussels.

- 6. The Sub-Committee recommends that Canada seek more opportunities to exchange information, both at the Executive and the Parliamentary levels to correct false impressions concerning the management of Canadian forests.**

III. DEVELOPING POLITICAL RELATIONS WITH THE EC

As the description of the recent evolution of the EC showed, the nature of the Community is changing. While in the past, the EC was essentially an economic group and most Member States were opposed to any loss of political sovereignty, the outcome of the Maastricht summit and the debate on a political union showed that the EC is slowly but surely moving toward a more active political role.

The likely inclusion of some EFTA countries with a tradition of neutrality and the strong opposition of the United Kingdom will certainly pose problems to the creation of a real political union. However, the Sub-Committee comes back from Europe with the impression that this evolution is all but inevitable. It might take longer than expected, it might only include some Member States, but we are convinced that the EC will eventually become a major political player on the international scene.

As Canadians, we need to take into account this evolution and redesign our European policy. Brussels should no longer be regarded as only an economic interlocutor, but more and more as a political partner.

The Transatlantic Declaration

The recognition of the new importance and dimension of the EC led the Canadian government to negotiate an agreement with the Community in the beginning of 1990. On November, 22, 1990, in Rome, the President of the European Council, Prime Minister Giulio Andreotti, and Canadian Prime Minister Brian Mulroney issued the EC-Canada Transatlantic Declaration.

The key element of the Transatlantic Declaration is the establishment of a new institutional framework. The Declaration stresses the need for full use of the mechanism established under the Canada-EC Framework Agreement and of the already existing political contacts, such as annual meetings between the Secretary of State for External Affairs and the EC Commissioner for External Affairs and Trade Policy. But, more importantly, the Declaration institutes two new top-level links between the EC and Canada. First, regular meetings will take place, in Canada and in Europe, between the Prime Minister of Canada and the President of the European Council and the President of the Commission. Second, bi-annual meetings are scheduled on each side of the Atlantic, between the President of the Council, together with the Commission, and the Secretary of State for External Affairs of Canada. In addition, the Declaration calls for political cooperation in combatting terrorism and protecting the environment.

The Sub-Committee regards the Declaration as an important step towards the redefinition of Canada's European policy. It provides opportunities for high-level ministerial meetings and will certainly help to keep Canada on the EC agenda. We caution, however, that its value will depend upon the political will on each side of the Atlantic. In that connection, one should note that the recent meeting in Ottawa between Prime Minister Mulroney, Portuguese Prime Minister Anibal Cavaco Silva and President Jacques Delors assisted the search for a solution to the fishery issue.

The end of the cold war has caused a void in Canada's European policy, a void symbolized by the Canadian Government's decision to recall all permanently stationed Canadian troops in Europe. During most of the last forty years, NATO defined Canada's main role in Europe, but the Community is now becoming the central pillar of Canadian Policy. The new challenge for Canada is to effectively utilize the new political access provided by the Transatlantic Declaration to counterbalance its loss of influence in security oriented fora.

7. The Sub-Committee urges the Canadian government to make effective use of the Transatlantic Declaration to develop Canada-EC relations.

Parliamentary Relations and Activity

Apart from state-to-state relations, we see the need and opportunity to establish closer relations between the Canadian Parliament and its European counterpart. Under the Treaty of Rome of 1957, the powers accorded to the European Parliament were very limited compared to the powers of the two other main institutions, the Council of Ministers and the Commission. By the Single European Act of 1987, the Parliament was given a modest, but significant, increase of power as part of the EC's preparation for 1992. This includes a new power to amend draft laws on the 1992 project and a right to veto international agreements concluded by the EC.

Under its original mandate, the Parliament cannot initiate legislation. It has the right, never used, to dismiss the full Commission with a vote of censure by a two-thirds majority, but it does not have the power to appoint a new Commission. It has a degree of control over non-mandatory budget expenditures. Various political groups are campaigning for more legislative powers for Euro-MPs to balance the expected shift of economic power from the national governments to the more integrated Community after 1992 and to overcome what has been referred to as the "democratic deficit".

At the Maastricht summit, the powers of the European Parliament were increased significantly, though the 518 Euro-MPs did not get all they wanted. Whereas now Parliament needs the Commission's backing to get its amendments through the Council, under the new Treaty it will have the right to negotiate directly with the ministers the changes it wants, and to reject bills that do not contain the changes. This new power covers laws on the internal market, consumer protection, the free

circulation of labour, the right of individuals and companies to establish themselves in other Member States, the treatment of foreigners, vocational training, public health and trans-European structures. It also covers framework programs, but not specific legislation, on the environment and research, and co-operative measures in education and culture.

The Union Treaty also adds four new powers to the European Parliament in the field of foreign policy. At the present time, Parliament's main function is to approve treaties admitting new members to the EC and Association agreements between the Community and third countries. With the new Treaty, Parliamentary assent will be required for the rights of European citizenship created by the Treaty and for other international agreements such as the free trade zone treaty between the 12 EC and EFTA countries.

In 1996, the Treaty will be revised. Once again, Parliament will ask for more powers, specifically for the right to initiate legislation which all national Parliaments enjoy. In fact, one can predict that with the current evolution of the EC, the time will come when the European Parliament will resemble a normal national Parliament. As this process unfolds, it become increasingly important to strengthen Canada's "parliamentary diplomacy" with Europe.

In the Canadian system of government, and indeed pretty much throughout the world, responsibility for international relations rests with the executive or administration. Thus the Canadian Government, acting principally through External Affairs and International Trade Canada, is responsible for the development and execution of foreign policy and the management of relations with other countries and international organizations.

The limited role of Parliament in international relations is threefold: to pass such laws as may be required; to review and advise on the conduct of policy; and, increasingly, to carry on what may be called "parliamentary diplomacy", principally through the Speaker's offices and the various international associations to which Canadian parliamentarians belong. While Parliament is considerably more active than it was twenty years ago with respect to both the oversight and diplomatic functions, the results still leave a lot to be desired.

Since 1975, a bilateral arrangement between the Canadian Parliament and the European Parliament has provided for an annual parliamentary meeting between the two parliaments to take place alternatively in Canada and in Europe. We recognize the importance of these annual meetings, but at a time when the European Parliament is gaining more power and the EC is becoming a major player on the international scene, the Sub-Committee is convinced that the Canadian Parliament should devote more resources to its relations with its European counterpart.

At the present time, the Canada-Europe Parliamentary Association deals not only with the European Parliament, but also with the Council of Europe, some bilateral relations, and more recently with Parliaments of Eastern Europe, the former Soviet Union and Turkey. Although all these international linkages are important, there is a risk that by trying to do too much with limited resources, the Canadian Parliament will neglect its relations with the European Parliament.

- 8. The Sub-Committee recommends that the Canadian Parliament devote more resources to its relations with the European Parliament, either through the establishment of a new association or through the reorganization of the existing association.**

There is also a need to better coordinate the various Canada-Europe activities in the Canadian Parliament. The review of policy by the House of Commons is most likely to be carried out by the Standing Committee on External Affairs and International Trade and by the Standing Committee on

Defence. Both have been studying aspects of the new Europe but little effort has been made to coordinate their activities or to share their findings. Meanwhile three parliamentary associations — Canada-Europe, Canada-NATO and Canada-France — and two friendship groups — Canada-Germany and Canada-Italy carry on their activities largely unaware of what the other associations are doing and with no reference whatsoever to the work of the parliamentary committees. The results of all this unshared and uncoordinated activity adds up to much less than it should.

It is time for Parliament to get its act together and to encourage coordination of activities and sharing of results.

9. **The Sub-Committee recommends that the Chairpersons of the House External Affairs Committee and the House Defence Committee meet at least once annually with the Chairpersons of the relevant Canada-European parliamentary associations and friendship groups. When travel to Europe is planned by any of these groups, the others should be notified in advance and asked if their work can also be advanced by the delegation. The findings and recommendations of such delegations should be communicated to all of the parliamentary committees and associations and groups concerned with Europe.**

IV. STRENGTHENING RELATIONS WITH MEMBER STATES — THE SPECIAL CASE OF GERMANY

While establishing closer political relations with the EC, Canada should at the same time develop its relation with Member States, particularly with Germany. For obvious historical reasons, Canada has always had close relations with the United Kingdom and France, but Germany is today at the heart of a dynamic new European reality.

Notwithstanding the move toward further integration, Member States are still the central players in the European policy-making process. For matters within the Community's competence, directives are proposed by the Commission, considered by the Parliament and then adopted by the Council. Although, as we have seen, the role of Parliament is growing steadily, the power to initiate legislation still rests exclusively with the Commission and the adoption of legislation generally requires Council agreement.

The Council of Ministers consists of politicians who have national portfolios in their own countries. It is here that national interests collide and where compromise is found. By selectively expanding its relations with Member States, Canada could indirectly see its own interests taken into account at the EC level. In addition, there are important aspects of European policy which remain outside the scope of the EC. For example, intergovernmental cooperation still plays the key role in defense and foreign policy. Tactical alliances with Member States on some issues where Canada and these States share mutual interests should not be neglected. In addition, cooperation between Canada and the new democracies of Central and Eastern Europe, some of whom are clamouring to become full Member States of the EC, could also be used to enhance Canadian influence.

While Canada should attend to good relations with all Member States of the EC, we think special attention should be paid to Canada-German relations. Since the end of the second world war, Germany has had one of the most successful economies in the world. This performance is generally attributed to a good framework of economic policy, successful technical training, an excellent approach to stimulating technology development and well-trained and aggressive sales people.

For the first time in many years, Germany is experiencing some economic problems. The cost of reunification has proven to be a heavy burden on the German economy, with net public transfers of more than 140 billion deutchmarks annually, increased inflation and public disenchantment expressed in recent strikes. It is now generally recognized that the costs of reunification were under estimated and that it will be a long and very costly undertaking.

Despite these problems, the Germans we met in Europe expressed confidence in the future, and a strong commitment to the building of Europe. Since the Community's inception, Germany and France have been the driving forces behind the EC. Following German reunification, a number of observers questioned whether the country's commitment to the European Community would remain strong. There were suggestions that Germany might withdraw in order to concentrate on domestic problems. Others expressed the fear that the country would adopt a policy of eastern expansionism, at the expense of its traditional policy focused on the Community.

Today, these fears have largely been dispelled. Although financial constraints make Germany more reluctant to contribute to the EC budget, the Maastricht Summit demonstrated Germany's desire to achieve economic and monetary union. It also confirmed Germany's desire to move as quickly as possible towards political union. Our meetings in Bonn merely confirmed the fact that Germany remains strongly committed to European integration.

Far from detracting from its role in the EC, German unification has caused the country to become more self-assertive. For example, the country's diplomats were recently successful in convincing the Community to recognize Slovenia and Croatia, a significant accomplishment. Monetary integration also gives Germany an opportunity to gain more influence over the conduct of Community policy.

For all these reasons, Canada must attend closely to its relations with Germany. Germany is Canada's fourth largest trading partner, after the United States, Japan and Great Britain. It accounts for approximately 2 per cent of our trade. Natural resources and semi-finished products account for our main exports to Germany. Pulpwood is far and away our leading export, making up 25 per cent of our total volume. However, finished products (airplanes, electrical and electronic products) account for a growing share of our exports (27 per cent of the total volume in 1991).

Germany is also the third largest foreign investor in Canada, after the United States and Great Britain. In 1989, German investments totalled \$3.8 billion. Canada, for its part, ranks eighth among countries that invest in Germany. In 1989, Canadian investments in Germany totalled \$792 million.

As a result of reunification (which will result in a strong increase in import requirements) and the implementation of a single market in the European Community, Germany will be one of the most promising markets for Canada. According to Ambassador Halstead, Germany should be our prime target for entry into the European market.

Germany does half the community's business with eastern Europe, and the integration of East Germany has produced an increased domestic demand in Germany for consumer and investment goods, resulting in a dramatic increase in German imports. (8:6)

Germany and Canada have good political relations. In order to forge even stronger ties, the two countries have increased the number of visits at the federal and provincial level, as well as the number of trade missions and parliamentary exchanges. In addition, Germany has always been one of the strongest supporter of Canadian interests in the EC.

- 10. The Sub-Committee sees Germany as the key player in the European Community and in the relations between Western and Eastern Europe. Canadian policy has to take this fact into account.**

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

1. The Sub-Committee is now convinced that Europe will be a dynamic outward-looking group of countries and that the European market will offer significant and numerous opportunities for Canadian business. The Sub-Committee recommends that Canada pursue closer economic relations with the EC, including Canada-EC free trade. (p. 9)
2. The Sub-Committee recommends that the Department of External Affairs and International Trade complete and make public as soon as possible the three year review of the Going Global initiative which was originally scheduled to be released on December 1991. The Sub-Committee also requests that the Department release all studies of the cost-effectiveness of its trade promotion programs. (p. 10)
3. The Sub-Committee recommends that cost-sharing and cost recovery be expanded for PEMD and other trade promotion programs. We further recommend that the recovered costs be put in a revolving fund to improve the quality of export promotion programs. (p. 11)
4. Federal and provincial governments, business and labour have a collective interest in trade promotion. The Sub-Committee believes that this common interest should bring them together more often to improve Canada's trade promotion. (p. 11)
5. The Sub-Committee notes that information on linkages with European firms is very useful to Canadian business and should be further developed and disseminated. (p. 12)
6. The Sub-Committee recommends that Canada seek more opportunities to exchange information, both at the Executive and the Parliamentary levels to correct false impressions concerning the management of Canadian forests. (p. 14)
7. The Sub-Committee urges the Canadian government to make effective use of the Transatlantic Declaration to develop Canada-EC relations. (p. 15)
8. The Sub-Committee recommends that the Canadian Parliament devote more resources to its relations with the European Parliament, either through the establishment of a new association or through the reorganization of the existing association. (p. 16)
9. The Sub-Committee recommends that the Chairpersons of the House External Affairs Committee and the House Defence Committee meet at least once annually with the Chairpersons of the relevant Canada-European parliamentary associations and friendship groups. When travel to Europe is planned by any of these groups, the others should be notified in advance and asked if their work can also be advanced by the delegation. The findings and recommendations of such delegations should be communicated to all of the parliamentary committees and associations and groups concerned with Europe. (p. 17)
10. The Sub-Committee sees Germany as the key player in the European Community and in the relations between Western and Eastern Europe. Canadian policy has to take this fact into account. (p. 18)

APPENDIX A

List of witnesses

Organizations and/or Individuals	Issue	Date
Canadian-German Chamber of Industry and Commerce Uwe Harnack Executive Director	8	April 7, 1992
Canadian Pulp and Paper Association Brian McClay Vice-President Trade Affairs and Markets	5	March 17, 1992
Department of External Affairs and International Trade David Wright Assistant Deputy Minister Randolph Gherson Ambassador for Fisheries Conservation Mike Gifford Senior Coordinator and Negotiator Agriculture	6	March 19, 1992
Embassy of the Federal Republic of Germany Dr. Juergen Hellner Minister-Counsellor	7	April 2, 1992
Financial Post Gordon Pitts Senior Editor	5	March 17, 1992
Halstead, John Former Canadian Ambassador to the Federal Republic of Germany	8	March 7, 1992
Royal Bank of Canada Ed Neufeld Vice-President Economic and Corporate Affairs	5	March 17, 1992
BONN, GERMANY		
Canadian Embassy, Bonn Thomas Delworth Ambassador		

Organizations and/or Individuals

Economics Ministry of the Federal Republic of Germany

Dr. Rambow

Director-General

Common Market

Dr. Veltrup

Director

Economic Cooperation

New Laender (East Germany)

Task Force

Frau Burre

Director

Division of USA, Canada,

Australia and New Zealand

Herr Peh

Canada Desk

BRUSSELS, BELGIUM

Canadian Embassy, Belgium

Raymond Chretien

Ambassador

Canadian Embassy, European Community

Gordon Smith

Ambassador

Peter Eggleton

Science and Technology Counsellor

Fred Veenema

Industrial Affairs Counsellor

John Mundy, Counsellor

(Environment, Energy)

Keith Aird

First Secretary (Forest Products)

International Organizations and/or Individuals

Commission of the European Community

Maeve Doran Schiratti
Head of Canada,
Australia and New Zealand Unit
Directorate General for External Relations and
Commercial Policy

Mervyn Jones, Adviser
National Economics Directorate
Directorate General for Economic
and Financial Affairs

Hervé Jouanjan
Head of Internal Market Unit
External Relations and Commercial Policy

R. Verrue, Director
General Matters
Directorate General for the Internal
Market and Industrial Affairs

European Round Table of Industrialists

Keith Richardson
Secretary General

PARIS, FRANCE

Canadian Embassy

Claude T. Charland
Ambassador
Réjean Frenette
Counsellor-Minister of Economic and Commercial
Affairs

Comité Image de la France

Jacques Maisonrouge, President and
former Senior Vice-President
of IBM Corporation

Conseil du Patronat Français

Denis Zervudacki
General-Secretary

French Institute of International Relations

Philippe Moreau-Desforges

A copy of the relevant Minutes of Proceedings and Evidence of the Sub-Committee on International Trade (*Issues No. 5, 6, 7 and 8*) is tabled.

THURSDAY, JUNE 4, 1992

(13)

[Text]

Respectfully submitted,

The Sub-Committee on International Trade of the Standing Committee on External Affairs and International Trade met in camera at 11:17 a.m. on Thursday, June 4, 1992, in Room 301, La Paroissiale, the Chairman, John W. Bosley, presiding.

JOHN BOSLEY, P.C., M.P.
Chairman

Members of the Sub-Committee present: Gabrielle Bertrand, John Bosley, Roy MacLaren, Walter Van De Walle.

Acting Member present: Steve Butland for Dave Barrett.

In attendance: From the Parliamentary Centre for Foreign Affairs and Foreign Trade: Jean-François Bence and Bob Miller, Research Advisors.

Pursuant to Standing Order 108(2), consideration of a draft report on Canada Trade Relations with the EC.

The Sub-Committee resumed consideration of its draft report.

At 11:55 o'clock a.m., the Sub-Committee adjourned to the call of the Chair.

Luc Fortin
Committee Clerk

TUESDAY, JUNE 9, 1992

(15)

The Sub-Committee on International Trade of the Standing Committee on External Affairs and International Trade met in camera at 3:42 o'clock p.m. this day, in room 301, La Paroissiale, the Chairman, John W. Bosley, presiding.

Members of the Sub-Committee present: David Barrett, Gabrielle Bertrand, John Bosley, Jean-Guy Gauthier, Francis LeBlanc, John Rejzner, Walter Van De Walle.

In attendance: From the Parliamentary Centre for Foreign Affairs and Foreign Trade: Susan Olsen, Research Officer.

Pursuant to Standing Order 108(2), the Sub-Committee resumed consideration of a draft report on Canada Trade Relations with the EC.

By unanimous consent, it was agreed:--That the Sub-Committee adopt the draft report, as amended, as its first report, to be presented to the Standing Committee for adoption and presentation to the House.

Minutes of Proceedings

THURSDAY, JUNE 4, 1992

(12)

[Text]

The Sub-Committee on International Trade of the Standing Committee on External Affairs and International Trade met *in camera* at 11:17 o'clock a.m. this day, in Room 705, La Promenade, the Chairman, John W. Bosley, presiding.

Members of the Sub-Committee present: Gabrielle Bertrand, John Bosley, Roy MacLaren, Walter Van De Walle.

Acting Member present: Steve Butland for Dave Barrett.

In attendance: From the Parliamentary Centre for Foreign Affairs and Foreign Trade: Jean-François Bence and Bob Miller, Research Advisors.

Pursuant to Standing Order 108(2), consideration of a draft report on Canada Trade Relations with the EC.

The Sub-Committee resumed consideration of its draft report.

At 11:55 o'clock a.m., the Sub-Committee adjourned to the call of the Chair.

Luc Fortin
Committee Clerk

TUESDAY, JUNE 9, 1992

(13)

The Sub-Committee on International Trade of the Standing Committee on External Affairs and International Trade met *in camera* at 3:42 o'clock p.m. this day, in room 701, La Promenade, the Chairman, John W. Bosley, presiding.

Members of the Sub-Committee present: David Barrett, Gabrielle Bertrand, John Bosley, Jean-Guy Guilbault, Francis LeBlanc, John Reimer, Walter Van De Walle.

In attendance: From the Parliamentary Centre for Foreign Affairs and Foreign Trade: Susan Olsen, Research Officer.

Pursuant to Standing Order 108(2), the Sub-Committee resumed consideration of a draft report on Canada Trade Relations with the EC.

By unanimous consent, it was agreed,—That the Sub-Committee adopt the draft report, as amended, as its first report, to be presented to the Standing Committee for adoption and presentation to the House.

By unanimous consent, it was agreed,—That the Chairman be authorized to review the draft report.

At 3:58 o'clock p.m., the Sub-Committee adjourned to the call of the Chair.

Ellen Savage
Clerk of the Sub-Committee

