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CANADA AND THE UNITED STATES: RELATIONS ON TWO CONTINENTS

An Address by the Secretary of State for External Affairs, the Honourable Mitchell Sharp, in the Lecture Forum Series of the Chicago Council of Foreign Relations, Chicago, April 3, 1973.

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I ... welcome this opportunity to speak to an American audience about the relations between our two countries. It was less than a year ago that I spoke on this subject in the United States. Looking back over the rush of intervening events, it seems very much longer. The international monetary system is being shaken into significant and sometimes difficult adjustments. It has become increasingly evident that the postwar era is drawing to an end. Our economic geography is changing with the enlargement of the European Common Market and the ever-increasing economic power of Japan. But of considerably greater importance to you was the achievement of the ceasefire agreement in Vietnam -- bringing American military disengagement, a return of the prisoners and, it is still hoped, perhaps an end to a generation of bitter warfare in that unfortunate land.

A week ago today I announced in the House of Commons that Canada had decided not to exercise its option to withdraw from the International Commission of Control and Supervision in Vietnam after 60 days but to remain for a further period of 60 days -- that is, until May 31. At that time, unless there has been some substantial improvement or distinct progress made toward a political settlement, Canada will withdraw from the ICCS -- allowing a further 30-days grace period for the parties to find a replacement.

This was not an easy decision for us to reach. Our dilemma was this: Canadians remain anxious to serve the cause of peace in Indochina as long as there is the slightest hope of a peaceful solution to which the Canadian presence or function on the Commission can usefully contribute. But, at the same time, the Government was resolved that Canadians should not take part in a charade in which they would be required to supervise not a cease-fire but continuing and possibly escalating hostilities.

Put another way, Canada's international reputation is closely associated with our contribution to international efforts to make peace-keeping and peace-supervision a reality. Our credibility in that role is very much on the line in Vietnam.

In making our decision, we were very conscious that, of the various alternative courses of action, there was not one that would meet all of the demands being made upon us or which would command universal approval outside Canada.

Our approach to participation in the Commission was shaped at the very outset by our 19 years of largely frustrating experiences in the old International Commission for Supervision and Control in Vietnam. Many of you may not have heard of that previous Commission. If so, you are blameless because, for roughly 17 years of that period, the old Commission was ineffective. From watching over a peace, the Commission found itself watching over a war.

On the basis of this experience, we presented to the negotiators of the Paris agreement on Vietnam a set of conditions which, if met, would have in our view made the peacekeeping arrangements practical and credible. Some of these points were accepted but, when the final documents appeared, it was clear that supervisory arrangements left much to be desired.

We were particularly concerned about the establishment of a continuing political authority to which the Commission and its members could report. This had been a serious omission in the old Commission's arrangements. As leader of the Canadian delegation at the Paris conference at the end of February, I pressed hard, but with only very modest success.

I do not intend by these remarks to suggest in any way that the negotiators did not do their job. As I have said before on many occasions, this was undoubtedly the best agreement that could have been negotiated in the circumstances -- and I should hope that the results have, in spite of everything, turned the course of world events in a new and more peaceful direction.

I returned from Paris with the dilemma of whether or not to stay on still very much unresolved. I concluded that it would not be possible to reach an informed decision without having seen for myself the conditions in which the ICCS was operating or without having spoken directly to leaders of the governments most directly concerned. I had previously had several useful conversations with Secretary of State Rogers and was well aware of the views of your Government. I wanted to have the views of others as well.

Accordingly, three weeks ago today, I set off with a group of Canadian Parliamentarians, officials and journalists on a trip which put me in touch with both Vietnamese governments, the Government of Laos, as well as some leading personalities of the so-called Provisional Revolutionary Government of South Vietnam and of the Pathet Lao movement.

I found the attitudes of the leaders of the Republic of Vietnam very straightforward. They have no illusion that the Commission would be able to discharge effectively the responsibilities set out in the Paris agreement. I explained frankly to the Vietnamese, both in the South and in the North, that the composition of the Commission made it extremely unlikely that the Commission would ever reach a finding unfavourable to the North or to its allies in the South. At the same time, I said that Canada would not hesitate to support a finding detrimental to the position of the Republic of Vietnam where such a finding corresponded with the facts. South Vietnamese leaders acknowledged this. But for them the important thing was to bring all points of view into the open.

In the North, the political leaders replied to all of our questions by referring us to the terms of the Paris agreement. They regarded this as sacrosanct and, like their counterparts in the South, declared they intended to abide by it.

I asked Prime Minister Pham Van Dong which he regarded as having the higher priority, his country's desire for peace or the reunification of Vietnam as a whole. He replied that the question of priorities did not arise, as strict observance of the agreement would lead to peaceful reunification. It was clear from these conversations that both North and South Vietnam expected different, and in some respects contradictory, results.

This was a brief but very intense exposure to the facts of life in the Commission and to the attitudes of those most directly concerned. There can be no doubt that all of us on this visit came back with at least one common impression: that was that the Commission was not performing the tasks assigned to it under the ceasefire agreement -- and this in spite of the very considerable efforts of the Canadian delegation under Ambassador Gauvin to make it work.

We received another message in several of the discussions in Indochina: that we should not be too exercised as to whether or not the Commission was functioning as it was intended. A number of people suggested to us that there was a very different but quite vital role for the Commission which is nowhere hinted at in the texts of the agreement or the protocols. This was to provide an international presence which would be seen as an indication of the continued involvement of the world community in the Vietnam situation. In other words, although the Commission may not be indispensable for the purposes of the ceasefire agreement, its absence would be taken as an indication that the agreement lacked world support and consequently our withdrawal could become a further destabilizing psychological factor in an already very fragile situation.

And so for these reasons we decided to remain in the Commission for a further period of 60 days.

We have made it clear, however, and indeed this was one of our earliest conditions of service, that we would leave or otherwise modify our deployment in the field at any time if the parties to the agreement demonstrated by their actions that they no longer regarded themselves as bound by it.

Resumption of large-scale hostilities or any action tantamount to a direct denial by the parties of their obligations under the agreement would, in my view, relieve Canada of further responsibility to the ICCS.

I am not predicting that the arduous and skilful work which led to the agreement will be nullified by an early escalation of hostilities. The present situation is an obvious improvement over the situation that existed before January 28. The Commission had its role to play in these developments and, if it did nothing else but help to provide the framework within which these accomplishments were made possible, that has been, up to the present, ample justification for our role.

In concluding these comments on Vietnam, let me make one general observation affecting bilateral relations between your country and mine -- and it is this. It seems to me to be in the interests of both our countries that, as a member of the ICCS, Canada should be -- and should appear to the world to be -- an impartial, objective observer, reporting the facts as we see them, even if this may mean that from time to time we reach conclusions critical of the United States or its ally, the Republic of Vietnam....

As a member of the ICCS, Canada has followed what we call an "open-mouth" policy -- we have been open and direct in public statements in the belief that by so doing we can contribute to better understanding of the tasks confronting the International Commission in Vietnam.

Now let me see if I can contribute to better understanding of Canadian attitudes toward the United States by some friendly and frank talk about economic developments affecting relations between our two countries.

First, some simple and obvious facts. Total trade between our two countries exceeds \$25 billion annually. We are each other's best customer. Your overall trade with us is double that of your trade with Japan, your next-largest trading partner. We invest heavily in each other -- in *per capita* terms, Canadian investment in the United States exceeds that of American investment in Canada. This will probably strike you as a very satisfactory and mutually-rewarding arrangement. In most respects it is.

However, there is a catch -- and that is found in the disproportionate size of our economies. You are ten times larger in population and eleven times larger in gross national product. Thus the degree of Canadian ownership of the American economy is negligible, whereas U.S. investment in Canada results in about 50 percent American control of Canadian manufacturing industries. In some sectors, including automobiles and petrochemicals, the percentage of U.S. ownership is much higher.

You are the market for some 70 per cent of our total exports. We purchase about 69 per cent of our total imports from you. These figures speak for themselves about the intimacy of our economic involvement. They leave no doubt that, when Washington, Chicago or New York sneezes, the draught is felt in most parts of Canada. Conversely, a native Canadian virus is less contagious in the United States.

What about trends? The United States' share of our exports and of imports has grown gradually over the years, particularly as the proportion of traditional transatlantic trade declined. The growth of U.S. investment in Canada has followed a steeper upward curve. The United States share of net direct foreign investment in Canada has been running recently at 80 per cent to 90 per cent of the total.

Project these figures some years ahead, taking into account the recent acceleration of economic polarization, and you will readily understand Canadian anxieties. You will understand why we were so concerned about the 10 percent surcharge on imports by the United States Government in August 1971 in order to help meet your balance-of-payments deficit.

It was against this economic background that the Canadian Government embarked on a comprehensive assessment of our relationship with the United States. Basically we were confronted with one towering dilemma: whether or not interdependence with a giant super-power would impose an unmanageable strain on the conception of Canadian identity and on a number of key elements of our independence. Put another way, the question before us was: "Is it possible to devise a means of living distinct from but in harmony with the United States?"

The question was essentially one of direction. To my colleagues and me there appeared to be three broad paths of options open to us:

- (1) We could seek to maintain more or less our present relationship with the United States with a minimum of policy adjustment.
- (2) We could move deliberately toward closer integration with the United States.
- (3) We could pursue a comprehensive, long-term strategy to develop and strengthen the Canadian economy and other aspects of our national life and in the process to reduce the present Canadian vulnerability.

The first option would maintain more or less intact the present pattern of our economic and political relationship with the United States. It would involve a minimum of deliberate policy change. Its virtue lies in its appearance of cautious pragmatism. However, this option assumes a static situation which does not exist. It ignores the strength and momentum of the continental pull, which could, in time, overwhelm us.

The second option accepts the proposition that the intensifying relationships inherent in modern society and in economies of scale must lead to closer integration with the United States. There are undoubtedly some attractions to this in material terms.

It can be argued that the Europeans are moving in this direction and are doing so successfully. However, the parallel does not stand up to inspection. European identities are older and their roots more deeply anchored. The Common Market countries are much more equal in resources and power.

The enormous disparity in power between the United States and Canada and the relative youth of our national character place us in an entirely different position. In our circumstances, the process of economic harmonization, once in motion, is more likely to spill over and to dominate other areas of our national life.

The test of the validity of this option is essentially political. The implications of integration are quite widely known to Canadians -- and the temper of my country, as I judge it, is opposed to integration.

A central purpose of the third option would be to make the Canadian economy more resilient to external shocks. The path to this objective is the development of a much more balanced and efficient economy. The option involves actively encouraging specializing and rationalization. It looks to the emergence of healthy industrial and service enterprises in Canadian hands. This course seeks to avoid the situation in which, by dealing with bilateral questions on an *ad hoc* basis, looking only to their immediate or short-term implications, we find ourselves integrated by default. In our view, the third option faces up squarely to the future of our relations with the United States -- and appears to offer the only route by which Canada can live "distinct from but in harmony" with the United States.

All three options are, of course, abstractions. Like all abstractions, they tend to simplify complex matters. But the distinctions they draw between the various courses open to Canada are basically valid and useful. Each option can be argued on its merits. Each has costs -- costs in terms of identity, flexibility, independence and interdependence.

The Canadian Government has given these options and their costs long and careful consideration. The conclusion the Government has reached is quite clear. We believe that the best choice for Canadians and one that increasingly reflects the mood of Canadians is Option 3.

This option does reflect our anxieties about the degree of continental pull. But it is not anti-American. Far from it -- and I should like this to be very clear. Policies designed within the general framework of this option are intended to meet Canadian aspirations, to build on Canadian maturity and confidence, and in so doing reduce the irritations and frustrations which sometimes find outlet in shrill and unseemly anti-Americanism.

I have no doubt that there are times when you and some of your compatriots in Washington would welcome a less neurotic outlook from your neighbour.

In the sense that this policy is intended to produce a more resilient and mature Canadian economy, it is likely to become a more effective stabilizing factor within the continental context. The alternative is, as I have made clear, increasing integration. Increasing integration can only strengthen the protectionist forces which are abroad today with consequent dangers to both economic and political stability in the world at large. What I am saying is that, over the long run, Option 3 is in the best interest of both our countries.

It is also consistent with the view that President Nixon set before the Canadian Parliament in Ottawa last year. On that occasion, the President said:

"It is time for Canadians and Americans to move beyond the sentimental rhetoric of the past. It is time for us to recognize:

that we have very separate identities;

that we have significant differences;

and that nobody's interests are furthered when these realities are obscured."

He also had this to say:

"Our policy toward Canada reflects the new approach we are taking in all of our foreign relations -- an approach which has been called the Nixon Doctrine. The doctrine rests on the premise that mature partners must have autonomous independent policies:

Each nation must define the nature of its own interests;

each nation must decide the requirements of its own security;

each nation must determine the path of its own progress.

What we seek is a policy which enables us to share international responsibilities in a spirit of international partnership.

"No self-respecting nation can or should accept the proposition that it should always be economically dependent upon any other nation."

Thus, the Canadian view of our relationship does not diverge in essentials from the American view. My bias is, of course, Canadian, but I do not ignore the economic hazards faced by all of us on this continent. You face a serious challenge -- of that we are acutely aware. The United States trade deficit is huge and reflects the mounting volume of imports. You face the prospects of a rising deficit in energy requirements. The dollar has been devalued twice. Against this background, there are influential voices in this country charging that the international trading system no longer serves the American national interest.

We are greatly heartened that your Government has stood up to these pressures and has remained basically outward-looking, rejecting isolationism as a tenable option. It is very much aware that the dynamics of the American

economy and the genius of American technology still exert an enormous impact upon the world (just as Washington has held to the view that global peace and stability require a continuing United States role).

At the same time, your President has drawn attention to the growing imbalance in the scope of America's role and the potential contributions of America's partners. As we see it, the Nixon Doctrine seeks to reflect these realities: that a major U.S. role in the world remains indispensable and that other nations should assume greater responsibilities.

Inevitably even the best of friends and allies, as Canada and the United States are, disagree from time to time on international issues. Although the results at times appear abrasive, one of the essential elements of genuine friendship between two nations is the capacity to speak frankly, and, as each sees it, constructively, to one another. The irritants and differences which sometimes arise do not, however, obscure from us an awareness of the burdens which your country bears.

And there are irritants. There have been in the past and will be in the future. Some are the inevitable result of different outlooks on particular questions. Others tend to be misunderstandings -- in part or in whole. Of the present roster of difficulties between us, I believe that many fall into this latter category. Let me give you some examples.

For some time it was felt in this country that Canada was one of the culprits contributing to the serious American international trade deficit. This view was supported by your statistics, which, as sometimes happens in our computer age, were contradicted by our statistics. The discrepancy for 1972 was in the neighbourhood of \$1.5 billion. Happily, our statisticians are now getting together and managing to reconcile the differences. For example, on the 1970 trade figures, what the U.S. side thought was a \$2-billion deficit for them and what Canada thought was a \$1-billion surplus for us has turned out to be, in fact, a surplus of \$1.4 billion for Canada. Similarly, on current account -- which is a more reliable indicator, as it takes into account the flow of invisibles such as investment income, dividends and interest payments --, a reconciliation has taken place for 1970. In this case, what the United States thought was a \$600-million deficit for them and what Canada thought was a \$200-million deficit for us has turned out to be a \$100-million surplus for Canada. For 1972, our figures, including invisibles, show a current-account deficit with the United States of \$416 million. We expect that, when the Canadian and U.S. figures are finally reconciled, Canada will remain in a deficit position.

Washington has been, understandably, sensitive about the efforts or lack of efforts by the world community to stand behind American efforts to stabilize the international monetary situation. The devaluation of the dollar has, of course, been a key initiative in efforts to achieve a reasonable international monetary equilibrium. There was at one time a feeling in some quarters in the United States that the floating Canadian dollar has exempted us from the intended impact of the American measures. It has also been suggested that our "float" is managed to our advantage. However, I

am pleased to say that the question-marks in Washington about the "cleanness" of our "float" have been overcome. The Canadian dollar has floated downward with market forces and has largely maintained its previous relationship with the American dollar.

Legislative proposals concerning foreign takeovers and new foreign investment were introduced recently in our Parliament in Ottawa. These proposals fit the general framework of our Option 3, and their purpose is to ensure greater control by Canadians over the Canadian economy. This is the sort of thing which sends shivers of alarm through the free-enterprise system. There has been some reaction of this nature from the United States, based essentially on a misunderstanding of our intentions.

It is quite true that the purpose of this legislation is to resist the erosion of Canadian ownership, but this does not mean the exclusion or curtailment of American or other foreign capital. It is a sign of the greater maturity of our economy that we will not in the future require the same kind of inflow of foreign capital that we have had in the past if our full potential is to be developed. What we are doing is being more selective about the terms on which foreign capital enters Canada, to prevent, in some cases, the takeover of existing viable Canadian enterprises.

To illustrate this problem, I should point out that about 17 per cent of the net annual capital inflow is used to purchase going concerns rather than to develop new industries or new units in existing industries. It is in areas such as this that our new screening process will focus. If the result of an individual American takeover would be the withdrawal of research and development from Canada to the United States, the replacement of Canadian management by American management and the removal of that enterprise from the international export market -- and there have been takeovers in the past with precisely this effect --, such a takeover would almost certainly be prevented by the new legislation. I am sure you would agree that this legislation cannot be described as anti-American or, for that matter, anti-foreign.

Most developed countries, including the United States, face problems of regional economic disparities. One remedy includes government incentives and subsidies. The purpose of regional assistance is to preserve and create more jobs in areas of chronically high unemployment. The effectiveness of these remedies often depends on whether adequate markets can be found to sustain the enterprise that government assistance has salvaged or brought into being. The problem of reconciling the need for fair international market competition with the Government's obligations to help depressed regions is beginning to emerge as a vexing problem, another irritant in our bilateral relations.

A case in point is the Michelin tire-plant, which was set up with Government assistance in Nova Scotia, in an economically-depressed region of Canada. The plant's tire production requires an export market in addition to the Canadian market. Because Washington ruled that the Government's assistance to Michelin interfered with traditional market forces, a countervail was raised against Michelin exports. However, in our view a dislocation of

trade is not involved. American concern is that the Michelin plant involved instead a transfer of employment from the United States to Canada. As it happened, the only transfer was within Canada -- from one region to another. The methods by which the transfer was effected were in accordance with the international rules covering such matters -- to which Canada subscribes but the United States does not.

In these circumstances, you will understand Canadian concern about the wider implications which the decision has for the Canadian Government's obligation to implement an effective regional development policy.

There is great interest in the United States today in international energy developments, and Canada-United States relations in this sector are important to both countries. A number of factors have converged to bring home to many people some hard truths about the world's growing demand for hydrocarbons. Quite naturally, there has been some focus on Canadian oil supplies, particularly since some of the shortages in the U.S. have occurred in areas using Canadian imports. For more than a decade, our exports have grown rapidly, and almost all go to the United States in the form of raw material for your refineries.

However, recent growth in the United States demand has strained our capacity to produce and transport oil. The continuity of supply of Canadian oil to our domestic refiners was threatened. And, while Canada's national energy policy has been and remains to export quantities which are clearly surplus to our domestic requirements, recent and foreseeable future growth in export demand for oil has reached a level requiring close observation. This is necessary if we are to be assured of meeting foreseeable requirements in Canada.

For this reason, the Canadian Government recently introduced export controls on oil. This step to control export growth represents a change in the manner of implementing our national oil policy but not a change in the policy itself. It is the increase in world energy demand -- and especially that of the United States itself -- that has caused us to make this change and not, of course, any wish to be unreasonable to the United States.

The fact is that Canada's known reserves are limited. Even if the United States, with modifications now in its own import controls, were to have free access to our known supplies, these would help only marginally to reduce your rapidly-growing dependence on offshore supplies.

The search for new reserves in the Canadian North and off our East Coast is well under way. We are hopeful that important major discoveries will result, but we cannot count upon these yet. Our export controls are an interim measure. We are going to hold public hearings and we shall be considering, in the light of the views of all interested parties, what appropriate changes in methods may be needed over the longer term to protect the Canadian interest.

We are fully aware that your President will shortly seek authority in respect of tariff and other barriers to international trade. Authority to negotiate these barriers down would facilitate meaningful discussions with the U.S.A.'s trading partners in the course of the multilateral negotiations in GATT, which we firmly hope will happen before the year is out. Obviously the United States, the enlarged European Common Market and Japan are major factors in these negotiations, which potentially could be more sweeping and significant than either the Dillon or Kennedy Rounds. In these circumstances, it would be unfortunate if the road to further progress toward the liberalization of international trade were to be impeded, and if instead a negative atmosphere of confrontation were to arise in the relations among these leading economic powers. The repercussions of such a confrontation would fall not only on those directly involved but also on major trading nations such as Canada, whose interests and positions are distinctive and who are not associated with any of these larger economic powers or groupings. Finally, in such a confrontation it would be all too easy to overlook the interests of the developing countries, who perhaps have the most to gain -- or lose -- in these negotiations; measures will need to be taken to ensure that the developing countries emerge from these negotiations with greater scope for full and beneficial participation in the growth of world trade.

The problems I have been discussing are more challenging now because of the rapid movement and complexity of the international economic climate. It is our view that the recent Canadian budget has made a small but meaningful contribution to improving that climate. While essentially our budget is intended to deal with the economic situation in Canada, it should be helpful in the present international situation. It provides a number of very substantial tariff cuts affecting \$1.3-billion worth of Canadian imports. This is a significant figure -- amounting to about one-half of our reductions in the Kennedy Round. The United States is the principal beneficiary of these reductions.

What I have said so far would suggest that Canada's preoccupations with its neighbour are essentially economic. Our relationship is much more complex than that.

One element -- culture -- has a dimension of its own. Canadians are, of course, North Americans and much of our cultural heritage has a common base with you. But our perception of ourselves, the values and traditions which are distinctively Canadian, are becoming an increasingly important part of the quality and flavour of our society.

Our traditions are young. With the notable exception of French Canada, they tend to be of more recent vintage than yours. Their roots are not as robust as yours. They are more prone to dilution, and perhaps to extinction, in the face of the enormously pervasive projection of your life-style, values and culture.

We could, if we determined to do so, prevent the sale in Canada of, say, Brand X of American manufacture. But we could not begin to prevent American television and radio transmissions from reaching the majority of the

Canadian population. In other words, while we had eliminated the product, we would still be exposed to the advertisement.

This is not a criticism of American culture, which has made great contributions to the world. And I do not believe I am guilty of cultural chauvinism when I express these views. Our concern is not to insulate Canadian culture from contact with its neighbours. We would have no standards if our creativity were not tested internationally. No. My concern is that our sense of identity and separate traditions are not overwhelmed at the grass-roots level by the dynamism of American culture.

Thus, if we attach value to distinctive Canadian qualities, we have to take steps to nourish and protect them. We have to ensure that, where the standards of the product are equal, the Canadian offering is not ruled out by terms of competition that are unequal.

This is the general philosophy which underlies the Canadian Government's approach to this question. Our purpose is not to block out American cultural influence but to provide breathing-space and encouragement for indigenous Canadian creativity. This policy has produced remarkable results. Reserving a ration of television or radio time for Canadian content, providing more support for Canadian ballet, composers, orchestras and others, has stimulated a Canadian boom in the arts. You can make your own evaluation of our standards. Canadian artists are beginning to appear regularly in this country. A concert was given recently in Chicago by our National Orchestra from Ottawa.

The third option addresses itself to the cultural question as much as to the economic one. It is not that we value distinctness over quality. It is because, in the process of nation-building, distinctness can be a substantial factor for cohesion.

Perhaps the following quotation has some relevance to my theme:

"The true sovereigns of a country are those who determine its mind, its mode of thinking, its tastes, its principles; and we cannot consent to lodge this sovereignty in the hands of strangers".

Was this a Canadian nationalist speaking in 1973? No, ladies and gentlemen, this is an excerpt from an address delivered at the University of Philadelphia in 1823. It was good advice for Americans 150 years ago. I suggest it is equally good advice for Canadians today.

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