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NOTES FOR AN ADDRESS BY
THE SECRETARY OF STATE
FOR EXTERNAL AFFAIRS,
THE HONOURABLE MARK MACGUIGAN,
TO THE
ANNUAL CONFERENCE OF THE
EUROPEAN POLITICS GROUP
OF THE
CANADIAN POLITICAL SCIENCE ASSOCIATION,
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"CANADA AND THE
EUROPEAN COMMUNITY"

I am grateful for this opportunity to speak to you about our economic relations with Western Europe some five years after the signing of the Framework Agreement in July, 1976.

The Agreement grew out of the policy of the Third Option. First articulated by the Honourable Mitchell Sharp in 1972 when writing in the magazine International Perspectives, he advocated a "comprehensive and long-term strategy to develop and strengthen the Canadian economy and other aspects of national life ...".

Such a strategy required diversification of economic relationships and Europe was an obvious partner. The enlargement of the Community in 1973 to include Britain, Denmark and Ireland only strengthened the case for making closer economic relations with the Community a goal of our diversification policy.

This idea was reaffirmed by the Prime Minister when, on his return from a visit to the European capitals in 1974, Mr. Trudeau recalled that his intention in making the trip had been "to seek new ways of engaging the Community in a dynamic, co-operative enterprise". As we know, one of the fruits of that visit was the Framework Agreement.

The underlying goals identified in the Third Option remain a cornerstone of Canadian foreign policy. The government remains of the view that our present dependence on a single trading partner creates a requirement for more diversified trading relationships. However, with the growing importance of developing, newly industrialized and oil-rich countries, we need to cast our net a bit wider than we did in the early 1970s.

The policy of bilateralism which I announced in Toronto in January of this year is a re-statement of the Third Option which acknowledges this. It envisages an emphasis on the management of key bilateral relationships through the use of a variety of instruments. The Community and several member states are major bilateral partners in the sense of the "bilateralism" policy and the Framework Agreement is one of the instruments of managing our relationship with the Community. One might say that the Third Option is alive and well and living in the policy of bilateralism.

The Framework Agreement was negotiated at a time when major changes in the European Community were affecting the relationship with Canada. Canada welcomed the enlargement of the Community on January 1, 1973, to include Britain, Denmark and Ireland, but expressed concern about the implications for our trade with Britain.

The immediate result of Britain's accession to the Community was a protracted negotiation for compensation in terms of certain reductions in Community tariffs to offset the loss of British preferences. Although the outcome of these negotiations, conducted under the terms of Article XXIV:6 of the General Agreement on Tariffs and Trade, was fully satisfactory, the government considered that a basis should be found for a more positive, dynamic relationship with the Community.

The negotiation of a Framework Agreement was primarily a declaration of intent. We knew that in the rapidly changing environment of economic relations among the industrialized countries in the 1970s, economic growth would be particularly dependent on international trade and the transfer of technology. If the Canadian private sector were to be able to gain access to European markets and to exchange new technology with European firms, it could benefit greatly. But this would not happen automatically. Achievement of this goal, together with the achievement of closer co-operation at the government level in such areas as research and development and environmental protection, would require a co-ordinated effort involving federal and provincial governments as well as the private sector in Canada. The Framework Agreement of 1976, then, can be seen as an innovative document, a statement of intent that we would organize ourselves to see what opportunities might exist and to proceed to realise these.

In addition to being viewed in the context of Community enlargement, the Agreement should also be seen in the context of other developments in the 1970s; especially, the rising price of oil and the Tokyo Round of Multilateral Trade Negotiations. The effects of higher energy prices will take at least another decade to filter through the world economic system, but in terms of Canada's external relations, I think one effect is already clear: the economics of upgrading resource exports prior to shipment out of the country is greatly improved.

The Tokyo Round may have been a partial disappointment as it did not provide us with all the improvements in access for which we had hoped -- particularly with respect to non-ferrous metals and government procurement in certain high technology areas -- but it did open new opportunities.

The 1970s, therefore, were an eventful decade for our economic relations with Western Europe. The Community

enlargement strengthened the European economy, but forced a change in trading patterns. The rise in energy prices altered the underlying comparative advantages between Canada and Western Europe. And, as already noted, the Tokyo Round had an effect on access both to the Community and to Canada. The Framework was a statement of intent that while these changes were underway, the Community and Canada would examine together how to tap the potential for each other which these circumstances offered. The negotiation of the Agreement was not easy, and the result reflected a desire to break new ground without establishing difficult precedents for relations with third countries.

Of course, it never was intended that all the activities we would undertake would fit directly under this umbrella. The Agreement expressly provides for bilateral arrangements with Member States, and many of the industry and commerce development programmes which we have in Western Europe bear no direct relationship to our periodic consultations with the Commission of the European Communities in Brussels. This is as it should be, and our policy of promoting closer economic ties with Western Europe should not be judged exclusively in terms of the one instrument, important as it is.

One important activity which does not fit conveniently within the terms of the Framework Agreement but which I would like to mention because it has only recently been approved by Cabinet is Canada's participation in the Large Communications Satellite (L-SAT) programme of the European Space Agency. The programme will see the Canadian space industry develop links comparable to those now existing with U.S. industry. In addition to providing a new market for Canadian high technology, this kind of co-operation provides us with access to complementary European technology in exchange. This sort of co-operation is one kind of model of what might be possible in many sectors.

Major initiatives like this cost money, however, and must be measured against other economic development options available which compete for a necessarily limited amount of fiscal support. We must find the most economic and cost-effective means possible for promoting closer economic ties with the Community.

From the European perspective, the idea of economic co-operation with Canada is often seen as being

concentrated heavily in the resource-based sectors. Since the 1980s will be a period of tremendous resource development in Canada, it should be possible to do a number of things, within the terms of the National Energy Programme (NEP) and other resource and investment policies, which will generate closer economic relations with the Community. This should require relatively limited financing by the government beyond what we will be doing in any event. European investors are particularly interested in frontier energy resources such as those found in the Arctic Islands.

The Joint Co-operation Committee established under the Framework Agreement has performed both a presentational and a substantive role. We needed the Framework Agreement and its Joint Co-operation Committee, which I co-chair with Wilhelm Haferkamp, the Commission Vice-President for External Relations, in order to signal both the Canadian and Community commitments to a dynamic economic relationship.

In this context, it is unimportant whether or not the Committee controls such things as our reaction to European proposals on Arctic Gas, or their reaction to our proposals on space co-operation. Indeed, it could be argued that if the Joint Co-operation Committee were to get involved in these areas, it would be unnecessarily complicating the decision-making process of the appropriately constituted authorities. It is no part of Canada-Community co-operation to try to bring under the Framework umbrella every activity which supports its policy objectives -- particularly when many of these objectives are more appropriately dealt with bilaterally or in the private sector. There is, however, an important substantive role for the Framework Agreement, and that is to pursue to opportunities for micro-level co-operation which exist. We can also examine with the Commission how government policies are affecting the level of trade and investment flows and see whether there are specific things we can do together that will contribute to the achievement of our objectives.

We have indeed done a number of low-profile, but highly useful, things. For example, in the field of forest products, a working group has been established involving Canadian and European industrialists, as well as federal and provincial officials on the Canadian side and Commission staff on the European side. They have examined such questions as how a harmonized building code for timber frame construction in the Community can be developed in a way which is compatible with the use of Canadian lumber in

European house construction. A recent urban transportation mission to Europe involving the Canadian private and public sectors looked at another form of potential co-operation -- transfer of technology -- in this case, in the field of urban railway electrification. One more example, this time exclusively in the government sector, is a programme of scientific co-operation for which, I am pleased to say, a formal Memorandum of Understanding is about to be signed. This will involve experts in waste water management technology in Canada and the Community exchanging information on this aspect of environmental protection.

These examples of economic co-operation are only one part of our broadening relationship with the Community.

Last year, our exports to the Community reached almost 13% of our total Canadian export trade, a share not exceeded since 1971. There are a number of factors to which this result must be attributed. The cyclical decline in exports to the United States of lumber and automotive parts had its effect on the aggregate figures, and recovery of these exports will reduce the relative importance of the European market to some degree. Adjustments of exchange rates will also reduce the rate of growth in exports to Western Europe. However, the fact that our exports to the Community rose in 1980 by over 30%, after having risen by 50% in 1979 as compared with 1978, indicates clearly that there is great potential in the European market for Canadian exports. Of particular significance is the fact that in both these years exports of fully manufactured goods grew more rapidly than exports of raw materials. The share of manufactured goods remains relatively small at 14% of our exports to the Community. However, as I said, it is growing.

It would be wrong to assume that a relationship which involves exports of almost \$10 billion and imports approaching \$6 billion can be conducted without problems, and both we and the Community have our share of concerns with each others' policies. The immediate reaction of foreign countries to the National Energy Programme has, I think, now been replaced by a general acceptance of the logic of our energy objectives, although with some, reservations relate more to certain details than to the principle of the policy.

A similar comment could apply with respect to our concerns with Community agricultural policy. As one of the

world's major grain exporters and as a country whose export potential in this sector is likely to grow rapidly over the next decade, we are of course worried at rumours that the Europeans will solve their overproduction problems through subsidized exports which would compete on world markets with our commercial production. We are, however, realistic. We recognize that the Community must have its own agricultural policy, and that it is reasonable for them to establish rates of return for their own producers based on their own internal priorities.

Two important negotiations have been concluded during the past year which are likely to result in the signing of agreements between Canada and the Community within the next few weeks. One of these concerns nuclear safeguards, and is to be signed in the next few days. It provides for a permanent replacement for the Interim Arrangement on Reprocessing and High Enrichment of Nuclear Fuel. This Interim Arrangement was adopted by Canada and the Community after we failed to reach agreement on revision to the Canada/Euratom Treaty of 1959. It updates the Agreement to reflect the nuclear non-proliferation concerns resulting from the new technology that permits greater utilization of the nuclear fuel cycle. The interim arrangement provided time for both parties to co-operate in the International Nuclear Fuel Cycle Evaluation and to assess the implications of the evaluation.

The amendments to the Canada/Euratom Treaty provide Canada with the assurance that the Community will consult us on their programme of nuclear fuel utilization and will advise us of any modifications to it. For its part, the Community will retain the degree of autonomy it needs with respect to use of the nuclear fuel it has purchased. This Agreement is important because it establishes a nuclear safeguards principle for highly-enriched and reprocessed fuel. Together with the recent Agreement between Australia and Euratom, it lays the groundwork for an international approach to this question and establishes precedents for nuclear relations with other countries.

In the field of fisheries, the Agreement which had been held up because of internal Community difficulties in establishing a Common Fisheries Policy, is now ready for final review by Canadian Ministers. If we decide to adopt it, it should come into effect on January 1, 1982. This would be a significant step forward. It would be the first agreement negotiated bilaterally by Canada and the Community

since the enlargement negotiations to provide us with tariff concessions. These would bring the rates on Canadian fish exports to the Community closer to those enjoyed by the Community's preferential trading partners in EFTA -- the European Free Trade Association.

We would obtain these concessions by guaranteeing the Community allocations of fishing licences for cod and squid in the Canadian Atlantic fisheries zone. These allocations provided to the Community would enable EC countries with a long tradition of fishing in Canadian waters to continue to do so, although at much lower rates than prior to the era of 200-mile fisheries zones.

I have talked today primarily about our economic relations with the Community and its member states. However, the formation of the Community, first through the establishment of the Coal and Steel Community in 1951, and then through establishment of the Economic and Atomic Energy Communities in 1957, was as much a political as an economic act and Canada's response has been political as well as economic. European unity is important, both to the NATO alliance and to global stability. European economic integration is part of something much larger. It has political, social and demographic implications which I think may well be viewed in future by historians as more significant in the long term than the integration of commercial markets.

We are currently witnessing a renewed emphasis on political co-operation among the member states of the Community. This emphasis derives in part from a recognition by Europeans that there are economic consequences to such varied political developments as the Soviet invasion of Afghanistan and instability in the Middle East and social change in Poland. They also consider that a united Europe calls for a greater degree of coordination on international political questions quite apart from economic considerations.

Just as the establishment of the Common Market has posed challenges for Canada, so will closer political co-operation among the Ten. On the one hand, we obviously welcome the contribution it can make to international peace and security. On the other hand, it raises questions regarding political consultation between Canada and the Europeans.

Canada has a long history of involvement in multilateral institutions -- witness our support of NATO and the United Nations. If, as it seems, we are moving into an era in which regional blocs such as the Community develop their positions on international issues before taking them to larger fora, then it becomes more difficult for a country like Canada to make its views felt on those issues in which we have an interest. It means, for example, that we must develop a much closer dialogue on political questions with the country holding the six-month presidency of the Community Council of Ministers. We are looking at the question of how we can achieve a meaningful dialogue with the Europeans early enough in their own deliberations. The Ten have expressed their own interest in developing such contacts with third countries. I am confident that we shall be able to advance this new form of co-operation.

If I may leave you with a final thought on the Framework Agreement, it would be that the document should be judged primarily as the articulation of a general policy approach rather than as a precise set of rules on the conduct of a relationship. The policy objective was and is to seek ways of emphasizing the positive in our relationship with the Community. We have avoided falling into the trap of condemning European integration because of the short-term dislocations it may have caused, a condemnation which in any event would have been futile. I think that we have achieved that objective. Through our regular meetings with the Community and through a number of activities which I have outlined today, we have made it quite clear to the Europeans that we see our economic and political future as involving a growing and mutually beneficial relationship.