

**'THE FORGOTTEN PARTNER: CANADA'S RELATIONS WITH THE EUROPEAN
COMMUNITY, 1958-1993'**

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Department of International Relations,
London School of Economics

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Evan H. Potter

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ABSTRACT

In its examination of bilateral Canada-European Community (EC) relations since 1957, this dissertation tests two hypotheses: that the Canadian foreign policy process is predominantly state-led; and that given Canada's relative power capability in the immediate post-Cold War period (1989-1993), it faced considerable constraints in not only its broader foreign policy choices but specifically with regard to the EC "pillar" of its European foreign policy framework. This study's overview of the history of bilateral Canada-EC relations, its analysis of the Canadian government's interests in the negotiations leading to the 1990 EC-Canada Transatlantic Declaration and the Canadian response to the Single European Market, highlight a watershed - starting in 1989 and lasting four years - in Canada's post-Second World War international relations. It was during this period that Ottawa was forced to make a fundamental reassessment not only of the value of its traditional Atlanticist foreign policy orientation but also the relative value of the three "pillars" (NATO, CSCE, and the EC) that upheld this approach. The dissertation concludes by outlining the choices available to Canadian decision makers at the end of 1993, as they sought to use Canada's bilateral relationship with the Community to reconfigure transatlantic economic, political and security relations.

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PREFACE

I started research on this dissertation in October 1990 and finished writing in September 1994. At the London School of Economics I familiarized myself with the European Community dimension of the subject matter and explored the utility of various theoretical frameworks. A generous fellowship from the Canadian Department of Foreign Affairs and International Trade (DFAIT) enabled me to spend a most fruitful academic year in 1991-92 in the Economic Planning section of the Department's Policy Planning Staff as the first Norman Robertson Research Fellow. It was here that I found a suitable and rewarding environment to undertake the research papers that make up the core of this dissertation and to interview officials who had made and were making Canada's policy towards the European Community. In the fall of 1992 I was invited to gain another perspective on the decision-making process by working in the Office of Multilateral Trade Negotiations (OMTN) at DFAIT, where I examined bilateral Canada-EC relations in the context of Canada's multilateral trade relations. In 1993 I founded a journal, *Canadian Foreign Policy*, to bridge the gap between the academic and foreign policy decision-making communities. During the 1994-95 academic year, based on the research interests covered in this dissertation, I taught a course on Canadian foreign policy and, another, on the international institutions and foreign policy of Europe at the Department of Political Science at McGill University in Montreal.

My supervisor, Dr. Michael Hodges at the London School of Economics, was patient and helpful throughout this process. In the Canadian academic community, I owe debts of gratitude to the following professors who, over the last four years, have read parts of this dissertation in the form of articles and monographs: Kim R. Nossal (McMaster University, Ontario) for conveying to me the subtleties of Canada's foreign policy process; Hans Michelmann (University of Saskatchewan, Saskatchewan), Charles Pentland (Queen's University, Ontario), and Panayotis Soldatos (l'Université de Montréal) for their insights as Canada's few remaining academicians with an interest in Canada-EC relations; and Alexander Moens (Simon Fraser University, British Columbia) for his helpful comments on the changing nature of the European defence architecture.

In the Canadian public service, I am especially grateful for the assistance of two officials: Michael Hart, who was director of the Economic Planning unit on the Policy Planning Staff during the period of my Fellowship and who was instrumental in giving me access to senior EAITC officials; Howard Balloch, who was director-general of the Policy Planning Staff and who, along with Mr. Hart, had created the Fellowship program to permit junior academics to gain a fuller understanding of the Canadian foreign policy process; and Dr. John Curtis, a former professor of mine and Senior Advisor at OMTN, who provided me with helpful points detailing the intersection between Canada's Uruguay Round trade policy positions and its trade policy concerns *vis-à-vis* the EC. Finally, I would like to acknowledge the administrative support provided to me by the Professional Association of Foreign Service Officers (PAFSO) in 1994-95.

ABBREVIATIONS AND TERMS

ACP - African, Caribbean, and Pacific states

BRITE - Basic Research in Industrial Technologies for Europe

BCNI - Business Council on National Issues

CCC - Canadian Chamber of Commerce

CAP - Common Agricultural Policy

CCP - Common Commercial Policy

CEE - Central and Eastern Europe

CEN - European Committee for Standardization

CENELEC - European Committee for Electrotechnical Standardization

CFCs - chlorofluorocarbons

CFDI - Canadian Foreign Direct Investment Abroad

CDFI - Confederation of Forest Industries of British Columbia

CBI - Confederation of British Industries

CPD - EC Construction Products Division

CUFTA - Canada-U.S. Free Trade Agreement

EC - European Community

ECB - European Central Bank

ECSC - European Coal and Steel Community

Ecu - European currency unit

EEA - European Environmental Agency

EEC - European Economic Community

EEIGs - European Economic Interest Groupings

EFTA - European Free Trade Association (Austria, Finland, Iceland, Liechtenstein, Sweden, Switzerland)

EMI - European Monetary Institute

EMS - European Monetary System

EMU - European Monetary Union

EPC - European Political Cooperation

EPU - European Political Union

ESA - European Standards Association

ESDI - European Security Defence Identity

ESPRIT - European Strategic Program for search and Development in Information Technologies

ETSI - European Telecommunications Standards Institute

Euratom - European Atomic Energy Community

EUREKA - The European search Coordination Agency

EAITC - External Affairs and International Trade Canada

FDI - foreign direct investment

G7 - Group of Seven (United States, Japan, Germany, United Kingdom, France, Italy and Canada)

G-24 - Group of 24

GATT - General Agreement on Tariffs and Trade

GDP - gross domestic product

GNP - gross national product

GBP - Generalized System of Preferences

HDTV - High definition television

ISO - International Standards Organization

ITO - International Trade Organization

JCC - Joint Cooperation Committee

JESSI - Joint European Submicron Silicon Initiative

MFA - Multifibre Agreement

MFN - most-favoured nation

MRAs - Mutual Recognition Agreements

MTN - Multilateral Trade Negotiations

MTO - Multilateral Trade Organization

NAFO - Northwest Atlantic Fisheries Organization

NAFTA - North American Free Trade Agreement

NATO - North Atlantic Treaty Organization

OECD - Organization for Economic Cooperation and Development
OEEC - Organization for European Economic Cooperation
PTT - Post, Telephone and Telegraph
QRs - quantitative restrictions
R&D - research and development (see also S&T)
S&T - science and technology (see also R&D)
SBD - second banking directive
SCEAIT - Standing Committee on External Affairs and International Trade (House of Commons, Canadian Parliament)
SCFA - Standing Committee on Foreign Affairs (Senate, Canadian Parliament)
SEA - Single European Act
SEM - Single European Market
SMEs - small- and medium-sized enterprises
TC - technical committees
TOEP - Technology Opportunities in Europe
TRIMs - trade-related investment measures
UK - United Kingdom
U.S. - United States
U.S.S.R. - Union of Soviet Socialist Republics
VERs - voluntary export restraints
WEU - Western European Union
WTO - World Trading Organization

TABLE 1: EC-CANADA RELATIONS: THE BALANCE SHEET

ASPECT OF RELATIONSHIP	CENTRIPETAL FORCES	CENTRIFUGAL FORCES
Civilization	common Judeo-Christian heritage	different political cultures
Historical Experiences	wartime and post-war cohesion; ethnic and trade links	end to post-war cohesion with collapse of communist regimes in Central and Eastern Europe starting in 1989 and then the Soviet Union; closing of all Canadian military bases in Germany by 1994; Canada's "psychic link" with Western Europe eroding as "special relationship" with the UK grows more tenuous as Canada becomes "nation of the Americas" and the UK incrementally begins to define itself more and more as "European" nation; growing proportion of Canadians of Asian descent, diluting ethnic ties
Political-Economic Systems	pluralist democracies, mixed capitalist, developed economies; mutual commitment to human rights and good governance around the world	EC states more corporatist in outlook; mixed pluralist political-economic systems allow special interest groups as producers to demand protectionist action by the state that when taken can disrupt overall ties
Strategic Security	collective self-defence through sister organization, NATO; had equal stake in the defence of Western democracies against threat from Soviet Union; the mutuality of interests in managing the emerging, post-Cold War cooperative security issues such as drug interdiction, terrorism, refugee flows, environmental security, proliferation of weapons of mass destruction etc.	the collapse of Soviet Union and the disbanding of the Warsaw Pact have resulted in the disappearance of a "transcendental, value-driven" reason for Canada to have an active stake in European security; the uncertain missions of NATO and the CSCE - the primary "pillars" in Canada's European policy framework - in the post-Cold War world are reducing Canadian influence in European eyes; the European desire to establish independent Common Security and Defence Policy through European Security and Defence Identity, the re-invigorated West European Union, and the Franco-German Corps.
Interdependence	because the EC in aggregate represents Canada's second largest trade partner after the U.S., there are relatively close trade and investment ties; the fact of two cultures - English and the French - has led to close political relations with the UK and France; the issuance of the EC-Canada Transatlantic Declaration has meant closer political links with the Community; a series of bilateral Mutual Recognition Agreements and Memoranda of Understanding were completed or under negotiation on issues such as standards and certification, Science and Technology, customs, competition policy, and fisheries; Canada and the EC consult and have common interests on a number of international issues such as the progress in the rebuilding of the East European economies, Third World debt alleviation, and sustainable development	asymmetric economic and political relations, i.e., any changes in bilateral relations have greater impact on Canada; lack of interest on both sides - and especially in Washington - to enshrine interdependence and individual bilateral issues in a broader Canada-EC free trade agreement or transatlantic treaty to create "Atlantic Community"; pull of faster growing Asia Pacific region for Canada and the pull the deepening and widening agenda of the Community
International Trade	common stake in liberal world trade order	Canada more vulnerable than EC to neo-protectionism; politicization of EC-U.S. trade conflicts could lead to Canada being "side-swiped"; international regime on investment more important for Canada than the EC

Bilateral Trade	EC dependence on Canadian resource exports, especially forestry products and minerals and metals; Canadian dependence on EC exports of finished goods	Canadian merchandise trade deficit with EC; greater intra-North American and intra-EC trade and steady erosion of EC as market for Canadian exports; "EC 1992" will present only niche markets for certain Canadian industries; creation of pan-European market - to include EFTA nations through the EEA and the anticipated expansion of the EC to 16 in 1995 plus the push to the eastern half of Europe through "association" agreement - means Canada may become only residual supplier to EC market since its export mix is heavily resource-dependent
Bilateral Investment	heavy dependence on each other's investment markets, with EC second largest source of inward foreign direct investment into Canada after the U.S.; total joint investment stock at end of 1993 exceeded \$50 billion	barriers to trade in services and investment, especially at the level of the individual Member States; NAFTA has more extensive investment provisions than does "EC 1992", indication that height of Canadian investment occurred by a small number of Canadian MNEs in run-up to "1992" and that the coming years will see a steady decrease in annual Canadian FDI to the EC
Domestic Conditions	growing interdependence means that domestic conditions such as labour standards, inter-provincial barriers, social policy, and the environment have increasing international dimensions	the EC's and Canada's respective attentions to domestic economic downturns characterized by high unemployment rates and, in Canada's case, a dangerously large national debt and deficit, have meant that domestic economic issues are superseding "foreign" issues on the national agenda; on the political side, since the rejection of the Meech Lake and Charlottetown accords, Canada is also facing constitutional turmoil over the question of Quebec
Leadership	politically strong leaders capable of balancing bilateral relations so that no one dispute poisons broader relations; the Transatlantic Declaration provides bilateral political forum for political resolution to irritants - such as Atlantic fisheries and plant health issues on Canadian the Canadian side and environmental practices and beverage appellations on the EC side	weak leaders susceptible to producer group protection calls; less capable of providing balance to overall relationship as each side means less to the other in political and economic terms
International System	members of numerous multilateral organizations and groupings of states as full members or observers	changes in the international system from one of bipolarity to multinodal and increased interdependence complicates bilateral relations; increased political and economic stature of EC and reduced U.S. hegemony means Canada may lose ability to "free-ride" on U.S. interests against Europeans; EC more worried about stability in the East and Russia than Canada's unique interests within what to the EC is usually "one" North American "pillar"
Foreign Policy	broad accord on long-term Western goals such as assistance to Central and Eastern Europe and the states of the former Soviet Union; mutual sensitivities to the emerging "cooperative security" issues such as illegal migrations, sustainable development, AIDS, and human rights (to include women's rights)	trend of EC foreign policy independent of, and conflicting with, U.S. may mean that Canada will have to choose to side with one or the other, and, given its increasing economic ties with the U.S. this may mean that Ottawa's foreign policy is more closely aligned with that of Washington; lack of mechanism to coordinate foreign policy outside NATO, NACC, and EC institutional constraints; the TAD may not act as the best instrument to systematize bilateral relations

Source: Author's observations based on categories used to define EC-U.S. relations as developed by Roy H. Ginsberg, "US-EC Relations," in Juliet Lodge, ed., *The European Community and the Challenge of the Future* (London: Pinter Publishing Ltd., 1989), Table 14.1, pp. 258-59.

CHAPTER ONE**SETTING THE STAGE FOR CANADA-EC RELATIONS**

"Small powers always expect more than they can get."
A.E. Ritchie¹

1.1 INTRODUCTION

"Three pillars" have supported Canada's policy framework for its relations with Europe and its response to European integration, namely, the North Atlantic Treaty Organization (NATO), the Conference on Security and Cooperation in Europe (CSCE)², and the European Community (EC), now the European Union (EU).³ During the period from 1985 to 1993, the process of integration accelerated markedly and is evidenced in three key areas of interest for Canada: economic, political, and security. While each "pillar" deals to some extent with these key areas, the European Community had by the early 1990s carved out a greater role for itself in all three domains.⁴ Indeed, the EC showed the potential to one day supplant NATO as Canada's "first pillar" in Europe.

Although this study takes an historical perspective to Canada-EC relations, it concentrates on the second term of the Conservative government led by Prime Minister Brian Mulroney (1989-1993). It was during this period that Europe - West and East - and, in particular the European Community, again occupied a central place on the Canadian foreign policy

agenda. This period also highlights the redefinition of Canada-EC relations within the changing context of transatlanticism of the early 1990s.

In light of the essentially economic nature of bilateral relations, the focus within this study will be on security in an economic and political context rather than on those aspects of transatlantic security relations that are already well covered in the Canadian and European defence policy literature.⁵ Finally, for the purposes of this dissertation, the nomenclature of the EC, Canadian and other institutions will follow that in use at the time of reference.

The dissertation poses two fundamental questions. First, given the pace of global economic integration and the creation of a Single European Market (SEM), have Canadian policy responses to European integration been primarily industry- or state-led? Secondly, what does an analysis of this bilateral relationship reveal about the foreign policy choices and capabilities of a middle power such as Canada in a post-Cold War international system characterized by both globalization and regionalism? In particular, is Canada well or badly positioned to further its interests, bilaterally, multilaterally, or within the Triad (e.g., the trading blocs of North America, Europe, Japan)? This dissertation's analysis of Canada-EC relations offers a test of whether a middle power such as Canada has the potential to exert more - rather than less - influence in the post-Cold War era.

The originality of this study lies in: (1) its integration of the political, economic and, in recent years, the nascent security strands of Ottawa's approach to the EC; (2) the fact that it is the first comprehensive analysis of Canada's relations with the Community in almost a decade; and (3) its two-pronged extension of the debate on the future of transatlantic relations: first, by including the EC as a legitimate institutional "player" and, secondly, by adding a Canadian perspective on the EC to a field of literature which has been devoted almost exclusively to discussing transatlanticism in the context of NATO, the CSCE, and U.S.-EC relations. The Canada-EC partnership was largely forgotten through most of the 1980s on both sides of the Atlantic until the overlapping developments of the completion of the Canada-U.S. Free Trade Agreement (CUFTA) followed by negotiations to create a North American trade bloc, the momentum of the Single Market, and the collapse of communism in Eastern Europe and the Soviet Union starting in 1989, again put the EC firmly on the Canadian foreign policy agenda and Canada on the Community's external relations screen.

The reader should be clear what this study is not; namely an analysis of European integration; or of Canada's place in the Community's external relations. This dissertation is concerned with both the process (particularly chapters Three to Seven) and substance (Chapters Eight to Eleven) of Canada's approach towards the Community.

What little has been written about Canada-EC relations over the last three decades (see review of literature on page 31) has tended to be lumped around particular issues, such as the spate of academic analyses in the 1970s on Canada-EC relations in the context of the "Third Option" policy of diversifying Canada's external relations away from the United States, and thereafter to examinations of the 1976 Canada-EC Framework Agreement. Since the early 1980s, however, the bilateral relationship has been woefully under-researched with regard to both the policy process and on issue areas such as the impact of the Single Market on Canadian interests, or, on the implications of the 1990 EC-Canada Transatlantic Declaration for creating more balanced bilateral political links.

But beyond the importance of adding to a body of research, why is a comprehensive examination of Canada's approach to the EC worthy of study at this time? Put quite simply, the official end of the Cold War in November 1990 also appeared to mark the end of the need for an Atlanticist Canadian foreign policy. Actually the major turning point in Canada's post-Second World War foreign policy away from Europe preceded the end of the Cold War by at least a decade and had its roots in the domestic consensus surrounding Canada's declining economic competitiveness, highlighted by world recessions in the early 1970s, the late 1970s and again in the early 1980s. This consensus was, however, overshadowed at the

time by the continuing exigencies of Cold War alliance structures. It was only with the rapprochement of the U.S. and the Soviet Union, dating from Mikhail Gorbachev's ascension to power in 1985, that Canada in its actions (as opposed to its declaratory policy) became openly less and less an "Atlantic" and "European" nation. At the same time, the European Community - embodying Western Europe - was itself undergoing a process of sometimes wrenching change as it pursued political, economic, and monetary integration and acted as a magnet for both members of the European Free Trade Association (EFTA) and the former Communist nations of Eastern Europe. The question then remains whether there are sufficient bilateral economic interests at stake and whether there is sufficient political will on both sides so that Canada-EC relations may be strengthened for the new millennium.

1.2 STRUCTURE OF STUDY

The study is divided into four parts. The following discussion will provide an overview of the structure and content of each part. Especially in its methodological exegesis, Chapter Two of Part One provides an overview of various theoretical frameworks that attempt to explain Canada's foreign policy outlook and actions (see discussion on methodology at the end of this chapter). Chapter Three provides an analysis of the foreign policy-making process in Canada and outlines the roles

of the domestic actors and their positions toward the EC.

Part Two

Chapters Four, Five, Six, and Seven, provide a detailed discussion of the evolution of Canadian interests *vis-à-vis* the EC from the Treaty of Rome to 1991. The discussion moves chronologically from a focus on market access issues in the 1960s to the architecture of the EC institutions in the 1970s as Canadian and Commission interests converged, to a period of mutual neglect in the 1980s, and finally to a period of intense activity in 1989-91 as Canada rethought its approach to the European Community in the context of trying to carve out a niche for itself in the reconfiguration of overall transatlantic relations.

These chapters highlight the four major determinants of Canada-EC relations. In a seminal article in 1991, Charles Pentland wrote that the "twin themes of access and architecture" were always the foundation of Canada's policy approach to European integration.⁶ By "access" he meant access for Canadian exports and investment into the integrating markets of the EC characterized by a common commercial policy and the Common Agricultural Policy (CAP); and his term "architecture" referred to the scope and institutional design of Europe (e.g., the evolving roles of the Commission, the European Parliament and Council of Ministers as well as the

EC's relations to other European institutions), taking into account Canada's place in the transatlantic framework. Access and architecture are together the first determinants of Canada's approach to, and observation of, the process of European integration.

To Pentland's "twin themes" this dissertation adds three more major determinants. The second one is the ebb and flow of the tide of Canada-U.S. and EC-U.S. relations. That is, Canada's reaction to the evolution of European integration cannot be fully understood unless it is put into the broader context of the evolving pattern of bilateral Canada-U.S. relations, and Ottawa's historic need to achieve diversification - through "counterweights" to, first, Britain and then the United States - in its foreign relations.⁷ As well, Washington's role as the primary international interlocutor of both Ottawa and Brussels makes an appreciation of EC-U.S. relations integral to understanding the evolution of Canada-EC relations.

A third determinant is the emergence of differentiated images of the European Community among bureaucratic, political and business elites in Canada. Indeed, historically, bilateral relations have been state- or, more specifically, bureaucratically-led on both sides, with little political or business support sustained at a high level in either domain.

The final major determinant of Canada's approach to European integration is a perennial concern among Canadian

analysts and decision makers that West European politicians, Commission officials, and American politicians (e.g., John F. Kennedy) and officials (e.g., Henry Kissinger's "Year of Europe"), have tended to bury Canada's diplomatic identity under a "North American" rubric representing a so-called "two pillars" image of the Atlantic world. Thus, while Canada approaches Europe within a "three pillars" framework, Western Europe and the United States (in Canadian eyes) tend to subsume Canada within a "two pillars" image of transatlantic relations.

For most of its history Canada has viewed itself as a "European" nation. A graph of its relations with Europe in terms of peaks and troughs would indicate that in the period from Confederation in 1867 to the signing of the Statute of Westminster in 1931, its national interests to a greater or lesser extent mirrored those of the United Kingdom. Thereafter, with the ever greater pull of north-south economic integration, London's influence on Canadian affairs waned as relations with Washington began to take precedence. From 1948 until 1984, the nature of Canada's policy towards Europe can, in large measure, be ascertained by looking at the degree to which Europe figured in the foreign policy priorities of successive prime ministers. Louis St. Laurent, both as secretary of state for external affairs and as prime minister, was a strong supporter of the reconstruction of a war-ravaged continent through Canada's leadership in the creation of

multilateral security and economic fora, namely, the General Agreement on Tariffs and Trade (GATT) and NATO. Prime minister John Diefenbaker's stubborn Anglophilism during the late 1950s and early 1960s, symbolized by among other issues his desire to diversify 20 per cent of Canada's trade away from the U.S. and to the UK, not surprisingly drove a wedge in Canada-U.S. relations. Lester Pearson in his successive roles as Canada's senior diplomat, secretary of state for external affairs, and finally prime minister, believed strongly in a "North Atlantic Community" in which Europe could be used to balance the influence of the United States.⁸ Pierre Trudeau's dilettantism in the late 1960s and desire for a less NATO-centric foreign policy led to the first serious questioning of Canada's European vocation.⁹ Somewhat ironically, his government's subsequent attempt to create a more "independent" and "nationalist" foreign policy in the early to mid-1970s instead created a peak in Canada's relations with Western Europe and, in particular, with the Community, as Ottawa came to the conclusion that stronger relations with the Community would lessen Canada's dependence on the United States.

After 1984, the interplay of a trend and two events marked the beginnings of a rethinking of Canada's foreign policy orientation towards Europe, the EC, and its commitment to the Atlantic community in general. The trend towards an increasingly global economy (starting in the 1960s but gaining significant momentum by the 1980s) was accompanied by the

ascension to power in Canada of a Conservative government led by Brian Mulroney, the first post-War Canadian prime minister to promote publicly Canada's proximity to the United States. It was also accompanied by the collapse of communist regimes in Central and Eastern Europe and the Soviet Union in the late 1980s and early 1990s.

Under the leadership of prime minister Mulroney, Canada became committed to fuller economic integration and political involvement within the Americas through a number of major policy initiatives. Those included signing the Canada-U.S. Free Trade Agreement (CUFTA) in 1988, joining the Organization of American States (OAS) in 1990, ratifying the North American Free Trade Agreement (NAFTA) in 1993, and increasing the prospect for further hemispheric integration through the NAFTA's accession clause. There also emerged a strong sense that Canada could not afford to be left out of the economically dynamic Asia-Pacific region, prompting aggressive Canadian support of multilateral economic and security fora (e.g., Asia Pacific Economic Cooperation).¹⁰

In aggregate, then, these initiatives created a strong incentive for a profound change in Canada's traditional Eurocentric foreign policy orientation. Indeed, the decade from 1983 to 1993 saw Canada become more and more a "nation of the Americas."¹¹ In the words of John Halstead, Canada's former Ambassador to NATO and astute observer of the evolution of Atlanticism, it appeared that by the early 1990s the Canadian

dilemma had become how to "reconcile an Atlanticist foreign policy with a continentalist economic policy and a defence policy increasingly limited to territorial defence and peacekeeping."¹² Canada was clearly on the cusp of a new type of partnership with Europe.

1.2.1 Adjusting to the Post-Cold War System: Canada and the EC

Both Parts One and Two demonstrate that perhaps more than any other Western industrialized state, Canada has had to make a number of major adjustments with respect to its post-Cold War foreign policy priorities. Although every state has been affected by an increasingly multipolar world in which economic and political power is more diffuse, diplomacy is based increasingly on economic rather than ideological rivalry, and new regional groupings are coming into prominence, some states have been affected more than others.¹³ Canada in the post-Second World War period has used the leverage of an "internationalist" foreign policy (see Chapter Two) based on mediation, multilateralism, and coalition-building, to project an influence that is greater than its relative size would indicate. This has prompted scholars, practitioners, and other observers to label Canada as the quintessential "middle power".¹⁴ Given Canada's high dependence on trade (representing 25 per cent of its Gross Domestic Product [GDP]), over the past 45 years successive Canadian governments have relied on

and advocated a "rules-based multilateralism" in a variety of U.S.-led international economic fora such as the GATT to achieve this additional leverage.¹ On the security and political fronts, Ottawa has favoured a more cohesive Western Europe, nested in and reinforcing the U.S.-dominated NATO, with Canada benefitting from an active American presence in Europe. However, with the disintegration of the Soviet Union and the relative decline of the United States, other actors such as Western Europe, Japan and the Newly Industrializing Economies (NIEs) of Asia-Pacific have assumed new roles and increased influence on the international stage. By the late 1980s, Canada existed in a world where the sources of economic tension - or, as Sylvia Ostry has described it, "systems friction" - were at least as powerful as the forces driving economic integration. For a middle-sized, open economy caught between the twin realities of diminishing relative power (exemplified by steady declines in its slice of the global economic pie coupled with the loss of its traditional mediation role in East-West relations) and growing global interests, these trends were, to say the least, unsettling. Thus in the early 1990s, to use Wolfers's terms, not only were Canada's "possession" and "milieu" objectives being tested, but also the means by which it pursued them.²

And just as Canada's position in the international system was changing so was that of Europe. Indicative of the speed and the breadth of change that have swept across Europe since

1985, but particularly since 1989, were the movement to the completion of the Single European Market (SEM), the at times painful absorption of a united Germany, the attempt to create a European Monetary Union by the end of the decade, the strengthening of resolve towards political union, the movement towards a common foreign and security policy and the emergence of a European defence identity that challenged the traditional institutions of the Atlantic alliance, the establishment of a European Economic Area (EEA), and the emergent pan-Europeanism. The European Community either created, or was directly affected by, the above events and processes. More subtle, perhaps, was the EC's growing influence outside of Europe as a dialogue partner with numerous groupings of states, and through its independent voice in international organizations, most notably in the United Nations (UN), the Group of Seven (G-7), the GATT, the Quadrilateral Group, and at the Organization for Economic Co-operation and Development (OECD), where it has observer status.¹⁷ For these reasons, by the early 1990s the EC as an institution had become the dominant force in Europe and an increasingly important global actor as well.

1.2.2 Changing Canadian Leverage in Transatlantic Relations

As this study will show, the underlying challenge in Canada's approach to the EC was always how to gain satisfactory

leverage. As a member of NATO, to which the original six EC Member States also belonged, Canada was able to use its security role in Europe as a subtle but effective lever in its bilateral relations with the Member States and, by extension, in its bilateral relations with the Community. This lever never approximated direct linkage. Canada had no such power. Issues in the transatlantic complexity were rarely driven in a tit-for-tat manner. Indeed, given the broad distribution of power within the transatlantic community, it has always been difficult to predict the outcomes of specific disputes or tensions and to disentangle the links on the fluctuating transatlantic agenda of political, security and economic concerns.

In the transformed geopolitics of the late 1980s and early 1990s, however, issues of partnership, procedures and leverage had new salience for policymakers on both sides of the Atlantic. The removal of major structural features such as the Cold War, and the difficulties in completing the Uruguay Round, created a situation in which the broad, traditional expectations and images of Europe held by Canadian decision makers were no longer sustainable. The notion of "linkage" became more important in the 1990s because notions of economic partnership and security alliance could no longer be consigned to separate boxes.¹⁸

How did this affect Canada-EC relations? As a result of revision to the founding Treaties in the Single European Act

(SEA) and the Maastricht Treaty on European Union, the EC had evolved into other spheres of competence and well beyond the achievement of strictly a customs union; something that its founders had envisaged. In addition to full economic integration, by the early 1990s foreign, security and defence policy were also seen as legitimate objectives in the drive towards political union. EC decisions began to affect Canadian interests beyond the traditional areas of external and internal trade, agriculture, fisheries, atomic energy, including, *inter alia*, the "high" politics of sanctions on South Africa, East-West relations, aid to Central and Eastern Europe, population migrations and the environment. That evolution made Canada's dual-track approach within its "three pillar" European policy framework, that is, relegating its participation in the CSCE and NATO exclusively to the security track and its relations with the EC exclusively to the economic track, an increasingly untenable way to organize its transatlantic relations by the end of the 1980s. How to set the foundation for redefined bilateral Canada-EC relations in face of the end of the Cold War and the prospect of European economic, political and monetary integration was thus a cause for reflection and action in Ottawa.

As this study will show, the challenge for Canadian decision-makers was not necessarily to increase the number of diplomatic contacts with the West Europeans but rather to systematize relations with the increasingly important EC

pillar of Canada's European policy framework. The West Europeans were allies (and occasionally adversaries) in most of Canada's international economic and political activities. In addition to NATO and the CSCE, Canada met with its European counterparts in the Group of Seven (G-7), the Commonwealth, La Francophonie, the Northwest Atlantic Fisheries Organization (NAFO), the OECD, peacekeeping endeavours, development assistance, International Financial Institutions (e.g., World Bank, International Monetary Fund), and participatory or observer functions within social and economic bodies such as the UN Economic Commission for Europe (UNECE), the European Bank for Reconstruction and Development (EBRD), and the Council of Europe.

MAJOR INTERLOCKING CANADA-WESTERN EUROPE INSTITUTIONAL LINKS

France	G7	UN	OECD	UNECE	NATO	CSCE	EC	WEU	CE ^a	EBRD
UK	G7	UN	OECD	UNECE	NATO	CSCE	EC	WEU	CE	EBRD
Germany	G7	UN	OECD	UNECE	NATO	CSCE	EC	WEU	CE	EBRD
Italy	G7	UN	OECD	UNECE	NATO	CSCE	EC	WEU	CE	EBRD
EC	G7 ^b	UN ^c	OECD ^d				EC	WEU		

NORTH AMERICA

U.S. G7 UN OECD UNECE NATO CSCE CE^e EBRD
 Canada G7 UN OECD UNECE NATO CSCE CE^e EBRD
^a Council of Europe; ^b ^c ^d ^eObserver status

^a Council of Europe; ^b, ^c, ^d, ^e Observer status

And, as the table above shows, in Europe itself, the only distinctly European institutions that Canada did not have a formal role in were the Community and the Western European Union (WEU).

Furthermore, within the structural context of EC-Canadian

relations, there were a number of privileged bilateral relationships between Ottawa and the national capitals of the Member States. The most obvious but not the only one was that between Canada and the UK. Another was the Canada-France relationship, strengthened in the 1980s through La Francophonie after a deterioration in the 1970s with Canada's perception of French interference in Québec. Finally, in light of German unification, and Bonn's support of a continuing Canadian presence in Europe, it would appear that the Ottawa-Bonn axis also increased in importance in the context of Canada's bilateral relations with the EC.

Yet by the end of the 1980s these numerous contacts proved insufficient in the eyes of Canadian policymakers to protect Canada's European interests. In particular, the EC's post-1989 role in the co-ordination of Group of 24 (G-24) aid to Eastern Europe and the former USSR heightened its profile in the eyes of Canadian policymakers. The Canadian government decided that the twin institutional mechanisms of its privileged relationship with the EC - the 1976 Framework Agreement for Commercial and Economic Co-operation (hereafter referred to as the Framework Agreement) and the 1988 special access to European Political Co-operation (EPC) - were necessary but not sufficient to maintain Canadian interests in Western Europe. As a result, an attempt was made through the 1990 EC-Canada Transatlantic Declaration (TAD) to infuse political energy into Canada-EC relations and to create a more

balanced framework for Canada-West European relations.¹⁹

Part Three

The third part of this dissertation examines the impact of the SEM on Canada's economic interests and the changing structure of transatlantic economic and security relationship. It does so by looking at the state of Canada-EC economic and trade relations until the end of 1993, applying the implications of the SEM for Canadian suppliers in directly affected industries such as financial services and telecommunications, as well as in forestry products, with the latter industry affected less directly by the creation of a SEM but remaining the major source of revenue in Canada's export trade with the Community. An examination of bilateral trade and investment flows between 1984 and 1993 in Chapter Eight reveals the anomaly that despite an erosion of bilateral trade, mutual direct investment had more than doubled within almost a decade to \$50 billion by the end of 1993 as compared to \$19.6 billion in 1984.

Although the TAD was significant in that it highlighted the growing political role of the EC in North American eyes, the key challenge posed by the EC to Canada was its growing weight as a trading entity, resulting from the deepening of integration through the so-called "1992" program and the effective widening of its approach to market liberalization to

include the European Free Trade Association (EFTA), the countries of Central and Eastern Europe (CEE), and some Mediterranean nations. If the primary effect on Canada of the EC's establishment in 1957 was discrimination against Canada in those areas where the EC developed common policies (e.g., the Common External Tariff and the Common Agricultural Policy - CAP), then the considerable concern thirty years later in Canadian government and business circles over effects of the EC's "deepening" and "widening" processes on Canadian market access is not surprising.

Thematically, Chapter Nine considers the Canadian policy responses and options within the context of the Uruguay Round, in order to assess the degree of Canadian access to the European market. The SEM had a number of policy implications for third countries such as Canada.²⁰ First, at the same time that it was reducing or removing regulatory barriers it was also throwing the structural impediments that existed in the Community into sharper focus. It was clear that as Canada and the European Community became more economically integrated and non-tariff barriers were removed, the structural impediments would assume a greater importance.

Secondly, policy integration brought about by the SEA in the late 1980s and early 1990s meant that the Community had assumed more and more responsibilities, especially where policies of the Member States impinged upon its external economic relations. Not only this, but it was recognized by

Canadian decision-makers that EC policy making would have spill-over effects, through the *acquis communautaires*, throughout the rest of Western Europe, that is, in the EFTA, the CEE countries, and the Mediterranean states, as these countries strove to harmonize their policies with those of the Community, some going so far as to apply for full membership.

Thirdly, the Community was also more prepared to intervene in order to create a genuine internal market, thus pursuing more intrusive policies to remove structural impediments to access within its market. This involved the exercise of supranational powers in competition policy or the introduction of common EC procedures in areas such as purchasing practices or attempts to develop common standards. In other words, integration could also be seen as a process of re-regulation at the European level.

To answer how the above processes conditioned Canadian responses to European economic integration, Part Three (Chapter 8.2 and 8.3) highlights how the domestic debate on Canada's declining international competitiveness - a motivating force for securing a free trade agreement with the United States - was central in prompting Canadian policymakers to take the lead in seeking more secure access to the West European market. What were the differences in Canada's response to North American and European integration? A number of Canadian analysts (e.g., Rugman, Eden and Molot, Doern and Tomlin²¹) have asserted that sustained pressure from both the

Canadian and American business communities led the Canadian government to seek a free trade agreement with the United States, a deal that in subsequent years led to significant increases in bilateral trade and investment flows. In the case of the Canadian response to the SEM, this study will evaluate the relative involvements of the state and private sector actors and suggest that in the period leading up to the SEM exactly the reverse occurred -there was a distinctly muted response from Canada's private sector but very activist state involvement. First the "Third Option" and then the Framework Agreement point to the historical precedents for state-led Canadian responses to Western Europe's expanding economic clout. However, in light of the consensus that began to form in Canada (by the late 1970s) that the state-led approach to securing increased access to West European markets had failed to produce any significant gains (a claim that is only partially true and will be discussed), the question arises whether a decade later during a major advance in the Community's program to create an economic union, a development that would once again present both challenges and opportunities for Canada-EC commercial relations, an Ottawa-based response would once more lead to both unreal expectations and ultimately disappointment.

The second half of Part Three (Chapters Ten and Eleven) of the dissertation examines the structural sources of changing transatlantic relations in the early 1990s.

In particular the following general areas are examined:

- 1) The impact on Canada-EC relations of radical structural change affecting Europe and United States. In particular the fact that between 1983 and 1993 the respective economic weights of the EC and the U.S. had changed in the international system.
- 2) The loss of Canada's Atlanticist influence in the wake of the collapse of the former Soviet Union, particularly as it framed the Canada-EC economic relationship.
- 3) The replacement of military and ideological rivalry with economic rivalry. The immediate post-Cold War period accentuated rather than diminished transatlantic economic friction. In an era of greater interdependence this was bound to heighten the importance of market access issues in Canada-EC relations.

The last section analyzes how the repositioning of Europe, Japan and the U.S. in the global political economy had important policy and institutional implications for a middle power such as Canada during the Mulroney government's decade-long tenure. Four major interrelated processes significantly influenced Canada-EC relations during this period: the Single European Market, the CUFTA, the NAFTA and the Uruguay Round of multilateral trade negotiations under the GATT.

The argument in the last section of this dissertation is that the international configuration of economic power will decisively influence any meaningful Canadian and indeed North American initiative to improve transatlantic relations. This is because the management of transatlantic trade and economic issues will prove critical as economic security becomes a paramount national interest. Within this context, Chapter Ten compares an array of new economic frameworks within which

Ottawa contemplated managing its bilateral relations with Brussels, including the prospects for a transatlantic free trade agreement. The look ahead to the future or next stage in Canada-EC relations draws from the experience of having a 17-year old Framework Agreement, the "lessons" of closer EFTA-EC ties, the limits to greater transatlantic integration given the level of North American integration, and, most importantly, the political will for closer relations in Ottawa and in Brussels (at the level of the Commission and Community presidencies).

1.3 METHODOLOGY

Several partially conflicting and partially complementary "models," "frameworks," "conceptual schemes" and "variable sets" are offered in the foreign policy-making literature. Political scientists¹ at all points on the ideological spectrum who have studied Canada's foreign policy in the post-war years, including James Eayres², Robert Farrell³, Bruce Thordarson⁴, Cranford Pratt⁵, Denis Stairs⁶, Kim Nossal⁷, and John Kirton⁸ have developed such analytical schemata with respect to Canada's foreign relations. Their work in turn has been greatly influenced by the institutionalist and decision-making models in the American foreign policy analysis literature, particularly scholars such as Graham Allison and Morton Halperin.⁹ However, these models focus primarily on

political relations, whereas EC-Canada relations have for most of their history been based on economic diplomacy. Thus, this study would benefit also from the approaches of the International Political Economy (IPE) school of foreign policy making. Within this literature are prominent scholars exploring the domestic determinants of foreign economic policy making and state-societal interaction (American scholars such as Steven Krasner, Benjamin Cohen, Helen Milner, Peter Katzenstein, John G. Ikenberry, and John Mastanduno are prominent).³¹

1.3.1 Framework for Understanding Canada-EC Relations

The analytical framework underlying this study presupposes five major sets of variables that shaped bilateral Canada-EC relations during the period under examination (following from Table 1 on pp.xvi-xvii):³²:

1. **Systemic:** on the economic side this was characterized by the process of increased globalization, interdependence, the emergence of the Triad, the attempt to complete the Uruguay Round, and the new trade policy agenda; on the political/security side this was characterized by first and foremost the end of the Cold War, the changing roles of the traditional European security fora of NATO and the CSCE, the debate over an independent European security apparatus such as the re-invigorated WEU, and the greater importance of so-called "cooperative security" issues.
2. **Domestic:** this would include the nature of the Canadian economy. Policy developments in this area were characterized by continental economic integration, first through completion of the CUFTA and then through the NAFTA. At the same time, there was concern about national unity and constitutional reform in the form of the failed Meech Lake and Charlottetown accords. In

Europe, there was a concerted effort to realize the goals of economic, political and monetary union, which, as the ratification process of the Maastricht Treaty demonstrated, was problematic.

3. **Organizational:** this refers to the interaction of the bureaucratic system and the role of political leadership, that is, the respective roles of politicians in Canada and their officials in mapping out a policy framework for relations with the European Community. Given the asymmetry in power, the degree of interest the Member States and the institutions of the European Community (primarily Commission, Council and, to a lesser extent, Parliament) had in furthering bilateral relations was a critical determining variable.
4. **Sociological:** this refers to the impact of values, cultural perceptions, and the personal motivations of the elite actors (e.g., officials, politicians and business people) in Canada and Europe in orienting transatlantic relations. For example, it is important to know during which periods the "Europeanists" in the Department of External Affairs and International Trade Canada (EAITC) were in the ascendancy and when and why their influence was superceded by that of the proponents of Canada-U.S. free trade. And, related to the organizational variable above, was the pro-Europe lobby situated solely in EAITC's European affairs bureaux or were they dispersed among other divisions such as the Policy Planning Staff, the Political and Security Affairs bureau (responsible for Canadian policy in NATO and the CSCE), and the Under-Secretary of State for External Affairs' office? On the non-government side, what was the view with which Canadian business leaders greeted the emergence of the SEM?
5. **Policy:** this refers to foreign policy objectives, policy decisions, and their implementation. This would include the Transatlantic Declaration and government and private sector strategies and responses to the SEM.

Of course, overlaying the above variables is the question of national interests. This study must answer the question of what specific policies were part of Canada's European framework in the 1980s and early 1990s? And to what extent were the policies consistent with national goals? Secondly,

with regard to the "choice of policies" the questions would be somewhat different. For example, based on the description of Canada's foreign policy community in Chapter Three, who were the key actors? What were their policy preferences? What were their respective bargaining resources? What was the relative importance of domestic and external factors (see Chapter Two) in the policy making process? (And how relevant is the distinction between traditionally domestic and international interests in a world characterized by the intermeshing of economic, political and security agendas?) Finally, whose interests were reflected in policy outcomes and why?

To explain why relations did not become more market-driven requires a decision-making analysis, that is, an examination of the relative importance of systemic, state and societal forces in Canadian foreign policy making. This study therefore invokes the bureaucratic politics paradigm as its particular conceptual lens. It supports the statist approach to Canadian foreign policy, which asserts that government actors in Canada are able to translate their preferences into public policies with a fair degree of autonomy from society.³³

1.3.2 Research Sources

In carrying out the research for this dissertation, this author benefited greatly from a year-long academic fellowship

in 1991-1992 on the Policy Planning Staff³⁴ of the Department of External Affairs and International Trade³⁵, following which he was a researcher in EAITC's Multilateral Trade Negotiations Branch, which co-ordinated and negotiated Canada's positions in the GATT.

The primary sources for this study consist of classified and unclassified documents and statements from EAITC. Specifically, the documentation included policy papers, correspondence and speeches prepared by officials on the Policy Planning Staff and in the European Bureau at EAITC headquarters in Ottawa, and telex and memoranda traffic from Canada's foreign missions in Washington and Western Europe (London, Brussels, Bonn). In keeping with the normal procedures of releasing confidential information, the author was informed that he could not cite classified material directly from EAITC files.³⁹ The scheduled interviews with officials to a great extent mitigated this problem of collection.⁴⁰ Where possible the author has identified the individuals in the interview (see interview list in Appendix One). If they did not wish to be identified, the author attempted to seek alternate sources. This, however, was not always possible. As a result, some of the information in this study has not been substantiated by citations and in certain cases the author indicates only "confidential interview," preserving the official's anonymity.

Since this study looks at EC-Canada relations from the

Canadian standpoint, it is not surprising that most of the interviews were conducted with Canadian officials or private sector representatives. A large proportion of those government interviews were conducted with persons who had been or were members of EAITC. The author did interview a number of Commission officials in DG I as well as Canada-based staff at the Delegation to the European Communities in Ottawa. Interviews took place between January 1992 and November 1993 and those with government officials were conducted either in person at EAITC Headquarters in Ottawa or by telephone with officials stationed abroad.

With regard to the interviews, it must be noted that having read the classified and unclassified departmental documentation in addition to the memoranda to Cabinet, the author knew which questions to ask. This meant that officials' recollections of their actions on specific policy issues could be double-checked⁴¹, but perhaps more importantly through the author's access to documents prepared for Cabinet (see discussion below on the value of this source) it was simple to discern specific EAITC recommendations to the government of the day on any given vertical issue area or on Canada's bilateral or multilateral relations. The anecdotal information gleaned through interviews in conjunction with the Departmental documentation thus allowed the author to build a very accurate chronology of Canadian policy outputs vis-à-vis the EC, and to assess whether the actual outcomes and

implementations diverged or were consistent with the anticipated policy outputs.

This author's greatest advantage, however, was having access to all "Memoranda to Cabinet" pertaining to Canada's relations with Europe from 1980 to 1992. This is significant because under the terms of Canada's *Access to Information* legislation, Cabinet documents (classified as "secret") are removed from files before being made available to academic researchers, making it much harder - although certainly not impossible - to piece together the evolution of policy initiatives. This rule was not applied to this author since he was considered, during the period of his academic fellowship, to be a member of the Department.

Cabinet documents were invaluable because they outlined explicitly the full dimension - economic, political, and strategic - of Canadian interests in Europe during the period considered by this study. Their value resulted from two factors. The first is one of practical concern for a researcher. First, because Canada's foreign relations (see discussion on expansion of the Department of External Affairs in Chapter Three) are managed predominantly by one federal government department rather than two or three as is the case, for example, in Japan and the United States, the collection of information is that much easier.

Second, under a parliamentary system of government characterized by party unity, the "Memoranda to Cabinet"

represent the final outcome of bargaining among the various federal departments and the affected ministers. On Canada's relations with Europe, the views of line departments (e.g., Fisheries and Oceans, Industry, Science and Technology, National Defence) were thus distilled in these documents; furthermore, the Cabinet documents explicitly drew the links between Canada's economic and political/security interests in its European policy framework. With access to Cabinet documents and interview material it was much easier to identify whose interests were reflected in the memoranda sent to Cabinet, as well as the extent to which dissenting opinions were included.

While on the Policy Planning Staff the author had access to the embryonic efforts of what was to have been a major government study of Canada-EC relations in 1990. Unfortunately, this internal study was aborted shortly after it had begun when the Department's efforts were redirected to extensive background research on the implications for Canada of the then U.S.-Mexico free trade negotiations. Nevertheless, the documents that were prepared for this EC project proved valuable in allowing the author to ascertain the government's strategy towards the Community - particularly on the economic front during 1989 and 1990. (See Primary Sources listed on p. 567)

Finally, with regard to data on Canadian private sector responses to the SEM, in addition to using the more general statistics compiled by Statistics Canada, this author (see

Chapter Nine) also developed a more specific database of Canadian firms with major interests in the Community. This database contained factual information on 253 Canadian firms' investment, joint ventures, and other types of business alliances in the Community (see Table 17 in Appendix Three).

The secondary sources of information for this study can be divided into three categories. The first examines the larger EC Member States' own approaches *vis-à-vis* the Community, such as the work by W. Wallace (1984), Hedges et al. (1990) and Franklin (1990), as well as the larger dynamic of the transformation of Western Europe that is found, for example, in the writings of W. Wallace (1990).⁴² The second category on the external relations of the Community is a result of what appears to be two waves of interest, with the first occurring in the mid-1970s and then another occurring, not surprisingly, in the late 1980s as questions of enlargement and third-country reactions to the SEM began to preoccupy analysts and decision makers (see especially Redmond, 1993).⁴³

As even a cursory data base search shows, book and periodical literature on the "external relations" of the Community tend to concentrate on the EC's major interlocutors such as the United States, EFTA, Japan, developing countries (e.g., the ACP), and, more recently, Central and Eastern Europe, thus often ignoring medium-sized industrialized countries such as Canada. For example, on Japan-EC relations,

there have studies by Rothacher (1983)⁴⁴, Daniels (1989)⁴⁵, and El-Agraa (1993)⁴⁶; but the richest and most far-ranging studies since 1984 (many actually book-length) have been specifically on EC-U.S. relations⁴⁷, including those by Smith (1984, 1991)⁴⁸, Baldwin (1986)⁴⁹, Tsoukalis (1986)⁵⁰, Ginsberg (1989)⁵¹, Schwartz (1989)⁵², Hufbauer (1990)⁵³, Woolcock (1991)⁵⁴, Haftendorn and Tuschhoff (1993)⁵⁵, and Smith and Woolcock (1993)⁵⁶.

Given the rich vein of research on EC-U.S. relations, the inspiration and justification for this dissertation topic are to be found in the lack of a distinctive body of literature focusing on the EC's relations with, or impact on, non-European industrialized "liberal democratic" states, sometimes also referred to as "middle powers". Juliet Lodge's book on EC-New Zealand agricultural relations and Miller's more general book on EC-Australia trade relations are exceptions that prove the rule.⁵⁷ As yet there is no book-length treatment of Canada's relations with the Community.

Given this apparent lacunae in the literature, the third category of secondary readings for this study consists of existing scholarly and public sector work on specifically Canada-EC relations. This dissertation seeks to add to as well as to tie together the various dimensions of Canada's relations with the Community that are evident in this corpus of knowledge. For an early examination of Canadian reactions to the creation of the Common Market, the edited volume of

papers presented at a symposium held in Canada in 1962 entitled, *Canada, the Commonwealth and the Common Market*, has proved to be both illuminating and a rich source for drawing comparisons to later Canadian reactions to the various successive phases of European integration.⁵⁸ To date, this is the only single text that provides a cross-section of Canadian views - business, labour, government - on Canada's relations with the Community. On the process of Canada-EC relations, the writings of Pentland (1977, 1991)⁵⁹, von Riekhoff (1978)⁶⁰, Boardman (1979)⁶¹, Dobell (1985)⁶², Soldatos (1988)⁶³, and Granatstein and Bothwell (1990)⁶⁴, on the "Third Option" and its implications have proved to be very useful, as well as the unpublished doctoral dissertation of Daniel Roseman (1983) and Boardman et al. (1984)⁶⁵ on the Framework Agreement. In the business studies and economics literature, there is the work by Papadopolous (1986)⁶⁶, Soldatos (1988, 1990)⁶⁷, Pitts (1990)⁶⁸, and Demers and Demers (1991)⁶⁹. On the public sector side, EAITC published a number of industry studies between 1989 and 1991 to assist Canadian business in understanding the implications of the SEM as part of its trade promotion efforts.⁷⁰ Although the bodies of research and analysis outlined above probed bilateral trade and investment flows or the structure of bureaucratic consultative mechanisms under the Framework Agreement, they did not succeed in providing robust frameworks for understanding the often cross-cutting trade and security policy dimensions of this rapidly evolving

bilateral relationship in the post-1989 period.

The explanation for the lack of a current and comprehensive treatment of Canadian-EC relations is multifaceted. One reason is institutional, resting on the priorities of the organizations that have funded Canadian foreign policy research in recent years; another, is simply the declining number of Canadian scholars over the last decade with not only an interest in the overall direction of Canadian foreign policy but who are also interested in transatlantic relations.⁷¹ Finally, both the overall paucity of Canada-EC research as well as the absence of a single comprehensive work are also due in part to the *sui generis* nature of the object of scrutiny, to the political and economic evolution of the EC itself, and to the differentiated post-Cold War foreign policy concerns of Canada and the Community.

1.4 CONCLUSION

A number of significant observations arise from this study's outline of the evolution of Canada's policy response to the process of European integration. First, at each successive stage of European economic integration, from the late 1940s to the early 1990s, Canadian politicians, business people and government officials were concerned about the potential discriminatory impact of this process on Canadian commercial interests. The major difference between the early reactions

and those later on was that by the mid-1980s, with Canadian attention focused on the impact of North American economic integration, for the first time in Canada's history as a nation and a colony a consensus had formed domestically that the historic Anglo-European option was no longer realistic.

Second, this study will show that Canada's approach to the EC is intimately related to how it views its "Atlantic" role. The late John Holmes, perhaps still the most prescient observer of Canadian foreign policy, noted that in the immediate post-war period and until the formation of the EC, the concept of an Atlantic Community was excessively driven by the "idealism" of Pearson and his colleagues at the Department of External Affairs due to what Holmes perceived as their over-attachment to Article 2 of the NATO Treaty.⁷² In the 1970s, Canada's desire for closer ties with Western Europe and the EC in particular, was propelled in large part as a byproduct of the Trudeau government's nationalist fervour. By the 1980s, however, "Atlanticism" had clearly lost its lustre. As this study documents, only in the aftermath of the historic CUFTA and NAFTA negotiations and because of the Community's "1992" program and the collapse of communism in the CEE's after 1989, was the concept of an Atlantic free trade area briefly revived during the second term of the Mulroney government. Indeed, it can be said that the TAD and the ^{in 1992} ~~permanently stationed~~ decision to withdraw all ^A Canadian troops from Europe remain the only lasting evidence of the Canadian government's

introspection concerning its Atlantic role during this period.

Third, the historical analysis also highlights the remarkable similarities between the debates on the appropriate transatlantic institutional structure that took place within the Canadian government in the period leading up to the creation of NATO (September 1947 - April 1949)⁷³, and those more than forty years later (mid-1989 - 1991) concerning Canada's foreign policy role in Europe in the post-Cold War period.⁷⁴ Indeed, as this study's analysis of post-TAD transatlantic policy options suggests, the policy debate surrounding the negotiations of the NATO Treaty may actually hold lessons for the ability of Canada in the post-Cold War period to influence the creation and/or re-configuration of transatlantic institutions. But perhaps this study's most important contribution is that it confirms what Lester Pearson always recognized, namely, that the United States is the "key to any progress toward an Atlantic alliance" and by definition the 'key' in the calculus of both EC and Canadian policymakers as they modulate their approaches to each other.⁷⁵ It seems that what became even less certain by the early 1990s in the context of EC-Canadian relations was the role of Canada's "other" special relationship, namely, that with the United Kingdom.⁷⁶ It also raises the interesting question of whether the pre-Second World War "North Atlantic Triangle" - Canada, UK, and the United States - is being replaced definitively by an EC-North America axis, centred in Brussels and Washington.

Although these two questions are certainly touched upon in this dissertation in the context of the future of transatlantic relations, a detailed exploration of possible answers - since it would be beyond the scope of this study's more discrete focus on Canada-EC relations - is left for future research. This study concludes that the essential challenge for Canada-EC relations in the 1990s is not so much whether Canada should scale-back its European presence, but rather to what degree Canada can re-create the leverage lost with the passing of the Cold War, a period during which a Canadian security commitment was accepted and expected by its European allies, and during which the necessary political stability to encourage transatlantic commerce was provided.

The challenge to linkage politics posed by pan-Europeanism in the 1990s is to what degree Canada-Europe and Canada-Community collaboration on co-operative security issues encompassing refugees/migration, terrorism, the environment, poverty and human welfare, and inter-ethnic conflicts, will help to rebuild some of the traditional Canadian leverage exercised through NATO and the CSCE. Further, what impact, if any, will these efforts have on the choices available to Canada in its response to the emergence of a Single European Market, a process that has far more important and numerous consequences than first expected, due to the exigencies of integration? Without the unifying pressure of East-West polarization, the EC's Member States in the post-Cold War

period have felt it increasingly unnecessary to maintain a common front with North America on international security or trade issues, leading to an unraveling of the traditional transatlantic political-security nexus. Already by the early 1990s this created a fertile environment for the increased politicization of transatlantic economic and trade relations, and thus within the "two pillar" framework of transatlanticism witnessed the "side-swiping" of Canada in an escalation of EC-U.S. disharmony.

To prevent marginalization, the argument is made here that Canada's relations with Western Europe in the late 1980s and early 1990s exhibited a leverage-building approach with three broad components: *policy* – greater integration of the economic and security tracks of its European policy framework; *structural* – pursuit of changes in the institutional frameworks governing transatlantic relations; and *attitudinal* – increased coalition-building among the major stakeholders on both sides of the Atlantic (e.g., the Canadian and Commission bureaucracies, the Canadian and European parliaments, political leaders and the business communities on both sides of the Atlantic). Since the dissertation compares the nature of structural changes in the transatlantic relationship to the policy and institutional adjustments that were made, naturally arising from such an approach is the question of whether the various adjustments in Canada's leverage-building were sufficient and effective in the pursuit of Canada's

European interests during the two terms of the Mulroney government. The study concludes that the policy and institutional adjustments in Canadian-EC relations during this period only partially absorbed the impact of underlying structural changes in transatlantic economic, political and security relations.

NOTES

1. As cited in J. L. Granatstein and Robert Bothwell, *Pirouette: Pierre Trudeau and Canadian Foreign Policy* (Toronto: University of Toronto Press, 1990), p. 172 and footnote 89. Ritchie was among the original elite corps who constituted Canada's first foreign service (after Statute of Westminster in 1932). He rose to become Under-Secretary of State for External Affairs.
2. The name of the CSCE has been changed to the Organization for Security and Cooperation in Europe (OSCE). Given this study's time frame, the acronym "CSCE" will be used.
3. The European Coal and Steel Community (ECSC), Euratom and the European Economic Community (EEC) were formally amalgamated July 1, 1967 to become the European Community (EC). The EC became the European Union after ratification of the Maastricht Treaty on November 1, 1993. For a good review of the rise of the EC, see John Pinder, *European Community* (London: Royal Institute of International Affairs, 1989), esp. Ch. 1.
4. The twelve Member States are: Germany, France, the United Kingdom, Italy, the Netherlands, Spain, Belgium, Denmark, Portugal, Ireland, Greece, and Luxembourg. As of January 1, 1995, three new states - Austria, Sweden, and Finland - joined the EU.
5. The best regular source for Canadian views on European security is the periodical *Canadian Defence Quarterly*. See also the most up-to-date research bibliography on Canada's defence and security literature in David B. Dewitt and David Leyton-Brown, eds., *Canada's International Security Policy* (Toronto: Prentice-Hall Canada Ltd., 1995), Appendix.
6. Charles Pentland, "Europe 1992 and the Canadian Response," in Fen Osler Hampson and Christopher J. Maule (eds.), *Canada Among Nations 1990-1991*, (Ottawa: Carleton University Press, 1991), p. 126.
7. For an excellent historical discussion of the importance of diversification in Canada's foreign policy policy in the context of Canada's relations with Europe see Panayotis Soldatos, "En guise d'introduction: Le Canada devant la diversification et le continentalisme libre-échangiste," in A.P. Donneur and P. Soldatos (eds.) *Le Canada à l'ére de l'Après-Guerre Froide et des Blocs Régionaux* (Toronto: Captus Press, 1993), especially pp. 1-3; See also Donald Barry, "The United States and the Development of the Canada-European Community Contractual Link Relationship," *American Review of Canadian Studies*, Vol. 10, (Spring), pp. 63-74.

8. According to an acclaimed biography of Lester B. Pearson by John English, Pearson believed "that Canada's identity depended upon the nourishment that flowed from its links to Europe and that without such links the economic and political sinews of Canadian nationhood would shrivel." John English, *The Life of Lester Pearson*, (Toronto: Alfred A. Knopf, 1992), p. 110. For an equally profound treatment of Pearson's thinking on the North Atlantic community see John Holmes, *The Shaping of Peace: Canada and the search for world order, 1943-1957*, Vol. 2 (Toronto: University of Toronto Press, 1982), Ch. 5. And for Pearson's "Atlantic Vision" in his own words see Lester B. Pearson, *Mike: The Memoirs of the Right Honourable Lester B. Pearson* (Toronto: University of Toronto Press, 1972), Ch. 3.

9. The best treatment of Trudeau's "Europe" policy from the late 1960s to the early 1970s can be found in Peter Dobell, *Canada's Search for New Roles: Foreign Policy in the Trudeau Era* (Oxford, UK: Oxford University Press, 1972; and Peter C. Dobell, *Canada in World Affairs, Volume XVII, 1971-1973* (Toronto: Canadian Institute of International Affairs, 1985), Ch. 8. On a reappraisal of the Third Option see Panayotis Soldatos in Paul Painchaud, (ed.) *From Mackenzie King to Pierre Trudeau: Forty Years of Canadian Diplomacy, 1945-1985* (St. Foy, Quebec: Université Laval Presse, 1985); and J.K. Granatstein and Robert Bothwell, *Pirouette: Pierre Trudeau and Canadian Foreign Policy* (Toronto: University of Toronto Press, 1990), pp. 111-172.

10. See, for example, Lawrence Woods, *Asia-Pacific Diplomacy: Nongovernmental Organizations and International Relations* (Vancouver, BC: University of British Columbia Press, 1993).

11. A phrase coined by Michael Hart in his chapter entitled, "Canada Discovers its Vocation as a Nation of the Americas," in Fen Osler Hampson and Christopher J. Maule, eds., *Canada Among Nations 1990-91: After the Cold War* (Ottawa: Carleton University Press, 1991), pp. 83-108.

12. John Halstead, "Atlantic Community or Continental Drift?" *Journal of European Integration*, Vol. 16, No. 2, (Spring 1993), p. 158.

13. A 'multipolar' rather than 'multinodal' world is referred to here because there will continue to be economic competition, although now among a greater number of regional groupings. Multimodality would not be appropriate in this instance since it de-emphasized competition.

14. A classic exposition on why Canada adopted an internationalist foreign policy can be found in John W. Holmes, *The Shaping of Peace, Vol. 2, Canada and the Search for World Order 1943-1957* (Toronto: University of Toronto Press, 1982).

15. For an excellent historical examination of multilateralism in Canadian foreign policy, see Tom Keating, *Canada and the World Order: The Multilateralist Tradition in Canadian Foreign Policy* (Toronto: McLelland and Stewart, 1993).

16. According to Wolfers, possession goals are a means of preserving or enhancing a country's possessions (e.g., natural resources); milieu goals are aimed at influencing the nature of the international environment beyond a country's borders. Arnold Wolfers, *Discord and Collaboration: Essays on International Politics* (Baltimore: Johns Hopkins Press, 1962), ch. 5, pp. 67-80.

17. The G-7 has been a prestigious forum for the discussion of macroeconomic policy since 1975 and, since 1980, international political issues as well. It is important to note that the G-7 summits are made up of no less than four EU Member States (Germany, France, UK, Italy) plus the President of the Commission to represent the interests of the smaller Community members. The Quadrilateral Group includes the EU, US, Canada and Japan. The EU also is a dialogue partner of the following groups of countries: ACP states (69), Andean Pact, Arab League, ASEAN, Contadora, Central America, Council of Europe, EFTA, Front Line states, G8, GCC, Mediterranean states and SELA. See Table 5-1 in Christopher Hill, "The Foreign Policy of the European Community," *Foreign Policy in World Politics* (Englewood Cliffs, New Jersey: Prentice-Hall Inc., 1992), p. 127. With Canada's own affinity for "dialoguing" with as many groups of countries as possible there is considerable overlap between the Canadian and EU dialogue partners (e.g., at the annual ASEAN Post Ministeral Conference, former Front Line states, Contadora, ACP states).

18. Michael Smith and Stephen Woolcock, *The U.S. and the European Community in a Transformed World*, draft manuscript made available to this author, 1992, p. 7.

19. In contrast to the American case, where before 1990 there did not exist bilateral institutional mechanisms to manage the relationship, in the Canadian case as the this study discusses in Chapters Three and Four, the TAD was more symbolic since Canada had already put in place a number of institutional mechanisms in the 1970s. See Michael Smith and Stephen Woolcock, *The United States and the European Community in a Transformed World*, (London: Royal Institute of International Affairs, 1993), p.1.

20. Woolcock, *Trading partners to trading blows*, p. 12.

21. Lorraine Eden and Maureen Appel Molot, unpublished paper on Canada-U.S.-Mexico free trade that was given to this author in October 1991; Tomlin and Doern (1992), Rugman (1991), Only Michael Hart, a Canadian official who participated in the negotiations

leading up to the CUFTA, has argued that both the motivations for and the process of the free trade agreement was preponderantly influenced by small number of trade policy officials. In his view, although the Canadian business community was consulted by government, it was almost tangential to the process of achieving the final agreement. See Michael Hart (with Bill Dymond and Colin Robertson), *Decision at Midnight: Inside the Canada-U.S. Free Trade Negotiations* (Vancouver: University of British Columbia Press, 1994).

22. This does not of course discount the rich contributions of Canada's diplomatic historians such as C.P. Stacey, Robert Bothwell, Norman Hillmer, Jack Granatstein, John English, and John Hilliker or the many diplomats turned academics such as John Holmes, Escott Reid, Arthur Andrew among others. Many of their works are cited in the present study. Nevertheless, their perspectives often focus on the personalities of the Canadian leaders who made foreign policy rather than on developing analytical schema with which to determine recurrent patterns in Canada's international relations. Indeed, such a "scientific" exercise would probably be anathema to them.

23. James Eayrs, *The Art of the Possible: Government and Foreign Policy in Canada* (Toronto: University of Toronto Press, 1960).

24. R. Barry Farrell, *The Making of Canadian Foreign Policy* (Scarborough, Ontario: Prentice-Hall, 1969).

25. Bruce Thordarson, *Trudeau and Foreign Policy: A Study in Decision-Making* (Toronto: Oxford University Press, 1972).

26. Cranford Pratt, ed., *Middle Power Internationalism: the North-South Dimension* (Kingston & Montreal: McGill-Queen's University Press, 1990).

27. Denis Stairs, *The Diplomacy of Constraint: Canada, the Korean War, and the United States* (Toronto: University of Toronto Press, 1974).

28. Kim Richard Nossal, *The Politics of Canadian Foreign Policy* (2nd ed., Scarborough, Ontario: Prentice-Hall, 1989).

29. David B. Dewitt and John J. Kirton, *Canada as a Principal Power: A Study in Foreign Policy and International Relations* (Toronto: John Wiley, 1983).

30. Canadian political scientists drew much of their foreign policy decision-making theory from Graham T. Allison, *The Essence of Decision: Explaining the Cuban Missile Crisis* (Boston: Little, Brown, 1971) and Morton Halperin, *Bureaucratic Politics and American Foreign Policy* (Washington, D.C.: Brookings, 1974). For examples of American academic influence on post-war approaches used

to study Canadian foreign policy see an excellent review by Denis Stairs, "The Post-War Study of Canada's Foreign Policy," *International Journal*, Vol. L, No. 1 (Winter 1994-95), esp. p. 34.

31. See especially Krasner, (1978).
32. Adapted from Albrecht Rothacher's PH.D. dissertation, p. 13.
33. On this statist approach see Kim R. Nossal, "Analyzing the domestic sources of Canadian foreign policy," *International Journal*, 39 (1983-84), pp. 1-22.
34. The planning staff, acts as the nerve centre or, as it has been described, the cerebral cortex of most foreign ministries. In the Canadian case, because it is attached to the Under-Secretary of State's office, it has an overview function over all Departmental functions. Its location therefore made it an ideal vantage point for this author to study the foreign policy process.
35. Until 1989 the Department was the known simply as External Affairs; from 1989-1993, in acknowledgement of its amalgamated status, it was known as External Affairs and International Trade Canada. Since November 1993 it has been the Department of Foreign Affairs and International Trade; the Secretary of State for External Affairs has become the Minister of Foreign Affairs.
39. To legally circumvent this limitation, this author instead interviewed middle-rank and senior officials who wrote the telexes, memoranda, policy papers, and think-pieces that were pertinent to this study. If the officials agreed to provide the author with information on the subject matter of the documentation, the author was then able to cite the information as received in confidential interviews.
40. It was this author's impression that since he was identified with the Policy Planning Staff and not considered an "outside" researcher, Canadian officials were more forthcoming and comfortable about submitting to interviews.
41. The interview process, although providing a needed context to the Canada-EC relationship that was largely absent from internal written communications, did however present its own unique set of problems. For example, there is the perennial difficulty of distortions arising as interviewees were asked to recall events from the past - something that is exacerbated in a highly rotational bureaucratic structure such as a foreign ministry. Mitigating this disadvantage was the fact that distance may have allowed the interview subjects to provide more nuanced and perhaps less subjective recollections of events. The pitfalls of the interview process quickly became apparent to this author as some of the highly success-oriented EAITC officials put positive "spins" on even the most shallow policy initiatives. This problem can be

overcome by interviewing as large and diverse a sample of relevant actors as possible and by comparing the views obtained with the conclusions drawn from reading the files. However, in the case of the present study, with EAITC such a central actor in the Canadian foreign policy decision-making process, it was difficult to assemble a diverse sample of interviewees from both inside and outside the Department with sufficient knowledge of a bilateral relationship. Thus there is an inherent danger in the examination of Canadian foreign policy actions that the analyst will be confronted by information that reflects an exaggerated view of the importance of EAITC. Indeed, it was this author's impression that officials in other government departments - OGDs - were extremely uncomfortable in discussing bilateral Canada-EC issues (whether fish or transatlantic small business linkages), and preferred to refer the author either to the European Community Division at EAITC or to ask permission from EAITC before speaking to the author.

42. Michael Franklin with Marc Wilke, *Britain in the European Community* (London: Royal Institute of International Affairs, 1990); Stephen Woolcock, Michael Hodges, and Kristen Schreiber, *Britain, Germany, and 1992: The Limits of Deregulation* (London: Royal Institute of International Affairs, 1991); William Wallace, *Britain's Bilateral Links with Western Europe* (London: Routledge & Kegan Paul, 1984); and William Wallace, *The Transformation of Western Europe* (London: Pinter Publishers, 1990).

43. C.F. Peter Stingelin, *The European Community and the Outsiders* (Toronto: Longman Canada, 1973) - this is one of the few treatments with a Canadian dimension to the EC's external relations; Peter Coffey, *The External Economic Relations of the EEC* (London: The Macmillan Press Ltd., 1976); R. Morgan, *Europe and the World* (London: Europe, 1976); Geoffrey Edwards and Elfried Regelsberger, *Europe's Global Links* (London: Pinters, 1990); Leslie Fielding, *Europe as a Global Partner: The External Relations of the European Community* (University Association for Contemporary European Studies, 1991); Juliet Lodge, *The European Community and the Challenge of the Future* (London: Pinter Publishers Ltd., 1989 and Second Edition, 1993), esp. Chapters 12-16 of First Edition; and John Redmond, ed., *The External Relations of the European Community: International Responses to 1992* (London: Macmillan Press, 1992). On the EC's relations with middle powers, it should be noted that Redmond's treatment does include a chapter by Juliet Lodge on New Zealand and Australian approaches to the Single Market.

44. Rothacher, (1983).

45. Gordon Daniels and Ian Gow, "The European Community and Japan," in Juliet Lodge, ed., *The European Community: Bibliographic Excursions* (London: Pinter, 1983), pp. 25-235.

46. Ali El-Agraa, "Japan's Reaction to the Single Internal Market," in John Burton, ed., *The External Relations of the European Community*, pp. 12-30.

47. These are noteworthy because they are distinct from the much larger corpus of academic and policy-oriented treatments of "Atlantic" or Western Europe-U.S. relations that had been published previously. This literature, reflecting the period of East-West confrontation, focused on Europe-U.S. relations in the context of the transatlantic security architecture (primarily how the vicissitudes of NATO intersected and affected the transatlantic bargain) and, if it did not ignore the EC altogether, tended to give it and transatlantic economic and trade relations short shrift.

48. Smith is perhaps the most prolific academic analyst of EC-U.S. relations. He has compiled a bibliographic listing (by decade since 1945 and ending in 1984) of key treatments of American-European relations as well as an excellent bibliography of select books and articles on transatlantic and Europe-U.S. relations with brief descriptions of their orientations (e.g., trade/economic, theoretical, political/security). See Michael Smith, *Western Europe and the United States: The Uncertain Alliance* (London: George Allen & Unwin Publishers Ltd., 1984), pp. 20-21 and Bibliography. This bibliography has been substantially updated in his co-authored 1993 book on EC-U.S. relations (see footnote 53). See also Michael Smith, "The Devil You Know: EC-US Relations," *International Affairs*, 1990.

49. Robert Baldwin, *Issues in US-EC Trade Relations* (Chicago: University of Chicago Press, 1986).

50. L. Tsoukalis (ed.,), *Europe, America and the World Economy* (Oxford: Blackwell, 1986).

51. Roy Ginsberg, *Foreign Policy Actions of the European Community: The Politics of Scale* (Boulder, CO: Lynne Rienner, 1989). Although this examines all aspects of the EC's foreign policy, since the U.S. is the Community's most important diplomatic partner the book offers an in-depth as well historical analysis of U.S.-EC relations.

52. Jurgen Schwartz, *The External Relations of the European Community, in particular EC-US Relations* (Baden Baden: Nomos Verlagsgesellschaft for the European Policy Unit at the European University Institute, 1989), especially Part III entitled "Specific Problems of the Relations Between the European Community and the United States" and the contribution by Barry Carter on a "Code of Conduct for EC-US Relations" which reflects, from an American perspective, the discussion in Chapter 10 of this dissertation on the modalities of future Canada-EC relations.

53. Gary Hufbauer, *Europe 1992: An American perspective* (Washington, D.C.: Brookings Institution, 1990).

54. Stephen Woolcock, *Market Access Issues in EC-US relations: Trading Partners or Trading Blows?* (London: Pinter Publishers Ltd., 1991).

55. See Helga Haftendorn and Christian Tuschoff, eds., *America and Europe in an Era of Change* (Boulder, Co.: Westview Press, 1993). The uniqueness and strength of this book is that it brings together senior American academics who provide policy prescriptions for the future of U.S. policy towards Europe. Especially interesting is the debate between Stanley Hoffman (who believes that the transatlantic security agenda will remain dominant) and Catherine Kelleher (who believes military issues will lose their paramount importance) and Robert Putnam (who contends that conflicts over security will concern less vital interests and that as a result transatlantic relations will be more stable).

56. This is the most recent and most comprehensive treatment of both the security and economic tracks of EC-U.S. relations.

57. Juliet Lodge, *The European Community and New Zealand* (London: Pinter, 1982); and J.D.B. Miller, *The EEC and Australia* (Melbourne: Nelson, 1976).

58. Interestingly, in this edited volume there is an introduction by Jean Monnet. See W.B. Cunningham, ed., *Canada, the Commonwealth and the Common Market* (Montreal: McGill University Press, 1962).

59. Charles Pentland, "Europe 1992 and the Canadian Response," in Fen Osler Hampson and Christopher J. Maule, eds. *Canada Among Nations 1990-91: After the Cold War* (Ottawa: Carleton University Press, 1991), pp. 125-144; and "Linkage Politics: Canada's Contract and the Development of the European Communities," *International Journal*, 32, (1977).

60. Harald von Riekhoff, "The Third Option and Canadian Foreign Policy," in Brian Tomlin, (ed.), *Canadian Foreign Policy: Analysis and Trends* (Toronto: Methuen, 1978).

61. Robert Boardman, "Initiatives and Outcomes: The European Community and Canada's 'Third Option'", *Journal of European Integration*, Vol. 3, No. 1 (1979).

62. See Peter C. Dobell, *Canada in World Affairs*, Vol. XVII, 1971-1973 (Toronto: Canadian Institute of International Affairs, 1985); and also, *Canada's Search for New Roles: Foreign Policy in the Trudeau Era* (London: Oxford University Press, 1972).

63. Panayotis Soldatos and André Donneur, *Le Canada entre le monde et les Etats-Unis: un pays en quête d'une politique étrangère renouvelée* (North York, On: Captus Press, 1988). See especially chapter by Soldatos on Canada-EC relations.

64. J.L. Granatstein and Robert Bothwell, *Pirouette: Pierre Trudeau and Canadian Foreign Policy* (Toronto: University of Toronto Press, 1990). This contains the best assessment of the process leading up to the signing of the 1976 EC-Canada Framework Agreement.

65. Robert Boardman, Hans J. Michelmann, and Charles C. Pentland, and Panayotis Soldatos, *The Canadian-European Communities Framework Agreement: A Canadian Perspective* (Saskatoon, Sask.: Canadian Council for European Affairs, 1984).

66. Nicolas G. Papadopoulos, *Canada and the European Community: An Uncomfortable Partnership?* (Montreal: Institute for Research on Public Policy, 1986).

67. John Halstead, Panayotis Soldatos, and Hans J. Michelmann, *Doing Business with Europe: Canadian Trade with the European Community in a Changing World Economy* (Toronto: Canadian Scholars' Press, 1988). Panayotis Soldatos and John G.H. Halstead, *Doing business with Europe in a changing world* (Toronto: Canadian Scholars Press, 1990).

68. This is more of an explanation or "how to" of the EC "1992" program for a Canadian business audience than it is about the business community's actual response. Gordon Pitts, *Storming the Fortress* (Toronto: Harper Collins, 1990).

69. Michel and Fanny Demers, "Europe 1992 and Canada," in Christopher Maule and Fen O. Hampson, eds., *Canada Among Nations 1991-1992* (Ottawa: Carleton University Press, 1991).

70. The reports are: *The European Economic Community: A Guide for Canadian Exporters* and *Europe 1992: Your Business Opportunity*, both published by EAITC in 1989. In 1989 EAITC published reports on (1) Defence, Aerospace and Transportation and, (2) Agriculture and Food Products, (3) Telecommunications and Computers, (4) Minerals and Metals, and (5) Fisheries. In 1990 EAITC published reports on (6) Competition Policy and Company Law, (7) specialty chemical products, new materials, pharmaceuticals and biotechnology, (8) Industrial Products and Services, (9) Standards, (10) Consumer Goods and Cultural Industries, (11) Financial Services, (12) Industrial Products and Services, and an Overview of '1992'.

71. The peak of research on Canada-EC relations occurring in the mid- to late-1970s coincided with the Canadian government's "Third Option" initiative and the signing of the 1976 Framework Agreement. On the funding of Canadian foreign policy research see David R.

Black and Heather A. Smith, "Directions in Canadian Foreign Policy Literature," *Canadian Journal of Political Science*, XXVI:4 (December 1993), pp. 768-69. On the state of Canadian foreign policy literature see Maureen Appel Molot, "Where Do We, Should We, or Can We Sit? A Review of Canadian Foreign Policy Literature," *International Journal of Canadian Studies* 1-2 (1990). Molot's bibliography of Canadian foreign policy literature is proof positive of the declining number of scholars in this field.

72. John Holmes, *The Shaping of Peace: Canada and the search for world order, 1943-1957*, Vol. 2 (Toronto: University of Toronto Press, 1982), p. 121.

73. Pearson considered September 1947 as marking the beginning of the North Atlantic Alliance. See Lester B. Pearson, *Mike: The Memoirs of the Right Honourable Lester B. Pearson* (Toronto: University of Toronto Press, 1972), p. 41.

74. This has been noted most recently in Robert O. Keohane, Joseph S. Nye and Stanley Hoffman, (eds.), *After the Cold War: International Institutions and State Strategies in Europe, 1989-1991* (Cambridge: Harvard University Press, 1993), pp. 16-19.

75. Pearson, p. 49.

76. A good summary of the post-1945 history of Canada-UK relations can be found in Peter Lyon, "Britain and Canada since the Second World War," in D.K. Adams, ed., *Britain and Canada in the 1990s: Proceedings of a UK/Canada Colloquium* (Aldershot, UK: Dartmouth Publishing Co., Ltd., and the Institute for Research on Public Policy, 1992), Ch. 1; and on the "drift" in Canada-UK relations, see Robert Boardman, "The Singular Case of the Disappearing Link: the economics and change and the politics of survival in Canada-UK relations," in *ibid.*, Ch. 2.

CHAPTER TWO**THE THEORY OF MIDDLE POWER FOREIGN POLICYMAKING****2.1 Introduction**

Since the end of the Second World War, academics have viewed Canada's international status in three markedly different ways. The first and most popular systemic model, often called the "liberal-internationalist" assumes that Canadian foreign policy can best be understood if Canada is seen as a middle power seeking to contribute to international peace and stability by advocating and supporting an increasing institutionalization of international relations in ways that would ensure a major role for Canada.¹ Based on a strong network of international organizations in which all states have the potential to influence events, the new system eventually replaced the anarchy and reliance on force propounded by classical realists in their balance of power theories. Canada's "global" foreign policy was evident in its role as a founding member of most post-war multilateral economic (e.g., GATT, OECD, IMF, IBRD) and security fora (e.g., NATO, CSCE). With the end of the Cold War, Canada, reinforcing the increasing importance of Asia Pacific in its foreign policy, began promoting itself as a player in discussions to create a North Asian multilateral security forum.² This desire to belong was a result of historical experience which had shown that international organizations

played an important role in setting the rules and standards which could benefit all Canadians, whether it was enhancing global peace and security or ensuring equal access to global markets for Canada's farmers and fishermen. By the late 1980s, however, with fiscal realities looming large in Ottawa, Canada's membership in a wide assortment of international organizations with varying levels of influence, ranging from the prestigious G-7 to the more obscure International Tropical Timber Organization, prompted questions from both inside and outside of government about the necessity for Canada to be the quintessential joiner.

Allen Sens states that Canada's Cold War internationalism (including its defence component), was based on a clear conception of Canada's national security interests. "While historical affinities and political and economic membership in the West contributed to Canada's Cold War internationalism," he concludes that "the pursuit of a policy of active engagement abroad and full partnership in the emergent *Pax Americana* was founded on the reality of geography and the strategic dynamic of the Cold War."³ The concern was that an outbreak of hostilities in Europe or elsewhere could escalate to a superpower confrontation which would place Canada at risk, for any full-scale war between the superpowers would leave Canada (which was part of the "North American Target Set") either a direct target of attack or at best a victim of severe collateral damage. Therefore, in addition to

participation in North American defence, it was in Canada's interests to contribute to efforts to deter a general European war and prevent, control, or contain the spread of hostilities in areas of tension around the world.

A second dimension of Canadian internationalism noted by Sens was concern over Canadian sovereignty and independence. The maintenance of international commitments and the exertion of "middle power" roles - in particular the commitment to collective defence in Europe and United Nations (UN) peacekeeping - would act as counterweights to the political and economic influence of the United States as well as a more general expression of the Canadian government's claim to be acting as an independent, sovereign political entity.⁴

The need for "counterweights" and "independence", as we shall see in subsequent chapters, has deep historical roots in Canada's external relations. As Canadian historian Kenneth McNaught has written, the "most consistent theme running through the sometimes tenuous tale of Canada's relations with the outside world has been a concern for survival."⁵ This theme was borne out in the Old Province of Quebec, the Loyalist migrations to British North America after the American Revolution, the War of 1812, the border raids in the 1830s and 1860s, and the pressures of American expansionism in the 1880s and early 1900s that led to the creation by Canada's first prime minister, Sir John A. MacDonald, of a National Policy to protect the Canadian market from being hurt by

cheaper American imports. These events were marked by successive decisions against political union with the United States. Nineteenth-century Canadian foreign policy was based on a consciously-formulated concept of balance - between the threats posed by American expansionism and required "loyalty" to Britain. The principal counterweight to dependence on Britain was encouragement of trade with the United States or a counteracting nationalism.⁶ This search for counterweight and diversification in diplomatic ties has also been the leitmotif of Canada's international relations in the 20th century. In the 1980s, when commentators focused on the Mulroney government's increased bilateralism with Washington, this observation overlooked the same government's strong support for multilateral ties through NATO, the UN, the Commonwealth and La Francophonie.

In the above described "comfortable configuration,"⁷ as Dewitt and Kirton have termed it, Canada became a state of medium strength that rarely used its power directly in the pursuit of national advantage. Rather:

acting as a skilled diplomat, it has played an active, responsible, and influential part in a multitude of global issues, developing harmonious, effective, and expansive ties with states of similar strength and common political tradition. And in keeping with the values of contemporary liberalism, Canada has pursued the central purpose of steadily constructing a more durable international order for all.⁸

Those who saw the post-War period as producing a bi-polar

system, with the United States and the Soviet Union directly pitted against each other, quickly challenged the traditional view of international relations.⁹ These observers described a network of satellite states supporting the two primary protagonists. The United States in the West was seen as primarily concerned with protecting the capitalist system and with maintaining its own pre-eminent position. Countries such as Canada were presented in a very unflattering light, their role in international affairs left relatively insignificant, and their freedom to operate independently, either domestically or internationally, strictly limited. Members of the Western Alliance were termed minor powers and wholly dependent.

In this 'capitalist class' model of Canadian foreign policy propounded by academics such as Cranford Pratt, Canada is a permeated, semi-peripheral power that

...has had its internal structure determined largely by sources of public and private power centred in the United States. It has been forced to secure from a globally dominant economic power the resources required to meet basic needs...In conformance with Marxist predictions, Canada has been induced to collaborate with preponderant America, provide uncritical support for American actions and purposes, and passively promote those open international regimes and gradual reforms by which the global dominance of imperialist powers is sustained.¹⁰

In the early 1980s, Dewitt and Kirton found both of these interpretations deficient and instead posited one of the most pro-statist arguments for Canadian foreign policy.¹¹ Within

a "complex neo-realist" framework, Dewitt and Kirton attempted to explain the shift of Canada's foreign policy in the 1970s from one reflecting liberal internationalism to another more narrowly self-serving. Their rethinking of Canadian foreign policy reflected dissatisfaction with traditional theories, most especially their absence of hypotheses regarding the role of middle powers in a world characterized by declining American influence.

Dewitt and Kirton viewed Canada's position in the international system in purely structural terms and concluded that the combination of declining U.S. power and Canada's more assertive economic nationalism had catapulted Canada into the league of "principal powers". By their definition, a "principal power" contains three characteristics:

First, they are the states in the hierarchy that stand at the top of the international status ranking, collectively possessing decisive capability and differentiated from lower-ranking powers by both objective and subjective criteria. Secondly, they act as principals in their international activities and associations, rather than as agents for other states or groupings or as mediators between principals. And thirdly, they have a principal role in establishing, specifying, and enforcing international order.¹²

The Kirton and Dewitt principal power thesis was certainly provocative and perhaps appropriate in the early 1980s when questions of non-structural leadership in the international system were of lesser interest and relevance because the political-economic hegemony of the United States, despite its

noticeable decline, was still primary. By the late 1980s and early 1990s, however, the principal power thesis had become less relevant for Canada in light of the dramatic changes in the international system, reflected not exclusively but perhaps most profoundly by the collapse of communism in Eastern Europe and the Soviet Union.

2.2 "Relocating" Canada As a Middle Power in the Post-Cold War Era

In collaboration, Andrew Cooper, Richard Higgott, and Kim Nossal, have in recent years attempted to reconceptualize and to "relocate" middle power foreign policy theorizing, shifting the focus to the changing nature of what John Holmes ironically termed "middlepowermanship"¹³ in the post-Cold War era.¹⁴ Rather than narrowly focusing on American leadership in the world system and, by extension, how middle powers will respond, they have placed greater emphasis on the sources of innovation and initiative available to middle powers under conditions of "waning hegemony."¹⁵ For Cooper et al. the changing nature of leadership and followership was one of the key justifications for wishing to "relocate" the idea of middle powers in the contemporary international system.

They extend their analysis to include the number of actors with a potential to exercise non-structural leadership, given that the structural leadership of the great powers is no

longer the most important source of initiative in the international order of the 1990s. In a variety of issue areas on the international agenda they conclude that other forms of leadership can act significantly in "catalyzing" the process of reform and change, especially on those issues requiring considerable cooperation and collaboration. They envisage appropriately qualified secondary powers such as Canada playing this role in a way that might not have been possible in the past.

Cooper et al. see Canada as the quintessential middle power or secondary-level state and proffer an "egotistic" framework for its foreign policy outlook but then veer away from the Kirton and Dewitt thesis by advocating a less structural definition.¹⁶ Less interested in concepts of aggregate state power or location in the hierarchy of states, they reject idealist and normative influences inherent in the Pearsonian notion of Canada as a "boy scout" in the international system, as a much respected mediator between the superpowers and between the First and Third worlds.

Although theories of the statecraft of middle powers have traditionally assumed a promotion of "social justice" and "peace," Cooper et al. direct their focus upon the impact of rationality in shaping Canada's activities, examining what types of actions Canada takes rather than what actions it should take. They argue that the traditional frameworks for understanding Canadian foreign policy were not adaptable to

the new circumstances of the late 1980s and early 1990s. For instance, because non-structurally determined types of leadership will have increasing room to blossom in the 1990s and were not sufficiently highlighted by the Dewitt and Kirton analysis, Cooper, Higgott and Nossall have proposed the need to formulate a model of "middle power leadership" to account for Canada's systemic position.¹⁷ It is their contention that in the post-hegemonic international system, middle powers such as Canada are exercising and will exercise increasing "technical" and "entrepreneurial" leadership as opposed to the more structurally determined leadership (i.e., defined in military or economic terms) found in traditional models.¹⁸

They consider globalization and interdependence to have diminished - though not undermined - the role of structure in the explanation of international relations, epitomized especially in the work of Kenneth Waltz.¹⁹ As Higgott notes,

Understanding in international politics will have to be less structurally determined than has been the case for much of the Post-World War Two era in the dependency literature on the one hand and even the realist and neo-realist international political theory on the other.²⁰

They are careful to emphasize that this argument does not presume that the change in the relational power between the U.S. and the rest of the world since 1970 was accompanied by a commensurate decline in what Susan Strange and others have identified as its residual or structural power.²¹ They do assume a continuing although not hegemonic role for the United

States and contend that "mitigating economic and political intellectual influences" will emanate from other principal centres of structural power in the international system, especially Japan and the EC. Thus in the post-Cold War world questions of power shift are still salient for Canada, as more "principal" powers inhabit a world which Smith and Woolcock have described as one of "competitive co-operation" between the U.S. and the EC.²²

Cooper et al. see middle powers having the opportunity to fill the gap in the international power base resulting from the relative decline of American resources and therefore from the umbrella of structural leadership and willingness to lead, and to "take on greater - albeit selective - forms of responsibility."²³ Or as Puchala and Coate note: "numerous middle powers are now looking for ways to assert themselves in the context of the...leadership void."²⁴ Thus, Cooper et al. adopt a "behavioural" approach that emphasizes not what middle powers should be doing (i.e., placing them on a higher moral ground) but rather what diplomatic behaviour they do, or could display. In this view, the diplomacy of middle powers such as Canada is defined by a tendency to pursue multilateral solutions to international problems, to embrace compromise solutions to international disputes, and to adopt notions of "good international citizenship."²⁵

Cooper et al. cite two other factors reinforcing the ability and willingness of middle powers to adopt a more

activist, initiative-oriented approach within the international arena. The first is the search for national economic well-being and the second arises out of overlapping domestic and foreign policy considerations presuming "high" policy issues to have dominated the 1950s and 1960s, they find "low" policy issues ascendant in the 1970s, 1980s, and the early 1990s. Economic security and social or "cooperative security" concerns such as the environment and human rights they see as having joined traditional political and security concerns to form the bedrock of contemporary international relations. This tendency in turn has altered perceptions and definitions of national interest. For middle powers, in particular, the search for national economic well-being has become as important as traditional security, which fixed on physical or territorial conceptions of integrity.²⁶

The second factor prompting middle power activism, the increased intermeshing of domestic economics and politics with foreign policy, also acknowledges the influence of "low" policy issues with domestic forces and issues developing international ramifications and international issues entering the national arena. Consequently, a middle power may pull back for fear of causing pain to certain domestic interest groups that have been made more vulnerable by the changing states in the international economic order.²⁷ Cooper et al. point to the Cutler and Zacher thesis that middle powers today, although still portrayed as having a firm attachment to multilateralism

and international institution-building, instead engage in behaviour revealing an uneven commitment to multilateralism, illustrated by Canada's negotiations of the CUFTA and the NAFTA.²⁸

Cooper et al. see the leadership behaviour of middle powers such as Canada in the 1980s and 1990s as neither classically based on coercion and force nor economic as Japan's has been. They view middle power leadership and initiative within a non-structural context, associating such influence with an imaginative and energetic application of diplomatic capabilities. They describe middle power skills as "...persuasion, coalition building, and the art of the 'indirect' approach".²⁹

In attempting to schematize the emergent pattern of middle power leadership, Higgott and Cooper advocate the dimensions highlighted by Oran Young³⁰ as a useful starting point for mapping out categories of action.³¹ Young describes a middle power leader as exhibiting three major characteristics. First, it may act as a catalyst in a diplomatic endeavour, providing the intellectual or political impetus which triggers an initiative. Secondly, in the early and middle stages of an initiative, with the focus on agenda setting, the actor (or actors) would facilitate some form of coalition activity. Within the third phase, it would serve as a manager emphasizing institution-building.

Higgott and Cooper employ the concept of institution-

building here in its broadest sense to include not only the creation of formal organizations and regimes but also the development of conventions and norms (see Keohane, 1990)³². This managerial stage also requires the development of confidence-building measures and facilities for dispute resolution, in which they describe diplomacy frequently centred on a small core group of domestic and international officials whose specific technical skills push a project forward.

What Cooper and Higgott are calling for is a reappraisal of the role of 'agency' in foreign policy analysis, advocating in the formulation of foreign policy theories a greater emphasis on the "...complex and nuanced interplay of the agent-structure relationship³³ and on the leadership capabilities and policy-making functions of foreign policy-making personnel and institutions in a much wider range of states...".³⁴ They view these and other factors as modifying and constraining the structures of anarchy which are too often simply assumed as a given in neo-realist theory.³⁵

Cooper, Higgott and Nossal are acknowledging that the 'source of leadership' in international relations is both systemic and domestic but that while the systemic strain may lead to various forms of policy response it is domestic actors who are the source of this response.³⁶ In short, they are calling for a closer analysis of the actions of the leadership, both in the political executive and the

bureaucracy, in the formulation of foreign policy actions. This suggestion also appears in state-centric views of foreign economic policy put forward by Ikenberry et. al. In this context, David Lake advocates particular attention to executive branch officials, who face the national electorate, bear responsibility for the economic and territorial security of the nation-state, require a sensitivity to the constraints and opportunities created by the international system, and would most probably seek to adopt policies consistent with these national interests.³⁷

Carrying Lake's return to the state as primary actor a step further, and as will be described in greater detail in the next chapter on the Canadian foreign policy process and actors, Canada's foreign policy derives largely from the outcome of bargaining between the representative elements of the state, namely the foreign policy bureaucracy, Cabinet and to a lesser extent, Parliament. Therefore, the extent to which systemic constraints are reflected in foreign policy and international economic policy is determined by the relative success of the foreign policy executive within the domestic political arena. This success, in turn, is conditioned by the structure of the state.

2.2.3 Bureaucratic Politics

The assumption in the state as actor approach is that the

executive has defined the national interest, partially, if not wholly, distinct from the concerns of societal groups or particular governmental institutions. This state-centred view is associated with Allison's Model III – the governmental or bureaucratic politics model of decision-making.³⁸ According to model III, "The 'leaders' who sit on top of organizations are not a monolithic group. Rather, each individual in this group is, in his own right, a player in a central, competitive game. The name of the game is politics: bargaining along regularized circuits among players positioned hierarchically within government."

Players "make governmental decisions not by a single rational choice but by the pulling and hauling that is politics".³⁹ This model shows the deviation from ideal rationality in decisions by revealing the political gamesmanship behind them. As Ikenberry notes, this is a modification of a purely state-centric view, since the proponents of the state as actor approach do not assume that the state always acts as a rational, unified entity, or is necessarily even the most important actor.⁴⁰ But as Welch points out, neither does model III "suppose that the individual players behave irrationally in the games in which they participate, merely that the net effect of those games is to deflect state behavior from the course that would have been chosen by the unitary actor."⁴¹

It will be evident in the decision-making analysis in

Chapters Four to Seven, that as Allison suggests, the bureaucratic position determines a player's perception of an issue: Where you sit influences what you see as well as where you stand (on any issue).⁴² Although as Welch points out in his critique of Allison's model III, Allison confuses matters when he seems to contradict himself by saying that "Each player pulls and hauls with the power at his discretion for outcomes that will advance his conception of national, organizational, group, and personal interests,"⁴³ and that, "each person comes to his position with baggage in tow. His bags include sensitivities to certain issues, commitments to various projects, and personal standing with and debts to groups in society".⁴⁴ Moreover, "individuals' perceptions of the issues will differ radically. These differences will be partially predictable from the pressure of their position plus their personality".⁴⁵

The above discussion indicates that it is easy to overstate the role of bureaucracies. In the present study it will therefore be important to determine if Canadian officials emerge as central actors. In other words, in Canadian policy formulation vis-à-vis the EC, not only is it important to know how activist were the Canadian prime ministers and the secretaries of state for External Affairs, but also the senior bureaucrats, since studies have shown that these state actors have substantial scope for shaping the political struggle to their ends and are not necessarily responders to interest

group initiatives.⁴⁶

Secondly, what resources does a state possess in a given issue-area, and in what circumstances can it bring influence to bear on the policy making process? To answer these questions, it is necessary first to ascertain what types of strategies are available to state officials for expanding their influence in the policy process. State officials can: i) utilize their "special legitimacy," derived from a position at the intersection of the domestic and international political economy, to implement international policy; ii) build new institutions or alter older ones to shift the distribution of power within government towards a specific goal; and/or iii) mobilize societal groups with interests that complement their own to offset political adversaries.⁴⁷

Such tests induce a rethinking of the state's role. This rethinking enhances the system-centered approaches, given that the state translates the constraints and opportunities of international structures into its international economic and foreign policies. Moving beyond the determination of whether a state is "strong" or "weak," what is needed is a focus on agent structure that will allow a more contextual examination of means and degree to which the state has an impact on policy. As Zysman states:

...a government's ability to act in one policy arena will be very different from its ability to act in another...The policy tasks in each sector vary, as does the pattern of interest organization. Consequently, a state's 'strength' - the ability to formulate and

implement policy - varies with its capacity to execute these different tasks.⁴⁸

This quotation clearly raises questions about the fungibility of power.⁴⁹ In this respect, Zysman quite appropriately objects to Katzenstein's placement of states on a continuum according to relative strength.

Statist theory therefore offers attractive advantages as a theoretical framework for the study of the internal determinants of a nation's foreign policy. But as Ginsberg notes, as much as a domestic-centred model provides a more fruitful way of explaining a nation's foreign policy actions, it "yields little insight into what triggers foreign policy actions."⁵⁰ This discussion of some of the general merits and drawbacks of the international and internal approaches would encourage their application to the dominant frameworks for explaining Canadian foreign policy.

2.3 IN SUPPORT OF A MODIFIED STATE-ORIENTED APPROACH

As will be described in the next chapter on the Canadian foreign policy-making process, a general consensus exists in the statist literature that Canada possesses a strong state. That is, the Canadian state tends to be centralized rather than divided along bureaucratic and institutional lines. Federal officials have power and a range of policy instruments available to undertake unilateral policy initiatives. Canadian

officials also can function in face of significant opposition from non-state actors. This ability to function unilaterally has to do largely with the nature of a public service career in Canada, where there is not so much cross-fertilization among government, academe, and the business community as in some other countries such as the United States. Hence the development of a distinct corporate culture in government, contributing to a sense of "separateness" from society.⁵¹ Contributing to this ability to "make" policy, the fact that most Canadian governments since the Second World War have had healthy majorities has meant that the mandarinate has been less influenced by the views of opposition parties.

Another factor supporting the strong state thesis is that pluralist perspectives on state-societal relations are less analytically persuasive since interest groups which are effective in Canadian society are not widely representative. The "dominant class" model of Canadian foreign policy attributes to the corporate sector an unmatched intimacy of access, acceptability, and influence in policy making circles.⁵² Other analysts do not pick out any single interest group, pointing out instead that in Canada, in contrast to the situation in the U.S., domestic interest groups tend not to play a significant role in shaping the behaviour of the state.⁵³ For these reasons the pluralist theory has little explanatory power and is not persuasive framework for the analysis of Canadian foreign policy.⁵⁴

Some analysts explain foreign policy outcomes by linking the concerns of the international realist with the student of bureaucratic politics. However, some Canadian scholars remain unconvinced by this connection which ascribes too much faith to the senior bureaucracy's ability to effect policy change, and underrepresents other domestic actors such as interest groups, classes, political parties and the media.⁵⁵ The protestant observers are also seen as dealing inadequately with domestic actors such as the Parliament, and the Prime Minister, even though these institutions have formal authority over the bureaucracy. In addition, questions are left unanswered concerning how much power is relinquished to the bureaucracy in the policy-making process.

Given such lacunae, Nossal concludes that few students of Canadian foreign policy would adopt a pure state-centric approach.⁵⁶ Instead, Nossal suggests that Canadian foreign policy-making should be viewed from a "modified statist" perspective. He points out that the major histories of Canadian foreign policy provide a "selective but not unrepresentative sample" of paradigms that "fall between the stools of statism and liberalism [pluralism]."⁵⁷ Nossal sees analysts of Canadian foreign policy such as C.P. Stacey, John Holmes, and James Eayrs as focusing on the state and the often contending attitudes of its officials as the source of Canadian foreign policy.⁵⁸

In many respects, these studies point to a behaviour of

the state which conforms to the precepts of Nordlinger's and Krasner's "autonomous" model. Supporting Cooper et al.'s proposition about the role of state officials in middle powers, whether elected or bureaucratic, these officials clearly have their own conception of the national interest and therefore organizational and personal interests must also be factored into their foreign policy decisions. To reiterate, if their preferences are at variance with society's interests, then officials can be described as using their authority and resources to convince society of the correctness of the state's preferences.⁵⁹

But, again, this is not to suggest that a purely 'autonomous' model is the correct theoretical approach for the analysis of Canadian foreign policy. While the state is not a passive reactor to societal demands, neither is it fully "autonomous". A modified statist model suggests that the Canadian state is partially constrained and impelled by societal preferences. How does society constrain the state? Denis Stairs suggests that this may be done at four levels: administration-setting, policy-setting, agenda-setting, and parameter-setting,⁶⁰ with systemic developments exerting pressure at each level.

In sum, a modified statist model of Canadian foreign policy shows the state enjoying a relative autonomy from civil society, to borrow an expression from the neo-Marxists. This modified statist position is more consistent with Allison's

"bureaucratic-politics" model rather than his Model II approach. Whereas Model II is linked to a pure statist perspective through its assertion that all divergencies of policy occur within the apparatus of the state, Model III assumes a definite linkage between state officials and civil society in the policy making process. The bureaucratic-politics model acknowledges that the lines of communication between elected officials and bureaucrats can at times be weak. It demonstrates how the policy process can be difficult to manage and pricks the balloons of political control and inherent state rationality.⁶¹

Another attractive feature of a modified-statist approach is that it can be a natural partner to an international realist theory. The latter hypothesizes how changes in the international system will call forth foreign policy changes, and the former provides an approach to the internal determinants of foreign policy to explain how the international systemic determinants are actually translated into concrete policies.⁶²

To conclude, a quick summary of the levels of analysis dilemma is in order, to put the modified statist position in perspective. Jervis offers perhaps the best refinement of the levels of analysis problem when he extends it by two levels⁶³: (1) the level of decision-making; (2) the level of bureaucracy; (3) the nature of the state; (4) the workings of domestic politics; and (5) the international environment.

Analysis at each of these levels pre-supposes a claim: that if we know enough about the setting in which foreign policy is made - society, state, or international - we can explain and predict the actor's behaviour.

Yet, as is evidenced in this study, emphasis on one of these variables would seem to diminish the importance of the others. The significance of the systemic setting as a force that shapes foreign policy, for example, suggests an image of foreign-policy officials unconstrained by their own bureaucracy or domestic political situation and actors. This chapter and the one to follow shows that this is not representative of the Canadian case. Given the power accorded to the bureaucracy in Canada even more unacceptable is the classical pluralist model that ascribes to private interests the ability to define public preference and the exercise of public choice. In conclusion, then, although the value of a society-centred approach - particularly the inclusion of domestic political and cognitive factors - is clear, this approach even more so than the systemic model begs for a discussion of additional influences in the formulation of Canadian foreign policy. The rest of this dissertation will undertake to develop contextual and empirically informed answers to the question of how and why the Canadian state has mattered more than the private sector in the conduct of Canadian foreign policy *vis-à-vis* the Community.

2.4 CONCLUSION

This overview suggests that neither the domestic nor the international level of analysis is sufficient on its own, the real issue concerns the relative importance to be attached to domestic- or system-level variables and the manner in which these variables can be presumed to interact.⁶⁴ The challenge, according to Benjamin Cohen, is for the analyst to "formalize" the links between the internal and external influences on policy. But while significant scope for methodological pluralism exists, this study does not endorse a highly impractical synthesis of the approaches,⁶⁵ although it does recognize the need for a "formalization" of linkages among some levels of analysis (viz. society, state and systems) to ameliorate some of the rather *ad hoc* attempts in this direction made by researchers heretofore.⁶⁶

This chapter has shown that systems theories must be accorded a very prominent role when shedding some light on the national interests of a middle-sized, non-hegemonic state such as Canada that is highly dependent on foreign trade and investment. That being said, the discussion above also pointed out what systemic theories can and cannot explain. Indeed it has been conjectured that however appealing a geo-political argument is to explain Canada's post-Cold War foreign policy, it is inherently limited. Geographic exposure to "threat" is too crude an environmental effect for any but the most general

behavioural predictions. This dissertation's analysis of Canada's policy approach to the European integration will show that external "threats" are not necessarily sufficient conditions for state behaviour and may therefore not by themselves explain policy choice.

In short, as systems theories do not provide policymakers with much direct help, their most policy-relevant insight may be simply that a system of complex interdependence needs to be managed if it is to remain stable. This function has been provided historically by a hegemonic state; now in a post-hegemonic world a middle-sized state such as Canada can engage in non-structural forms of leadership in response to change in systemic conditions.

Finally systemic theories can be seen as a trigger to alert governments and electorates to changes in the international system that may require changes in national policy. The Community's desire to create a Single Market by January 1993, for example, as indicated in the White Paper of 1985, was if not an explicit then certainly an implicit "threat" to non-Member countries such as Canada. This threat existed because if the Canadian government and population misunderstood the impact of the EC's program on the international system, then there was a likelihood that Canada's policy *vis-à-vis* the EC would be misguided.

In sum, an examination of only the international system without a concurrent examination of the actions of executive

officials or the organizational structure of the Canadian state is insufficient for an understanding of Canada's foreign policy approach to European integration. Without theories concerning the domestic determinants of Canadian foreign policy, we are left with a theory that is limited to explaining recurrent patterns of behaviour within the international arena.

Taking Higgott's and Cooper's typology of Canada's foreign policy as an example of "routine diffuse internationalism", where the relatively autonomous Canadian state takes on a leadership role based on its "technical" and "entrepreneurial" attributes, we would expect Canadian politicians and government officials to become key managers of a cross-section of transatlantic and Canada-EC issue-areas.⁶⁷ This approach recognizes the importance of bureaucratic politics for a realistic understanding of the Canadian foreign policy process. If we agree with David Kozak that "policy positions are determined by or a function of an actor's perspective as developed by his or her bureaucratic culture," then to understand Canada's policy approach towards the EC, as the next chapter shows, it will be important to understand the EC's priority in the outlook of EAITC, the Privy Council Office (PCO) and the Prime Minister's Office (PMO) between 1983 - 1993, and the reality that governments only have finite time, energy, and money to devote to priorities.⁶⁸

NOTES

1. as cited by Pratt 'This approach, which dominated the literature on Canadian foreign policy for twenty-five years after 1945, is summarized perceptively and sympathetically in David Dewitt and John Kirton, *Canada as a Principal Power* (Toronto: John Wiley 1983), pp. 17-28.'
2. The Canadian plans looked at the loose institutional structure of the CSCE as a model in helping to provide stability in the Pacific region. See Stewart Henderson, "Zone of Uncertainty: Canada and the Security Architecture of Asia Pacific," *Canadian Foreign Policy*, Vol. 1, No. 1 (Winter 1992/93), pp. 103-120; and Robert Bedeski and James Bayer, "Mutlilateralism in the Asia Pacific Region and Canada's Possible Role," draft made available to the author, December 1993.
3. Allen G. Sens, "Canadian Defence Policy After the Cold War," *Canadian Foreign Policy*, Vol. 1, No.3 (Fall 1993), p. 8.
4. *Ibid.*
5. Kenneth McNaught, "From Colony to Satellite," in Stephen Clarkson (ed.) *An Independent Foreign Policy for Canada?* (Toronto: McClelland and Stewart Ltd., 1968), p. 173.
6. *Ibid.*, p. 174.
7. David B. Dewitt and John J. Kirton, *Canada as a Principal Power: A Study in Foreign Policy and International Relations* (Toronto: John Wiley and Sons, 1983), p. 1.
8. *Ibid.*
9. See J.L. Granatstein, (ed.), *Canadian Foreign Policy since 1945: Middle Power or Satellite* (Toronto: Copp Clark, 1970) for a discussion of these two visions.
10. Dewitt and Kirton, *Canada as a Principal Power*, p. 2.
11. Dewitt and Kirton argue that their 'complex neo-realist' paradigm follows the 'statist tradition' of Krasner in predicting a strong, impermeable, and autonomous state. See Dewitt and Kirton, *Canada as a Principal Power*, pp. 197-98 and fn 4.
12. Dewitt and Kirton, p.38.
13. John W. Holmes, "Is There a Future for Middlepowermanship?" and Paul Painchaud, "Middlepowermanship as an Ideology," both in Gordon J. King, ed., *Canada's Role as a Middle Power* (Toronto: Canadian Institute of International Affairs, 1966).

14. Three very useful reviews of the literature on middle powers in a Canadian context are to be found in: Michael K. Hawes, *Principal Power, Middle Power, or Satellite?* (North York, ON: York Research Programme in Strategic Studies, 1984); and Maureen Appel Molot, "Where Do We, Should We, or Can We Sit?", pp. 77-96; and Cooper, Nossal, Higgott, pp. 16-22.
15. This is discussed by Lepgold, p. 73 where he cites Keohane, *After Hegemony* (Princeton: Princeton Univ. Press, 1984, pp. 100-103, 183, 184, 195).
16. Higgott and Cooper, p. 5.
17. The following discussion is based on Richard Higgott and Andrew F. Cooper, "Middle Power Leadership in the International Order: A Reformulated Theory for the 1990s", paper presented at the 1991 International Studies Association Conference in Vancouver, Canada, March 19-23. This paper was then amalgamated into Cooper, Higgott, and Nossal, *Relocating Middle Powers: Australia and Canada in a Changing World Order* (Vancouver, BC: University of British Columbia Press, 1993), Ch. 1.
18. Higgott and Cooper, p. 2.
19. Kenneth Waltz, *The Theory of International Politics*. (Mass.: Addison Wesley, 1979)
20. Higgott and Cooper, p. 3, citing Richard A. Higgott, "Towards a Non-Hegemonic International Political Economy", in Murphy, C. and Tooze R. (eds) *The New International Political Economy*, Boulder, CO: Lynn Reiner.
21. Cooper, Nossal and Higgott, p. 14.
22. Michael Smith and Stephen Woolcock, *The United States and the European Community in a Transformed World* (Royal Institute of International Affairs, 1993), Ch. 1.
23. Cooper, Higgott, Nossal, p. 21.
24. cited by Cooper et al., p. 21, Donald Puchala and R.A. Coate, *The State of the United Nations*, 1988 (Hanover, NH: Academic Council of the United Nations System, 1988).
25. Bernard Wood, *The Middle Powers and the General Interest*, No. 1 in the series *Middle Powers in the International System* (Ottawa: North-South Institute, 1988), p. 20.
26. Cooper, Higgott, and Nossal, p. 21.

27. Cooper, Higgott, Nossal, p. 22.
28. A Claire Cutler and Mark W. Zacher, "Introduction," in A. Claire Cutler and Mark W. Zacher, (eds.), *Canadian Foreign Policy and International Economic Regimes* (Vancouver: University of British Columbia Press, 1992), p. 4 and 15-16.
29. as cited by Higgott and Cooper, 'David Abshire, "The Nature of American global economic leadership in the 1990s,' in W. Brock and R. Hormats, ed, *The Global Economy: America's Role in the Decade Ahead*. New York: Norton for the American Assembly, 1990.
30. cited by Higgott and Cooper, 'Oran Young, "Political Leadership and Regime Reform: The Emergence of Institutions in International Society", Washington D.C.: International Studies Association, 10-14 April 1989: 1-42.
31. Higgott and Cooper, p. 7.
32. cited by Higgott and Cooper, p. 7, and 'Robert O. Keohane, *Institutions and State Power: Essay in International Relations Theory*, (Boulder CO: Westview, 1990, pp. 1-20.)
33. as cited by Cooper and Higgott.
34. Higgott and Cooper, p. 3.
35. Cited by Cooper, Higgott and Nossal; Alexander Wendt, "Anarchy is What States Make of It," *International Organization* 46, (Spring 1992), 391-425.
36. Cooper, Higgott, Nossal, *Relocating Middle Powers: Australia and Canada in a Changing World Order* (Vancouver, B.C.: University of British Columbia Press, 1993), p. 13.
37. Ikenberry et al., p. 5.
38. Graham T. Allison, *The Essence of Decision: Explaining the Cuban Missile Crisis* (Boston: Little, 1971).
39. *Essence of Decision...*, p. 117.
40. Ikenberry et al, p. 12.
41. cited by Welch on p. 117 of Graham T. Allison and Morton H. Halperin, "Bureaucratic Politics: A Paradigm and Some Policy Implications," in Tanter and Ullman, *Theory and Policy in International Relations*, p. 43.
42. *Essence of Decision...*, pp. 178, 166; Allison and Halperin, "Bureaucratic Politics," p. 44.

43. *Essence of Decision...*, p. 171.
44. *Ibid.*, p. 166.
45. *Ibid.*, pp. 180-181.
46. This is clear in Daniel Roseman's dissertation when he talks of the "Europeanists" at EAITC.
47. Ikenberry, et al. p. 12.
48. John Zysman, *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change* (Ithaca and London: Cornell University Press, 1983), p.297.
49. See Katzenstein 1978, p. 297.
50. Roy Ginsberg, *The Foreign Policy of the European Community*, p. 17.
51. Canadians are on the whole more deferential to and reliant on government than would be the case between state and society in other industrialized nations. See Nossal, in *Canadian Foreign Policy*.
52. Pratt, p. 107.
53. see Tucker, *Canadian Foreign Policy*, 39-45; Donald Barry, "Interest groups and the foreign policy process", in A. Paul Pross, ed., *Pressure Group Behaviour in Canadian Politics* (Toronto: McGraw-Hill Ryerson, 1975), 117-47.
54. Although it could be argued that in the spirit of Milner's argument, the preferences of Canada's corporate community were enshrined in the Canada-U.S. free trade agreement.
55. Pratt, p. 108.; Dewitt and Kirton, p. 168-69.
56. Nossal, p. 15.
57. Nossal, p. 17.
58. R. Nossal, p. 17. refers to C.P. Stacey, *Canada and the Age of Conflict: A History of Canadian External Policies I: 1867-1921* (Toronto: Macmillan of Canada, 1977), and *II: 1921-1948* (Toronto: University of Toronto Press, 1981); John W. Holmes, *The Shaping of Peace: Canada and the Search for World Order, 1943-1957* (2 vols: Toronto: University of Toronto Press, 1979, 1982); James Eayrs, *In Defence of Canada* (5 vols; Toronto: University of Toronto Press 1964-1983).

59. A prime example is the Canadian state's promulgation of the virtues of free trade with the U.S., leading up to the 1988 election which was fought on this issue. During the negotiations for an agreement all manner of interest groups - business associations, independent think tanks, academics, political parties (in this case the Progressive Conservatives) - were used to help buttress the state's case. Now, the state has once more geared up to promote a North American Free Trade Zone.

60. Denis Stairs, "Public opinion and external affairs: reflections on the domestication of Canadian foreign policy," *International Journal*, 33 (Winter 1977-78), pp. 130-8.

61. For a good example of the bureaucratic politics approach being applied to the formulation of Canadian foreign policy see Wright, "Bureaucratic Politics," in Denis Stairs and Gilbert R. Winham, eds., *Selected Problems in Formulating Foreign Economic Policy*, (Toronto: University of Toronto Press, 1985), [p. 1:]

62. Pratt, p. 108.

63. Robert Jervis, *Perception and Misperception in International Politics* (Princeton: Princeton University Press, 1976), Ch. 1.

64. Benjamin Cohen, p. 269.

65. For example, Odell and Willett propose that greater attention be given to the interrelationships among hypotheses and that efforts be made to develop higher level theory about the factors which influence the relative importance of different primary level hypotheses.

66. Benjamin Cohen criticizes Helen Milner for not "formalizing" the linkage between the international variables and firm preferences in her analysis of U.S. trade policy formulation.

67. In terms of the style and operating procedures of middle power leadership Canada has long been viewed as a practitioner of a more 'routine' form of leadership, compared to, say, Australia, which has been characterized as displaying 'heroic' form of leadership. Personal diplomacy of the kind exhibited by Pierre Trudeau's North/South and Peace campaigns of the early 1980s have been the exception not the rule in Canadian politics. Some analysts would also consider Brian Mulroney's support of the free trade agreement to constitute a form of personal diplomacy. See Higgott and Cooper, p. 9; and Kim R. Nossal, "Personal Diplomacy and National Behaviour: Trudeau's North-South Initiatives", *Dalhousie Review*, (Summer 1982), pp.278-291.

68. Bernie Kozak, "The Bureaucratic Politics Approach: The Evolution of a Paradigm, p. 7.

CHAPTER THREE**ACTORS AND PROCESS IN CANADIAN FOREIGN POLICYMAKING****3.1 INTRODUCTION**

Canadian foreign policymaking is predominantly state-led. As such, this chapter will focus on the actors in the domestic arena and examine the following domestic trends: the existence of powerful but disunited federal government agencies and departments such as the Prime Minister's Office (PMO) and External Affairs and International Trade Canada (EAITC); the impact of a confederal political structure that channels significant power to the provinces; the existence of a Westminster system in which the legislature acts as a legitimating mechanism for the Cabinet's foreign and trade policy actions; and the existence of a domestic business lobby which is highly dependent on the state for a substantial source of its funding and whose primary concern is bilateral relations with the United States. All these trends conspire to create a domestic policy environment characterized by parallel policy making but in which the federal government still has considerable power to implement its preferred policies.¹

The Canadian reaction to the process of European integration, and specifically to the rise of the SEM, shows how such a multifaceted issue cuts across the interests of important domestic actors and creates uncertainty at many

different levels of action. Although there is abundant literature on how the CUFTA presented a challenge to the way in which Canadian policy processes and policy responses are framed, there is little research on the impact of the SEM and what strengths and weaknesses it reveals in the Canadian policy system.² The objective in this chapter is to map out the multilayered process of decision making and show how this machinery was positioned *vis-à-vis* the EC in the late 1980s and early 1990s. This will lay the foundation for the decision-making analysis found in the subsequent chapters of this study.

The chapter begins with a discussion of the role of the federal government in the making of foreign policy, focusing on the reasons for the increasing fragmentation of foreign policy decision making both between EAITC and other federal government departments and, significantly, between the secretary of state for External Affairs and the prime minister.³ What this discussion highlights is the increased re-localization of foreign policy initiatives in the PMO, a development that can be traced to the management of foreign policy under Trudeau's Liberal government⁴ and that was accentuated through Mulroney's preference for personal diplomacy. With the increased "sharing" of Canada's foreign policy territory, the discussion suggests that to understand the nature of Canada's foreign policy approach to the EC in the period being studied, it will thus be necessary to

determine where the EC fit into Mulroney's personal diplomacy and the respective foreign policy spheres of his two secretaries of state for External Affairs, especially that of Joe Clark (1984-1991).

A second theme in this chapter is the declining relative influence of EAITC as other domestic actors such as the provinces have increased their international activities. This has reduced the federal government's ability to develop a coherent overarching framework for Canada's diplomatic relations in a post-Cold War international system.

The third part of this chapter looks at the degree to which the interests of government and the Canadian private sector intersected in response to the creation of the SEM. It emphasizes that from a policy standpoint the Canadian business community - as represented by a handful of major national private sector associations - concentrated its limited resources on, first, providing policy advice and views on issues specific to Canada-U.S. economic and trade relations, and, second, on Canada's approach to the Uruguay Round negotiations. The analysis shows a business community which paid scant attention to the implications of the SEM for Canadian economic interests.

This chapter sets the stage by explaining why Canada's policy approach towards the EC was guided largely by government actors, in this case Prime Minister Mulroney, Joe Clark as secretary of state for external affairs, and

officials at EAITC. Mulroney turned his full attention to Europe - both West and East - only after the CUFTA was signed. Throughout his period in office, Mulroney put strong emphasis on personal contacts with other national leaders (especially with the American presidents, Reagan and Bush); he also attempted through the micro-level of personal diplomacy to have Canada play a meaningful role in the establishment of a "New World Order". Because the prime minister exercises the most crucial executive powers, heads the Cabinet and effectively controls the exercise of legislative powers in the Canadian parliamentary system, Mulroney's position in the Canadian government was pre-eminent and the powers of his office immense in relation to both other elected politicians and the bureaucracy. Indeed, as prime minister his powers exceeded those of any other leader of a democratic regime⁵; thus, by winning two comfortable majorities in 1984 and 1988, Mulroney had significant latitude from a domestic perspective to shape the direction of Canadian foreign policy (his tenure was characterized by a convergence of U.S. and Canadian foreign policy objectives), to attempt to set the agenda of allied and other relations, and to position Canada in the new "Euro-Atlantic architecture".

3.2 EAITC and the PMO

The Westminster system of government, with its traditions of

party unity in which "a relatively small body [Cabinet] reaches decisions in secret, that has full command over the levers of executive power *vis-à-vis* the bureaucracy, and that controls the legislative agenda," should in theory make policy co-ordination at the governmental level far easier than in, say, the presidential system that one finds in the United States.⁶ Nevertheless, as is the case in the U.S. there are inter-departmental coordination issues.⁷ In the 1930s, 1940s and 1950s the departments of External Affairs and Finance fulfilled the overall coordinating role for Canada's international economic and foreign policies; trade development was the responsibility of the Department of Trade and Commerce which housed Canada's Trade Commissioner Service (TCS). The peak of External Affairs's own influence in government was during the "Golden Years" of Canada's diplomacy, the decade from 1947 to 1957, a period during which Canada had for a time the fourth largest navy in the world, was the founding member of numerous international organizations, and attained a reputation as a peacekeeper and mediator. These accomplishments ensured that Canada's foreign policy approach would be "global".

Beginning in the 1960s, as Western Europe began to assert its economic muscle and Canada's international influence began to wane, so did the pre-eminent role of the Department of External Affairs within the federal bureaucracy.⁸ The Department's decreased influence was, in some sense,

inevitable once the federal public service began to expand rapidly as government inserted itself more and more into civil society. By the time Trudeau was elected and questioned the need for a foreign service at all, since he could read everything he needed to know in the *New York Times*, the slide became irreversible and continued throughout the 1970s.

In 1982, the Canada's Trade Commissioner Service (responsible for promoting exports) was amalgamated with the Department of External Affairs. The rationale for the move, foreshadowed by integration earlier in operations abroad, was that foreign policy had to serve broader national interests and, in an increasingly interdependent world, it was detrimental to those national interests if trade development remained in a domestic department. Along with its historic role in the formation of Canadian trade policy, External Affairs was now responsible for the whole range of Canadian interests overseas - economic, trade development, immigration, political, aid, and culture - centralized under one department.

The infusion of the responsibility for international market development, while causing significant organizational confusion within the Department itself until the late 1980s and leading to coordination problems and competition with other federal government departments such as Industry, Science and Technology Canada (ISTC), was nevertheless catalytic in changing how EAITC approached the world.⁹ This led to a shift

from the traditional "maintaining good bilateral relations" posture to one which focused on using bilateral relations primarily in terms of building leverage to achieve specific bilateral and multilateral goals which were of highest priority to Canada. A specific target in this vein was the United States during the successive negotiations leading to the CUFTA and NAFTA, and increased engagement in the Asia Pacific region. At the same time, there was an institutional shift away from an attachment to Europe as the focal point of Canada's international interests - an attachment anchored in the value Canada attached to its membership in NATO. A second shift was significant expansion of EAITC's client base to include exporters. In support of its focus on core economic interests, EAITC rapidly expanded its business liaison capability in order to be taken more seriously by other government departments such as Finance and ISTC, the economic agencies of the provinces, and the business community as represented by chambers of commerce and other producer associations. This expansion to economic concerns also led to two new Cabinet portfolios, that of "minister for International Trade" and "minister for External Relations".

The significance of these shifts was that within the state-led context of Canadian foreign policymaking they appeared to confer upon EAITC - since it had the statutory mandate to manage Canada's external relations - even greater power. No other federal department had three ministers. But it was the "ever-changing permutations and combinations of the three Ministers with the Prime Minister and their Cabinet colleagues on the one hand and their civil servants on the

other" which determined the Department's influence and its ability to coordinate policy and resolve conflict.¹⁰ The point here is that in the Canadian system it is not the number of ministers that mattered so much as their Cabinet seniority and access to the Prime Minister. What is being described is a Cabinet decision-making process that is opaque in the sense that the formal Cabinet decisions are only the tip of the iceberg; government policy was often made by the Prime Minister or one or two other ministers and it was not always easy to keep abreast of such decisions and trace their roots to particular government departments. As will be shown in Chapters Six and Seven on the negotiations leading up to the Transatlantic Declaration, the impetus for change in Ottawa's policy on its relations with Europe emerged less from EAITC than they did from the PMO.

Complicating the foreign policy process further are the roles played by the PMO and the Privy Council Office (PCO), with the former acting as political office of the Prime Minister and the latter as the nerve centre of the federal bureaucracy. The focal role of the Prime Minister and the PMO in the conduct of Canada's international relations is not surprising considering that by the late 1980s the waning of East-West tensions and the continuing communications revolution had placed traditional perceptions of diplomacy increasingly under siege. One of the most telling signs of this new age of diplomacy was the localization of "high" and "low" politics, that is, political/security and trade issues,

at the executive level - whether in the White House, in the Chancellery or in the PMO. This came about as a result of the increasingly policy-oriented discussions among national leaders at regional, plurilateral and multilateral security and economic fora. The result was that federal government departments such as External Affairs became increasingly reactive, driven to following up on and bringing substance to the Prime Minister's declaratory statements.

Based on the above discussion, the foreign policy decision-making process during the Mulroney years can perhaps best be conceptualized in terms of the Prime Minister's interests intersecting the triangular relationship between the stature of his secretary of state for External Affairs, patterns and directions in Canadian foreign policy, and the stature of EAITC within the foreign policy bureaucracy. In a fragmented foreign policy decision-making process it therefore becomes imperative to know how much attention the various actors apportioned to Canada-EC affairs. The challenge for this study is to fit the EC into this configuration of personal diplomacy and institutional orientation.

Although Mulroney, like Trudeau before him, used his PMO as a "counterweight" to the monopoly of advice coming from the federal bureaucracy, what was different was that his PMO was often pitted directly against the views emanating from the federal bureaucracy (which he suspected was pro-Liberal). Thus, to facilitate this "second-guessing" of bureaucratic

advice not only was this political office made much bigger than Trudeau's but it would also eventually have greater influence on foreign policy matters.¹¹ Nossal states that Mulroney came into office with a critique of Canadian foreign policy that focused on what he saw as the deteriorating relationship with the United States and the "slack support for what he called Canada's 'four great allies' - the United States, Britain, France, and Israel...."¹² In terms of the management of his foreign policy, Nossal, citing Kirton, points out that Mulroney, who derived personal enjoyment from the ceremonial aspects of foreign relations (e.g., summits, media attention) but not the "complex details of policy," kept the profile-enhancing foreign policy files to himself and eventually delegated more of the day-to-day elements of foreign policy to Clark.¹³

Perhaps not surprisingly, given the Conservative government's push to negotiate a free trade agreement with the United States, the trade ministers played a very minor role in the conceptual development of Canada's policy framework for its relations with Europe, using their limited time on European issues to sort out specific bilateral trade irritants and to lead trade missions. Pat Carney, for example, at Clark's urging, was appointed trade minister to take responsibility for trade negotiations with the United States and to sell free trade to Canadians.¹⁴ In the eyes of Commission officials at the EC Delegation office in Ottawa in

the late 1980s, it was somewhat dismaying to find themselves criss-crossing Canada to exhort Canadian exporters and investors to look at the potential opportunities of the SEM, a task they felt would have been more appropriately carried out by Canada's international trade minister.

Feeding this organizational disconnect was the fact that although institutional ties between Canada and the EC were based on the predominantly economic nature of Ottawa-Brussels diplomacy, these links were overseen, not by Canada's trade minister, but by Clark who had little interest in economic and trade matters, or, for that matter in European affairs. This responsibility followed from the institutional structure which had been established under the 1976 Framework Agreement which meant that Canada's External Affairs minister was the highest level institutionalized political contact with the Community (at that time Canada did not have a minister for international trade). It was only in 1990 that Canada's trade minister became part of the institutional process by "being present" during the annual meetings between Clark and his EC counterpart. Ottawa's desire to send the "right" political signals to the Commission, in this case having the "senior" Departmental minister overseeing the bilateral relationship, was also a reason for making Clark the top man on the Canadian side. Even after the issuance of the TAD in 1990, there was no indication that this division of labour on Canada-EC relations was going to change, since under the TAD it was the External

Affairs minister and the Prime Minister, but not the International Trade minister, who were part of the institutionalization of EC-Canada political ties.

Returning to our discussion of the role of the PMO in the policy process, Nossal states that at first the initial moves to increase its size did not have a marked impact on policy¹⁵, but that later appointments did - notably that of Derek Burney as chief of staff in the spring of 1987, who would become Canada's ambassador to the United States a year later, and the appointment of a non-External Affairs official, Sylvia Ostry, as Mulroney's personal representative or "sherpa" to the 1988 G-7 Summit in Toronto.¹⁶ Mulroney further solidified his control on certain foreign policy files, such as summit diplomacy, by creating a Summit Management Office within the PMO. Nossal argues that these institutional moves contributed to a "distancing of the prime minister from the external affairs portfolio".¹⁷ More precise, perhaps, would be that he distanced himself from EAITC on those issues (NATO, G-7) which afforded him the greatest national and international profile. Ironically, one of the reasons he could do this was that he had a wealth of foreign policy expertise on secondment from EAITC in the PMO and PCO. Burney, for instance, came from EAITC, as did for varying periods, Mulroney's deputy chief of staff, press secretary, and speechwriters.¹⁸ The case of Burney is, perhaps, the most illustrative of the pivotal roles played by senior bureaucrats in the making of Canada's foreign

policy: he was a staunch proponent of free trade with the U.S. when it was unpopular in the early 1980s (see Chapter 5.3), and he also played a role in outlining Canada's trade policy options - including free trade - with the European Community when he was Canadian ambassador to the United States in 1990 (see Chapter 6.3.2). Mulroney would come to depend on these officials, rather than the Department, for foreign policy advice on those specific areas in which he took an interest. Relations with the EC only became one of those areas, as we shall see, in the context of the completion of the CUFTA, the momentum that was building towards "Europe 1992," and, starting in 1989 with the redrawing of Europe in the aftermath of the collapse of the communist regimes in Eastern and Central Europe. In other words, Ottawa only focused its attention on the EC pillar of its European policy approach when the latter's key role in the emerging post-Cold War Europe became impossible for the Canadian Cabinet and, particularly a prime minister who saw himself as an international statesmen, to ignore.

At the same time, in the domestic arena it was not just the PMO which was usurping traditional External Affairs turf and making it more complicated for the Department to exercise its mandate. The diffusion of foreign policy interests in the post-Cold War period along with successive drastic budget cuts at External Affairs between 1983 and 1993 meant that the key issues of finance, agriculture, overseas development

assistance, fisheries, and the environment, to name a few, were increasingly being managed by expert line departments.¹⁹ And although the responsibility for export market development lay nominally with EAITC, by 1990 there existed 17 other federal government departments and government-funded agencies engaged in the delivery of export development services.²⁰ Meanwhile the provinces (to be discussed in greater detail below), Aboriginal groups, ethnic organizations, business associations, and other special interest groups also presented themselves increasingly in the international arena to pursue their own objectives.

Not surprisingly, then, the more domestic actors there were, the more duplication and friction occurred in the management of Canada's external relations: whether on the export preparedness of Canadian companies; or program delivery abroad; or the creation of a potentially fertile environment for future trade disputes between Canada and the U.S. and Canada and its other GATT partners due to the domestic support measures of noncentral governments; or on the development of consultative processes with industry. The result of EAITC having fewer dollars and at the same time being unable to shed certain functional and area responsibilities, was a reduction in the focus and thrust of the Department in the 1980s. This decline was apparent across a host of policy areas such as aid, trade development, multilateral relations and security and intelligence policy.²¹

External Affairs responded to this assault on its pre-eminent role in the management of foreign policy when, in 1992, it decided to "streamline" its operations and to focus only on "core" functions. It would henceforth concentrate on trade policy, trade development and political-security relations and divest itself of all other non-essential activities (e.g., international sport, consular service).²² However, it was not clear how a "back to basics" philosophy at EAITC could be reconciled with the Mulroney government's own assertions that Canada in the post-Cold War era would have to secure a cooperative basis for its international security approach which increasingly addressed such fundamental issues as: international mass migration, drug trafficking, human rights, sustainable development, weapons proliferation, advancement of women, AIDS, fisheries, and the international co-ordination of monetary policy, all of which implied an expansion - not a contraction - of the foreign ministry. Not only this, but coincident with the broadening of the international relations agenda was a greater emphasis in the post-Cold War on multilateral negotiation and rule-making, implying even greater pressure on the foreign ministry to respond. In terms of Canada's relations with the EC, as Canada moved its policy focus away from NATO and the CSCE as its European pillars and concentrated more on the EC, the new areas of transatlantic cooperation would be precisely in those cooperative security areas which EAITC, in its "streamlined"

state, would be hard-pressed to manage effectively. Other government departments (e.g., Fisheries and Oceans, Environment) would, as a result, develop Canada's policies on a variety of these emerging international issues without any guarantee that Canada, through EAITC, would be able to fashion a coherent, integrated policy framework for its relations with Europe as a whole and the EC specifically. In short, it was not clear whether the changing nature of transatlantic relations, that is, the shift away from "military" security to "cooperative" security, was appropriately reflected in the domestic institutional response in Canada.

3.3 The Provinces

Canadian provinces have a long history of direct international activities. An initial expansion phase of provincial representation occurred during the late 1960s, followed by more expansions in the late 1970s (there were 35 "international" provincial offices in 1977) and the late 1980s; by 1992 there was a network of 73 provincial offices abroad (U.S. states had 132 offices abroad).²³ The rationale for increased provincial roles was quite simple: although the provinces accepted Ottawa's jurisdiction over Canada's international affairs (it being an essential attribute of sovereignty, and because they could not therefore enjoy full international personalities in the legal sense), the provinces

nevertheless felt that they each had to complement the federal government's efforts since it would be difficult for Ottawa to define a "national interest" which would take into consideration particular interests of each province.²⁴ This was especially evident to the larger, more economically vibrant provinces such as Ontario, Quebec, Alberta, and British Columbia.

By the early 1990s, due to growing provincial debts such international profiles abroad were no longer sustainable and most provinces radically curtailed their international presence. In 1993, Ontario took the unprecedented step of closing all of its international offices. Quebec dropped some of its marginal ones and reduced staff in many others. Because provincial governments lack the jurisdiction to involve themselves in more than very limited spheres of external activities, their international forays have been confined primarily to the promotion of trade, investment, tourism, international education (since education is a provincial responsibility) and cultural affairs.²⁵ That being said, provincial diplomatic activity has steadily crept beyond these parameters. Furthermore, as decentralization has accelerated in Canada, those trade policy - as opposed to promotion - functions carried out by non-central governments (e.g., export subsidies, procurement restrictions, and preferential treatment - "Buy Quebec"), have caused friction with federal initiatives since the provincial actions have been beyond the

direct purview of the CUFTA, the NAFTA, and the GATT.²⁶ This fragmentation of Canada's foreign policy-making territory also has a national unity dimension since the constitutional problems raised by the failures of both the Meech Lake and then in 1992 the Charlottetown Accord undermined Ottawa's credibility abroad, both in the eyes of foreign investors (as evidenced by the reactions of bond rating agencies) and foreign governments who negotiate bilateral agreements with Canada.

With regard to provincial diplomacy towards Europe, there appeared to be a parallel approach by the federal and provincial governments as the momentum increased towards the Single Market in the late 1980s. The provinces - especially Quebec, Ontario, and British Columbia, which were dependent on the EC for exports valued at between \$2.5 and \$3 billion - were increasingly conscious of what the EC meant for their regional economies. As Table 2 at the end of this chapter shows, by the end of 1990, there were 21 provincial offices in the Community (only Quebec and Ontario had offices in Brussels), and they were firmly part of the European landscape. Unlike the over 20 offices in the EC from U.S. states which, according to Smith "...in a growing range of cases ... negotiat[ed] with the EC to protect their essentially sub-national interests," the provincial offices, with the notable exception of Quebec, appeared to stick to providing information about the SEM and sponsored their

industries on tours of the EC.²⁷ The negotiations of agreements and the resolution of conflicts was left primarily to Ottawa and the Canadian Delegation to the Communities in Brussels.

The emergence of the SEM presented a number of concerns to the provinces. For instance, the pulp and paper producing regions of British Columbia, Quebec and the Maritimes were very concerned about environmental legislation and phytosanitary regulations that would diminish their exports (see discussion in Chapter Nine). As a result there were a host of provincial activities to raise awareness of the SEM, with Ontario and particularly Quebec (with eight offices in the EC alone) taking the lead. In an attempt to counteract the perennial criticism from the private sector that the federal and provincial governments (to the considerable confusion of those outside of Canada) were constantly duplicating each other's trade promotion programs, a great effort was made by the federal government to share sponsorship of "EC 1992" business awareness programs with the provinces; in addition, in the latter half of 1993, due to the high interest exhibited by the provincial governments, EAITC extensively briefed the provinces on the impact of the changing EC. Significantly, however, the federal government never went so far as to invite the provinces to be part of the Canada-EC institutional structure under the Framework Agreement.²⁸ Quebec, however, with its own officials designated exclusively to EC matters, continued to engage in unilateral promotion activities.

3.4 Parliament

Another element of the foreign policy machinery relevant to this discussion is the role of Parliament. However, unlike what Smith asserts was the U.S. Congress's "crucial" role in the formulation of the U.S.'s "European Community Policy," the Canadian Parliament on almost all foreign and trade policy issues - with the notable exceptions of debates on the CUFTA and the stationing and testing of American cruise missiles on Canadian soil - has performed mostly a legitimization function for the Government's foreign policy actions.²⁹ Less kindly, according to Dobell, an expert on the functioning of the Canadian Parliament, "[t]he most significant characteristic of parliamentary involvement in external policy until the 1970s was passivity".³⁰ Its reaction to European integration in the 1980s and early 1990s was no exception; it did not play a catalytic role.

In fact, the most sustained attention to the EC on the part of Canadian legislators was through the Canada-Europe Parliamentary association which allowed Canadian legislators and legislators from the European Parliament and several Member States to exchange views. However, this mechanism - variously portrayed by outsiders as a "boondoggle" or a "perk" that gave MPs excuses to travel abroad - contributed very little to enhancing Canada's policy approach to the EC in the 1980s.

That being said, the influence of Parliament as a policy mechanism and agenda-setter in Canada-EC relations was not always so negligible. For example, a Senate Committee on Foreign Affairs completed an important study on Canada-EC relations in 1972. The report, described as "the Canadian handbook on the European Community" detailed the extent of Canada-EC trade relations and the specific problems posed by the Community for Canada. It recommended greater efforts by the Canadian private sector to penetrate EC markets, the establishment of a regular link with the European Parliament in Strasbourg, the opening of a Community office in Ottawa, and a visit by the Canadian prime minister to Brussels. Aside from impressive factual data, according to Dobell, the report's main value was to highlight the importance of the Community to Canada. The committee had undertaken the study in the belief "that not enough attention was being given in Canada to developments in Western Europe and their potential impact on Canada's position in the world community".³¹

As a testament to the power of the committee's recommendations, Dobell reports that the gaps in Canada's Europe policy that were publicized by the committee prompted Trudeau to lend his personal support to Canada's efforts to gain a non-preferential agreement with the EC.³² And, significantly, the Senate report's call for a Community office in Ottawa was taken up enthusiastically by a delegation from the European Parliament (part of the nascent Canada-Europe

parliamentary association) which in turn convinced an at first reluctant Council of Ministers of the need for such an office. Dobell concludes that the creation of bilateral institutional mechanisms such as the Framework Agreement and diplomatic missions in Brussels and Ottawa owe much to the "strong support" from Parliamentarians on both sides of the Atlantic during this period.³³

This type of support would not be evident in the context of post-Cold War Canada-EC relations, however. An examination of the House of Commons debates between 1989 and 1992 shows that the legislators were preoccupied with the CUFTA, NAFTA and the collapse of the Soviet Union. The evolving Community received only cursory mention in the context of regional integration movements. As well, there were long-standing practical reasons why Parliament did not play a constructive role in Canada's policy toward the Community. The Senate Committee, like the House of Commons Standing Committee on External Affairs and International Trade, apart from investigating Canada-U.S. free trade, was largely dependent on EAITC (due to financial constraints) for information about foreign policy initiatives, and only rarely produced truly independent, detailed, and quality research on ^{Canada's} ^A external relations.

3.5 The Canadian Private Sector

Much of the attention of the bureaucracy, Parliament, and the PMO on Canada's relations with the EC, was only shaped partially by the perceived needs of Canadian industry. Thus it is instructive to look at business priorities in the 1980s. In response to the pressures of globalization, the Canadian government had worked to position Canada strategically by negotiating the CUFTA and the NAFTA, while simultaneously pursuing the completion of the Uruguay Round. The Canadian business community embraced and supported this policy orientation. The corporate community had a deep interest in the emerging trade policy issues and the fora in which they would be discussed. At the same time both it and the government were troubled by a number of paradoxes that highlighted Canada's lack of preparedness for an increasingly globalized economy. First, although Canada enjoyed a diversified economy, world class technologies, a highly educated workforce and an excellent international reputation, its share of world trade in the decade of the 1980s dropped from 5.2 per cent to 3.8 per cent - a 27 per cent drop - as more countries produced globally competitive products. Second, while world trading patterns had changed, the bulk of Canada's international trade was still being conducted by a very small number of companies, with roughly 70 per cent of Canada's export trade being conducted by 100 companies.³⁴ When the

Canada-U.S. trade figures and intra-firm transactions are calculated out of these numbers, the number of small- and medium-sized companies trading outside of Canada was very small with only 15 per cent of manufacturers engaged in exports. Finally, Canada was reported to lead industrialized countries in trade promotion expenditure, yet its per dollar return was among the lowest.³⁵

The feeling among business was that without an appropriate response, Canada's declining world market share in the trade of goods and services would be reinforced by the regional - of which the SEM was just one example - and multilateral liberalization of barriers to trade. The response was two-tracked: first, business called for Canada to "get its domestic house in order" (e.g., calling for a reduction in federal spending to reduce the accumulated debt, interprovincial trade barriers), at the same time that market access barriers abroad were addressed; and second, as an indicator of where the overwhelming interests of the corporate community lay in preparing for the "new" economy, the business community focused its resources overwhelmingly on ensuring secure access to the U.S. market.

The private sector's general disinterest in furthering relations with Western Europe and in improving market access as a result of the SEM can be seen in the actions of Canada's major business lobbies. For instance, the Canadian Chamber of Commerce (CCC), Canada's largest and most representative

business association, used its International Affairs Committee and its Committee on Canada-United States Relations (under joint direction with the U.S. Chamber of Commerce) as the principal vehicles for feeding detailed, concrete trade policy recommendations to the Minister for International Trade on such issues as the GATT, CUFTA and NAFTA, but not on the SEM. The Committee even went so far as to produce policy positions on specific Canada-U.S. trade disputes. In fact, as the free trade with the United States became a national debate all the broad-based, horizontal business associations such as the Canadian Exporters Association, the Canadian Manufacturers' Association, and the Canadian Federation of Independent Business created Canada-U.S. market access committees and free trade consultative committees. But it was the Business Council on National Issues (BCNI) which represents the 150 largest companies in Canada, and is roughly equivalent to the European Roundtable in terms of the influence it wields in Canada's corporate and political corridors of power, that engaged in arguably the most highly public and effective private campaign to push for free trade.³⁶

In an effort to manage the business community's growing desire to be involved in the trade policy-making process, especially with regard to free trade with the United States, the federal government in 1986 created the International Trade Advisory Committee (ITAC) and the Sectoral Advisory Groups on International Trade (SAGIT), both of which were administered

by EAITC.³⁷ This business sector activity raises the question of where were Canada's labour organizations. Indeed, one of the reasons why this study focuses on the business community's reaction to EC-Canada relations is that organized labour has had a very limited impact on the direction of Canada's foreign or trade policy.³⁸

A number of interesting trends come to light in this necessarily brief overview of the Canadian business community's institutional reaction to the process of global economic liberalization. First, the business community clearly saw free trade with the United States as a springboard to the rest of the world. Second, although relations within the horizontal business association community(described above)grew very competitive in the 1980s as the government-business interface became characterized as one of business growing ever more dependent on federal funding to "internationalize" Canada's private sector³⁹, on the issue of free trade with the United States that portion of the business community representing medium- to large-sized firms stood united in its vigorous and public support. (There was a more muted reponse on NAFTA, probably because so much less was at stake.) The same cannot be said for the business community's interest in, and policy activity, on the process of European economic integration. With 75 per cent of Canadian trade with the U.S., it is not difficult to deduce where limited corporate resources were being devoted: trade with the United States was

a matter of survival; trade with Europe was not. Although by 1989 the EC "1992" program had made it onto the corporate agenda (as evidenced by the perfunctory reference to European integration in the speeches of business leaders), these references were for the most part declaratory (praising the increased liberalization of trade in a Europe without borders and noting with foreboding the harm of a discriminatory trade bloc). Significantly, they did not appear to have been supported by any sustained analysis.

The exception to this lack of a hard look at the implications of the SEM for Canadian business may have been a speech delivered in 1992 by the director of international policy for the CCC, who concluded "A variety of forces at work in the international economy will likely conspire to reduce the relative importance of the transatlantic trade relationship. In particular, it is likely that the relationship will grow in absolute terms but diminish in relative terms."⁴⁰ These conclusions may have resulted from a survey by the Canadian Chamber in 1992 when, to the amazement of the Chamber staff, there was no support, either within its own membership or from other business interests, for the creation of a consultative committee on the SEM. That there would be no support for a bilateral business council or a business-oriented consultative mechanism does not strike the observer as particularly unusual given the life-span of an EC-oriented initiative within the ITAC. An "EC 1992" committee

had been set up at the ITAC in 1988 under the chairmanship of David Culver, then chairman of ALCAN, a Canadian multinational corporation with significant interests in Europe. It lasted all of 18 months before being wound down. What is unusual is that this was the corporate reaction in the face of a government trade promotion campaign (see description of "Going Global" in Chapter Nine) that for two years had hailed the opportunities for Canadian firms as a result of "EC 1992".

Another point to note is that since the preferred forum to discuss Canada-EC bilateral issues was through the bureaucratically-driven Joint Cooperation Committee of the Framework Agreement and through the GATT, it was rare that the business-oriented ITACs or SAGITs were used to air or resolve trade irritants. An exception, for example, was the raising in 1991 at an ITAC meeting of the pinewood nematode phytosanitary issue that affected the sale of Canadian greenwood lumber to the EC (see Chapter 9.6.2.1).⁴¹

From the above description, it can be determined that, reflecting Canada's growing economic integration in North America, Canadian business had significant interest in, and therefore devoted considerable time and resources to, policy consultations on issues affecting intra-North American trade and investment. Conversely, it had far less interest in developing policy recommendations for the government on Canada's approach to the SEM, this despite the fact that the EC as a region was Canada's second largest partner. What

emerges is a picture of a business community that was mostly reactive to the emergence of the SEM, preferring to be "active" only when given the incentive by government in the form of contracts to run business awareness conferences and seminars.

The situation was different, of course, at the level of single industry trade associations directly affected by particular EC policy actions. Associations such as the Confederatation of Forest Industries (COFI) of British Columbia (which received considerable federal funding) and Québec's *Bureau de producteurs du bois* and the Maritime Lumber Bureau all took an intense interest in forestry issues in Canada-EC relations. Interestingly, with the exception of COFI which had an office in the UK, these vertical industry associations rarely lobbied the EC or the Member States directly to resolve market access issues; instead, they lobbied line departments such as Forestry Canada, Fisheries and Oceans, and Energy, Mines and Resources. These departments then consulted with the relevant divisions within EAITC that addressed their particular concerns, making the role of the federal government on many bilateral Canada-EC issues, in the words of a federal official, "one-step removed".⁴²

3.5.1 Canadian Private Sector Alignment vis-à-vis the SEM

As background to Chapter Nine, if one were to try to move away from some of the above more general observations about the

Canadian business community's attitude, and to more precisely isolate its reaction to the SEM (given the scope and complexity of the SEM), it is easy to conclude that Canadian small- and medium-sized enterprises (SMEs) and larger firms were affected in different ways, and that this complicated Ottawa's attempts to promote Canada's international business interests. There was, for example, a concern that SME exporters in the resource sectors would be damaged - especially if they could not afford to invest in the EC. At the same time, and as will be discussed in Chapters Eight and Nine, with direct Canadian investment abroad outstripping inward investment - corporate foreign investment almost quintupled after 1980 with 1,396 Canadian-based firms operating 6,328 affiliates abroad by 1992⁴³ - Canadian MNEs clearly saw the advantage of the larger market and made considerable investments.⁴⁴ Compounding this difficulty in differentiating Canadian corporate responses was the fact that the Canadian economy was so heavily inter-penetrated by foreign - mostly U.S. - capital. Thus, in those industry sectors in which a significant portion of firms were branch plants of U.S. multinationals, there would have been a different perspective on these firms' interests *vis-à-vis* the EC. Such differences in perspective and activity fed directly into the Canadian corporate responses to the SEM.

Two dimensions of Canadian corporate behaviour were significant to the formation of attitudes towards European integration in general: first, the size and orientation of the enterprise, and second, the sector(s) in which it was active.

Attitudes towards the EC were fundamentally shaped by the differences of resources and scale between SMEs and large, particularly, multinational firms and by the related differences between exporters to Europe, investors to Europe and manufacturers. Simply, the larger and more multinational an enterprise was, the more likely it was to respond positively to the deepening of European integration, and the more "European" its activities in the Community were likely to be. SMEs with no established European presence were less likely to be enthusiastic about the SEM, and were more likely to feel threatened by the prospect of a "Fortress Europe".⁴⁵

Canadian corporate attitudes towards the SEM also varied according to the nature of the sectors in which Canadian firms were active and from where in Canada they were exporting. Quebec-based SMEs were viewed as more entrepreneurial, and because of the cultural and language affinities, more likely than Alberta- or even Maritime-based SMEs to look to Europe. In terms of industry sectors, the discussion in Chapter Nine will show the problems of the telecommunications sector and the issues attached to market access. The SEM was not solely a high-technology program, but it was replete with implications for the sector - one that was a Canadian strength - especially when coupled with established EC policies on local content, anti-dumping and related areas.

The fear that the SEM would work only to the advantage of the large Canadian multinationals was not without some

justification.

In stark contrast to the resources available to small, medium- and large-sized American firms through the network of trade and industrial associations such as individual American Chambers of Commerce in the EC Member States (which Smith suggests sometimes led American business to be better briefed on the implications of EC policies than the U.S. government), Canadian firms - apart from multinationals with subsidiaries in the EC (a few even had offices in Brussels) and a Canadian Standards Association office in Brussels - had no sophisticated business association network to monitor Community legislation. These firms relied heavily on the Canadian government embassies and high commissions.⁴⁶ Despite their obvious "information deficit" on the changing nature of doing business in the Community and this "deficit's" obvious implication for the corporate bottom line, there was no interest by the Canadian private sector to band together to create a Canadian chamber network in Europe. As a measure of where the priorities of the Canadian business community lay, it is interesting to note that the Canadian Chamber in 1992 - as part of its desire to end the "universality" of the federal government's trade development approach and at the same time to provide more relevant and targetted market intelligence to its members - offered to replace some of Canada's consulates in the United States with private sector trade offices⁴⁷; there was no similar offer to start opening private sector offices

in Western Europe. Smith states that on occasion the White House's confrontational style *vis-à-vis* the Community was "moderated" by "advice from the battle-front" and that the American Chamber of Commerce had seen it as "its duty to inform members of Congress about the true meaning of 1992".⁴⁸ In the Canadian case, neither the Canadian Chamber of Commerce nor the BCNI ever made a presentation to the Canadian House of Commons Standing Committee on External Affairs and International Trade in which Canada's relations with the EC were singled out or in which the potential implications of the SEM were stated.⁴⁹

This being said, Canada's business community was not totally "blind" to developments in the EC. The BCNI's high profile president, Tom D'Aquino, for example, always attended the annual World Economic Forum in Davos along with a very small contingent of CEOs from his membership, and thus has had the opportunity to network with European business and government leaders. The BCNI - unique among Canada's business associations - had "working relationships" with UNICE, the European Roundtable, the *Conseil national du patronat français*, the Confederation of British Industries (CBI), and the *Confindustria* (the Italian employers federation). There were also a host of long-standing Canada-based bilateral chambers of commerce (see Table 2 at the end of this chapter) with ties to Western Europe (e.g., Canada-UK Committee administered by the Canadian Chamber of Commerce, Canada-

Germany Chamber of Commerce, Canada-France Chamber of Commerce, Canada-Italy Chamber of Commerce, Canada-Netherlands Chamber of Commerce). But with the exception of the Canada-German Chamber, which had three offices in Canada offering services to both its Canadian and German members, the other chambers served more or less as networking fora rather than as organizations providing monitoring services or policy advice. They also had minimal, if any contacts, with Canada's horizontal business associations. In 1990, in an effort to provide the Canadian business community with a "one-stop shopping" service on EC issues, a number of these bilateral chambers hired a consultant and created the Canada-EC Chambers of Commerce in Montreal. This initiative, however, was largely ineffectual in increasing the profile of EC issues in Canada.

What the above description shows, and what will be amplified in Chapter Nine, is that despite the SEM program bringing about some legitimate concerns for Canadian exporters, the concern was not acute enough across the Canadian business community - although clearly vertical business associations such as those in the forestry and telecommunications sectors did take a keen interest in its implications - for consultative mechanisms to be set up. A noticeable exception to this lack of any broad-based action by the private sector, was the realization by business that the traditional, almost unidimensional focus on export promotion no longer counted as a sound international business strategy

for Canada in a world economy in which growth in investment outstripped that in trade, and where trade and investment grew more quickly within the regional groupings of the Triad than between them. Business commentators suggested that private and public sector programs focus less on trade development as traditionally construed, and more on encouraging strategic alliances (e.g., building global research and communications linkages through investment).

To put this in the Canada-EC context, one way for Canada to avoid being hurt by the consequences of any trade diversion resulting from the SEM was for Canadian exporters to increasingly look to strategic alliances.⁵⁰ While the large Canadian firms could afford to establish a European presence to prove their credentials as entrants to the SEM (see Chapter 9, 7.1), it was felt that Canadian SMEs - especially in the high technology sector such as communications - could benefit from programs that would allow them to be better linked to world markets. But as this chapter's last section will show, the Canadian approach to the SEM was caught and indeed compromised by the alrger debate between Ottawa and the private sector on the structure of Canada's trade promotion system. That is, Ottawa and the private sector could agree on a less export-oriented approach, but they could not reach a consensus on a radical shift away from a focus on OECD markets.

3.6 THE PRIVATE AND PUBLIC SECTOR "DISCONNECT" ON EUROPE

By 1993, it was not clear who would continue to pay for Canada's international activities - especially on the trade side, as public sector debt swelled. In the 1980s, beyond the issue of free trade where both business and government agreed,

there had been a growing disconnect between the Canadian business community's perception of Canada's national foreign policy and trade interests and the Government's overriding philosophy of "universality", that is, its emphasis on providing all services and all programs in all markets.⁵¹ Both the private sector, which had benefited handsomely in the 1980s from government trade development subsidies, and the public sector which had used these subsidies as a way of "encouraging" a reluctant private sector into foreign markets, realized, however, that with dwindling resources "hard choices" would have to be made in the 1990s about Canada's international priorities. The business community, calling for an end to universality in the federal government-controlled trade development system, urged the government to be strategic and focus its resources only on specific, high-potential countries. As Jock Finlayson, Vice President of Policy and Research at BCNI, opined:

Foreign affairs, trade policy and trade development cannot escape the painful fiscal arithmetic confronting Ottawa. ... greater selectivity in targeting key foreign markets, and a more hard-headed approach to setting priorities for the allocation of overall diplomatic and program resources -- these should be the guideposts for Canada's foreign and trade policy makers in the years ahead. Unless there is a more strategic and selective approach to resource allocation, Canada risks dispersing its limited trade policy and trade development resources across too many competing priorities and markets, resulting in poor commercial payoffs.⁵²

While it is beyond the scope of this chapter and this study to

analyze Canada's trade development system in detail, the differing weight given to Europe by the private and public sectors in the space of three years indicated a lack of consensus between the private and public sectors on Europe's relative position in Canada's hierarchy of foreign policy interests. In 1989 one of the recommendations to the federal government from the ITAC's short-lived "Europe 1992" committee was that Canada should react aggressively to the rise of the SEM by investing more in business promotion targeted at Western Europe. The government, as the discussion in Chapter Nine will show, reacted positively to this recommendation and followed up through the "Europe 1992" arm of its 1989 "Going Global" trade development plan.⁵³ The federal government's "1992" strategy was four-pronged with: (1) the provision of an assessment of, and an information campaign on, the implications, technical requirements and market opportunities of the post-1992 European market; (2) a strengthening of Canada's ability to voice effectively its concerns to the central EC-level and in key European capitals; (3) a trade and investment development strategy for sectors that offered real potential for Canadian companies; and (4) a cooperation framework for joint research in industrial technology.⁵⁴

In 1990, federal officials, seizing on the increased political attention to Canada-EC relations (leading ultimately to the TAD)⁵⁵ and wishing to broaden relations beyond simply economic and trade matters, drew up a wish list of new

transatlantic institutional mechanisms and agreements. It was felt that such mechanisms would help to realize the four goals mentioned above and would enhance Canada-EC bilateral relations in light of the process beyond '1992' to incorporate monetary union and further political integration. The list included:

- (1) a Canada-Europe panel of distinguished persons to report on the future of the Atlantic relationship;
- (2) a private sector Canada-EC Trade Advisory Committee;
- (3) a Canada-EC task force on bilateral trade irritants;
- (4) an Atlantic Environmental Charter;
- (5) a Parliament of the Atlantic that would be linked to the NATO-related North Atlantic Council (apparently the bureaucrats had little faith in the existing Canada-EC Parliamentary association);
- (6) the establishment of regular consultations between the Canadian prime minister and the President of the European Commission and the President of the European Council, and between key EC Commissioners and Canadian ministers;
- (7) a Science and Technology Agreement between the EC and Canada;
- (8) increased Canadian participation in the Eureka projects;
- (9) "Forum for Atlantic Democracy" that would bring North American and West European politicians, academics and private sector leaders together to discuss and compare the challenge of democratic government;
- (10) an Atlantic Standards Council;
- (11) an Atlantic fund for cultural exchange;
- (12) a joint Canada-EC Commission on social policy issues;
- (13) youth exchanges along the lines of the Erasmus program; and

(14) official exchanges between Canada and the EC.

As this study will show, of these fourteen action recommendations, by the end of 1993 only two - the consultations between EC and Canadian politicians (i.e., the TAD) and the Science and Technology Agreement, had been realized or were close to completion.⁵⁶ The Canadian business community - unlike its American counterpart⁵⁷ - was certainly not eager to participate in a broad reconceptualization of transatlantic relations; rather, it was content to let the federal government to take the lead in this endeavour.

In fact, in 1993 Canadian business representatives - after having had their companies benefit from government-sponsored services and publications on the SEM - recommended that the Mulroney Government spend less on programs aimed at helping Canadian companies in the OECD markets, indicating that these markets were already familiar to Canadian business people.⁵⁸ Since the EC market represented a large proportion of the OECD, it appeared that the business community was now, after three years, urging the government to pull its resources out of Europe. Business leaders did not, however, advocate a withdrawal from the United States, the largest single OECD market, because in Finlayson's words "it provid[ed] new Canadian exporters with their first experience in a foreign market..." and, with regard to Japan, because it "differed sufficiently" from other OECD countries it too could qualify as an exception.⁵⁹

It thus appeared that despite government encouragement and despite recommendations by its own representatives (i.e., ITAC committee on "1992" program), the Canadian private sector neither wanted to invest its own resources, nor those of the government it supported through taxes, to improving and deepening transatlantic business ties. Private sector spokespersons, using EAITC's own internal analyses⁶⁰, singled Europe out as a largely saturated market that was still a trade development priority only on the basis of historical market share, and that for this reason the government's limited resources had to be re-allocated away from Europe to the more difficult non-OECD and higher growth markets of Asia Pacific and Latin America.⁶¹ They pointed out that the member states of APEC together were responsible for about 40 per cent of world trade, and that included among their number were most of the world's fastest growing and most dynamic economies - specifically "Greater China" (China, Hong Kong, and Taiwan).⁶² The business community further rationalized that since Canada's military role in Europe was winding down this was further justification for reducing the 40 per cent of the estimated \$500-600 million federal trade promotion budget that in 1992 was allocated to Europe.⁶³ The business community, however, was careful to not suggest a complete withdrawal of federal government resources from Europe by noting that "although a reduction in aggregate diplomatic and trade development resources dedicated to Europe is suggested,

through reallocation it should be possible to increase the attention given to two or three high-potential European markets even as the overall commitment to the region is scaled back.⁶⁴ In short, from the private sector's perspective the strategy was to pick "winners" and "losers", to select high-growth industries where Canada possessed a comparative advantage and match them with those areas of the world which were the fastest growing. Europe as a unified market, in its eyes, was not one of those "winners".

3.7 CONCLUSION

What is evident in this chapter's analysis of the machinery of Canadian foreign policy making and its configuration *vis-à-vis* the Community, is the complex process of commercial and political bargaining within the federal government, between the federal government and provinces, but less so between the executive and Parliament and between government and business. Parliament, as we pointed out, does not appear to be a potent source of policy making on foreign policy issues in general and was largely reactive to issues in Canada-EC relations. This being so, in the following chapters it will be impossible to remain unaware of the complex internal balancing between the PMO, EAITC and other federal government departments. This is highlighted by the critical variable of the interaction of ministers, bureaucrats, and their access to the Prime Minister

and his thinking, as the primary domestic determinants of Canada's foreign policy. This chapter has also suggested that although both the federal and provincial governments have traditionally played vital roles as information providers on international trade, on the whole it was the federal government that took the lead in negotiating both market access issues with the Community and in developing trade promotion programs.

The corporate community's disinterest can be attributed, in large measure, to the fact that the program leading up to the SEM intersected with the divisive free trade debate, the NAFTA, and the problematic Uruguay Round, thus leaving little energy within the Canadian private sector to devote to EC-specific concerns. Another factor to consider is that since Canada's small (relative to other G7 members) business community was splintered among several competing horizontal business associations representing, for example, small business, manufacturers, exporters, and multinationals, it was difficult for the business community to speak with "one voice" on any but the most overarching and broad issues such as free trade. Without the economies of scale and research capabilities of the larger national institutions that are found in the U.S. and Western Europe (e.g., the UK's CBI), it was difficult to find institutional support for non-core, that is, non-U.S., policy analysis and prescriptions. This apparent business association disinterest may have reflected the

relative decline of Europe in terms of Canada's world trade (which will be discussed in Chapter Eight), but nevertheless appears puzzling given that an increasing proportion of the surge in Canadian outward investment in the late 1980s and early 1990s went to the EC.

It can therefore be concluded from this chapter's discussion that while it is true that, in the context of the history of Canada-EC relations, the SEM perhaps had the single greatest impact on Canadian corporate behaviour, nevertheless in the interaction between government and firms, the Canadian response to the rise of an economically unifying Europe in the late 1980s and early 1990s can be appropriately characterized as having been state-led. This chapter in its outline of, first, the characteristics and motivation of Canada's foreign policy actors, and second, their approach to the Community, has laid the foundation for this dissertation's focus on the impact of state and non-state actors in the Canadian policy process *vis-à-vis* the EC. Thus the stage is set for more detailed discussions in Part Three of this study on specific reactions to the SEM. But for the observations of this chapter to have any lasting value, there is a need to put the developments leading up to the SEM into a historical context, and to relate them to the relative positions of the EC and Canada in the international system.

What Smith states as relevant for future American-EC relations, namely, the "intangible factors of trust and expectation, of lessons learnt and mislearnt" we will see was equally apt for a full understanding of Canada-EC transatlantic ties until 1993.⁶⁵

TABLE 2: CANADIAN GOVERNMENT & BUSINESS		REPRESENTATION IN THE EC		(AS OF 1993)	
COUNTRY	PROVINCES ^c	FEDERAL ^d	INDUSTRY ASSOC.	BUSINESS CLUBS	COMPANY OFFICES ^e (Number)
United Kingdom	Alberta, British Columbia, Manitoba, Nova Scotia, Ontario, Quebec	London - 76 officers	Bristol: Bureau du Promotion des Industries du Bois (Quebec) London: Council of Forest Industries of British Columbia	Canada-United Kingdom Chamber of Commerce	256
Germany	British Columbia, New Brunswick, Nova Scotia, Ontario (2), Quebec	Bonn, Dusseldorf, Berlin, Munich - 47		Canadian-German Chamber of Industry and Commerce (Canada-based); Canadian Business Club Dusseldorf; Deutsch Kanadischeer Club Hamburg; German Canadian Business Club Koeln/Bonn; Deutsche Kanadischer Wirtschaftsklub Muenchens; Deutsche Kanadischer Wirtschaftsklub Frankfurt	55
France	Nova Scotia, Ontario, Quebec ^d	Paris, Lyon, Strasbourg, Toulouse - 60		Chambre de commerce Francaise au Canada and Club de relations d'affaires (both Canada-based); Chambre de Commerce-France Canada	80
Netherlands	None	The Hague - 22		Netherlands /Canadian Chamber of Commerce	50
Italy	Ontario, Quebec	Rome, Milan - 36 officers		Italian Chamber of Commerce of Canada (Canada-based); Italo-Canadian Chamber of Commerce	22

TABLE 2: CANADIAN GOVERNMENT & BUSINESS			REPRESENTATION	IN THE EC	(AS OF 1993)
Ireland	None	Dublin - 4		Ireland-Canada Business Association	15
Belgium	Quebec	Brussels - 21		Belgium-Luxembourg-Canada Chamber of Commerce; Canada-Belgium Committee	29
Luxembourg	None	No resident staff (affairs handled by embassy in Belgium)		Belgium-Luxembourg-Canada Chamber of Commerce	2
Denmark	None	Copenhagen - 5		The Fiddlehead Club	5
Spain	None	Madrid, Barcelona - 13		Asociacion Hispano-Canadiense de cooperacion commercial, científica y cultural	16
Greece	None	Athens - 15		Hellenic Canadian Association	4
Portugal	None	Lisbon - 10		Camara de Comercio E Industria Luso-Canadiana	6
European Communities	None	Brussels - 20	Canadian Standards Association	Association of Canada-European Community Chambers of Commerce (Canada-based)*	
Other Canadian representation within EC territory		North Atlantic Council-30 OECD - 12			
TOTAL	18 offices	14 missions - 371 officials	3	20	540 (estimated 1992)
United States	23 offices	196 officials	n.a.	n.a.	n.a.

Note: Europe (including states of former Soviet Union) represents the largest line item expenditure under Canada's bilateral relations and operations, see Foreign Affairs and International Trade Canada, *Part III Expenditure Plan 1994-1995 Estimates* (Ottawa: Supply and Services Canada, 1994), p.1-9, Figure 2.

* Included are the number of Canadian officials attached to each diplomatic mission to indicate relative importance of the EC Member State in federal government eyes. The figure includes Canadian military attachés assigned to embassies and high commissions, but does not include locally-engaged staff which, in the case of missions such as London, can increase personnel sizes to over 300 employees.

* This would include subsidiaries, branches, joint ventures, and sales offices of Canadian companies with interests in the EC. This is a very conservative estimate.

* As postscript, Ontario shut down all of its international offices in Feb. 1993.

* France is the only country that accords Quebec diplomatic status.

* This is made up of representatives of Canada-based Member State chambers of commerce.

* These are 1991 figures.

Source: Department of Foreign Affairs and International Trade, Canadian Representatives Abroad, December 1993; Author's survey of Canadian companies with major interests in the EC (see Chapter Nine); and James D. McNiven and Dianna Cahn, "Canadian Provincial Trade Offices in the United States," in D. Brown and E. Fry, eds., *States and Provinces in the International Economy* (Berkeley: Regents of the University of California, 1993).

NOTES

1. On the federal fee-for-service arrangements with business associations see Foreign Affairs and International Trade Canada, *1994-95 Estimates, Expenditures Part III* (Ottawa: Supply and Services Canada, 1994), p. 112-III; and interview with Jim More, Vice President (Policy), Canadian Exporters Association, June 22, 1994.
2. For one of the best studies of the policy process in Canada during the negotiations leading up to the CUFTA, see Bruce Doern and Brian W. Tomlin, *Faith and Fear: The Free Trade Story* (Toronto: Stoddart, 1991). For an analysis of interest group politics in Canada with specific reference to the business lobby, see William Coleman, *Business and Politics: A Study of Collective Action* (Montreal: McGill-Queen's University Press, 1988) pp. 81-93.
3. For a comprehensive review of the relations between prime ministers and secretaries, see Kim Richard Nossal, "Dividing the Territory: Prime Minister and Foreign Minister in Canadian Foreign Policy, 1968-1994," paper delivered to a joint session of the Canadian Political Science Association and the Canadian Historical Association, University of Calgary, Calgary, Alberta, Canada, June 13, 1994.
4. For an example of Trudeau's personal diplomacy, see *Ibid.*, p. 6-7; and Kim Richard Nossal, "Personal Diplomacy and National behaviour: Trudeau's North-South initiative," *Dalhousie Review*, 62 (Summer 1982), pp. 278-91.
5. On the power of the prime minister see Peter Aucoin, "Prime Ministerial Leadership: Position, Power, and Politics," in M. Mancuso, R. Price, and R. Wagenberg, eds., *Leaders and Leadership in Canada* (Toronto: Oxford University Press, 1994), pp. 99-118; and W. A. Matheson, *The Prime Minister and the Cabinet* (Toronto: Methuen, 1976).
6. See Herman Bakvis, "Cabinet Ministers: Leaders or Followers?" in M. Mancuso, R. Price, and R. Wagenberg, eds., *Leaders and Leadership in Canada* (Toronto: Oxford University Press, 1994), p. 133.
7. Michael Smith and Stephen Woolcock, *The United States and the European Community in a Transformed World* (London: Pinter Publishers, 1993), p. 58.
8. For a richly documented memoir of this slide in influence see Arthur Andrew, *The Decline of a Middle Power: Canadian Diplomacy from King to Mulroney* (Halifax, Nova Scotia: James Lorimer and Co., 1993).

9. For a discussion of the amalgamation, see Kim Richard Nossal, "Contending explanations for the amalgamation of External Affairs," in Donald Story, ed., *The Canadian Foreign Service in Transition* (Toronto: Scholars Press, 1993).

10. This observation was made by James Taylor, former Under-Secretary for External Affairs in correspondence entitled "the Role of the Policy Planning Staff in the Formulation of Canadian Foreign Policy," made available to the author. See fn 21 in Evan H. Potter, "A Question of Relevance..."

11. See Nossal, "Dividing the Territory...", p. 10

12. *Ibid.*, pp. 10-11.

13. *Ibid.*, p. 1.

14. Nossal, "Dividing the Territory...", p. 12.

15. See Kirton, "Foreign policy decision process...1985", p. 33.

16. Nossal, "Dividing the Territory...", p. 13.

17. *Ibid.*

18. As an example of the fluidity between the PMO and PCO during the Mulroney years, Paul Heinbecker, a senior EAITC official moved from speechwriting in the PMO to Assistant Secretary to Cabinet on Foreign Affairs and National Defence in the PCO. This highlights the increasingly fuzzy division between the (bureaucratic) PCO and the (political) PMO under Mulroney.

19. DFAIT has seen its budget cut 15 times over the last decade so that expenditures on DFAIT have declined by 25 per cent to a mere 0.66 per cent of government expenditures. Contrast the DFAIT 1993 operating budget of \$1.4 billion with that of DND which has an \$11 billion budget. *Presentation by the Professional Association of Foreign Service Officers to the Joint Parliamentary Committee Reviewing Canadian Foreign Policy*, Ottawa, June 15, 1994, p. 3.

20. These agencies and departments are listed in *The Trade Program Manager's Unofficial Survival Guide* (Ottawa: Department of External Affairs and International Trade Canada, 1993).

21. John Hadwen, "Whither the Canadian Foreign Service," *bout de papier*, Vol. 9, No. 1, p. 20.

22. In actual fact the Department had stopped growing physically by 1988 and by 1993 was 26 per cent smaller than it had been in 1988. From talk given by Garrett Lambert, Assistant Deputy Minister, to the Professional Association of Foreign Service Officers, in Ottawa, March 24, 1994.

23. Arthur E. Blanchette, ed., *Canadian Foreign Policy, 1977-1992: Selected Speeches and Documents* (Ottawa: Carleton University Press, 1994), listing of all provincial offices on pp. 147-148. Morrison

calculated that there were 132 US state offices abroad in 1989. See Wayne M. Morrison, "State International Trade Programs," (Washington, D.C.: Congressional Research Office, 1990).

24. From Blanchette's summary of a booklet issued by the International Relations Branch, Ontario Ministry of Intergovernmental Affairs, Toronto, April 1986. Blanchette, p. 139.

25. For some examples of provinces engaging in non-trade forms of diplomacy see, Kim Richard Nossal, "The Impact of Provincial Governments on Canadian Foreign Policy," in Douglas M. Brown and Earl H. Fry, eds., *States and Provinces in the International Economy* (Berkeley, CA: Institute of Governmental Studies Press, University of California, 1993), Chapter Nine.

26. Although the provinces do not have the jurisdiction to negotiate directly, the federal government solicits input from the provinces for its negotiations in organizations with an important economic impact such as GATT and the OECD. For a discussion on provincial trade policy see Douglas M. Brown, "The Evolving Role of the Provinces in Canada-US Trade Relations," in Douglas M. Brown nad Earl Fry, eds., *States and Provinces in the International Economy* (Berkeley, CA: Institute of Governmental Studies Press, University of California, 1993), Chapter Two.

27. Smith, ^{in Redmond} p. 43.

28. As an update, and in an unusual move by the federal government, Alberta, Quebec and Ontario and British Columbia were present during the 1994 JCC meetings held in Brussels.

29. The Canadian Parliament's legitimization role stems from the general consensus that is found in Canadian society - and reflected in parliamentary debates - about Canada's international interests, namely, that as a "middle" power its primary role is one of mediation. In the words of Lester Pearson, "...in few countries is there less likely to be a conflict between national interest and international policy, since in few are the requirements of interdependence so closely related to the maintenance of independence...". Lester B. Pearson, *Mike*, Vol. 2, 1948-1957 (Toronto: University of Toronto Press, 1973), p. 36.

30. Peter C. Dobell, *Canada in World Affairs*, Vol. XVII, 1971-1973 (Toronto: Canadian Institute of International Affairs, 1985), pp. 395-396.

31. Dobell, p. 404.

32. *Ibid.*

33. Dobell, p. 405.

34. See Canadian Chamber president, Tim Reid, "Improving Canada's Trade System: A Private Sector Perspective, *Canadian Foreign Policy*, Volume 1, No. 1 (Winter 1992/93), pp. 88, 91.

35. See Diddy Hitchins, *Canadian Trade Promotion Policies in Comparative Perspective* (Anchorage, Alaska: University of Alaska, November 1991 draft).

36. BCNI represents 150 of Canada's largest companies representing 1.3 million employees (or 1 out 28 Canadians), administering in excess of \$1 trillion in assets and having an annual turnover of approximately \$400 billion. Thirty-six or 24 per cent of BCNI's corporate members are subsidiaries of foreign-based MNEs with 95 per cent of these having head offices in the United States. These figures are derived from the 1994 BCNI Annual Report.

37. The advisory system reports to the Minister for International Trade and ensures that the public sector has the benefit of private sector views in its deliberations relating to trade policy and development, both bilateral and multilateral. The ITAC has broad terms of reference on all international trade matters; the 15 sectoral SAGITs ensure that sectoral views are fully considered in the advisory process.

38. Labour, which vehemently opposed the CUFTA, was involved in the ITAC-SAGIT system in only a limited way through the participation of the Canadian Federation of Labour (composed mainly of construction workers). See Tomlin and Doern, *Faith and Fear*, p. 110.

39. With size of the Canadian corporate community this competition was both with regard to maintaining membership levels and in terms of each association receiving its share of government trade development funds. Indeed so dependent were the CCC and CEA that 30 per cent and 50 per cent respectively of their annual operating budgets were derived from federal government contracts.

40. Keith Martin, "Canada-Transatlantic Trade and Investment Relations: A Canadian Perspective," a paper presented to the Economic Committee of the North Atlantic Assembly (the parliamentary arm of the North Atlantic Treaty Organization), at the Assembly Spring Session, May 15, 1992, Banff, Alberta, Canada, p.17.

41. Interview. Gordon Venner, Deputy Director, Economic and Trade, European Community Division, EAITC, June 16, 1994.

42. *Ibid.*

43. United Nations Conference on Trade and Development, 1994 *World Investment Report*, as quoted by Bruce Little, "Foreign investment rebounds," *The Globe and Mail*, August 30, 1994, p. B5. Three

Canadian MNEs - beverages giant Seagram Co. Ltd., publisher Thomson Corp., and metals producer Alcan Aluminum Ltd. - were cited in the Report as among the top 100 biggest MNEs (ranked by foreign assets).

44. The ratio of outward to inward direct investment has risen to .79 per cent from .42 per cent since 1980. See Steven Globerman, *Canadian-based Multinationals* (Calgary, Alberta: University of Calgary Press and Industry Canada, 1994); and Lorraine Eden, ed., *North American Multinationals* (Calgary, Alberta: University of Calgary Press, 1994).

45. Smith, p. 45; and M. Calingaert, *The 1992 Challenge from Europe* (Washington, D.C.: National Planning Association, 1988), Ch. 6.

46. Smith, p. 47.

47. Reid, p. 98.

48. *Ibid.*

49. Interview with Time Page, Senior Vice President (International), Canadian Chamber of Commerce; and Jock Finlayson, Vice President, Policy and Research, Business Council on National Issues.

50. Finlayson, p. 118; and Reid, pp. 96-97.

51. Andrew Griffith, "Straight Talk on Why Canada Needs to Reform its Trade Development System," *Canadian Foreign Policy*, (Winter 1992-93), p. 71.

52. Jock Finlayson, "Directions for Canadian Trade Policy: A Private Sector View," *Canadian Foreign Policy*, Vol. 1, No. 3 (Fall 1993), p. 116.

53. Gordon Venner, Deputy Director, Economic and Trade, European Community Division, EAITC, confidential interview, June 16, 1993; and Canada. *Going Global, Guide to Programs and Services* (Ottawa: External Affairs and International Trade Canada, 1989).

54. "The Europe of 1992: Why It is Being Formed, And the Challenges It Will Present to Canadian Business," *Europe 1992 Conference* (Ottawa: Department of External Affairs and International Trade, September 1990), p. 5.

55. The occasion was when then-EC Commission Vice President Adriessen met with Prime Minister Mulroney in Ottawa.

56. From a joint memo to the Deputy Minister of International Trade by Margaret Huber, then Director General of the European Community Division and Jean-Pierre Juneau, Director General, West European Bureau at EAITC, June 7, 1990. The Canadian officials apparently also used the recommendations of a 1990 Canada-EC Parliamentary association report to buttress their recommendations.

57. In stark contrast to their Canadian counterparts, the U.S. business, policy, and academic communities have been far more active on the study of transatlantic relations. On the academic side, a vibrant European Community studies association exists, and in 1993 a joint EC-U.S. Trans-Atlantic Policy Forum was started by the European Parliament with participation by Euro-MPs, and major European and U.S. multinationals and organizations. In Canada, there has been insufficient support for either a European Communities studies association or a transatlantic policy network.

58. Finlayson, p. 120.

59. *Ibid.*, footnote 8.

60. Keith H. Christie, "Different Strokes: Regionalism and Canada's Economic Diplomacy," *Policy Planning Staff Paper*, No. 93/08 (Ottawa: External Affairs and International Trade Canada, May 1993), p. 2.

61. *Ibid.* and Andrew Griffith, "Canada Needs to Reform Its Trade Development System," *Canadian Foreign Policy*, Volume 1, No. 1 (Winter 1992/93), pp. 71-74.

62. Finlayson, p. 121.

63. Finlayson, p. 120. This view is corroborated on the public sector side by Keith Christie, Director, Economic Planning, Policy Planning Staff at EAITC in and Keith Christie, "Different Strokes: Regionalism and Canada's Economic Diplomacy," *Policy Planning Staff Paper*, (Ottawa: External Affairs and International Trade Canada, May 1993), p. 10.

64. Finlayson, p. 122.

65. Smith, p. 49.

PART TWO

**A HISTORY OF CANADIAN POLICY AND INSTITUTIONAL ADJUSTMENTS TO
EUROPEAN INTEGRATION**

CHAPTER FOUR

... we do not know — indeed Europe does not know — how far or how fast its experiment in integration will take it, or what form it will assume on arrival... Canada is not seeking preferential treatment or special advantage ... but only a guarantee of fair treatment at the hands of an economic unit rapidly becoming the most powerful in the world.

Pierre Elliot Trudeau, Mansion House, London,
March 1975¹

CANADIAN APPROACHES TO EUROPEAN INTEGRATION: THE FIRST TWENTY YEARS

4.1 INTRODUCTION

The next two chapters will show that during the three decades following the Treaty of Rome, Canada did not possess a clear policy, understood to be a coherent, interrelated set of ends, norms and means, in its relations with the European Community. On the one hand, the increased integration of Europe promised to bring lasting peace to a region that had been torn asunder twice by wars in the first half of the century. On the other hand, by the mid- to late-1980s the momentum of economic integration had raised the spectre of a protectionist trading bloc.² Institutionally, Canadian decision makers were uncertain how to approach and interact with a hybrid international actor, given that the EC exhibited characteristics of both an international organization and a supranational entity but was clearly neither. Adding to the confusion for Canadian officials and business people alike was the apparent paradox, namely, that they were dealing with an economic giant, responsible for the trade policy and increasingly also the domestic economic policy of all of its Member States, and yet this economic powerhouse was at the same time a "political pygmy". This

latter image ensured that Canadian Prime Ministers and successive Secretaries of State for External Affairs would continue to engage their European counterparts either bilaterally or through NATO. For Ottawa's relations with Brussels, it served to guarantee the absence of regular, high-level bilateral political links between the Canadian Prime Minister and the presidencies of the Community and the Commission, something that was only rectified with the issuance of the TAD in 1990 (see Chapter Seven). The prevalence of inter-bureaucratic contacts between Ottawa at the expense of high-level political links served to exacerbate the problems of mutual understanding in Canada-EC relations and contributed in large measure to the absence of a coherent Canadian policy towards the Community. Thus, it can be said that Canada's diplomatic relations with the EC displayed a fundamental disequilibrium since from Ottawa's vantage point it was almost entirely based on economic and trade interests.

However, given the EC's influential role in the economic and political evolution of Western Europe between 1958 and 1988, Ottawa's difficulty in managing its relations with the Community merits deeper exploration. One has to look at, for example, how the EC's unique status cuts across the four determinants of bilateral relations listed in Chapter One. The EC as a trading bloc, as a supranational organization possessing quasi-federal structures and features, is far more than the sum of its parts, a fact which presents a considerable challenge to its international interlocutors. Pentland, writing in 1979, has perhaps best

described the complex and sometimes contradictory character of the Union:

The European Community is a unique entity on the international landscape: less than a full economic union, it is more than a simple free trade area or customs union; less than a fully-fledged state or global actor, it is more than a classical international organization.³

The EC's ambiguity is amplified by the evolutionary character of its competencies. The division of power between the Commission and the Council of Ministers, the division in the Member States' ranks, the development of European Political Cooperation (EPC), for example, have at times — particularly since the mid-1970s — confounded Ottawa's attempts to come to terms with the expanding Community.

In particular, the historical division of competencies between the EC and EPC on economic and foreign policy matters respectively made it difficult for third countries such as Canada to calibrate their approach to Brussels. Third countries have experienced difficulties negotiating with the EC partly for procedural reasons. The Community's procedures resulted in many of the EC's bargaining positions having been elaborated as complex compromises among the Member States — decreasing the likelihood of later changes. In addition, the outcome of these complex internal decision-making procedures — particularly those emanating from "package deals" — was and is difficult to comprehend and often surprises the Community's external partners.⁴ The following chapters will show Canada, unlike a larger country such as the United States, lacking

the power with which to "shake up" this decision-making process.⁵

In the 1990s, the confluence of growing policy interdependence, the globalization of business, and the re-intensification of a common European foreign policy, pointed to a new plateau of complexity in bilateral EC-Canadian relations. At the same time, the number of important actors was on the rise. Whereas Canada could previously target the Commission and a few key Member States, now it also had to consider the growing authority of the European Parliament (through its cooperation and co-decision powers) and the central role of the Council of Ministers. These developments made the task of consolidating existing bilateral mechanisms of cooperation and consultation considerably more arduous.

4.2 CANADIAN REACTION TO THE CREATION OF THE EC

The analysis of Canada's reaction to the process of European integration would be incomplete without a review of the major forces and alliances shaping Canadian foreign policy in the early postwar years and during the building of the European Economic Community between 1951 and 1957. Most diplomats and academic observers would agree that the hallmarks of Canadian foreign policy in these years can be epitomized by secretary of state for External Affairs Louis St. Laurent's "Gray Lecture," which was delivered at the University of Toronto in 1947.⁶ At the centre of foreign policy considerations during his tenure was the contention

that "the security of this country lies in the development of a firm structure of international organization."⁷ The key to global peace and Canadian prosperity St. Laurent saw as the construction of strong international organizations and the development of international law.⁸

During this period, Canada was instrumental in the creation of both the United Nations and NATO. A central objective of Canadian foreign policymakers was to strike a balance between the world's former great power, the U.K., and the United States. Canada's relations with the rest of Europe and ties with the Commonwealth were clearly subordinate to its links with the Anglo-American alliance.⁹ Although Ottawa was intent on buffering the fall of the U.K.'s power in the Western Hemisphere, this did not take place with the same zeal displayed prior to 1945.

In 1948, with the beginnings of the Cold War in Europe, European reconstruction was the highest priority on Canada's foreign policy agenda. Canada's Lester Pearson, then under-secretary of state for external affairs, was one of the most fervent advocates of the "embryo of an Atlantic community which would be the successor to the "North Atlantic" triangle of the 1930s and 1940s, in which Canada had enjoyed close and counterbalancing ties with both Britain and the United States."¹⁰ Notable Canadian diplomats such as Pearson and Escott Reid saw NATO as a unique mechanism for promoting transatlantic cooperation and understanding beyond a strictly military and political role, in effect creating an "Atlantic Union" (as characterized in the

Canadian-authored Article 2 of the North Atlantic Treaty and elaborated in the 1956 Report of the "Three Wise Men," which included Pearson).¹¹ Canada did not eventually find adequate support for the concept of a broader "Union," with dissenters in Canada and among Canada's allies noting the number of existing transatlantic economic mechanisms (e.g., United Nations Economic Commission for Europe) and arguing against the need to create new ones.

For Canada, the North Atlantic proposals offered something more than bilateral alliances with its two most important partners. According to historian John English, Prime Minister Mackenzie King had apparently been "suspicious" of bilateral alliances with the UK and, in May 1948, rejected the option of a bilateral free trade agreement with the United States. For Norman Robertson, then a high ranking Canadian diplomat, NATO thus provided "a providential solution for so many of [Canada's] problems" - how to assure American commitment to European defence, how to avoid a bilateral Canadian-American commitment, and how to escape being "orphaned" by a purely American-European entente.¹² These three objectives would prove to be the basis of all successive approaches to Europe by the Canadian government, whether under Liberal or Conservative governments.

Muirhead, in his rich and detailed study, *The Development of Postwar Canadian Trade Policy: The Failure of the Anglo-European Option*, concludes that Canada's attempts to develop trade relations with the United Kingdom and Europe between 1947 and 1957 failed miserably. In the same way that Canada's commitment to NATO was

seen as a key pillar of its foreign policy, trade with the UK in particular was regarded as critical to Canadian prosperity and as an important counterweight to growing trade with the United States. He writes that by 1950 Canadian policymakers had not yet abandoned "all hope of ever re-establishing the old North Atlantic triangle, though the prospects of doing so seemed bleak," and that Canada was settling "more comfortably into a continental role".¹³ His study reveals that necessities and not preferences determined Canadian policy outcomes and that "Canadian policy was multilateral by preference, bilateral by necessity, and manifestly continental by default".¹⁴ His study is also noteworthy in that, as Cutler points out, it reveals the "limits placed on policy autonomy by the desire in Ottawa to appease both London and Washington" and shows how the external determinants of Canada's foreign economic policy loom large in policy outcomes in the late 1940 and 1950s.¹⁵

Historically, Canada had to be wary of closer European economic cooperation (a caution that had its origins in the Great Depression of the 1930s). In terms of the general support for the **principle** of European integration, it was not an issue - in the early 1950s - in which Ottawa was actively engaged. The Department of External Affairs, for example, decided not to recommend that a delegation be accredited to the High Authority of the European Coal and Steel Community, feeling that Canada's interests did not justify such representation. Understandably Canadian policymakers took a much more aggrieved position on regional groupings that threatened to keep Canada's products out of their markets such as

the Organization for European Economic Cooperation (OEEC), with its collective approach to currency convertibility and its deliberations concerning trade liberalizations.¹⁶

4.2.1 The Economic Effect on Canada of the EEC and EFTA

Muirhead contends that Canada remained relatively neutral during the early stages (for example, during the Messina conference of 1955) of what would later become the European Economic Community (EEC). Ottawa was in favour of the integration movement but opposed to the development of a discriminatory free trade area, and it wanted the integration process to evolve into a North Atlantic-wide free trade area that would breathe some life into the moribund Article 2 of the NATO Treaty.¹⁷ By late 1956, although St. Laurent (now prime minister) indicated strong support for the principle of economic integration, the Canadian government became increasingly alarmed by the possibility of restricted trade, indeed moreso by the prospect of a UK-led European Free Trade Area (EFTA)¹⁸ than by an EEC (since 15 per cent of Canada's exports went to Britain and only 6 per cent went to the countries comprising the EEC). There was also a concern among some Canadian mandarins about the political and military implications of European economic integration, a process that if "...carried through steadfastly..." could have seriously damaged the Atlantic Alliance and left a "stretched and strained" Canada as the United States and Europe drifted apart.¹⁹

What can be concluded from Canada's commitment to Europe from 1947 until the formation of the EEC? Muirhead notes a sense of "betrayal" and "disappointment", since, unlike the United States, Canada could do little to influence the course of European events during this period to better suit its interests. Although it had spent a better part of a decade attempting to convince the Europeans of the benefits of a multilateral and non-discriminatory trade, what had been created was in essence a regional bloc.²⁰ There was real concern about the discriminatory impact of the EEC on specific Canadian commodities such as wheat (more than 30 per cent of Canada's total world sales were sold to the six); in the case of flaxseed and polystyrene, the figure was more than 70 per cent; as well more than 10 per cent of Canadian sales of barley, iron ore, nickel, tobacco, and aluminum went to EEC countries. With such significant proportions of Canada's world sales, any adjustments or re-orientation in European trade patterns had the potential to seriously disrupt Canada's agriculture and industry.²¹

In terms of a possible EFTA, despite the UK representing such a large market, for Canada there was less concern about its discriminatory elements since each country was free to pursue its own commercial policy and set its own tariff rate on any product. Interestingly, in light of this study's focus on post-1989 Canadian reactions to European integration which, as we shall see in Part Three, included calculations of the European Economic Area's impact on Canadian commercial interests and the costs and benefits of transatlantic free trade, in the 1950s the primary Canadian concern

with EFTA was not with the arrangement *per se* but precisely that it might merge with the Common Market and form a Europe-wide free trade zone with the more restrictive Common Market features. Canadian officials felt that such an arrangement would hit Canada especially hard in the areas of agriculture and fisheries.²²

In short, Ottawa felt "betrayed" that it did not receive a commensurate commercial return in Europe after its heavy commitment to European security through NATO and the extension of financial assistance to its West European allies through the OEEC. In other words, the European mind-set was not acknowledging a link between the security (i.e., Canada's role in the liberation of Western Europe from Nazi occupation, and then after the threat of Soviet domination) and economic components of the transatlantic relationship. Thus the only reliable market 12 years after the Second World War was the United States which was the destination of 60 per cent of Canadian exports and the source of 70 per cent of Canada's imports, and which had exempted Canada from certain pieces of restrictive trade legislation and which continued to purchase huge quantities of Canadian raw materials. While this created a dependency, Canada clearly had few other options - a fact that once more reinforced how a trade dependent economy was vulnerable to the actions of others for its economic well-being.

By 1957, at the same time that the EEC was being formed, Canadians, witnessing the creation of a branch-plant economy in Canada as a result of enormous inflows of American investment, began to have considerable doubts about their economic relationship with the United States. The release of the Gordon Report in that year revealed the size of U.S. economic influence in Canada, which,

many feared, posed a threat to Canadian sovereignty. This distrust of the U.S. would, at first glance, appear to have found understanding in the eyes of Canada's European allies since they too were receiving large amounts of U.S. investment. One could therefore assume that such an understanding would have buttressed Canada's political and economic links with Western Europe. Indeed, the official beginning of Canada's relationship with the newly-formed EEC was in 1959 when Canada signed an agreement with the European Coal and Steel Community and its ambassador to Belgium was accredited to the EEC.

But while Canada forged new links with the new European economic bloc, it was also faced with the prospect of an erosion of its trade ties with western Europe because the EEC's Common Commercial Policy and the CAP were now added to the factors which had traditionally impeded Canada's transatlantic trade, factors including transportation costs, communications, languages, customs and consumer tastes.²³ Mirroring Canada's reaction to the creation of the Single Market thirty years later, Canadian decision makers in 1957 viewed the creation of a large preferential trading area as inevitably resulting in trade discrimination and trade diversion to the detriment of third countries in the short-term - no matter how much the new economies of scale resulted in trade growth.²⁴ Nevertheless, they believed that the advantages of European unification far outweighed all possible disadvantages. Canada was left little choice in the matter of course, and would have to adapt its policies accordingly.

The formation of the EC was but one aspect of a fundamental and inexorable change in the structure of the international system in the late 1950s. Change was accompanied by the resurgence of Western Europe and Japan, the decline of Great Britain and the spread of industrialization in the world, the result of the near monopoly of North American producers, and the gradual shift from a strictly bipolar world of military alliances to a more multipolar one based on regional trading blocs. There were other more direct indicators closer to home. As mentioned, Canada's economy was becoming more closely integrated with that of the United States. Finding themselves losing overseas market shares to more efficient competitors, Canadian exporters were also inclined to focus on the more familiar American market.

One development in the early years of the Community, however, did provoke considerable concern in the Diefenbaker government, namely, the United Kingdom's unsuccessful first bid for EC membership in 1961.²⁵ The Canadian government drew pessimistic conclusions about both the economic and political consequences of British membership. At that time, Britain still took 15 per cent of Canada's exports, as opposed to 57 per cent from the United States and about 10 per cent from the rest of Western Europe. In Prime Minister Diefenbaker's eyes, the cornerstone of Canada's trade policy was still Britain and the Commonwealth preferences.²⁶ For this reason, as Roseman points out, Diefenbaker saw the UK's bid to join the EC as the worst of all possible scenarios, since the preferences would then be replaced by the common external tariff.²⁷

The estimated impact of Britain's accession and the consequent loss of preferences to Canada varied, running from a high of \$900 million in exports being affected (since total exports to the UK at that time was approximately \$1 billion and of those 95 per cent were free of duty, with about half in a preferential position); to the estimate by the former president of the Canadian Exporters' Association of a direct loss of \$400-500 million; and to the much more plausible estimate made by eminent Canadian economist, Harry Johnson, of between \$55 to \$70 million or less than 10 per cent of total exports.²⁸

In addition to fearing that Canadian exports - especially agricultural products since they amounted to a large proportion of Canada's exports²⁹ - would suffer drastically, the Diefenbaker government was concerned that Britain's role as *primus inter pares* within the Commonwealth would be ended, and even that North America's commitment to Western defence would be weakened.³⁰ Thus, Diefenbaker also opposed (1) the UK's forming of a European Free Trade Area and (2) London's offer of a Canada-UK free trade area - a response, apparently, to Diefenbaker's own calls in early 1957 for closer Canada-UK trade relations which he felt would lessen Canada's dependence on the U.S..³¹ As a further measure of Ottawa's preoccupation with Britain's unsuccessful attempt to gain accession, during the Dillon Round of GATT negotiations between 1960 and 1962, the Diefenbaker government in fact entertained the possibility of applying to become an "associate member" of the EC.³² This option was quickly dismissed by knowledgeable observers of

transatlantic relations who understood that in the final analysis the aim of the Common Market was in fact political and that therefore by definition Canada could not be considered a "European" nation, although the Liberals seemed to support this strategy - apparently to forestall being left behind as the Americans pursued links of their own with the Common Market.³³

And, if an associate membership was not an available option to Canada, then another strategy was to promote an Atlantic Community that would bind Canada, the United States and the UK to the Common Market. Lester Pearson, who as the new Liberal leader in 1958 became the leader of the Official Opposition, was as suspicious as Diefenbaker of the increasing influence of the United States on Canadian life, but departed from the Conservative prime minister by warmly endorsing Britain's bid for membership in the Common Market. He believed that Britain within the EC would better strengthen a North Atlantic Community and thus better serve Canada's interests. Just a few days after he was elected, Pearson, in a speech, defined what would be the Liberal Party's view on Atlantic relations while in Opposition:

If then we do not wish to weaken the western coalition; and if, in Canada, we do not wish either to face the United States alone or become too dependent economically on it, then surely the best policy for us is to seek economic interdependence within the North Atlantic Community through freer trade ... For Canada, a North Atlantic area with the freest possible trade would certainly mean a much greater export market in the U.S.A. and in Europe; lower costs of production for many Canadian industries, and lower living costs, I would hope, for Canadian consumers ... There are undoubtedly certain industries that would have to receive special consideration in any such freer trade

agreements, just as such consideration is being given in Europe to special economic situations in the negotiation of the free trade area there.

...This is an appropriate time to push this proposal ... This is a challenging prospect and is surely worth serious and immediate consideration, negotiation and planning. Could there be a finer initiative for Canada? All this is, of course, long range policy.³⁴

The Liberal criticism of the Conservative foreign policy was that by rejecting closer relations with both the United States and the EEC, it amounted to a form of "plague on both your houses" and was thus a dangerous form of "economic isolationism" that ignored Canada's two leading markets.³⁵ The Liberals further asserted that the Diefenbaker government should have spent less time lobbying for Britain's continuing leadership of the Commonwealth and London's rejection of the Common Market (since Canada had no leverage to prevent the latter), and more time doggedly pursuing an Atlantic Free Trade Area which was consistent with both Canada's desire to promote "free trade in a free world" and the "only satisfactory solution to the problem of Western unity" in a world faced with a Soviet global threat.³⁶

The Canadian private sector's perception of Canada's foreign interests in the early 1960s in many ways mirrored those of the politicians. Business leaders such as the then-president of the Canadian Pulp and Paper Association, R.W. Fowler, noted that while the single most important factor in Canada's trade policy was the development of the European Common Market, Canadians, in his view, could not look at European integration in isolation and would also have to "view European development in the context of the influence

[it was] having on American thinking and policy." In short, it was the action in Europe and the reaction in the United States, and vice-versa, that was of vital importance to Canadian trade, since it was recognized that Canadian economic policy was "caught in a vise" between these two forces on opposite sides of the Atlantic.³⁷

The utility of the above historical background is that the concerns expressed by Canadian business people, politicians and officials in the late 1950s about the impact on Canada of the EEC's formation, are both similar and different to the reactions thirty years later as the EC moved definitively towards economic union. As the discussion in Chapter Three has already pointed out (see also Chapter Ten), the generation of Canadian business leaders in the 1980s clearly did not share the previous generation's view of a unified European market as pivotal to Canada's national economic prosperity. But while Canada's trade policy priorities had clearly shifted in the minds of the business community, the reaction among Canadian politicians and officials (as will be described in Chapters Five, Six and Seven) in the late 1980s and early 1990s towards European economic union, that is, the prospects of decreased Canadian access to European markets as a result of the parallel processes of "deepening" and "widening", bore a striking similarity to the concerns expressed by officials and politicians a generation earlier. And while the official Canadian reaction to the prospect of a Single Market may have rung the same notes as in 1960, the trade policy context could not ^{have} ~~been~~ more different by the 1980s. The Mulroney government had, after all, explicitly chosen

the "continentalist" option. Furthermore, just as the Liberals had looked to an Atlantic free trade option in the early 1960s - tied to Chapter 2 of Kennedy's 1962 Trade Expansion Act³⁸ - but had realized that this was a "non-starter" given the Americans' lack of interest in joining regional trade blocs and the Europeans' (specifically the Commission's) repudiation of any such transatlantic alliance on the grounds that "Europeanism" was not reconcilable with "Americanism" (since the United States was both a nation of the Atlantic and the Pacific)³⁹, the Mulroney government's suggestion of an Atlantic free trade zone in 1990 would be similarly rejected by the Americans and the Europeans. As the following chapters will show, although Canada was prepared to work with and within the post-Cold War transatlantic institutions and forces and to bend them to serve its interests, it was clearly no longer as likely to be crushed between the two powerful millstones on either side of the Atlantic.

4.3 1960s: PARTIAL PARTNERS

During most of the 1960s the combination of rapid economic growth in Europe, combined with successful tariff cuts of the Kennedy Round, left few barriers to the access of Canadian exports and investment (apart from agriculture) in the EC market.⁴⁰ By the late 1960s, however, confrontations between Canadian and EC negotiators at the GATT concerning the Community's Common Agriculture Policy (CAP) highlighted Canada's inability to ensure adequate trade

access through multilateral channels, and suggested the potential need for a more a direct bilateral link to the Community ⁴¹. These bilateral problems coincided with a recurrence of Canadian fears of "excessive" dependence on the United States, and with the election in 1968 of a decidedly nationalist Liberal government led by the charismatic Pierre Trudeau. By then the stage was set for Canadian politicians and senior officials (primarily 'Europeanists' at the Department of External Affairs⁴²) to push Canada's relations with Western Europe higher on the Canadian foreign policy agenda.⁴³

4.3.1 The "STAFEUR Report"

A Eurocentric foreign policy was at first rejected by Trudeau. During the 1968 election campaign, Trudeau announced his intention to launch a "pragmatic and realistic" review of Canada's foreign policy which would embrace defence, economic and aid policies. Trudeau committed his government to "take a hard look, in consultation with our allies, at our military role in NATO and [to] determine whether our present military commitment is still appropriate to the present situation in Europe." Perhaps most ominously Trudeau spoke of Canada's need

not so much to go crusading abroad as to mobilize at home our aspirations...Our paramount interest is to ensure the political survival of Canada as a federal and bilingual sovereign state. This means strengthening Canadian unity as a basically North American country.⁴⁴

Consistent with this pledge, after his electoral victory Trudeau assigned the foreign policy review to EAITC, Treasury Board, the Privy Council Office, and the Department of Finance. Mitchell Sharp, his secretary of state for external affairs, had already authorized the creation of an interdepartmental Special Task Force on Europe (known as STAFEUR) in the spring of 1968. Its mandate included a major examination of Canadian relations with Europe, with a particular focus on NATO and Canada's role therein. The STAFEUR Report⁴⁵ was completed by the end of February 1969. Parts of the Report contributed to preparation of a booklet on Europe, one of six in a series entitled *Foreign Policy for Canadians* (hereafter referred to as the FPC), which was released in 1970 and represented the Trudeau Government's redefinition of Canadian foreign policy.⁴⁶

The 1969 STAFEUR Report was highly pro-Atlanticist in its outlook. In retrospect, the Report appears much more forward-looking in terms of Canada's relations with Western Europe than some of its writers could have imagined at the time. Many of its recommendations would have resonated with policymakers struggling to develop a Canadian response to post-1989 events in Europe. Officials at EAITC concluded at the time that it was not in Canada's interests to loosen its ties with Europe, and that to do so would mean "having to pay an excessive price in political and

possible economic terms."⁴⁷ The Report noted that Canada's interest in Europe was greater than in any other area except North America, given that all of Canada's major interests, political, military, economic, scientific, and cultural, converged in Europe.⁴⁸

The Report was surprisingly prescient for a period within which East-West tensions were high as a result of American involvement in Vietnam, especially as it did not equate these "ties" with an *indefinite* Canadian military commitment to the continent. Instead, it foresaw the day when "political society" in Europe would resist communism, Germany would be in a state of "peaceful evolution," and "other [non-military] forms of Canadian presence" would require development to maintain the transatlantic ties important to Canada.⁴⁹

In keeping with a concern at the political level that Canada was becoming overly dependent on a North American outlook, the Report encouraged "additional organic links" with Western Europe through NATO and "other economic and political organizations." In the event of NATO becoming "unnecessary" or "transformed," these other links would remain and would serve Canadian objectives.⁵⁰ The Report was, no doubt also influenced by having been written in the aftermath of the Warsaw Pact's invasion of Czechoslovakia. It argued strongly for Canadian membership in the North Atlantic alliance. Perhaps to account for Trudeau's scepticism about Canada's military commitment to Europe it also advocated a continuing, albeit possibly smaller military contribution to NATO as a symbol of Canada's stake in the defence of Europe.⁵¹ The Report

never went so far as an attempt at estimating when Soviet hegemony in Eastern Europe would end or defining "other forms of presence" or "organic links." Nonetheless, as later chapters of this study will indicate concerning the push for bilateral cooperation on various transnational challenges in the post-Cold War era, the STAFEUR Report was in many ways prophetic.

With regard to NATO, the Report found its utility in peacekeeping functions for military stability and in its role as an "important forum for the expression of Canadian views on a wide range of international issues and for the achievement of a number of Canadian political aims in Europe".⁵² It acknowledged that a diminishing Western European dependence on American political and military leadership was probably inevitable in the long-run. It also forecast that an integrating Western Europe would be a "magnet" for EFTA nations.

On the progress of European integration, it is significant that the Report addresses *full* European union at a time when Europe had just completed the process of establishing a customs union, stating that such a union would work against Canadian interests not only by excluding Canada from Europe but also by excluding Canada from any Europe-United States dialogue. Furthermore, it would lead ultimately to a parallel trend toward continentalism in North America, within which Canada could expect increased integration with the United States. In this context, the Report referred to the "two-pillar" principle of Canada's relations with Europe, leaving Canada necessarily either entirely excluded or else included within

the American "pillar."⁵³

That is, Canada wished to counter tendencies by Europeans as a group to bypass Canada in their dealings with the United States. Related to this concern was the painful recognition that Canada's objectives vis-à-vis Europe were absent from European preoccupations in their dealings with Canada. This great disparity between the historical importance of Europe for Canada and the political importance of Canada for Europe constitutes the single most persistent limiting factor affecting the range and scope of policy options available to Canada. It was, in the Report's words, "a sobering but seemingly inescapable fact of life."⁵⁴ It also reflected the Europeans' two pillar image of transatlantic relations.

In preparing a blueprint for Canada's policy approach to the EC for the 1970s, however, Canadian officials were careful to describe this "two-pillar" theory an oversimplification: Canada would more likely face a process of Community-building, albeit uneven in nature, with which Canada must come to terms.⁵⁵ In this realistic appraisal of the range of Canada's responses to evolving European integration, a positive spin was given even to concern that Britain's accession to the EC would have "short-run" commercial drawbacks for Canada. Unlike the Diefenbaker government's earlier misgivings about the deleterious impact of European integration on Canada's foreign trade, the Report saw disadvantages suffered by Canada as balanced by improved access to an enlarged and more open Europe. Canadian officials further

speculated that, with Britain as a Member State, Canadian interests would be "given greater weight."⁵⁶

In summary, Canadian officials concluded that (1) Canada had no hope of reversing the process of European integration, and its interest might not even be served in the attempt, and (2) it was "not clear" Canada's interest would be served if U.S. influence became "even more predominant."⁵⁷ The Canadian side was particularly concerned over European interest in greater autonomy and over the uncertainty of future U.S. policy towards Europe, leaving the environment no longer one of "counterbalancing interdependence" which Canadian officials had felt benefited them in the past, but rather one in which the prospects of an Atlantic community had diminished, to be replaced by political and economic bipolarization.⁵⁸ From this perspective, officials advocated that Canada "obtain" its historical "diversification" once again, seeing it still in the national interest. They described Canada as best achieving leverage by developing its multinational relations with Europe.

The language of the Report leaves no doubt that diversification would be a future goal. Reinvigorated Canada-Europe relations would act as a "counterweight" to the "relatively benevolent but overwhelming influence of the United States."⁵⁹ Canadian officials saw certain features of Europe's future configuration as coinciding with national interests. They recognized that: (1) Canada's security was intimately linked with Europe; (2) Europe was maintaining a [sic] interdependent

relationship with North America while becoming increasingly self-reliant; (3) Europe would become united and outward-looking rather than fragmented and inward-looking; and (4) Europe would be prepared to enter into an active partnership with Canada in certain areas of mutual interests.

As we shall see in the following discussion, Trudeau at first ignored the recommendations of the STAFEUR Report and sought non-European counterweights to perceived U.S. influence. But when this approach failed, in stark contrast to successive American administrations the Liberal government warmed up to the idea of closer relations with the European Community. Also indicated in this paper is the possibility that the acrimony in Brussels-Washington relations during the 1960s and 1970s presented an opportunity for Canada to present itself to the Europeans as a more cooperative and distinct partner in North America, thereby for a time rendering the "two pillar" analogy false.

4.3.2 Diverging EC-U.S. Interests

In Chapter One, it was stated that Canada's relations with Brussels are greatly affected by Washington's relations with Brussels. By the early 1960s Washington had begun to lose its impact upon the EC's integration. Ginsberg characterizes bilateral relations during the period from 1963 to 1970 as one that "gyrated between insensitivity and hostility" as the U.S. and the EC attempted to adjust to altering relative positions in the world.⁶⁰ American

policymakers became progressively more sceptical about implications of European economic and political integration for a host of major reasons⁶¹: the EC's granting of tariff reductions on certain imports from close trading partners in the Mediterranean and Africa were regarded as highly discriminatory vis-à-vis American exports; the notorious chicken war of 1963 and 1964 caused by the CAP's devastating effect on U.S. market share of the EC poultry market; the EC's toughness in its negotiations with United States during the Kennedy Round of MTNs; by EC Member States' silence over, or condemnation of, involvement in Vietnam⁶²; and the 1970 introduction of a foreign policy co-ordination system under the framework of EPC was seen by some U.S. decision makers as a threat to American leadership on foreign policy matters.⁶³ From an institutional perspective, the Nixon administration disregarded traditional U.S. support for EC bodies, preferring instead bilateral ties with member governments.

Thus by the early 1970s, the United States was becoming increasingly disillusioned with the impact of European integration on its interests. Then secretary of state Henry Kissinger's "Year of Europe" initiative, instead of reconciling these transatlantic tensions, succeeded in exacerbating them: Europeans viewed the attempt by the United States to redirect development of EC foreign policy back to an Atlantic-based centre as "patronizing and clumsy."⁶⁴ Relations between Brussels and Washington stagnated even further as evidenced in the foreign policy differences between the EC and the U.S. on the Yom Kippur War, and are characterized by

Ginsberg as moving in the 1970s between unilateral neglect and bilateral cooperation.⁶⁵ By contrast, Canada shared many common interests with Brussels during these same years.

4.4 1970s: TRUDEAU'S EUROPE POLICY

The early Trudeau years can be seen as a watershed in post-War Canadian foreign policy, leading some observers to characterize Canada as a "principal power" rather than a "middle power" during this period.⁶⁶ This development was somewhat ironic given Trudeau's shift away from Pearsonian internationalism to an initial scepticism towards the Commonwealth, given also his complaint that NATO had dictated Canada's external policies, and his advocacy of greater attention to domestic policies as opposed to European security.⁶⁷ Indeed, some analysts saw Trudeau as "bored" with the Western half of the European continent during the first few years of his government⁶⁸. For instance, although Trudeau accepted greater political, economic and cultural ties with Europe, he seemed to take greater interest in the diplomatic coup over relations with Beijing (wherein he granted Communist China diplomatic recognition ahead of the U.S.), the well publicized visits by his ministers to Latin America, and his own travels to New Zealand, Australia, Japan, Malaysia, India, Pakistan and the Soviet Union. These actions underlined Trudeau's conviction that Canada's foreign policy priorities entailed generating relationships well away from the North Atlantic.⁶⁹ This was also the message of the first book

of the FPC in which the government stated that

The predominance of transatlantic ties - with Britain, France and Western Europe generally (and new links with the Common Market) - will be adjusted to reflect a more evenly distributed policy emphasis, which envisages expanding activities in the Pacific Basin and Latin America.⁷⁰

Ironically, this very strategy was to be adopted by the Mulroney-led Conservative government more than 20 years later. At the time, Trudeau's predecessor and mentor, the by now-retired Lester Pearson, did not agree with his protégé's approach, seeing it as defining Canada's national interests too narrowly by not taking into account the significance of global security concerns.⁷¹

Mainstream foreign policy analysts of the period such as Professor Peyton Lyon feared that a retreat from Europe could be equated with a retraction from the rest of the world - a matter that re-emerged two decades later as Canada debated its post-Cold War Europe policy.⁷²

The Trudeau government quickly discovered, however, that despite its awareness of Canada's need for countervailing relations, there was a decreasing confidence that it could be established on the necessary scale beyond the Atlantic community. According to Peyton Lyon, although Canada's commitment to foreign aid increased substantially in the late 1960s, relations with developing countries proved too one-sided to counterbalance Canada's dependence on its relations with the United States. Although trade with Japan was expanding greatly, Japan's interest in Canada did not extend far beyond a need for raw materials. It also lacked the defense, personal, historical and cultural bonds

Canada maintained with Europe. Finally, although the Canadian public showed some sympathy for Trudeau's overtures towards Moscow, large numbers objected to the notion that relations with the Soviet Union could ever approach the intimacy of those with Canada's southern neighbour.⁷³ After an extensive and sobering *tour d'horizon* in search of non-Atlantic sources of significant counterweight, Canada's political leaders consequently returned to the bosom of "mother Europe".

4.4.1 Foreign Policy for Canadians and the "Third Option"

Trudeau's FPC sets out six policy themes for the direction of Canada's foreign policy in the 1970s: 1) fostering economic growth; 2) safeguarding sovereignty and independence; 3) working for peace and security; 4) promoting social justice; 5) enhancing the quality of life; and 6) assuring a harmonious natural environment.⁷⁴ The first goal, economic growth, would be accomplished through trade diversification among the rising industrial powers. Diversification in Canadian political and economic policy was seen as leading to the second goal, sovereignty and independence. Intensified relations with western Europe during the 1970s were seen as fulfilling this second requirement.

Trends described in the FPC that would not fully take shape until the late 1980s and 1990s, include the increasing importance in world affairs of transnational production⁷⁵ and the prediction of a "worldwide trend toward regionalism in one form or another."⁷⁶

The current shift towards world trading areas - the European Union, the Asia-Pacific region, and the Americas - is the manifestation of a trend predicted in Ottawa two decades ago.

By the end of 1970, Mitchell Sharp and his Cabinet colleague, Jean-Luc Pepin, had become the first Canadian ministers to visit the headquarters of the European Commission. Federal officials in Ottawa were also becoming more inclined to disregard the anti-Atlanticist thrust of the first booklet in the FPC packet and to take their cues from the volume entitled *Europe*. This booklet is essentially a repackaging of the STAFEUR Report; in it, Europe is once again recognized as "the only area outside North America where the major themes of Canadian policy converge"⁷⁷ and is specifically linked to Canada's quest for a counterweight:

The maintenance of an adequate measure of economic and political independence in the face of American power and influence is a problem Canada shares with the European nations....⁷⁸

It also maintains that

the more the European countries combine their efforts, the more opportunities there will be for Canada to find rewarding forms of cooperation with them. It is not realistic to imagine that the present could be changed 90 degrees in direction...but there would be much merit in seeking to develop at least some measure of countervailing influence.⁷⁹

The political need in Canada for a "countervailing influence" resulted from increased public and official anxiety about Canada's overdependence on its so-called "special relationship" with the United States, a term that Sharp says

"...recognized the extensive and close ties

between the Canadian and U.S. economies, unmatched anywhere else in the world in relations between independent countries. Consequently, the effect of U.S. economic policies upon Canada was far greater than upon any other country.⁸⁰

These fears in Canada combined with an increase in East-West detente ensured that the attraction of a separate strategy for relations with the European Community was growing ever stronger.

It is somewhat odd, however, that the Trudeau government's comprehensive review of Canadian foreign policy as laid out in the 1970 White Paper would be noticeably silent on the question of Canada-U.S. relations. Indeed, much surprise and confusion greeted the unveiling of the FPC booklets when none appeared on the subject of Canada's most important bilateral relationship and primary foreign policy interest.⁸¹ This significant policy area was addressed in a separate paper two years later under Sharp's authorship in what was then the Department of External Affairs' semi-official periodical, *International Perspectives*. This "Options" paper presented three alternatives for the conduct of Canada's relationship with the United States: (1) the maintenance of the status quo whereby relations would continue to be managed in what was described as an *ad hoc* fashion; (2) closer economic integration with the United States; and (3) more diversified multilateral ties.⁸² Sharp's strategy, in addition to calling for a strengthening of Canadian identity through the promotion of Canadian culture, promoted a more deliberate long-term approach to economic development which translated into an industrial strategy

from which emerged the Foreign Investment Review Agency (FIRA) in 1975 and the New Economic Program (NEP) in 1980.

The "Options" paper, consistent with the conclusions of the STAFEUR report and the FPC's *Europe* booklet, was also a reaction to Canada's "vulnerability" to American policy actions, the most notable of which at the time was the Nixon administration's 10 per cent surcharge in August 1971 on all manufactured goods entering the United States. With the U.S. market accounting for over 70 per cent of Canada's international trade, this hit Canada particularly hard, especially since it was denied exemption from this particular measure.

These developments in turn put pressure on the "special relationship" that had existed since the end of the Second World War. This point was stressed in the subsequent "Nixon Doctrine" concerning "independent" relations between mature partners, forcing a consensus in the Canadian government on the need for redefining the Canada-U.S. bilateral relationship.⁸³ The Nixon Doctrine ultimately succeeded in forcing the Liberal government to put clear policy actions behind its rhetoric on rejecting closer ties with the United States. This development in effect nullified the first two options in the *International Perspectives* article. As a result, the so-called "Third Option" became the prevailing conceptual framework. Consequently, the biggest change in the direction of Canada's post-Second World War foreign policy came about less because of what the Canadian government said it was going to do than because of a U.S. government decision to bring its continuing

foreign exchange crisis under control.

The "Third Option" was not confined to the EC. In addition to Europe, Sharp had mentioned diversifying relations to Japan and the Soviet Union. For practical reasons, however, the option took the explicit form of an attempt to build closer relations with the European Community. The Japanese market at the time was deemed to be esoteric. The state-trading countries of Eastern Europe and the Soviet Union meanwhile were complex and difficult markets in which to do business.

Interestingly, in light of the STAFEUR report and the government's promulgation of foreign policy as an expression of national interests, the architects of the "Third Option" later claimed that they never intended it to divert trade away from the United States. Rather, as Sharp pointed out,

...we were not thinking in terms of substituting Europe for the United States as a trading partner...We believe we can multiply our exchanges with other countries, particularly in Europe, with a view to promoting the cultural life and economic prosperity of Canadians without loosening in the process our vigorous ties with our southern neighbours.⁸⁴

Or, in the words of Jeremy Kinsman, at the time a middle-ranking member of External Affairs's Commercial Policy Division,:

Diversification of our external economic relations is not an end in itself, but is a function of reduction of the vulnerability of the Canadian economy ... The EEC is an obviously important feature of the external dimension of Canadian industrial development ... Diversification does not mean a transfer of any of our economic activity from North America elsewhere. It can be seen more aptly

as the development elsewhere of additional and strengthened ties.⁸⁵

Ever since its inception, the "Third Option" has been hotly debated in Canadian academic and governmental circles: Was it ever a full-fledged policy? Was it just an "impulse", a "tactic" or a "strategy"? In Sharp's view, this "Option" was a "strategy" only approved by the Trudeau Cabinet after "long and detailed discussion" - in stark contrast to the "Policy Framework" and the "Plan of Action" for Europe that would be adopted speedily by Mulroney's Conservative Cabinet in 1990.⁸⁶

With the creation of FIRA and NEP, with the latter agency especially criticized by Western Canadians and foreign (primarily American) oil interests, it must be emphasized that the "Third Option" became largely a domestic "economic" - rather than a "foreign" - policy exercise to prevent closer integration with the United States. As testament to its less than "popular" support and its exclusively state-directed nature (i.e., its germination from a select group of mandarins and ministers who at the time had Trudeau's approval), polls in the early 1970s indicated Canadian inclination to favour the status quo rather than closer relations with either the United States or Europe.⁸⁷

Whatever its merits or failures, the "Third Option" did epitomize the direction of Canadian foreign policy for the better part of a decade after its introduction. During this period bilateral Canada-EC relations were institutionalized: "high-levels," as annual meetings between senior Canadian and EC

officials came to be known, were established in 1972; Canada opened a diplomatic mission in Brussels in 1973 and the Commission established a delegation in Ottawa in 1976. It was in November 1972, after the creation of the "high-levels" that the Canadian government delivered an *aide-memoire* to the European Commission exploring the possibility of a general agreement on trade and economic matters. In 1973, a Canadian Senate report called for the creation of a framework within which bilateral relations could be improved.⁸⁸ The European Commission, increasingly intent on exercising its own diplomatic role,⁸⁹ was receptive to Ottawa's overtures on formalizing and intensifying bilateral ties. It also saw Canada, particularly during the period of OPEC-induced economic crises in the early 1970s, as an alternate source of abundant raw materials (in particular uranium).

The process of formalizing bilateral relations reached its peak with the signing of the Canada-EC Framework Agreement on July 6, 1976. Known in Canada as the "contractual link", this agreement was implemented to promote increased commercial and economic links.⁹⁰ The parties established a Joint Cooperation Committee, as part of the Framework's permanent structure, responsible for promoting and reviewing the various aspects of commercial and economic cooperation. It is noteworthy that the FA left intact the competence of EC Member States to undertake bilateral arrangements with Canada.⁹¹

As Granatstein notes, however, the process of securing an

agreement from the Commission was not, for a number of reasons, a foregone conclusion. The Commission did not wish to be perceived as a political dwarf and thus sought a substantial foreign policy role. Dissatisfied with Canada's 1974 *aid-memoire* which had proposed a draft trade agreement to exchange MFN treatment on tariff and related charges, it advocated instead an agreement that "would also provide a framework for economic and commercial cooperation 'extending well beyond the field of classical trade policy.'"⁹²

The negotiations culminating in the FA could also well have been torpedoed as a result of public comments on Canada's commitment to NATO by Trudeau, whose style it was to challenge conventional wisdom. Trudeau's speculations about the continuing utility of NATO and the support by some prominent members of his Cabinet (especially Jean Marchand, Jean Pelletier, Donald MacDonald and Eric Kierans) for a Canadian withdrawal from NATO, or, at the very least a return of Canadian troops from Europe, prompted unfavourable reactions from Canada's European allies.⁹³ (Eventually a 50-per-cent reduction was approved in Canada's troop strength in Europe.)

Sharp describes Canada's announcement that it would remain in NATO after a 1970 review of its commitment as a "mishandling" that would have "unfortunate repercussions for years [emphasis added] on relations between Canada and [its] allies in Europe."⁹⁴ The West Germans, in particular, saw such actions as jeopardizing their support for Canada's "privileged" economic link to the Community.

This West German reaction clearly indicated European willingness at that time to draw an unambiguous link between closer trade or economic relations and Canada's security commitment to Europe.⁹⁵

Given the Germans' willingness to link support for the FA to Canada's continued military commitment to Europe, it is then somewhat ironic that, according to Granatstein, it was Trudeau's "close and confidential relationship" with West German chancellor Helmut Schmidt that allowed Canada a foot in the door to Europe when the EC seemed at its most tendentious concerning Canadian overtures.⁹⁶ In fact, the cool reception to Trudeau's offer to establish the contractual link with the EC warmed somewhat when he undertook a modernization of the Canadian armed forces, which included the purchase of German Leopard tanks for the Canadian troops still committed to NATO.⁹⁷

Thus, after "endless coordination," the European Commission recommended in 1975 that the Council of Ministers authorize the beginning of negotiations with Canada for a framework agreement.⁹⁸ Even then, however, there remained a problem with selected Member States. The French, for example, were distinctly cool to the idea of the Community expanding its competence through any such agreement with Canada. Deft Canadian diplomacy finally persuaded President Giscard d'Estaing of France that Canada's motivation for an agreement was also "political" and not simply "economic." Only then did the French acquiesce and vote for the Council of Ministers to begin negotiations.⁹⁹

The Council of Ministers nonetheless stalled over a Danish

complaint against non-discriminatory access to Canada's natural resources - particularly in light of Canada's two-price system for the oil of which Denmark was an importer. Only upon resolution of this issue was the agreement speedily finalized. Granatstein notes that

The successful conclusion of the agreement was a triumph for Canadian diplomacy and for Prime Minister Trudeau, whose visits to European leaders had tilted the balance from opposition to support for the Canadian initiative. To persist over four years, to persuade a reluctant and dubious European Community to expand its jurisdiction, and to essay a new direction was a tribute to the skill of the officers of the Department of External Affairs ... Moreover, the EC at the last seemed to be aware that Canada existed as an entity separate from the United States.¹⁰⁰

Certainly, it was a "triumph" for Canadian diplomacy that it was selected the first industrial non-Member State to have a privileged link with the EC. It was not the first North American state to do so, however, as Mexico had signed a Framework Agreement with the EC the year before.¹⁰¹

By the mid- to late-1970s, just as Canada was enhancing its institutional links with the Community, a combination of factors ensured that the constituency for the EC in Canada among federal officials, politicians, and the business community underwent severe attrition. A number of specific trends fed altering Canadian images of the EC. For example, the lack of market access provisions in the Framework Agreement, leaving no tax breaks, no export incentives, and no subsidies to encourage research and development, ensured at best an indifferent, and at worst a suspicious, Canadian business

audience.¹⁰²

When the increase in trade augured by the Agreement did not materialize, due in part to the onset of "Eurosclerosis", this served only to confirm business's suspicions and to feed perceptions at both political and business levels (but not yet at the bureaucratic level) that the Framework was of little practical utility. On the political side, dismay arose over European inability to invigorate a common foreign policy through EPC.

4.4.2 The "Third Option" As a Trade Policy Failure

An examination of the Canadian economy provides additional reasons for the difficulty entailed in redirecting Canadian trade flows to Europe. A traditional characteristic of the Canadian private sector is its preoccupation with the domestic market. This concern stems from the earliest days of Canada's industrialization and the decision to pursue the strategy of import substitution industrialization (ISI) which Glenn Williams describes in *Not for Export*.¹⁰³ Williams points out that, "This domestic market approach was similarly applied in the case of export trade whereby the private sector "sang psalms of praise to the 'home market' while downgrading the importance of export sales."¹⁰⁴ The prevailing attitude appeared to be based on the perception of inferiority vis-à-vis other industrial estates. Furthermore, the desire to fully occupy the domestic market precluded export sales except in the cases of surplus.¹⁰⁵

A second result of the ISI strategy is the development of technological dependence. To expand domestic manufacturing, the use of foreign technology under license and/or the establishment of branch plants was encouraged.¹⁰⁶ Such technology transfer offered Canadian manufacturers the advantage of exploiting innovations in relatively short order, without the time, expense and risk incurred in developing their own technology. As Williams notes, however, little concern was given to the potential disadvantages of this technological dependence. ISI effectively created a branch plant economy in Canada by encouraging foreign direct investment (FDI).

Unless governed by a world product mandate, branch plants will have constraints imposed on them by their parents. It is not surprising, therefore, that trade with the United States, the home of most parent companies, and hence the dominant investor, is the most active.¹⁰⁷ Throughout the post-Second World War period, but gaining momentum in the 1960s, the two economies had become more fully integrated with primarily raw and semi-processed materials flowing to the United States and with capital goods and manufactured products flowing north. An understanding of these continental links is fundamental to an understanding of attempts to diversify Canada's trade relations.

Not surprisingly, under these circumstances the Canadian business sector developed close links to the United States, enhanced by common values, language and traditions. The two countries became natural partners. Each regarded the other partner as its best customer while developing the largest bilateral trade

relationship in the world. This natural state of affairs was seemingly threatened by attempts within the Canadian government to alter the relationship.¹⁰⁸ Business was from the outset more naturally skeptical of links with the EC.¹⁰⁹ The Liberal government was pursuing a strategy that not only did not provide any meaningful incentives, but went against the grain of an integrated North American economy and business culture. In other words, by the time of the "Third Option" a continental outlook to business had for at least 20 years taken hold within the Canadian corporate sector, an outlook resistant to change. It would appear that "Europeanist" bureaucrats at EAITC were out of step with the business community on whose behalf they were attempting to foster closer relations with Europe.¹¹⁰

This "continentalist fact" goes a long way toward explaining the reluctance of Canadian business to turn its attention towards Europe, a fact admitted in the Canadian government's 1983 Trade Policy Review (to be discussed in Chapter Four). Following from our discussion in the previous chapter about the state-centred approach to studying Canada's international relations, the fact that the "Third Option's" diversification "strategy" overrode the realities of Canada's natural trading patterns is a testament to the power of the Canadian state in its relations with other domestic actors - in this instance the business community.

In sum, the structural constraints on diversification of the Canadian economy include most especially its integration with the U.S. economy. Coupled with recessions in the industrialized

economies at the end of the 1970s, such constraints provide necessary but insufficient explanations for Canada's waning commercial interest in Europe. Structural constraints provided a set of challenges and opportunities; the actors were left to make the necessary choices. Not only were incentives to balance the costs of expanding economic relations outside of North America inadequate, but there was also a lack of sustained political will. Neither of Sharp's successors, Allan MacEachen and Don Jamieson, shared the same commitment to diversification; Trudeau himself eventually lost interest.¹¹¹

4.4.3 The "Third Option" as a Successful Political Initiative

Business, political, and bureaucratic elites alike were disappointed at the less than stellar commercial results of the "Third Option." This disappointment served to, make the "failure" of the "Third Option" synonymous with the failure of the process of intensifying Canadian links with Western Europe.¹¹² John Kirton takes a revisionist view and rejects the popular conception that the success of the "Third Option" is only measured by the percentage increase in Canada's exports to the EC. According to Kirton such thinking provides an "unduly narrow and thus fundamentally misleading view of Europe's relevance and relationship to Canada in both the Trudeau and Mulroney periods."¹¹³ In a less pessimistic vein he points out that, although Canada's exports to Western Europe may have not have achieved the increases

anticipated, Canadian exports to the United States actually dropped from 69 per cent in 1972 to 63 per cent in 1980.

Kirton states that Canada's political relations with Western Europe during the period of the "Third Option" and into the first term of the Mulroney government were actually enhanced with key Member States such as the UK, France and Germany in a number of areas such as the Arctic Waters Pollution Prevention Act (AWPPA), uranium, cooperation with European Space Agency, and the reordering of Francophone institutions.¹¹⁴ In support of his thesis he notes Canada's ability to engender a revised international order with European partners in groupings from which the U.S. stood apart as actively opposed. For example, in the 1970 AWPPA and the uranium cartel of the late 1970s Canada with its European partners was able, respectively, to prevent the emergence of a group the United States wanted and create one to which the United States was opposed.¹¹⁵ But despite these successes, by the early 1980s the Liberal Government's continuing association with the "Third Option" was considered damaging in terms of public perceptions. Senior Canadian officials at EAITC quietly declared the "Third Option" to be "dead" in 1983, although its so-called "failure" was to haunt the Ottawa-Brussels axis throughout most of the 1980s.¹¹⁶

4.5 CONCLUSION

In summary, Canada's relations with the EC during its first two decades assumed a cyclical nature. The first concerted attempt to

expand relations came as a result of concern over UK accession to the EC and overdependence on, and vulnerability to, the United States. The Framework Agreement represented the "foreign" dimension of the Government's new foreign policy direction under the "Third Option."¹¹⁷

Ultimately, however, in the area of trade relations the primary actors - the business world and the politicians - did not maintain any sustained commitment to diversification. The world recession, a Canadian economy characterized by a preponderance of American control, and a slowdown in the process of Community-building, dictated a return to a highly conservative approach to trade relations in Canada. On the political front, the political successes achieved by Canada in Europe were greatly overshadowed by the tendency to make the alleged "failure" of the "Third Option" synonymous with the "failure" of Canada's attempt to strengthen its relations with Western Europe.

NOTES

1. Quoted by Andrew Griffith, "From a Trading Nation to a Nation of Traders", *Policy Planning Staff Papers* (Ottawa: Department of External Affairs and International Trade, 1992), Annex B.
2. Daniel Roseman, PHD Dissertation, p. 18., 1983.
3. Charles C. Pentland, "The European Community in the 1980s", in Canada and Europe, Panel Notes, *Third Spring Foreign Policy Workshop*, Centre for Foreign Policy Studies, Dalhousie University, 14-16 May 1979, p.1.
4. Ayberk, 1978, p. 455.
5. Rothacher (p. 37) says that prior to 1970 only the U.S. proved strong enough to warrant the revision of a mandate given by the Council. The U.S., in addition, treated the EC very skillfully in tactical terms: Whenever it was thought useful they made significant statements or other bargaining moves immediately before Council sessions.
6. James Rochlin, *Discovering the Americas: The Evolution of Canadian Foreign Policy Towards Latin America* (Vancouver: University of British Columbia Press, 1994), p. 34.
7. Prime Minister Louis St. Laurent, "The Foundations of Canadian Foreign Policy in World Affairs," [the Gray Lecture], University of Toronto, 13 January 1947, cited in J. Granatstein, ed., *Canadian Foreign Policy: Historical Readings* (Toronto: Clark Copp Pitman, 1986), p. 28.
8. St. Laurent, *Ibid.*, p. 32.
9. *Ibid.*, pp. 25-32.
10. John Halstead, "Atlantic Community or Continental Drift?" *Journal of European Integration*, Vol. 16, No. 2, p. 153; see also J. Brebner, *North Atlantic Triangle: The Interplay of Canada, the United States and Great Britain* (Toronto: 1966).
11. Perhaps the best treatment on Canada's role in the formation of NATO is to be found in Escott Reid, *Time of Fear and Hope: Making of the North Atlantic Treaty 1947-49* (Toronto: McClelland and Stewart, 1977).
12. Quoted in John English, *The World Years: The Life of Lester Pearson, 1949-1972*, (Toronto: Alfred A. Knopf Canada, 1992), p. 15, from Robertson to Secretary of State for External Affairs, Apr. 2, 1948. External Affairs Records, file 264(s); and Alex Danchev, "Taking the Pledge: Oliver Franks and the Negotiation of the North Atlantic Treaty," *Diplomatic History* (Spring 1991), pp. 199-219.

13. B.W. Muirhead, *The Development of Postwar Canadian Trade Policy: The Failure of the Anglo-European Option* (Montreal: McGill-Queen's University Press, 1992), p. 46.
14. Muirhead, p. 15.
15. A. Claire Cutler, review of B.W. Muirhead, "The Development of Postwar Canadian Trade Policy: The Failure of the Anglo-European Option," in *International Journal*, (Spring 1994), p. 160.
16. See Muirhead, Ch. 4, "The Organization of European Economic Cooperation, Dollar Restrictions, and Canada, 1948-1957".
17. Muirhead, p. 164, 166-67.
18. A free trade treaty among the UK, Austria, Denmark, Norway, Portugal, Sweden and Switzerland was finally signed in November 1959.
19. Muirhead quoting A.F.W. Plumptre, then assistant deputy minister of Finance, p. 170.
20. Muirhead, p. 176.
21. Muirhead, pp. 174-175.
22. Muirhead, pp. 175-176.
23. See H.I. Macdonald, "The European Common Market", *Behind the Headlines*, Vol. 18/4, 1958; and H.I. Macdonald, "Canada's Foreign Economic Policy," *Behind the Headlines*, Vol 20/4, November 1960.
24. See, for example, R.E. Caves, "Europe's Unification and Canada's Trade", *Canadian Journal of Economics and Political Science*, Vol. 25/3, August 1959, pp. 249-258; H.E. English (ed.), *Canada and the New International Economy* (Toronto: University of Toronto Press, 1961).
25. R.A. Mathews, "Canada, Britain and the Common Market," *World Today*, Vol. 18/2, February 1962, pp. 48-57, as cited in Roseman, p. 23. France twice, in 1963 and 1967, vetoed the UK's bid to join the EC.
26. The Commonwealth preferences originated in the Ottawa Agreements of 1932, at the time when Britain still took over 30 per cent of Canada's exports. They were intended to discriminate chiefly against American goods which were gaining ground in British and Canadian markets. They permitted 95 per cent of Canada's exports to Britain to enter duty free and 60 per cent of the UK's exports to Canada to do the same. See Roseman p. 23 and Cf. R.A. Mathews, "Britain's Move into Europe: The Implications for Canada", *Behind the Headlines*, Vol. 31/5-6, October 1972, p. 3.

27. Roseman, p. 23. Roseman speculates that the second British bid for EC membership did not cause much alarm in Ottawa because a less Anglophile and more "continentalist" government under Lester B. Pearson was in power.

28. M. Wardell, "The Challenge to Canada: the Threat to Canadian Trade," in W.B. Cunningham, ed., *Canada, the Commonwealth, and the Common Market* (Montréal: McGill University Press, 1962), pp. 98 and 104.

29. H. Basil Robinson, *Diefenbaker's World: A Populist in Foreign Affairs* (Toronto: University of Toronto Press, 1989), p. 67.

30. Peyton V. Lyon, "The Quest for Counterweight: Canada and the European Economic Community", in Peter Stingelin (ed.) *The European Community and the Outsiders* (Don Mills, Ont.: Longman Canada Ltd.), p. 50.

31. Maxwell Stamp Associates, *The Free Trade Area Option* (London: The Atlantic Trade Study, 1967), p. 28. This book states that the reason that the Canada-UK free trade area proposal did not go forward was that "it was not seriously intended," containing few details (there was nothing in it for Canada since Canada already enjoyed preferential entry into the UK market). As a result, according to this study, it had remained a "sensitive" point in Anglo-Canadian relations.

32. Canada, House of Commons, *Debates*, 1 July 1960, p. 5639.

33. M. Lamontagne, "Canada and the Common Market", in W.B. Cunningham, ed., *Canada, The Commonwealth, and the Common Market* (Montreal: McGill University Press, 1962), pp. 33 and 36.

34. Excerpts from Pearson's speech reprinted in M. Lamontagne, "Canada and the Common Market", in W.B. Cunningham, ed., *Canada, The Commonwealth, and the Common Market* (Montreal: McGill University Press, 1962), p. 25.

35. Lamontagne, pp. 27-28.

36. *Ibid.*, p. 28

37. R.M. Fowler, in Cunningham, ed., *Canada, the Commonwealth, and the Common Market*, p. 19.

38. *Ibid.*, p. 27. The Liberals apparently had some hope that the some of the Act's provisions could have been extended to include an Atlantic free trade area.

39. According to R.B. Bell, who was the Assistant Director of Research at the Canadian Labour Congress, Walter Hallstein, the first president of the European Community in an article entitled

"The Value of Atlantic Partnership," had rejected the proposal of an EC-North American confederation:

"No Atlantic government has been contemplated... The source of the ideological strength of the European Community is Europeanism, whereas the United States is not only an Atlantic power, but also a Pacific power and an exponent of Americanism... EEC quarters in Brussels are realistic enough not to think in terms of a confederate structure of the Atlantic area, desirable though it might be."

cited in C.B. Cunningham, ed., *Canada, The Commonwealth, and the Common Market* (Montreal: McGill University Press, 1962), pp. 44-45. Hallstein, according to the above quotation, was making clear that the objective of economic integration in Europe was eventual political union, and not a transatlantic political or economic community. It worth noting that, given this study's reference to the Europeans' two-pillar image of transatlantic relations, Hallstein didn't refer explicitly to Canada. However, his notion of irreconcilability between nations and communities that define themselves differently - in this case the EEC and the U.S. - would have presumably applied to Canada as well given its geographical location. In fact, thirty years later when Canadian politicians promoted Canada's "Pacific," "Arctic," "North American" and "Atlantic" nationhoods, Hallstein's remarks may have been more on the mark for Canada than they were for the United States.

40. Pentland, p. 126.

41. Cf. E.E. Mahant, "Canada and the European Community: the New Policy", *International Affairs*, Vol. 52/4, October 1976, p. 551.

42. In his disseration Roseman was careful to distinguish between the Europeanists in DFAIT and other senior officials in the Department who had significant input into the "Third Option". This distinction has been confirmed. For example, Michel Dupuis, a high-ranking DFAIT officials commenting 10 years after the "Third Option's" unveiling, pointed that although he was sceptical of its impact, he was equally aware that given the Liberal government's nationalist rhetoric, of the three options it was the only one that was politically acceptable. See *Meeting of Senior Officials*, 1983.

43. The animosity engendered by the Kennedy Round negotiations convinced a number of key officials in EAITC (centred around John Halstead, head of the European Division in 1968, but then rising to become Assistant Under-Secretary in 1971) of the need to work out mechanisms for direct consultations with the EC prevent these hostilities. The "Europeanists" at EAITC met stiff opposition in other federal government departments such as Industry, Science and Technology, which delayed any immediate action that might have been taken. See Roseman, pp. 26, 28.

44. Office of the Prime Minister, *Press Release*, May 29, 1968 as cited in Jack Granatstein and Robert Bothwell, *Pirouette: Pierre Trudeau and Canadian Foreign Policy* (Toronto: University of Toronto Press, 1990), p. 14.

45. At the time there had been two previous major studies of European relations: "Eurocan: A Policy Planning Paper on Relations between Canada and Europe," 10 November 1965; and "Canada's Stake in Europe," May 30, 1967, by the Departmental Study Group on Europe. Cited in Granatstein and Bothwell, note 42, p. 387

46. Government of Canada, *Foreign Policy for Canadians* (FPC) (Ottawa: Queen's Printer, 1970).

47. *Stafleur Report*, p. 250

48. *Ibid.*, p. 252.

49. *Ibid.*, p. 251.

50. *Ibid.*

51. Granatstein and Bothwell, p. 19, see also note 74 on p. 388.

52. *Ibid.*, p. 251.

53. *Ibid.*, p. 252.

54. *Ibid.*, p. 257.

55. *Ibid.*, p. 253.

56. *Ibid.*, p. 253.

57. *Ibid.*, p. 254.

58. *Ibid.*, p. 257.

59. *Ibid.*, p. 255.

60. Roy H. Ginsberg, "US-EC Relations," in Juliet Lodge (ed.) *The European Community and the Challenge of the Future* (London: Pinter Publishers, 1989), p. 265.

61. For a brief but incisive historical review of U.S. attitudes toward the EC see, R.H. Ginsberg, *Foreign Policy Actions of the European Community: The Politics of Scale* (Boulder, Co.: Lynne Rienner, 1989), pp. 129-149; and Y. Devuyst, "European Community Integration and the United States: Toward a New Transatlantic Relationship," *Journal of European Integration*, Vol. XIV, (1990), p. 6.

62. Ginsberg, p. 266.
63. This view was expressed clearly by Henry Kissinger when he commented that: "We cannot ignore the fact that Europe's economic success and its transformation from a recipient of our aid to a strong competitor has produced a certain amount of friction". In H.A. Kissinger, "The Year of Europe," *Department of State Bulletin*, May 14, 1973.
64. Ginsberg, p. 268.
65. Ginsberg, p. 266.
66. Rochlin, p. 65.
67. Lyon, ft. 14
68. Lyon, p. 56.
69. Lyon, p. 56.
70. FPC, p. 39
71. Quoted in Bothwell and Granatstein, *Pirouette*, p. 34.
72. Peyton Lyon, "A Review of the Review," *Journal of Canadian Studies* 5 (May 1970), p. 34.
73. Peyton Lyon, in Stigelin, p. 57.
74. FPC, p. 14.
75. FPC, p. 24.
76. FPC, p. 28.
77. Quoted by Peyton Lyon in Stigelin, p. 57.
78. Europe, FPC, p. 14.
79. *Ibid*, p. 27.
80. Mitchell Sharp, *Which Reminds Me...* (Toronto: University of Toronto Press), p. 178.
81. In addition to Europe, the other booklets were on the Pacific, the United Nations, Latin America, and international development. Granatstein calls the *Foreign Policy for Canadians* white paper seriously flawed, see pp. 33-35.

82. See Mitchell Sharp, "Canada-US Relations: Options for the Future," *International Perspectives* (Autumn 1972, Special Issue): 1-21.

83. Sharp in his memoirs, *Which Reminds Me...*, goes so far as to conclude that the Nixon Doctrine "killed" the "special relationship" (pp. 178-181). See also Harald von Riekhoff, "The Third Option and Canadian Foreign Policy", in Brian Tomlin, (ed.), *Canadian Foreign Policy: Analysis and Trends* (Toronto: Methuen 1978).

84. M. Sharp, quoted in *Behind the Headlines*, "Canada and the European Community," Feb. 1974, Vol. 32/6, p. 24.

85. J. Kinsman, *op. cit.*, pp. 24 and 27.

86. Sharp, p. 185.

87. See Granatstein and Bothwell, *Pirouette...* pp. 162-72.

88. See Canada, Parliament, Senate Standing Committee on Foreign Affairs, *Canadian Relations with the European Community* (Ottawa: Canadian Parliament, July 1973).

89. Pentland states that in 1970 a controversy arose between the Council and the Commission about the interpretation of Article 113 of the Treaty of Rome. The Council proved to be quite hesitant in allowing the Commission to expand its scope from limited foreign trade policies towards more comprehensive foreign economic policies that would allow the Commission to negotiate foreign economic cooperation agreements. The 1976 Framework Agreement thus achieved this breakthrough for the Commission. See Charles Pentland, "Linkage Politics: Canada's Contract and the Development of the European Communities' External Relations," *International Journal* 32, 1977, p. 229.

90. See Daniel Roseman, PH.D. dissertation as an excellent analysis of the evolution of the institutional structure of the Framework Agreement, 1976-1983. On the institutionalization of cooperation see also Barry (1980) and Lyon (1973). Article one of the Framework Agreement provided for an extension of MFN status to the parties, in keeping with the rights and obligations under the GATT; Article Two called for commercial cooperation as the parties agreed to "promote the development and diversification of their reciprocal commercial exchanges to the highest level"; Article Three called for economic cooperation through industrial, scientific and trade opportunities between the two parties; and Article Four called for the creation of a Joint Cooperation Committee to oversee the implementation and operation of the Agreement; and Article Five provided for the operation of the Agreement in relation to other trade agreements.

91. Robert Boardman et al., *The Canada-Europe Communities Framework Agreement: A Canadian Perspective* (Saskatoon, 1984), p. 15.

92. Granatstein, p. 165, Granatstein cites A.J. Easson, ed., *Canada and the European Communities: Selected Materials* (Kingston: 1979), 86ff. An official of the Wirtschaftsministerium, Bonn, said that "We at meetings tried to impress on our Canadian visitors that their request was beneath Canada's dignity...the substance was so slight. But the political interest of Canada was powerful." Confidential interview, Granatstein, note 35, p. 414.

93. Sharp, p. 173.

94. Sharp, p. 175.

95. Robert Boardman, "European Responses to Canada's Third Option Policy", in Marie Fleming (ed.) *The European Community and Canada-EC Relations* (Ottawa: European Politics Group, 1979), p. 126.

96. Granatstein and Bothwell, p. 168.

97. See John Halstead, "Trudeau and Europe: Reflections of a Foreign Policy Adviser," *Journal of European Integration*, Vol. XII, No. 1, (Fall 1988), pp. 37-50.

98. Granatstein and Bothwell, p. 168.

99. Granatstein and Bothwell, p. 169.

100. Granatstein and Bothwell, p. 170.

101: On the EC's relations with North America, including Mexico, see Evan H. Potter, "The Transatlantic Relationship in Flux," in Donald Barry and Gretchen Macmillan, eds., *Toward a North American Community* (New York, N.Y.: St. Martins Press, 1995).

102. Daniel Roseman, "Canada and the European Community," *Behind the Headlines*, (Toronto: Canadian Institute of International Affairs, 1989), p. 6.

103. Glen Williams, *And Not for Export*, 1986. Williams point out that the ISI strategy was adopted with the first national policy of 1879. Under that policy, high tariffs were set to "protect existing Canadian industries, [and] to give manufacturers a chance to expand their operations or to establish a new plant or fill orders for goods which were formerly imported." Both government and manufacturers looked to the tariff as the means to secure/occupy the "home market.", p.18.

104. Williams, p. 19.

105. Boyd, p. 25.

106. Williams notes the amendments to the Patent Act of 1872 opened the way for the import of foreign technology.

107. For a detailed review of the constraints imposed by foreign investment, see Government of Canada, *Foreign Direct Investment in Canada* (1972) The Gray Report. See also Wallace Clement's classic 1977 study on why change in the structure of North America's economy is so difficult. He points out that part of that resistance likely stems from having social linkages with the US elite, combined with the fact that the Canadian elite is generally a small, close-knit grouping that, in the absence of new blood, may not be exposed to new ideas. See Wallace Clement, *Continental Corporate Power* (1977)

108. Boyd, p. 29.

109. See "Business skeptical of EEC Link," *The Globe and Mail*, June 11, 1976, p. 7. The skepticism was further noted in "How Canadians struggle with Europe's red tape," *Financial Post*, Nov. 12, 1977, pp. 12-13. The article discusses the non-ferrous metals mission sponsored by the federal government earlier that year, noting that "some companies needed a lot of persuading before they agreed to participate".

110. This view was identified by Stephen Clarkson in an article in *The Globe and Mail* of December 13, 1976, p. 7, where it became apparent that the prevailing attitude was that Canada could not "afford to get tough with the Americans" - that the status quo was the "only option".

111. See James Boyd, Master's Thesis, p. 23, 1988a, 46. Boyd, quoting Halstead says that Jamieson in fact considered the contractual link as nonsense from the beginning. This view appears to be corroborated by Granatstein and Bothwell, p. 172.

112. See Alting von Geusau, "Between Superpowers: Challenges and Opportunities for Canadian-European Cooperation," in *Canada on the Threshold of the 21st Century: European Reflections Upon the Future of Canada*, C.H.W. Remie and J.M. Lacroix, eds., (Amsterdam: John Benjamins Publishing Co., 1991).

113. John Kirton, "The Continuing Success of the Third Option: Canada's Relations with Europe and the United States in the Mulroney Period," a paper presented at the Annual Conference of the Association for Canadian Studies in German-Speaking Countries, Grainau, Germany, February 13-16, 1986, p. 2. This unpublished paper was made available to this author.

114. *Ibid.*

115. *Ibid.*, p. 8.

116. Foreign Policy Advisors Group, "The Third Option: Retrospect and Prospect," Third Meeting, February 3-4, Selected Documents, (Ottawa: Department of External Affairs, 1983).

117. Roseman (p. 67) concludes that "The Third Option was a declaratory policy which, as such, did not need to be converted into action. In the words of one of its authors: 'the Third Option was not about diversification or counterweights,...it was a profession of faith in Canada.' The 'Third Option' could serve as a useful purpose as a symbol to the world of Canadians' determination to remain distinct from and independent of the United States; it was tarted up with talk of 'a comprehensive, long-term strategy [etc.]', so that it would be taken seriously. If politically and pragmatically the government really had wanted to implement it, it would have had to follow-up with hard decisions, coherent policies - in short, an industrial strategy. But in the face of the continental business community's growing opposition by the early 1980s it no longer had the will."

CHAPTER FIVE**THE IMPACT OF CANADA-U.S. FREE TRADE ON CANADA-EC RELATIONS****5.1 INTRODUCTION**

A new era began in 1980. Vast changes occurred on the global landscape, as they did on the Canadian domestic scene. Against what the U.S. perceived to be a threatening international environment, the Reagan administration was elected with the hope of reasserting U.S. hegemony. In Canada, after the country's remarkably brief flirtation with the Progressive Conservative government led by Joe Clark from May 1979 to February 1980, the Trudeau government returned to power for the final four years of its almost uninterrupted sixteen-year tenure and, after losing the 1984 election, was replaced by a Conservative government led by Brian Mulroney which held power for the rest of the decade.

This is the context of Canada's relationship with the Community and western Europe during the period 1980-1989. After 1983, this decade was enormously important to the evolution of Canada's relationship with the United States, and far less important to the evolution of Canada's policy approach to European integration. The crisis of confidence of the European idea which had begun in the last years of the 1970s was carried over into the first half of the 1980s. This was an incentive for Canadian decision makers to focus more and more on relations with the United States.

5.2 THE CONTEXT

With federal government officials and politicians still smarting from the Canadian business community's indifference to the objectives of the "Third Option," with the pressure of a recession in 1981-82, and with the Republican administration in Washington threatening to inflict even worse damage on Canadian interests than the Nixon Administration had ten years earlier, first the Liberals and then the Progressive Conservatives undertook a fundamental review of Canada's trade policy lasting until 1985.

In the early 1980s, the Canadian business community's unease had grown regarding the Trudeau government's determination to use trade policy - through the NEP, FIRA, and industrial policy - as a vehicle to change Canada's economic policy orientation. The business community was particularly concerned with how programs such as the NEP and the rumoured strengthening of FIRA were being perceived by their largest market, the U.S., since these federal initiatives were fundamentally at odds with the Reagan administration's commitment to the free-enterprise system and deregulation and had heightened the U.S. decision-makers' awareness of foreign practices that might undermine U.S. business interests abroad.¹ The pressures of recession - hitting Canada harder than any other OECD country - combined with a nationalist lurch in Canadian energy and investment policies - convinced the traditionally cautious Canadian business community of the need for a change in Canada's commercial relations with the United States.

Early in 1983, for example, the Canadian Chamber of Commerce had adopted a resolution asking the Trudeau government to join with industry and the provinces to explore the "benefits and adjustments required to facilitate a free-trade agreement with the U.S. to be effective by 1987."²

5.3 THE CANADIAN TRADE POLICY DEBATE

With the growing domestic and international pressure, the Liberal government initiated a trade policy review in 1982. The review was spearheaded by Derek Burney, who had become the director of EAITC's trade relations bureau in 1981 (and would later become EAITC's second-highest official as associate under-secretary of state for external affairs), with a small team of like-minded trade policy experts. Two prescriptive studies focusing on the roles of trade and trade policy in the Canadian economy resulted from the project: *A Review of Canadian Trade Policy* and *Canadian Trade Policy for the 1980s*.³

The Review (released in August 1983) affirmed that Canada was strongly attached to the multilateral trading system. It was newsworthy because it became a vehicle for a full-scale debate on Canada-U.S. trade relations and the merits of a comprehensive Canada-United States trade agreement by calling for bilateral negotiations with the United States on a sectoral and functional basis. In the end the U.S. did not show much interest in a sector-by-sector initiative.

On relations with Europe, the review appeared to pay lip-service to the importance of Western Europe to Canadian interests, stating the needs: to match the close political and security ties; to blend longer-term European requirements with Canadian supply capability; to provide an effective counterweight to Canada's substantial dependence on economic relations with the U.S.; and to facilitate greater investment and technology exchanges both ways.⁴ At the same time, however, the review noted the limited chances for significantly improved terms of access to the EC given the lack of tariff arrangements favouring Canadian goods - "our terms of access are largely determined by GATT arrangements."⁵

Burney had become skeptical about multilateralism as the complete answer to Canada's trade policy in the early 1980s because although GATT had served Canada well in the past, by this time it had become stalled. At the same time, not only had Canada-U.S. relations soured with the Liberal Government's nationalist economic policies of the past decade, but Trudeau's "peace initiative" in his last months as prime minister in 1984, in which he tried to use personal diplomacy to mediate the differences of the increasingly antagonistic superpowers, proved to be at once ineffectual and irritating to Washington.⁶ Burney, based on his consultations and analysis of Canada's trade position (see Tables 3 and 4 below), had concluded long before it became fashionable in political and bureaucratic circles that bilateral free trade with the United States was the only path to ensure Canada's prosperity.

TABLE 3: COMMODITY COMPOSITION (%) OF CANADIAN EXPORTS, 1960-1984

	1960	1970	1980	1983	1984
Food and Beverage	18.8	11.4	11.1	11.6	9.7
Crude Materials	21.2	18.8	19.8	15.9	15.8
Fabricated Materials	51.9	35.8	39.8	33.3	32.0
Manufactured End-products	7.8	33.8	29.4	38.9	42.1
Special Transactions	0.3	0.2	0.3	0.3	0.4
Total	100	100	100	100	100

Source: Hart et al., p. 14 citing Richard R. Lipsey and Murray G. Smith, *Taking the Initiative: Canada's Trade Option in a Turbulent World* (Toronto: C.D. Howe Institute, 1985), p. 15.

TABLE 4: DISTRIBUTION OF CANADIAN EXPORTS BY TRADING AREAS 1960-1984 (%)

	1960	1970	1980	1983	1984
United States	55.8	64.4	63.2	72.9	75.6
United Kingdom	17.4	9.0	4.3	2.8	2.2
Other Western Europe	11.3	9.8	10.6	5.8	5.0
Japan	3.4	4.9	5.9	5.3	5.1
Other Asia	2.2	2.9	4.0	4.4	3.8
Other	9.9	9.0	12.0	8.8	8.3
Total	100.0	100.0	100.0	100.0	100.0

Source: Hart et al., p. 15, citing Richard R. Lipsey and Murray G. Smith, *Taking the Initiative: Canada's Trade Option in a Turbulent World* (Toronto: C.D. Howe Institute, 1985), p. 47.

He and his officials saw clearly the fundamental link between trade and domestic economic policy. His consultations with the Canadian private sector and academic community had demonstrated the strongly held view outside of official Ottawa, especially among academic economists, that a successful trade performance required a competitive domestic economy and that government trade policy should concentrate in the first instance on promoting competitiveness.

The pro- and anti-free trade positions can perhaps be summarized best by looking at the positions of Richard Lipsey, a leading Canadian trade policy expert and economist, and David Crane, a well-known journalist at the *Toronto Star*, a paper that was implacable in its opposition to free trade. Canada had come to a fork in the road in its post-World War II history: would it stick to the old policies or would it break out and start anew?

Lipsey contended that it was time to strike a new trading relationship with Canada's most important trading partner.⁷ The argument was simple and straightforward enough. Canada's post-War wealth had been built on ready markets and the products of an abundant and low-cost resource base. But new competitors in developing countries, new technologies, substitute materials and the increasingly higher costs of extraction had created the realization that Canada's resource base was no longer an assured source of wealth. This resource-based wealth could also no longer finance the maintenance of an inefficient manufacturing economy sheltered behind high tariff walls. Lipsey argued that small economies dependent on trade with larger economies need free, stable, and secure access to at least one large market in order to reap the benefits of specialization and long production runs that are available to industries in Europe, the United States, and Japan because of large domestic markets.

In the 1960s, some economists had opted for a North Atlantic free trade area; in the 1970s a greater number had turned increasingly to a North American free-trade area.⁸ But their views

ran counter to the lingering legacy of Canada's National Policy of high tariffs (started in 1879 by Canada's first prime minister, John A. MacDonald) that continued to dominate business and official circles.⁹ In the 1980s, however, economists were finding the business community increasingly interested in more secure access to a large market and prepared to pay for this access by opening the Canadian market to U.S. competitors. Federal officials and Liberal politicians could no longer stand by in the face of further reduction in Canada's competitiveness, output, employment and real incomes. By the mid-1980s, apart from Australia, Canada was the only advanced industrial country in the world that did not have secure access to a large market of a hundred million or more people. This lack of secure access to a large market threatened a deterioration of Canada's competitive trading position, resulting in higher costs for consumers and producers alike.¹⁰

On the other side were the nationalist forces represented by observers such as Crane, whose opposition to bilateral free trade was not economic but political.¹¹ He, like many other nationalists, felt that Canada-United States free trade would lead first to economic and then eventually political absorption by the United States. On the domestic front, this translated into fears that Canada's cultural sovereignty was at risk as well as social and economic programs that would have to re-aligned, harmonized with the United States or even eliminated. On the international front, this view was in harmony with Trudeau's *Foreign Policy for Canadians* and the "Third Option," in that a free trade agreement

with the United States would erode Canada's capacity to conduct an independent foreign policy.¹² Most worrisome from the nationalists' perspective was that Canada's other trading partners would regard it as even more of an appendage of the United States, thus reinforcing the "two-pillar" European view of transatlantic relations. For the nationalists the assumption was that bilateralism and multilateralism were mutually exclusive rather than complementary as the pro-free traders argued, with the latter group pointing out that the GATT encompassed a series of bilateral agreements under which barriers to a great deal of cross-border trade had already been eliminated in the world's largest bilateral relationship.

But despite the strong argument for at least bilateral Canada-U.S. free trade made by Burney's team and academic economists, and despite growing support in the Canadian business community, in 1983 free trade was still a non-starter at the political level. Trudeau, whose "intellectual preference had always been to seek 'counterweights,'" understood both the importance of the U.S. relationship and its potential for restricting independent Canadian action.¹³ He had surrounded himself with advisers who believed in government's ability to design industrial policies to spur greater competitiveness. But this is not to suggest that there was unanimity in the Liberal Cabinet on the question of free trade. Well-known junior ministers such as Edward Lumley (one of the few Liberal ministers with any private sector experience and who was minister for international trade) and other ministers such as Mark

McGuigan and Gerald Regan (who held the external affairs and international trade portfolios respectively) were sympathetic to bilateral free trade with the United States. On the other side were more senior ministers with Trudeau's ear such as Allan MacEachen (twice Trudeau's secretary of state for External Affairs) and Herb Gray (the "spiritual father of the nationalism that had underpinned the economic policies of the Trudeau government in 1980-81), who were not.

No doubt reading the political signals, the senior levels of the federal bureaucracy were not prepared to, and indeed, philosophically unwilling to, support a bilateral free trade initiative. The arguments for free trade were thus rejected by the senior members of Burney's own department - where multilateralism was still the prevailing orthodoxy as it was in State, Commerce and USTR in the U.S. - making him a "lone wolf."¹⁴ As an example of the persistence of the "Third Option" in official thinking in his department, concurrent with the trade policy review, another group at EAITC under the direction of the deputy minister for foreign relations was reviewing the Canada-United States relationship more generally and, based on limited external consultations (certainly not in the mold of the broad consultations engaged in by Burney and his officials), came to conclusions very much in the vein of Mitchell Sharp's 1972 paper.¹⁵

5.4 Three Options Again

But the heterodoxy of free trade advocacy in official Ottawa circles did not prevent Burney and his small coterie of like-minded officers at EAITC from biding their time until the political winds changed, which happened once the Progressive Conservative party came to power in 1984. Although it had not been explicit (couched in sectoral free trade terms), the entire thrust of the recommendations to the Liberal government in the 1983 Review was now in the opposite direction of the "Third Option" described in the previous chapter.

Indeed, Michael Hart, a senior trade policy specialist at EAITC and who had been a member of the team working for Burney on the 1983 trade policy review, sees the debate surrounding the trade policy review and the actual report as ^{having} again offering ^{ed} to the government three options, each with its own philosophical underpinnings. The first option revolved around an integrated industrial policy that would involve nationalizing some industries, raising barriers to some imports and engaging in large-scale industrial subsidization in order to strengthen manufacturing. This approach, embraced by the left had never met the test of office in Canada and was counter to the liberal ideology of comparative advantage and free markets, favouring "the mercantilist philosophy of engineered comparative advantage and mechanical calculations of national interest."¹⁶ The second option was the status quo. Canada would continue to rely largely on the multilateral system but

would, as opportunities arose, enter into special bilateral arrangements (e.g., the sectoral free trade option with the United States). This had been the policy of successive post-War Canadian governments (e.g., the Canada-U.S. Autopact of 1965). The "new" Third Option was to pursue a free trade agreement with the United States within the framework of rules provided by the GATT. Such an approach while "not denying or denigrating the continued pursuit of multilateral negotiations and improved trade relations with all potential trading partners, would recognize the importance of giving the Canada-United States relationship a higher priority."¹⁷

In summary, the ascension of a new government in 1984, bringing with it a new political orthodoxy, would eventually ensure that public policy reflected the position that Canada's international trade interests would now be better served through the enhancement of trade relations with the United States (the "Second Option" in Mitchel Sharp's 1972 article). The late Hyman Solomon, a respected columnist, put it rather succinctly: "the US is once more the primary focus of trade policymakers, and 'third' or other options are well down the list and looking somewhat tarnished."¹⁸ In reaction, the *Winnipeg Free Press* more pointedly concluded:

It has taken more than a decade for the federal government to concede that the United States is and will remain the most important single export market on which most effort should be expended. ... the unstated premise of the federal government's long-delayed discussion paper ... is that the Third Option is dead. It has been dead for most of the past ten years but the department of external affairs and the prime minister's office

refused to issue a death certificate until now.¹⁹

5.5 THE CONSERVATIVE AGENDA: BRIAN MULRONEY'S EUROPE POLICY (1984-1988)

In 1984, with the largest majority in Canadian political history, Brian Mulroney ended the Liberal Party's domination of Canadian politics as the natural governing party. Mulroney's neo-conservative agenda (although Canada's Progressive Conservative party would be considered 'liberal' by most American Republicans), concentrated upon integrating the Canadian economy more closely with that of the United States, and also advocated a heavier reliance upon foreign investment (i.e., the Liberals' FIRA was changed to Investment Canada, an investment promotion agency) and the private sector.²⁰ The new government was initially ambivalent on the merits of free trade. The 1984 election campaign - unlike the one in 1988 - was not fought on the issue of free trade. Historically, the Liberal Party had been most supportive of trade liberalization and the Conservative Party had pushed for increased protectionism. For this reason the new government initially stayed the course on a number of Liberal-era foreign policy initiatives, resulting in the government's adoption of a "constructive internationalism" that translated into support for international fora such as the Commonwealth and the creation of La Francophonie.²¹ It did not specifically earmark Canada's relations with the EC for special attention, however. The Mulroney doctrine and its relationship to the CUFTA will be explored here after a preliminary

examination of two reviews of foreign policy conducted by the Progressive Conservative government.

The first major foreign policy review since Trudeau's *Foreign Policy for Canadians* was Joe Clark's *Competitiveness and Security: Directions for Canada's International Relations* (CS:DCIR), published in 1985. The Green Paper, as the CS:DCIR was known, identified six basic objectives - unity, sovereignty and independence, peace and security, justice and democracy, economic prosperity, and the integrity of Canada's natural resources. These basics bore a close similarity to the six policy themes that had been outlined fifteen years earlier in *Foreign Policy for Canadians*. (Significantly, six years later the Conservatives' last foreign policy review, the *Foreign Policy Update*, would drop the theme of "independence" from the principles underlying Canada's foreign policy.)

But while both the FPC and the CS:DCIR may have been based on the same foreign policy principles, they were vastly different documents. From the Trudeau government's perspective, the world was progressing towards multipolarity as the U.S. began to be seriously challenged by Europe and Japan. In contrast, Clark's document attested to the political, economic and military strength of the U.S., beyond which it provided a portrait of a bipolar climate - an intense contest between the U.S. and the Soviet Union. This contest between the superpowers seemed real enough, especially in the context of the second Cold War, which characterized this period. The CS:DCIR's emphasis was not on Europe as an economic threat but

as the world's most important strategic site in this regard.

The importance attached to the competitiveness of the Canadian economy is what set Clark's report apart from previous analyses of Canada's international relations. A recurring theme was the changing nature of the global political economy, with an emphasis upon international trade, investment, and capital flows.²² In a clear reference to the United States, it was observed that "for Canada, protectionism poses great dangers"²³ - a view that was instrumental in the eventual success of the pro-free-trade movement. The CS:DCIR argued that the "United States will remain the world's dominant economic power" as well as the world's foremost power generally.²⁴ The Trudeau government had viewed the United States's international influence as declining relative to other states (even though by 1985 it had slid into the position of the world's largest debtor nation) and this conditioned its foreign policy orientation away from North America. Conversely, the Mulroney government saw no sign of wavering American power and this was an important determinant of its foreign policy.²⁵

In terms of specifics about Canada's relations with Europe, although the CS:DCIR noted that Canada was an Atlantic nation, at the same time that it was "...North American and not American. . . . a Pacific nation . . . a nation of the Americas . . . [and] an Arctic nation," precious little was said about Canadian interests in Europe.²⁶ In a one-page discussion it acknowledged the European Community as a "key player" in the international economic system since - with four of the world's ten largest economies - EC was a

major source of world investment and technology. The Canadian dimensions included a reiteration of Canada's major post-War interests in Europe, including the fact that "fundamental Canadian political and security were engaged there"; that "thousands of Canadians have fought two world wars in Europe"; that Britain was Canada's second largest market for manufactured goods; and that Canada worked with West European states to strengthen the mechanisms of international security and to expand East/West contacts. As a reflection of where Europe stood within the Progressive Conservatives' reassessment of foreign policy, the CS:DCIR reasserted that Canada's market access to Europe was being impeded by tariff and non-tariff barriers; that the European Community's Common Agricultural Policy had severely reduced imports of agricultural products and had turned the Community into a major international competitor for agricultural export; and, significantly, that Canada's market share in Europe had declined in the last 25 years because of structural economic change, the recession, exchange rates and Canada's reduced competitiveness.²⁷

Elsewhere in the CS:DCIR, the USSR was branded as the most ominous security threat to Canada, and Europe remained the "most critical military region in the world"²⁸ - a position that seemed more appropriate to 1945 than to 1985. These statements and others led observers to criticize the review for clinging to an outdated "realist" assessment of global affairs, and for failing to come to grips with the shifting international distribution of power.²⁹ The review was further criticized for its failure to "attach

sufficient importance to the pursuit by Canada of responsible, active and idealistic external policies...³⁰ and its replacement of characteristics associated with a middle power idealism by a more self-interested and egotistical appreciation of Canada's economic place in the world.

The CS:DCIR prompted analysts of Canadian foreign policy to question whether Canada was, or could be, the "Principal Power" of the Trudeau years, since that status was accorded to a state that was not so heavily influenced by Washington. That is, instead of Dewitt and Kirton's description of a power with a distinctive agenda, and which was among the top tier of states in a multipolar world, Clark's document portrayed Canada as a loyal ally of the U.S. in a bipolar world.

With the issues raised in the CS:DCIR as its starting point, a special joint committee of the Senate and of the House of Commons on Canada's international relations was formed in 1985, and it released a major report, *Interdependence and Internationalism* (I&I) in 1986. Another stark indicator of how low Western Europe and the EC in particular had slipped on the Canadian foreign policy agenda was that in the I&I (undertaken by the Policy Planning Staff at EAITC), the amount of discussion devoted to Canada-West European relations was grossly disproportionate to the actual resources devoted by Canada to its relations with Western Europe in the political, economic and cultural domains, and to Western Europe's position (taken as a region) as Canada's second largest trade and investment partner. In contrast, large portions of the report were

devoted to Canada's relations with Asia Pacific.³¹ The European Community itself was only mentioned twice in the entire review.

Let us now turn to a deeper consideration of the forces behind Canada's economic integration with the United States, which was a crucial development in the process of hemispheric integration that would occur in the 1990s and contribute to the weakening of transatlantic ties.

It is on the economic front that the new Mulroney Government veered abruptly away from nearly two decades of economic nationalism as espoused by the Trudeau Liberals, becoming increasingly convinced (the Tories had traditionally supported protectionist measures) that Canada's future prosperity lay in a greater economic integration with the United States.³² The focus of much of the national debate in 1983-1985 (couched largely in terms of the First and Third Options of the trade policy review - an industrial strategy versus free trade with the United States) was the ongoing research and consultations of the Royal Commission on the Economic Union and Development Prospects for Canada. This research project was known popularly as the Macdonald Commission after its chair, Donald Macdonald, who was a former Trudeau Cabinet minister and later, as high commissioner to the U.K., a rabid proponent of the "Fortress Europe" school of thought on the impact of European economic integration.³³ With a pro-business government in power, Macdonald's recommendation was that although Canada as a country had been created in defiance of north-south economic pressures, for the sake of national prosperity Canadians now had to

be prepared to take "a leap of faith" by pursuing a more open trade relationship with the United States.³⁴ Canada began to negotiate a bilateral free trade agreement with the United States in 1986.

5.5.1 Reviews of Canada's Europe Policy

The Liberals themselves had abandoned the idea of greater trade diversification. Not the change from a Liberal to a Conservative government in Ottawa but rather an increasingly protectionist mood in the U.S. Congress and its potential to reduce Canada's access to its largest market, explain why - despite a resolve at the senior bureaucratic levels in 1983 to "move beyond" the "Third Option" to improve Canada's transatlantic economic links - it would actually take another four years for there to be sufficient political interest in the Prime Minister's Office for EAITC to produce a comprehensive review of Canada's relations with Europe.³⁵

The Government's 1987 review of Canada's relations with Europe recommended a more integrated and proactive policy approach, and was useful in detailing the comprehensive nature of Canada's transatlantic relations, making many general recommendations (e.g., more ministerial trips and missions, more private sector input etc.). Nevertheless, it was noticeably short on programs and specific means of enhancing transatlantic relations.³⁶ It could be criticized, in the same way that the "Third Option" had been, for not having a clear "strategy" and plan of action. In addition, any discussion of Canada-EC relations specifically was overshadowed by

the emphasis on Canada's security stake in Europe, a factor that may be related to the release during the same year of the Government's controversial Defence White Paper, which ironically was couched in Cold War language just as East-West tensions were subsiding.³⁷

Between 1985 and 1987, concurrent with the start of the Canadian-initiated free trade negotiations with Washington, the EC took the first steps towards renewal through its White Paper in 1985 and then the Single European Act in 1987, with the latter focusing on the achievement of free trade within a single European market. Unlike a decade earlier, the priorities of Canadian and Community decision-makers were now clearly diverging.

And, in terms of Brussels relations with Washington, any goodwill that the Carter administration had offered the EC was soon replaced by the old economic antagonisms and heightened foreign policy differences as the Reagan administration took office. During the early 1980s the U.S. and the EC were on the brink of trade wars (with the biggest problem areas being steel and agriculture). The accession of Spain and Portugal to the EC in 1986, at significant cost to U.S. farm exports, exacerbated bilateral tensions and began the politicization of trade relations that were reflected in trade disputes played out in the Uruguay Round of the GATT. Differing, often opposing, positions on East-West relations (e.g., U.S. opposition to European sales of high-technology to the Soviet Union and its allies) and North-South relations (e.g., U.S. opposition to EC support - in its traditional foreign policy backyard - for the

Contadora peace process) affected the way the EC and the U.S. chose to trade with one another and with others.³⁸ The politicization of EC-U.S. relations were problematic from an institutional viewpoint since, unlike the EC's relations with Canada and Mexico, there existed no bilateral organizational mechanisms to coordinate EC-U.S. policies: NATO's purview was and continues to be security and - despite the provisions for economic cooperation enshrined in Article 2 of the Charter - in practical terms excluded economic affairs; on the other hand, the EC's mandate - with the exception of the then still largely dormant Western European Union (WEU) - excluded military affairs. EC-U.S. disputes in the 1980s thus often fell between the two. By the end of the 1980s the growing fissures in the EC-U.S. alliance - especially as the common threat from the East bloc dissipated - highlighted the fundamental change in the relationship since the early 1970s and Kissinger's Year of Europe.

The institutional framework and policy-making framework of transatlantic relations were, by 1989, in danger of becoming anachronistic and, as we shall see, attempts were made in the early 1990s to reform them. In light of the uncertain state of EC-U.S. relations, it could be expected that, as was the case in EC-Canadian relations in the early 1970s, the Commission would use its bilateral relations with Ottawa as an indirect lever in its relations with Washington; Ottawa, according to this view, would be only too eager to assert its position as the EC's "other" North American partner. At the risk of generalization, any sustained disharmony in EC-U.S. relations presents Canada with a propitious

opportunity to break out of the confines of the Europeans' "two pillar" image of transatlantic relations. However, there is no compelling evidence to show that in the latter half of the 1980s Ottawa actually chose to step into the breach in U.S.-EC relations. Indeed, as the following chapter will show, the Commission and the new Bush Administration succeeded in patching up their differences, at least temporarily, in the year before the Treaty of Paris in November 1990 which ended the Cold War.³⁹ Canada, rather than being at the forefront of the re-thinking of the Atlantic institutional architecture (as it had been after the Second World War), remained largely an onlooker until well into 1990.

It appears that the lack of energy devoted to relations with the EC during the 1980s should be attributed not only to the "Third Option" experience, but even more significantly to the Conservative government's preoccupation over free trade negotiations with the U.S. and growing interest in the Pacific Rim. Consequently, Canada's economic relations with Western Europe suffered from a case of benign neglect," albeit on the part of both partners. But such "neglect" is still somewhat surprising given the concern espoused by most post-War Canadian governments (the exception being that of the two minority Liberal governments under Lester B. Pearson from 1963 to 1967) regarding the need to maintain Canada's independence from the United States and given also their subsequent search for "counterweights" to this end. These notably took the form of closer relations with the U.K. and France and the creation of a transatlantic partnership both in political and economic

terms.⁴⁰

It can be said that the 1980s were characterized by the clear bifurcation between the economic/trade and political/security tracks in Canada's policy framework for its relations with Europe. It seems somewhat ironic that running parallel with the apparent indifference to the strengthening of transatlantic economic mechanisms, was the belief that Canada's security interests were more than ever anchored in Europe and thus by extension in the transatlantic security institutions of NATO and the CSCE. Or, in the words of a Canadian journalist, the government's European policy ". . . disclosed a curious tension between the reaffirmation of Canada's commitment to NATO and the military contribution to defence on the one hand, and, with the exception of current trade irritants, the relative indifference to developments in the EC on the other."⁴¹

But the EC had not become totally irrelevant to Canadian interests. The EC as an institution and as a 'pillar' in Canada's European policy framework was, despite its inferiority in the eyes of Canadian decision-makers relative to the 'pillars' of NATO and the CSCE, nevertheless still recognized as an important pillar in the 'free world' to counter a resurgent Soviet threat during the increasing chill in East-West relations in the early to mid-1980s. Augmenting Canada's roles in the NATO and CSCE multilateral institutions may not have led directly to a reaffirmation of Canada-EC ties, but nevertheless ensured, as described in the 1987 Defence White Paper, that Canadian security policy in Europe was in

many ways more important to Canadian interests than it had been a decade earlier during a period of détente in superpower relations. Indeed, what we see reflected in the Canadian policy discussions of this period is a regression of Canadian perceptions of the EC, mirroring Canadian and American views of the Community's importance within the transatlantic context at its founding in 1957.⁴²

5.6 CONCLUSION

This chapter has covered the evolution of Canada's policy approach towards Europe from the early to late 1980s. The official orthodoxy in the 1970s was that Canada had to diversify its international relations away from growing dependency on the United States; the Community was the most convenient partner in realizing this essentially political objective. This played to largely muted opposition from the Canadian business community until the late 1970s and early 1980s when a combination of a recession and unease with nationalist economic policies caused a growing realization among the private sector, increased numbers of senior federal officials, and some Liberal Cabinet ministers that the U.S. market was basic to Canada's economic well-being, and that success in that market would require a stable Canada-U.S. relationship. The full realization of this direction came about under the first term (1984-1988) of the Mulroney-led Conservative government. In fact, the Conservative government's approach can be considered different from that of the Trudeau era in five significant ways. First, in

addition to traditional ties with Britain and France there was a recognition of the increasing role that the then-West Germany would play in the future of Europe. Second, there was a switch from reliance on bilateral relationships with European powers to multilateral groupings that included the United States (e.g., NATO, CSCE), the idea being that this would contain the United States' thrust towards unilateralism and isolationism.⁴³ Third, the end of détente in the early 1980s meant that security concerns (i.e., strong support for NATO in particular) rather than economic ones constituted the heart of Canada's relations with Europe, since it was believed that Canada's economic objectives could be secured in its relations with the United States. Fourth, there was a return to "quiet diplomacy" of an earlier era, in the belief that by not criticizing the United States in public Canada would be consulted more often and have its views accorded more weight in Washington's deliberations.⁴⁴ And finally, the relationship with the EC as an institution and as a "pillar" of Canada's foreign policy approach towards Western Europe was one of benign neglect. As we shall see in the next chapter, this changed by the end of the decade with momentum towards the creation of a Single Market in the Western half of Europe and the dramatic geo-political changes in the Eastern half.

NOTES

1. Michael Hart with Bill Dymond and Colin Robertson, *Reconcilable Differences: The Rise and Triumph of Free Trade*, unpublished manuscript, pp. 14-15. All the authors had worked on the Review of Canadian Trade Policy in 1983.
2. Cited by Hart, *Reconcilable Differences...*, p. 14.
3. Department of External Affairs, *A Review of Canadian Trade Policy and Canadian Trade Policy for the 1980s: A Discussion Paper* (Ottawa: Supply and Services, 1983).
4. *Ibid.*, p. 216.
5. *Ibid.*
6. In 1983, Trudeau in the twilight of his 16 year tenure as Canadian prime minister attempted - unsuccessfully - to mediate the growing tensions between the Reagan Administration and the Soviet Union. Widely viewed at home and by the U.S. as self-aggrandizement, the peace initiative had no effect in moderating the superpower rivalries.
7. Richard G. Lipsey and Murray G. Smith, *Taking the Initiative, Canada Trade Options in a Turbulent World* (Toronto: C.D. Howe Institute, 1985).
8. In Canada, for example, arguments favouring direct negotiations with the United States to dismantle remaining barriers had been set out in considerable detail by the Senate Standing Committee on Foreign Affairs in three separate reports issued in 1975, 1978, and 1982. See particularly volume three, *Canada's Trade Relations with the United States* (Ottawa: 1982). The Senate Report was also consistent with the work of the Economic Council of Canada, which in 1975 had released a report ranking its support for Canada-U.S. free trade as the fifth among a number of possible strategies. Ahead of it were multilateral free trade; free trade among the United States, the EC, Japan, and Canada; free trade among the U.S., the EC, and Canada; and free trade among the U.S., Japan, and Canada. Its assessment was that a Canada-United States free trade agreement was probably the most attainable of all the options. See Economic Council of Canada, *Looking Outward* (Ottawa: Queen's Printer, 1975). The Economic Council's work had in turn built upon the work of economists such as John Young, *Canadian Commercial Policy* (Ottawa: Queen's Printer, 1957); Ronald and Paul Wonnacott, *Free Trade Between the United States and Canada: the Potential Economic Effects* (Cambridge, Mass.: Harvard University Press, 1967); Ronald Shearer et. al., *Trade Liberalization and a Regional Economy: Studies on the Impact of Free Trade on British Columbia* (Toronto: University of Toronto Press for the Private Planning Association, 1971); James R. Williams, *The Canadian-United States*

Tariff and Canadian Industry: A Multisectoral Analysis (Toronto: University of Toronto Press, 1978); and Richard G. Harris and David Cox, *Trade, Industrial Policy and Canadian Manufacturing* (Toronto: Ontario Economic Council, 1983).

9. Canada's request to negotiate a free trade agreement with the United States rekindled a debate older than Canada itself. From 1854 to 1866, Canada enjoyed the Reciprocity Treaty with the Americans. This treaty was abrogated in 1866 and Canadian Liberal and Conservative governments in 1869, 1871 and 1874 tried unsuccessfully to reawaken American interest in renewing this free trade. The U.S.'s rejection, according to Simpson, led in part to Sir John A. Macdonald's National Policy of 1879 which created a protected Canadian economy. In 1911, the Liberals under Sir Wilfrid Laurier, after negotiating the Reciprocity Agreement, lost the election. Their defeat would haunt Canadian governments for more than seven decades. See Jeffrey Simpson, *Faultlines: Struggling for a Canadian Vision* (Toronto: Harper Collins Publishers Ltd., 1993), pp. 16-17.

10. Hart et al., p. 23.

11. His views are gathered in a series of feature articles that he wrote for the *Star*. "Free-trade: salvation or sell-out?" *Toronto Star*, June 8-12, 1985; and "Canada's threatened identity," *Toronto Star*, August 2-5, 1986.

12. Hart et al., p. 6.

13. Simpson, p. 20.

14. Simpson, p. 15.

15. Alan Gotlieb and Jeremy Kinsman, "Reviving the Third Option," *International Perspectives*, January/February 1981. At the time, Gotlieb was the undersecretary of state for External Affairs and Kinsman was the head of the policy planning unit at DFAIT.

16. Hart et al., p. 22.

17. *Ibid.*, p. 23.

18. Hyman Solomon, *The Financial Post*, October 22, 1983, p. 7.

19. *The Winnipeg Free Press*, September 10, 1983.

20. See D. Pollock and G. Manuge, "The Mulroney Doctrine," *International Perspectives*, January/February 1985, p. 5.

21. Cited by Kirton p. 12 in the Throne Speech by the new Conservative government on Nov. 5, 1984. The speech stressed that "Canada's opportunity to influence the course of world events lies

primarily in sound multilateral institutions..." and therefore promised to play its full part again in the defense system of NATO..." and to take part in a "renewed multilateral effort to remove ... obstructions in the international marketplace." With regard to the United States the Government pledged only "to restore a spirit of goodwill and true partnership."

22. Canada, Secretary of State Joe Clark, *Competitiveness and Security: Directions for Canada's International Relations* (Ottawa: Supply and Services 1985), p. 1.

23. *Ibid.*, p. 7.

24. *Ibid.*, 6a, p. 29.

25. James Rochlin, *Discovering the Americas: The Evolution of Canadian Foreign Policy Towards Latin America* (Vancouver: University of British Columbia Press, 1994), p. 147.

26. *Competitiveness and Security: Directions for Canada's International Relations* (Ottawa: Minister of Supply and Services Canada, 1985), p. 1.

27. *CS:DCIR*, p. 36.

28. *CS:DCIR*, p. 38.

29. See, for example, A. Dorscht, T. Keating, G. Legare and J. Rioux, "Canada's International Role and Realism," in *International Perspectives*, September/October 1986, pp. 6-8.

30. *Independence and Internationalism, Report of the Special Joint Committee on Canada's International Relations* (June 1986), p. 12.

31. This is illustrated in *Independence and Internationalism* and the response of the Government in its December 1986 report. While an entire chapter was devoted to the U.S. and a substantial subsection to the Pacific Rim, trade with Europe was given only passing mention.

32. The 1983 Foreign Trade Review paid lip service to Canada's relations with Europe, but in reality was establishing the rationale for closer economic links with the United States.

33. Royal Commission on the Economic Union and Development Prospects for Canada, *Final Report* (Ottawa: Supply and Services, 1985).

34. Macdonald quoted in the *Globe and Mail*, November 19, 1984.

35. During the review of the Third Option in 1983 by senior EAITC officials, it was concluded that even if the Third Option's conceptualizaton a decade earlier had been sound, by the early 1980s it was so discredited in the public's mind that any continuation of government policy under this rubric would be counter-productive.

36. Gordon Pitts in his book on Europe noted the lamentable record of Canadian official visits to Europe between 1986-1990.

37. Department of National Defence, *Challenge and Commitment* (Ottawa: Supply and Services Canada, 1987, (Cat. No. D2-73/1987E)).

38. Roy H. Ginsberg, "US-EC Relations," in Juliet Lodge (ed.) *The European Community and the Challenge of the Future* (London: Pinter Publishers, 1989), p. 273.

39. Michael Smith and Stephen Woolcock (1992) *The European Community in a Transformed World* (draft manuscript).

40. Canada was rebuffed by its European allies in the 1950s in its attempts to strengthen its brainchild, namely, Article Two of the Charter, to give the Atlantic Alliance more of an economic thrust rather than purely a security one. For a discussion of this, see John English, *The Worldly Years: The Life of Lester Pearson, Volume II: 1949-1972* (Toronto: Alfred A. Knopf Canada, 1992), pp. 111, 116-118.

41. Paul Buteux, *The Financial Post*, May 2, 1988, p. 18.

42. Smith, (1991).

43. John Kirton, "The Continuing Success of the Third Option: Canada's Relations with Europe and the United States in the Mulroney Period," p. 2.

44. Kirton, p. 11.

CHAPTER SIX

[T]he inclination to support the Americans, right or wrong, must contend constantly with Canada's independent assessment of the forces in the world and with its obligation to act in world diplomacy as an independent power.¹

RENEWING THE TRANSATLANTIC RELATIONSHIP: 1989-1991**6.1 INTRODUCTION**

Following a period of mutual benign neglect in the 1980s, the period 1989-90 was a watershed in Canada's relations with the European Union. It marked a shift in Canada's policy responses away from what had largely been declarations of intent throughout most of the 1980s, to statements more binding and substantive, as illustrated on the economic side by the "Europe 1992" component of the Government's "Going Global" trade development initiative, and on the political side by the formalization of high-level transatlantic political links through the TAD (to be discussed in greater detail in the next chapter).

This fertile environment for the growth of new dimensions to bilateral relations was a result of the confluence of five defining events - the collapse of Soviet domination in Central and Eastern Europe, the creation of the SEM, the reconstitution of the Community through treaties on monetary and political union initialled at the Maastricht summit as well as the parallel negotiations on a European Economic Area, the difficulties in completing the Uruguay Round, the crisis and war in the Persian Gulf and incipient collapse of Yugoslavia - each of which was replete with implications for Canada-EC relations. In addition, the process of restructuring post-Cold War transatlantic relations was

accelerated by the dramatic haste of German unification.

This watershed in Canada's relations with the EC, however, was not just a reaction to events in Europe, but also a reaction to the evolution of Canada's relations with the United States and the latter's own renewed interest in the EC. As the discussion in the last chapter showed, the signing of the CUFTA in 1988 was the culmination of five years of intensive and divisive national debate and analysis on the future direction of Canada's trade policy and the nature of its relations with the United States. Upon implementation of the CUFTA in 1989, with Canada's trade orientation set firmly on further economic integration with its southern neighbour, the resources and energies of the Canadian Parliament and the federal bureaucracy were set free from the major national policy challenge of the 1980s.

By historical coincidence, the completion of the CUFTA negotiations happened just before the first stirrings of change in Central and Eastern Europe. This chapter will show that as world attention turned to the economic and geo-political developments reshaping Europe, Ottawa was not only increasingly interested in ensuring that its own European policy framework was consistent with the new realities, but also that Washington's own new-found interest in closer relations with the EC did not marginalize Canadian interests in Europe.

As is the case throughout the history of Canadian responses to the evolution of West European integration (as opposed to relations with Europe in general), reactions during 1989-1990 did not consist

of mass movements, advocacy groups, or Parliament. Recalling the discussion in Chapters Two and Three on the theory and process of Canadian foreign policy, this is entirely consistent with a state-directed foreign-policy process. These actors - in particular citizens' groups representing Canadians of Central and Eastern European extraction and the politically powerful lobbies representing one million Canadians of Ukrainian descent - played larger roles on East-West issues, but they had relatively minor roles if any regarding Canada-EC relations.

As mentioned, the choices available to Canada were contingent largely on matters of timing and on the political leadership and personally active roles displayed by Prime Minister Brian Mulroney and his External Affairs minister Joe Clark, who both called for closer relations with the EC to solidify transatlantic ties as well as to fashion most efficiently multilateral responses to the changes in Eastern Europe and the Soviet Union. These choices ought to be seen in the context of the Conservative Cabinet realizing that its existing European framework was anachronistic, and of the bureaucratic politics and coalition-building at EAITC - the lead federal government department responsible for formulating Canada's Europe policy. Chronology seems indispensable in elucidating the complicated twists and turns of Canadian, American and European perceptions of transatlantic relations during this volatile period.

The tangled economic, political, military and social events in Europe in 1989 forced a cautious re-evaluation of the Canadian government's overall approach to Europe. As a result of the

revolutions in Central and Eastern Europe, and under pressure from the prime minister to provide his government with a menu of credible and innovative policy options, EAITC produced a second, more comprehensive review of Canada's European policy in late 1989. For the first time since the 1970s sustained political attention was being brought to bear on the totality of Canada's relations with Europe, including a specific focus on the EC.

Picking up where the 1987 report left off, this review (undertaken by EAITC's Policy Planning Staff) attached great importance to establishing a "policy framework" and, most importantly, a "program of action" for Canada-Europe relations in the 1990s. The "program of action" had an impact both in institutional and policy terms. For Canada's approach to Western Europe this translated into the "Europe 1992" component of the Government's wider, five-year \$93.6 million "Going Global" package to develop long-term trade links (see Chapter 9.4). This initiative was centred on the United States and was intended to spur - through government-supported trade development programs such as seminars, trade fairs and outward investment support - stronger economic and trade links with Europe, Japan and the industrialized countries in Asia Pacific.² The West European component was designed to prepare Canadian companies, through a variety of programs, for the SEM. It will be analyzed at greater length in Chapter Nine.

The review's main thesis was that Canada had a compelling interest in Europe and in European developments which it had to pursue. If not, Canadian vulnerability on the political, economic, security and "people" fronts would increase. The Department of External Affairs recommended that Canada promote stability by: (1) influencing multilateral institutional frameworks to govern economic and political-security realtions within Europe and between Europe and North America; (2) avoiding the marginalization of Canada; and (3) by securing "a seat at the table" in and with a "new Europe" based on the EC, a "refreshed" NATO and a "reconfigured" CSCE. The views of senior EAITC officials can be summed up as concern about the risk of an inward-looking Europe and Canada's marginalization by a series of bilateral relationships such as Europe-U.S.S.R., U.S.-U.S.S.R., or U.S.-Europe. They recommended to their minister, Joe Clark, that for both domestic reasons (given the large number of Canadians of European extraction) and international reasons (Canada as a "responsible" member of the world community), Canada participate in the evolution of a 'new' European architecture. The review summed up Canada's interest in Europe in one word - "stability," since it was felt that instability in Europe would lead to Canadian "vulnerability".³

Given the complexity and fluidity of events, it is not surprising that no clear consensus arose across the Canadian government on Canada's appropriate policy response, although EAITC consultations with other federal government departments evoked general agreement with its view that Canada had to participate

actively in the transformation of Europe. Some senior federal officials who resisted an "active" approach (notably from the Department of National Defence and the Canadian Security Intelligence Service) expressed the view that Canada should stand back from such participation because Canada could do nothing to prevent, for example, the "rampant European tribalism" that would inevitably break out as a result of the dissolution of the U.S.-USSR condominium that had provided stability for forty years. Other federal deputy ministers suggested that the proposed plan for a modest amount of Canadian assistance to rebuild Eastern Europe was too small - Canada would either have to spend billions or none at all, with the latter option effectively signalling its retreat from Europe. Still other senior federal officials, most notably from the Privy Council Office and the then-Department of Industry, Science and Technology were more supportive of the EAITC plan, noting that the dilemmas raised about Canada's continuing active presence in Europe invariably raised the fundamental question about Canada's place in the world: if Canada did not participate in Europe where its interests were clear, then where would it participate?⁴ This comment was reminiscent of the criticism that Trudeau had faced twenty years earlier when he mused about Canada withdrawing from NATO and thereby retreating from Europe. In short, by the end of 1989, the rapid geo-political changes in Europe, the continuing problems in the Uruguay Round of the Multilateral Trade Negotiations (MTN) and completion of the CUFTA, ensured that developments in Europe gained priority on Canada's foreign policy

agenda. What created further impetus for Canada to re-evaluate its European policy framework was the pace of U.S.-EC relations in this period.

6.2 THE UNITED STATES CREATES NEW LINKS WITH THE EC

Speeches by an American president and an American secretary of state in 1989 appear rather ironically, in hindsight, to have been at least partially responsible for the beginning of a fundamental change in Canada's policy approach to Europe. In the spring of 1989, officials of the U.S. State Department initiated a review of U.S. bilateral relations worldwide. The European and Canadian Affairs Bureau of the State Department used this occasion to advise senior members of the Bush administration that, with the Community evolving and assuming a more prominent foreign policy role, greater attention should be focused on gaining access to the decision-making process of the European political cooperation.⁵ Throughout its relationship with the Community, the U.S., like Canada, had been uneasy and somewhat confused by the complexities of dealing with Brussels, most notably with respect to the separation between Commission competence and EPC (and the distinct consultative mechanisms involved in each).⁶

European political cooperation has, since the late 1960s, been an attempt by the Member States of the Community to consult on and co-ordinate their foreign policy positions, with a view to ultimately having a common European foreign policy. As alluded to

earlier, in the course of the 1970s and the first half of the 1980s, however, it became increasingly difficult for the EC to maintain the artificial distinction between its "external relations" and "political cooperation" as it tried to compartmentalize neatly those aspects of the EC's international relations that fell under the Commission's external relations' (economic and trade) competence and those that affected Member States' security and defence postures.⁷ To rectify the increasing anxiety over the relationship between EPC and the EC (both organizationally and in terms of mandates) Article 30 of the Single European Act of 1986 (itself a series of amendments to the treaties establishing the European Communities) codified EPC in an international treaty and thus provided a treaty-basis for a process in which the European Communities and EPC would together attempt to make "concrete progress towards European unity" (SEA, Art. 1(3)).⁸

Historically, without any direct access to the EPC process, the U.S. had been presented with immutable Community positions after the fact.⁹ U.S. officials, as Canadian officials had done in 1988, now sought a formal link to EPC in order to have some form of input before the Community's final decisions were made. Some progress had already been made in this area. The Americans had, for example, pushed for and received agreement from the Europeans to brief the Deputy Assistant Secretary for Europe at the State Department at the beginning of every six-month period after the Troika (the political directors of the current, former and future EC Member State Presidency) group meeting of the EPC.¹⁰ By late

1989, with the rapid pace of developments in Eastern Europe and the momentum of 'Europe 1992,' Europe was also firmly on the American foreign policy agenda.¹¹

6.2.1 Baker Sets Blueprint for Formalization of U.S.-EC Relations

A landmark speech in Boston on May 21, 1989, in which George Bush called for a "European partnership in world leadership," was arguably the actual genesis for the separate - but parallel - Canadian and U.S. transatlantic declarations that would be signed a year later with the Community.¹² Secretary of State Baker went a step further in a speech at the Berlin Press Club on December 12, 1989, noting that as the EC moved toward its goal of a common internal market, embarked on institutional reform and assumed increasing responsibility in certain foreign policy areas, the U.S. transatlantic relationship with the Community would have to evolve as well. He called for both the United States and the Community to achieve "a significantly strengthened set of institutional and consultative links ... whether in treaty or some other form".¹³ Baker suggested a number of specific steps: (1) to explore better means of identifying and discussing potential economic conflicts before they grow into political problems; (2) to look at the possibility of more regular contacts with the EPC working groups to share views on foreign policy issues; (3) to envisage systematic U.S. co-operation with a new European environmental agency; (4) to regularly discuss a number of technical issues, such as standards,

before decisions are made and can have far-ranging political effects; (5) to discuss a more systematic, phased approach to draw Eastern economies closer to the liberalized economic system of the West.¹⁴ As a result, there ensued a series of exploratory meetings to put some flesh on Baker's and Bush's calls for closer EC-U.S. transatlantic links.

The importance of Secretary Baker's speech should not be underestimated since it reflects the evolution of the U.S.-Western Europe relationship - from that of patron-client in the immediate post-war years to that of equal partners in the 1990s.¹⁵ The EC and its Member States as well as the U.S. government took up Baker's initiative in a joint declaration on December 15, 1989. Closer contacts were then agreed upon during a meeting between President Bush and the President of the EC Council of Ministers, Irish Prime Minister Haughey, in February 1990¹⁶; Bush and President Mitterrand also discussed the possibility of a transatlantic alliance during a meeting at Key Largo, Florida, later that spring. In addition, several EC Commissioners made proposals to intensify the Community's relations with the United States in areas such as research and development, competition policy, the environment, vocational training and high-level foreign policy co-ordination.¹⁷

It must be emphasized, however, that the Bush/Haughey announcement and the other discussions with the Member States concerning the possibility of a transatlantic alliance were related to European political cooperation - an EC presidency matter - and were thus on a separate track from the U.S.-Community ministerial

meetings. This is an important distinction. The Bush administration — which had distinguished itself from previous administrations by trying to broaden bilateral relations away from a fixation on trade irritants — sought consciously to develop new opportunities to insert the U.S. in the EC political process before decisions were taken. Nonetheless, it pointedly backed away from commerce secretary Mosbacher's ill-received remarks about the U.S. wanting a 13th seat at the EC table "at least as an observer."¹⁸

Mosbacher's proposal was meant as a reaction to the perceived lack of opportunity for American firms to provide meaningful input on industrial aspects of the 1992 program, such as standards development, testing and certification. As a result of Mosbacher's complaints the EC relented and agreed on May 31, 1989 to allow U.S. technical experts to make presentations to the European Committee for Standards (CEN) and the European Committee for Electrotechnical Standardization (CENELEC), the groups assigned by the Commission to set product standards, an action that was well-received by the U.S. business community. Mosbacher declared in December 1989 that he was "very pleased" with the way the United States was able to participate in the EC decision-making process. The Community, he said, "at times, allowed literally a seat" for the representatives of American interests.¹⁹ The Europeans were not amused. But whatever negative perceptions of U.S. intentions were prompted by Mosbacher's remarks, they nevertheless pointed to the Bush Administration's serious desire to enhance bilateral political links with the Community and gain enhanced access to the EC

decision-making process. As mentioned above, the creation, or indeed even the investigation, of a more comprehensive mechanism for managing EC-U.S. transatlantic trade ties - in addition to the GATT - was not contemplated.

But how is the above discussion of bilateral EC-U.S. transatlantic ties and the occasional raised European eyebrow over American presumptions relevant to the present study on Canada-EC relations? They point to an environment in which EC-U.S. relations "threatened" - by burying Canadian interests in the North American pillar - to equal and then surpass Canada-EC relations in terms of institutional links.

The stage of development reached by the EC-U.S. Ministerial meetings in 1989 also shows the incremental formalization of EC-U.S. relations. These meetings were chaired by the President of the Commission of the European Communities and the U.S. Secretary of State, and included a number of U.S. Cabinet officers (USTR, Commerce, and Agriculture Secretaries) and several European Commissioners (always External Relations, often Agriculture, Industry, Internal Market). They had been annual events for some time, and were usually tied logically to NATO ministerial meetings in Brussels. As EC-U.S. discussions progressed on EPC during the spring of 1990, both sides reviewed proposals to make changes to upgrade the importance and increase the frequency of the ministerial meetings. This was to be achieved through a number of measures: holding the meetings twice a year; alternating the locale between Washington and Brussels; when in Washington including a

meeting between the U.S. President and the President of the EC Commission; and attempting to de-link timing of the Brussels ministerial from the NATO ministerial in order to create more focused bilateral discussions.²⁰

The 1990 U.S.-EC Ministerials, held on April 23 and 24, were significant for three reasons: 1) they were the first Ministerials to be held in Washington; 2) President Bush for the first time had a one-on-one meeting with the EC Commission president; and 3) both sides agreed that Baker's call for a transatlantic treaty was premature. Commission President Jacques Delors came out strongly in favour of transatlantic ties, pointing out that the United States and the EC could only face the new challenges to the environment, and in technological and social areas, by pooling their resources and acting as partners.²¹ But it is the last reason that is the most important for the purpose of our discussion. In the *tour d'horizon* during the Delors/Bush meeting, Delors explained that the EC considered a formalized treaty to be inappropriate given the awkward stage in the Community's external relations: the EC was preoccupied with the aspirations of Central and Eastern Europe as well as the creation of a common market to include the EFTA members; and there still remained the problem of the divided competence between the Community and the Member States in many areas. Delors suggested that the operationalization of a formal treaty would depend on the further progression by the EC along its path toward Political Union (PU).

Bush was apparently comfortable with this position and both

sides agreed to concentrate instead on reinforcing dialogue under existing mechanisms.²² Bush's comfort level at keeping the treaty proposal in abeyance was no doubt increased by the fact that the State Department had "discovered" that some form of Friendship, Commerce and Navigation (FCN) treaty already existed with 11 out of the 12 Member States of the Community.²³ Following the Bush/Delors meeting and its own internal consultations, the European Council decided in June 1990 to begin talks with the U.S. government on a joint declaration.²⁴

What are we to make of the myriad American political statements and bureaucratic adjustments in the face of the relaunching of European integration and why are they important to a study of Canada-EC relations? Devuyst concludes that they should be interpreted "as the vindication of America's traditional political and economic ideals."²⁵ This reconstituted Western Europe in the image of the U.S. and, indeed also Canada, entailed a political federalism on one hand and a large single market operating on the basis of economic liberalism on the other.²⁶ In fact, it could be argued that continental Western Europe of the 1980s with its corporatist and *dirigiste* legacies and practices actually had more in common with Canada's political economy.

As mentioned earlier in this study, for the same reasons that Canada supported a Western Europe firmly ensconced in the Atlantic Alliance, support for European integration had been a cornerstone of American foreign policy since the start of the Cold War. European integration was believed to foster economic stability and

therefore social and political stability, making it a more effective counterweight to the perceived Communist threat, and thus strengthening the Atlantic Alliance.

In addition, West European integration was seen as a means of binding West Germany to the West. As Smith has pointed out, with the collapse of the Communist regimes in Central and Eastern Europe starting in 1989, and especially with German reunification, the European Community's integration program was once more heralded as a pillar of stability in a changing Europe. Smith calls this a "regression" of American views to the very creation of the Common Market, with the key difference being that the EC was now at least the economic rival of the United States.²⁷ For Canada, the Community's status as equal economic rival had dire portents since Ottawa could now foresee being squeezed between the "grindstones" of Washington and Brussels on trade policy issues.

The Community's new-found status, although not entirely comforting to U.S. and Canadian decision-makers, did have the effect of raising the burden-sharing issue, especially as it related to the development of Central and Eastern Europe. Indeed, with the days of the Marshall Plan long gone, it was clear that the U.S. alone could not finance the economic restructuring that was needed; conversely, many of the EC Member States had, through post-War American assistance, gained sufficient economic strength for them to play a more important financial role. As Bush expressed it, "a resurgent Western Europe is an economic magnet, drawing Eastern Europe closer toward the commonwealth of free nations."²⁸ That this

"resurgent Western Europe" should share in a greater part of the Alliance's financial burden was made clear when Bush stated that he "was exceptionally pleased that we agreed at the Paris economic summit on a specific role for the EC in that Group of 24 effort to assist Poland and Hungary."²⁹ It thus seemed only logical that as European integration stimulated economic growth and, consequently, also the ability of the Western Europe to shoulder an increasing share of the West's international financial burden, U.S. interests were served by support for integration. This view was mirrored among Canadian decision-makers and business people alike, who were staring in the face of mounting public debt at home, a history of defaulted loans to countries such as Poland, and an over-extended system of Official Development Assistance.

6.2.2 Canadian Reaction to U.S.-EC Dialogue

The *rapprochement* in EC-U.S. relations - given the history of acrimony³⁰ - was certainly not lost on senior Canadian Cabinet ministers and EAITC officials in Ottawa and in Washington. It once more raised the spectre of Canadian marginalization³¹ in Europe - the avoidance of which had been the *leitmotif* of Canada's transatlantic strategy over the previous two decades. It has been suggested that the reference to "transatlanticism" in the EC-U.S. discussions was bound to hit a raw nerve on the Canadian side since this concept has historically always included Canada.³² Canadian officials were impressed by the dynamism and scope of the EC-U.S.

contacts and by the commitment displayed by both sides to realizing the spirit of Secretary Baker's Berlin speech. They noted the impressive number of Cabinet-level contacts between the EC and the U.S. - in addition to the breadth of the consultative agenda which was developing along the lines of bilateral cooperation on science and development - as reflective of an attempt to forge a broader and more cooperative bilateral dialogue in light of the "new Atlanticism."³³

Although it may have appeared so at first glance, it was not the decision of the U.S. to reinforce and regularize its relations with the Community that most impressed Canadian officials in Washington monitoring the EC-U.S. discussions. After all, many of the changes that had been imposed and implemented were a logical extension of past activities and reflected the fact that the U.S. lacked an agreement similar to the 1976 Canada-EC Framework Agreement that ensured regular bilateral discussions at ministerial and official levels. Impressive from the Canadian perspective, rather, was the sheer interest evinced by political appointees in the State Department in pursuing a relationship with the EC that had not hitherto been evident.³⁴ Canadian officials noted the recognition by the U.S. of the Community's role as the single most successful integrative institution in Europe. They noted also that the U.S. would require - irrespective of the prevailing European architecture - an expanded and formalized political relationship as part of its strategy to ensure protection of its interests in Europe.

6.3 ADJUSTING TO CHANGE: OLD AND NEW CANADIAN RESPONSES TO THE MOMENTUM OF EUROPEAN INTEGRATION

The demise of the communist regimes in Eastern Europe and the progress towards the SEM left an indelible mark; they forced Europe onto the Canadian public policy agenda. Although, as noted in the previous chapter, some Canadian academics have characterized Canada's approach to the Community in the 1980s as one of "benign neglect," the geo-political changes in Europe in 1989, coupled with the completion of the CUFTA ensured that developments in Europe, specifically issues of security but also including the progress of European economic integration, became a priority for the Conservative government.

With growing criticism levelled at Canada for lagging behind other industrialized countries in its policy approach to the dramatic changes in East-West relations (Prime Minister Mulroney was the last G-7 leader to travel to the Soviet Union to meet with Mikhail Gorbachev), Mulroney's November 1989 trip to Moscow thus added stimulus to the comprehensive interdepartmental policy review in Ottawa of Canada's relations with Europe.³⁵ The attempt to develop a fresh approach to Canada's European policy, a way of reaffirming Canada's commitment to the transatlantic relationship, was reflected in a series of important addresses by both Mulroney and Clark and in Cabinet discussions in the first half of 1990. Clark, for example, referred to Canada as "a European nation," described Canadian interests in the new Europe as "real, contemporary and compelling" and said that "security in Canada has

no meaning without security in Europe."³⁶ He believed strongly in the role that the second pillar - the CSCE - could play in projecting Canadian interests in the new Europe. On the trade side, Clark's speech at McGill University on February 5, 1990, did mention the increased trade opportunities for Canada in Europe in light of the Single Market, though he focused primarily - and not surprisingly - on Canadian responses to the collapse of communist governments in Eastern Europe.³⁷ On February 7th, Clark made a special presentation to the Cabinet Committee on Foreign Policy and Defence (CCFPD) in which he stressed that if Canada did not seek to intensify its links to Europe through its three pillars - NATO, the CSCE, and the EC (in that order) - it would increasingly be marginalized in Europe.³⁸ Citing Baker's Berlin speech, he noted that American concerns over decoupling and marginalization in Europe were similar to Canada's and that U.S. commitment to the 'new' Europe would see Canada having to commit itself as well.

The decision of the CCFPD, in light of Clark's presentation, is puzzling in certain respects. On the one hand, it was supportive of Clark's warnings and called for a continuation of Canada's involvement in Europe "based on Canada's national interests and global responsibilities". This involvement would be implemented through a "policy framework" so that Canada's involvement in Europe would be "adequate" to avoid marginalization. Yet, on the other, the CCFPD also cautioned that whatever issue-specific policy framework was developed by EAITC in consultation with other federal government departments would have to give emphasis to "no cost" and

"low cost" measures. Though this important constraint on the options open to Canada was understandable in light of the Government's pre-occupation with the surging national debt and deficit, to maintain Canada's influential presence in Europe in the post-Cold War would certainly require more - not fewer - resources. On February 20th the Priorities and Planning Committee, comprising Mulroney's inner Cabinet where the Government's major decisions were made, ratified the CCFPD's decision.

The CCFPD's decision on low cost measures for the projection of Canadian interests in Europe also appears to fly in the face of the apparent surge in Cabinet interest in relations with Europe - West and East - that can be inferred in the period 1989-1990 from the number of memoranda to Cabinet. For instance in late 1989, prior to Clark's presentation, then minister for international trade, John Crosbie, had presented Cabinet with a memorandum summarizing the state of bilateral trade irritants between Canada and the EC. Moreover, in March 1990, EAITC prepared a presentation to Cabinet on Canada's relations with Eastern Europe and the Soviet Union.³⁹

Based on this author's interviews, although by the spring of 1990 Canadian policymakers had had some forewarning of the major changes in Western Europe, that is, the momentum towards the SEM, the state of EPC, political and monetary union, they were obviously caught off-guard by the rapidity of developments in the Eastern half of the continent and in Germany - the Berlin Wall came down, the Soviet lynchpin was pulled, there were revolutions in

Czechoslovakia and Romania. The mutually reinforcing (*i.e.*, human rights, political and economic freedom) developments in Eastern Europe, had, by calling for a redrawing of the face of Europe, literally overnight washed away the certainties underpinning Canada's relations with Europe. Against this backdrop, Canada faced a European Community accelerating its own integration through the European Monetary System, achieving near unanimity on the Social Charter, negotiating with the EFTA with an increased urgency and expanding its influence into Central and Eastern Europe. With the unification of Germany, the "German Question" was once more at the heart of European politics.

In terms of architecture, the environment was equally fluid, leaving Canadian decision makers a choice of Gorbachev's "Common European Home"; EC Commission President Jacques Delors's "EC-Centric" Europe; Mitterand's "Confederation of Europe"; and Kohl's proposal for a new East-West Economic organization through the CSCE. Although none of the proposals offered detailed blueprints, they did demonstrate that the "new" Europe would in turn redefine North Atlantic and global relationships. Canadian officials perceived that the economic balance between North America and Europe was shifting at North America's expense. An open cooperative Europe based on the EC would therefore be essential.

On the security side, although it was clear to Ottawa that NATO faced an evolutionary challenge, officials and politicians were unsure as to whether it would be the instrument of change or whether a new forum was necessary. What appeared to have more

consensus on the Canadian side (although not on the European one as we shall discuss later in this study) was the CSCE as the preferred "envelope" for Canada (and the United States) to address the broad political, security, economic, science and technology, and environmental challenges facing all of Europe.

6.3.1 Germany Makes Proposal for Transatlantic Declaration

Canadian thinking on Europe received further impetus when, in the aftermath of the fall of the Berlin Wall, Hans Dietrich Genscher (then German foreign minister and vice-chancellor), made a presentation to the Canadian Parliament on April 5th (after speaking to Bush the previous day) in which he reinforced Baker's and Bush's public comments and called for a new transatlantic architecture to bind Europe more securely to Canada and the United States.⁴⁰ As he stated:

So we are on the way to the political union of Europe, meaning the Europe of the Community, which is not the whole of Europe ... As a consequence of this process, I propose to the American government and to your government that we consider it useful at [this] time, improving relations between the European Community and the two North American democracies, to give our relationship a new quality in addition to our membership in NATO, and to have a new declaration concerning the common challenges we face in the political, economic, technological, and ecological fields. We should consider this approach in order to create a new basis of cooperation between the European Community and the two democracies in North America.⁴¹

It would appear that Genscher was reinforcing Secretary of State

Baker's call for new thinking on the role of the transatlantic alliance, on the need to make its military focus a more political or economic focus. Genscher said as much in his later presentation to Canadian parliamentarians:

It was not the German foreign minister, it was the American foreign minister [James Baker] who for the first time, when he presented his speech in Berlin, spoke of the more political character of the alliance - and I think Jim Baker is totally right in saying this...⁴²

Finally, a political interpretation of Genscher's proposal led some Canadian officials to perceive the possibility that Genscher was placing the newly united Germany the same distance from both North America and the not yet defunct Soviet Union.⁴³

Clark had anticipated that Genscher's visit would be an opportunity for Canada to work with its European partners "on shaping a new Europe and the institutions it shares with North America."⁴⁴ Genscher's thoughts on a transatlantic declaration complemented the Canadian position which was to impress on the Germans the desire to reinforce transatlantic links from "Vancouver to Vladivostok, via Berlin."

A senior Canadian official has pointed out that the birth of a more clearly thought-out new transatlantic alliance proposal goes back to January 1990 when Genscher "first mentioned something along these lines when I called him prior to the Ottawa Open Skies Conference." The official further states that Genscher was then thinking in a CSCE context and was concerned with ensuring continued North American participation in Europe as counterbalance to a changing relationship with the Soviet Union. As it turned out,

the idea of a transatlantic declaration never appeared on the agenda at the Open Skies Conference - but this did not mean that the Germans had dropped the idea. Indeed, according to this official, policy planning officials in the German Ministry of Foreign Affairs had in the meantime been trying - somewhat unsuccessfully - to transform Genscher's suggestions into a coherent text.⁴⁵

The all-encompassing nature of the Genscher proposal, however, may have ensured that the idea was too ambitious at that time, especially since multilateral discussions were taking place on how to broaden the CSCE and reconfigure NATO. One suggestion for this lack of immediate follow-up is that a senior official at EAITC feared that a movement on a transatlantic declaration would undermine NATO.⁴⁶ Whatever the precise reason, on the Canadian side the idea of a declaration fell into abeyance until September 1990. On the U.S. side, as we have indicated, negotiations had been underway since June 1990. But this is not to say that Canadian officials and politicians were indifferent to new mechanisms and fora to formalize transatlantic relations. After the Genscher proposal, discussions among Clark, Mulroney and their American and European counterparts had a new urgency.

6.3.2 Canada Looks at Ways of Strengthening Transatlantic Trade Ties

With the CUFTA completed and with Europe demanding more and more attention, in early May 1990, Derek Burney, by then Canadian

ambassador to the United States, had his officials in Washington reflect on possible Canadian policy options in face of increasing European economic integration, including new, more comprehensive trade arrangements between Canada and the European Community.⁴⁷ The deliberations in Washington had coincided with the arrival of a new Under-Secretary of State at EAITC, De Montigny Marchand.⁴⁸

Two plausible explanations may account for the fact that an independent analysis of Canadian trade policy vis-à-vis the Community appeared to have been initiated by the Canadian Embassy in Washington: 1) there was a perception within the senior echelons of EAITC that the Department's European Bureau was too hemmed in by operational requirements to allow for bold ideas;⁴⁹ and 2) the combination of dramatic events taking place in Eastern Europe, and the Washington Embassy's own close monitoring of the increased intensity of EC-U.S. dialogue, served to make it a logical point of intellectual ferment for Canada's trade policy options. Whatever the exact reason, the conjecture that EAITC's European Bureau was not at the centre of deliberations in the process of looking at options for Canada's future relations with the Community, does not strike the author as particularly unusual. In addition to his intimate involvement in the trade policy review in the early 1980s (indicated in Chapter Three), Burney had also been the prime minister Mulroney's closest adviser as his chief-of-staff and associate under-secretary of state for external affairs,⁵⁰ and could therefore offer advice unburdened by the need to develop official consensus. His well-known scepticism about putting all of Canada's

eggs in the multilateral basket added to his credibility in providing this kind of advice on trade policy.⁵¹

The central role of Burney in Canada-EC relations at this time should certainly not be surprising to students of bureaucratic politics, as was discussed in Chapter Two. According to officials at EAITC headquarters in Ottawa, Burney, as Canada's ambassador to Washington, viewed his position as one of quasi-ministerial status - somewhat understandable given the U.S.'s primacy in Prime Minister Mulroney's foreign policy. The net effect of Burney's high-level bureaucratic and political experiences was that Canadian foreign policy on certain issues (e.g., free trade, Multilateral Trade Negotiations) was made on the PMO-Burney axis, with EAITC headquarters in Ottawa as a bystander and alerted to developments only on a "need-to-know" basis.

Burney believed that there was a causal linkage between the management of transatlantic trade and economic relations and the prospects for security and stability. He felt that the failure to agree on trade and economic matters could undermine prospects for security.⁵² There was a concern that Canada's privileged position as the first industrialized third country to sign a commercial agreement with the EC in 1976 had long been overtaken by events, not least the Community's "1992" program, and that the GATT would also not serve as an optimal mechanism to ensure Canadian access to the new European market. According to this view, because any EC-U.S. bilateral agreement would create a privileged position for the United States while diminishing Canada's already small place in

Europe, the two broad options available to Canada for enhancing Canadian access to and influence upon the EC were (1) a Canada-EC Free Trade Agreement or (2) an Atlantic Free Trade Association.⁵³ Canadian officials in Washington concluded that the latter arrangement was optimal since it permitted Canada to achieve influence that was not available through existing arrangements or, indeed, through a separate bilateral agreement. It would do so by imposing substantial obligations on the EC (as well as Canada and other participants) in areas that were within the exclusive competence of the EC and which were the principal instruments for European integration.⁵⁴

There were a number of other indications that Canada's relations with the EC had gained priority in the Canadian Cabinet. As previously indicated here, Ottawa's belated recognition of the EC as a formidable political and economic actor had been encouraged by Genscher's proposal to Joe Clark for an "EEC-North American" declaration "which would confirm shared principles and interests in openness and enhanced co-operation".⁵⁵ Underlining Canadian interest in this proposal, PM Mulroney in a three-page letter to George Bush on May 8, 1990, that focused almost entirely on the need for Canadian and U.S. cooperation in emphasizing the continued vitality and complementarity of NATO and the CSCE, stated in the last paragraph that Mulroney continued to be "intrigued" by Mr. Genscher's suggestion of a trans-Atlantic declaration "designed to celebrate the values that we [EC, U.S., Canada] all share."⁵⁶ Indeed, such was the concern on the status of Canada-EC relations

at the Cabinet-level, that when Prime Minister Mulroney met with EC Commission Vice President Frans Andriessen on May 25, 1990 he raised the possibility of enhancing bilateral institutional arrangements to encourage more open market access on a reciprocal basis.

The "necessity" of Canada's engagement in the new Europe was again made public in a speech delivered by Joe Clark at Toronto on May 26th, and repeated in his speech in the House of Commons on May 31, 1990 in which he proposed a new, more intense Canada-EC relationship.⁵⁷ Catching his officials off-guard, more significantly, Clark stressed the possible virtue of examining the desirability of a formalized open trading arrangement between Canada and the EC, perhaps including the U.S. and other members of the OECD.⁵⁸ This at what was then thought to be the conclusion of the Uruguay Round was an important declaration because it was the first time that Canada had attempted, in seeking to include the United States and other OECD members, to apply the multilateral security model (e.g., NATO) to its trade relations. The proposed economic and trade agreement was to be real in the sense that it would focus on issues of access (such as were found in the CUFTA), rather than just cooperation as the existing EC-Canada Framework Agreement did. In the end, because the speech was a Ministerial initiative and had limited input from officials in EAITC, it was initially unclear how this transatlantic trade idea would be developed.

6.3.3 Transatlantic Free Trade: Antidote to U.S. Bilateralism?

Clark's "surprising policy balloon" about a transatlantic trade agreement appeared as much a reflection of Canadian concern with the U.S. tendency towards bilateralism as it did Canada's desire to put its relations with Europe on a new footing.⁵⁹ The alarm signals had gone off in Ottawa as soon as Mexico and Washington began formal negotiations on a comprehensive trade agreement in June 1990. For Canadian officials, Washington's willingness to negotiate with Mexico confirmed their perception that the U.S. preferred to deal bilaterally, and thus suggested a high probability that the U.S. would turn to Brussels and also strike a bilateral deal - trade or otherwise - with the Community, leaving Canada in a vulnerable position.⁶⁰

According to Edwards, into the summer of 1990 Canada tried "vainly" to influence the Community on trade matters, again pursuing its two-track approach "rather than combining the political and economic dimensions into a more comprehensive dialogue."⁶¹ A new European role for Canada was clearly warranted but the question remained as to the means. In a speech at Montreal on June 20th, for example, Clark averred that in light of the "new climate of co-operation between nations formerly divided by an ideological East-West confrontation" there was a need to transform the "institutions of yesterday." Clark, in keeping with the Government's desire to promote its "new" European policy and to pursue objectives in Europe that were "realistic" and "in keeping

with the role expected of [Canada]," stressed the need for Canada to make "an original and tangible contribution to the development of Europe...in order to consolidate [its] position in the Europe of tomorrow."⁶² The nature of this consolidation in terms of Canadian relations with the Community was made clearer when Clark explained that he had made specific proposals to Irish Foreign Minister Gerald Collins (Ireland was holding the EC Presidency at the time) about "enrich[ing]" dialogue between Canada and the Member States of the European Community "particularly on major international political issues." The Canadian proposals (which were well received) included regular meetings between the Canadian Prime Minister and the President of the European Council, regular discussions between the Canadian External Affairs Minister and his European counterpart, and "much closer" contact between Canadian officials and EC experts. Indeed, these proposals foreshadowed the Canada-EC transatlantic declaration that would be signed five months later.

As a result of the Clark proposal, it was clear to middle-level officials at EAITC that a comprehensive analysis of Canada-EC trade and economic relations was needed in order to put some economic flesh on the bones of the political impetus created by Clark and Mulroney. It was equally clear that a study of this nature would require broad internal consultations in the Department.

An intra-departmental Canada-EC working group was assembled in EAITC during the summer of 1990 with the intent of submitting a

final report by December. The officials responsible for developing the study were careful to point out that it would not become an economic research project, but rather a "study of the Government's political/economic priorities and judgements."⁶³ In other words, the project - obviously very ambitious from the start - would have had far reaching political ramifications if the Government had chosen to pursue a transatlantic trade accord. The political sensitivity of this study was further heightened because it required a detailed probing of Canada's commitment to the MTN. For example, how well would the GATT serve as a regulatory framework for EC-Canada commercial relations in the post-Uruguay Round setting? Would the system of preferential trade agreements operated by the EC significantly limit the potential for an agreement? How important was the Canadian market to the EC? And was a network of bilateral agreements the best response to the negotiating options that would face developed and developing countries after the Uruguay Round? It should also be added that this working group was also mandated to look at political issues writ large, that is, how Canada-West European relations conformed to Canada's overall foreign policy framework. These questions will be addressed in Chapter Eight.

Not wishing to create high expectations, and no doubt foreshadowing the possibility of failure if there was no sustained political will, the deliberations of the Canada-EC working group were kept strictly internal to EAITC. The question of how long the political will would last is of course crucial in understanding the

outcome of this initiative. Unlike the "Going Global" trade development strategy which was generated by various geographic branches at EAITC to increase their resources,⁶⁴ the impetus for this policy came directly from Clark's office. Some officials have characterized the whole process of putting transatlantic free trade on the agenda as an exercise in "damage-control". It was less the result of Canada's dissatisfaction with the existing state of bilateral relations with Brussels than it was a perception at a particular time, by Canadian politicians, that the U.S. and EC would undermine Canada's multilateral entitlements by signing a separate trade treaty.⁶⁵

In sum, it would appear from the above review of the numerous public and private statements by Prime Minister Mulroney and secretary of state for External Affairs Clark on Europe, and from the activity by officials at EAITC in the 12-month period ending May 1990 that (not surprisingly given the shift from a bi-polar to multinodal international system) during this period the Government spent more energy redrawing its European policy framework than at any other time since the development of the "Third Option" in the early 1970s.

6.4 European Reaction to Trade Accord Proposal

Community officials, in the midst of preparations for the Single Market in 1993 and the upcoming Intergovernmental Meetings, certainly had little time to study the desirability or feasibility

of an EC-Canada transatlantic free trade agreement. Perhaps because the idea had not emanated from the Commission, it was given little serious attention at the External Relations Directorate (DG I) of the Community. Indeed, an official in DG I familiar with EC-Canadian relations has commented that a free trade agreement with Canada was so improbable that it was not even the subject of corridor discussions.⁶⁶ Moreover, since the broader, less defined notion of a transatlantic declaration had come originally from Genscher and there was no sustained political pressure at the Commission level at that time to develop it further, it would not be unusual for DG I to be out of the information loop.

Nevertheless, it would be an exaggeration to say that officials in the Community were completely unaware of Canadian thinking on this subject. A more likely explanation is that since the notion of a transatlantic alliance had such broad political ramifications it would in the initial stages have been dealt with directly out of the EC's Forward Studies unit which is separate from DG I. This conjecture is supported by the fact that discussions did take place between EC and Canadian policy planning officials. This author was advised that in discussion with his Canadian counterpart, Jacques Delors's main policy planning advisor was said to have been "very receptive" to ideas on an Atlantic alliance.⁶⁷ From the Commission's perspective, however, the notion of a transatlantic trade agreement never departed from the purely hypothetical.

6.5 Canada-EC Free Trade a Non-Starter

As mentioned, the intensity of European economic integration in 1990 was mirrored in the initial flurry of activity at the Canada-EC working group level in Ottawa. A number of reports were commissioned from various bureaux at EAITC dealing with issues of trade policy in Canada-EC relations and the implications of the Single European Market for particular Canadian industries. This begs the question of how important was the role of Canadian officials in sustaining the momentum of this focus on Canada-EC trade relations.

In Canada, a Cabinet faced by complexity and pressure can delegate much of the responsibility for policy making to the public service and the "public service..., stamp[s] public policy with its own values and priorities." The success or failure of political initiatives can consequently be shaped to a significant extent according to motivations and preferences of bureaucrats.⁶⁸ In the past (especially in the 1940s and 1950s) the high level of influence exerted by senior Canadian public servants was accentuated in the formulation of foreign policy, where secrecy inherent in state-to-state relations and the multifaceted, complex nature of diplomatic relations offered officials a certain autonomy in influencing policy outcomes. The influence of today's officials in EAITC may not be so great, but as the negotiations leading up to the CUFTA showed, specific issue areas - especially trade policy - evidence exceptions to this change.⁶⁹

The high level of bureaucratic intensity and the absence of any sustained business interest in transatlantic institutions is noteworthy given this study's examination of the role of the Canadian state in managing Canada-EC trade relations. The bureaucratic interest waned once it became apparent that the Europeans did not share Canada's enthusiasm for exploring the modalities of a transatlantic free trade framework. At the same time, in the summer of 1990 the negotiation of a North American free trade arrangement rapidly ascended the Government's policy agenda.⁷⁰ This had the immediate effect of reordering the bureaucracy's priorities: Derek Burney became preoccupied with ensuring that Canada was included in the U.S.-Mexico negotiations; the resources of EAITC's Policy Planning Staff were shifted on the economic front to looking at the economic and trade implications of North American free trade and, on the political front, to the implications of Iraq's invasion of Kuwait and the development of a cooperative security dialogue in the North Pacific⁷¹; and, removal of the European Bureau's role as the lead bureaucratic actor, further hastened the demise of EAITC's Canada-EC working group. In the end, the Canada-EC working group died as quickly as it was born. No final report was ever written.

6.6 CONCLUSION

In light of this chapter's discussion, a number of observations can be made on the nature of Canada-EC relations during the volatile

period 1989-1990. Despite significant change in Cabinet, parliamentary and bureaucratic level perceptions concerning the Canadian interest implications of West European integration and the revolutions in eastern Europe, it would be wrong to view the "cognitive shift" at the political level as being in direct proportion to the radical change in the international system. In fact it seems more plausible that the Government's sudden preoccupation with a transatlantic trade accord was no more than a policy impulse soon superseded by the more immediately pressing and obviously more significant "possession" interest of continental free trade. Transatlantic free trade was an issue that emerged at the wrong time; consequently, it became a non-issue for the Government.

It would be incorrect to conclude that Canada was a *demandeur* (i.e., the party most anxious for movement towards more formal discussions on any given issue) during this period. This is because there was never sufficient political will on the West European and U.S. sides to even begin negotiating a transatlantic trade accord.⁷²

Canadian actions during this period demonstrated that Canada only paid sustained attention to its broader relations with the Community when Western Europe forced itself on to the Canadian foreign policy agenda. It had done so in the previous year, when Brussels became the official channel - through the G-24 - through which some of the Central and East European economies received Western aid. Mulroney's ranking of Canada's European "pillars"

(NATO, the CSCE, and the EC) in his statements and speeches suggests a further conclusion. That is, since the focus of Canada's Europe interest was still firmly entrenched in the security domain, this concern militated against any *immediate* tendency away from the multilateral security dimension of Canada's Europe policy to an increased reliance on bilateral or trilateral trade and economic institutions. Nonetheless, the brief public and bureaucratic airing of the benefits of a transatlantic trade accord in the summer of 1990 indicates that the Canadian government was not indifferent to the implications of Genscher's proposal. As the next chapter will discuss, although a trade agreement was not feasible, a political affirmation of transatlantic ties was acceptable; Canada became a *demandeur* in this bargaining process.⁷³

NOTES

1. John W. Holmes, *The Better Part of Valour: Essays on Canadian Diplomacy* (Toronto: McClelland & Stewart, 1970), p. 216.
2. In contrast to the European component, the Asia Pacific component program put greater emphasis on establishing closer bilateral cultural and linguistic links through, for example, separate funding for foreign language (Japanese, Korean, Mandarin) training in Canada.
3. The ethos of the review largely reflected the then under-secretary of state for external affairs De Montigny Marchand's personal view about the nature of Canadian foreign policy, which he summed up to the author as the "management of vulnerabilities," given Canada's size and influence in the international system. Telephone interview with De Montigny Marchand, May 16, 1992.
4. Report of Senior Officials meeting, Policy Analysis Group (PAG) III, Department of External Affairs and International Trade, April 1983, p. 13.
5. European Political Cooperation was formally established in 1970 (as a result of a heads of an EC state summit held in the Hague in 1969). It is a system of intergovernmental cooperation, operated by the Member States of the EC with the participation of the European Commission, which provides for extensive consultations and where possible common statements and action on foreign policy issues. The 1973 Copenhagen Report strengthened EPC's institutional basis and committed the Member States to consult each other on all important foreign policy questions; it also heightened the sensitivity to the overlap between EC and EPC activities. EPC was given a legal base in the Single European Act (SEA) and is the basis of the chapter on a common foreign and security policy in the draft Treaty on European Union agreed at Maastricht in 1991.
6. This point was made in a telex from the Canadian Delegation to the European Communities (BREEC), YCGR0402, to Extott, May 8, 1990, p. 8. For an excellent treatment of the history and structure of EPC see Simon J. Nuttall, *European Political Cooperation* (Oxford: Oxford University Press, 1992), esp. Chs. 1-2.
7. See also Juliet Lodge, "European Political Cooperation: towards the 1990s", in Juliet Lodge (ed.) *The European Community and the Challenge of the Future* (London: Pinter Publishers Ltd, 1989), pp.223-240; and Alfred Pijpers, Elfriede Regelsberger, and Wolfgang Wessels, eds., *European Political Cooperation in the 1980s: Towards a Foreign Policy for Western Europe?* (The Hague: Nijhoff, 1988).

8. The SEA confirmed existing goals for EPC, and opened the door for and legitimizes discussion of other related issues (such as security and technological and industrial aspects of defence) by members in the EC as well as in EPC. Title II exuded caution and new commitments with respect to security-related discussions appeared to lack direct operational implications for WEU and NATO. See Lodge, p. 235. Paragraphs 8,9, and 10(b) of article 30 provided for political dialogue and cooperation with third countries.

9. It is not surprising that EC decisions were immutable since they often emerged from tortuous intergovernmental consultations; in short, it was almost impossible to have them reversed or modified if they were contrary to U.S. interests.

10. This procedure, while not permitting any direct American input into EPC, did foster through the development of personal relationships a sense of mutual sensitivity on issues affecting both the US and the Community. For a discussion of the EPC's third-country links, see Simon J. Nuttall, *European Political Co-operation* (Oxford: Oxford University Press, 1992), Ch. 9.

11. For a cogent analysis of US-EU relations in 1989 see Alan K. Henrikson, "The New Atlanticism: Western Partnership for Global Leadership," p. 10-16, a draft text that was passed to this author and subsequently published in the *Journal of European of Integration*, Vol.16, No. 2, (Spring 1993).

12. President G. Bush, Boston University commencement address, Boston, May 21, 1989. A senior Canadian official provides an alternative view on the roots of the TAD. He avers that the idea to formulate a new treaty or declaration to bind the Atlantic allies came originally from Germany. According to this official, the story "really" begins in 1988 when Germany occupied the EC Presidency, and the experiences gained in the increasingly close consultation processes of that period were carried forward. He does concede, however, that this is difficult to prove with concrete evidence since this would require an insight into what Hans Dietrich Genscher, the German foreign minister, was thinking at the time. Confidential Interview, Thomas Delworth, Canadian Ambassador to Germany, April 1992.

13. Reprinted in *Europa-Archiv* 45/4 (1990), pp.D77-84.

14. As cited in Y. Devuyst, p. 15.

15. For a discussion EC-US relations see Michael Smith and Stephen Woolcock, "The United States and the EC: Confronting the Challenge of Political and Security Order," a discussion paper presented at the International Studies Association annual meeting, Atlanta, Georgia, 31 March - 4 April, 1992 to appear in its final form as a chapter in a Chatham House Paper to be published in 1992; and Roy

Ginsberg, "US-EC Relations", in Juliet Lodge (ed.) *The European Community and the Challenge of the Future* (London: Pinter Publishers Ltd., 1990), p.264.

16. Haughey and Bush Agree to Strengthen Relations, *Agence Europe*, March 1, 1990, pp. 3-4. Canadian officials also pointed out to this author that smaller EC Members such as Luxembourg were especially eager to form a transatlantic alliance. Confidential interview with middle-level Canadian official, West European Relations (RWR) division, Department of External Affairs and International Trade, February 21, 1992. [Charles Court, Deputy Director]

17. Mr. Andriessen Favours Pragmatic Approach to Strengthen and Intensify Relations, *Agence Europe*, February 21, 1990, p. 9; Mr. Pandolfi Proposes to the Americans a Programme of Cooperation in Five Priority Areas and Welcomes the softening of the U.S. position on Telecommunications, *Agence Europe*, March 7, 1990, p. 7; Sir Leon Brittan Proposes a Treaty or Another Form of Agreement on Competition Policy, *Agence Europe*, March 26/27, 1990, p. 9; and Mr. Van Miert for Frequent High-Level Contacts, *Agence Europe*, April 5, 1990, p. 8.

18. R. Mosbacher, Secretary of Commerce, *Remarks at the Columbia Institute Conference on 1992*, Washington, February 24, 1989. On Mosbacher's views see also Michael Calingaert, "The European Community's Emerging Political Dimension," *SAIS Review*, Vol. 12, No. 1., (Winter/Spring 1992), p. 82.

19. The European Commission and the American Administration are Reviewing Means to Strengthen Coordination in a Large Series of Fields, *Agence Europe*, December 18/19, 1989, p. 10.

20. Telex entitled "EC/US Consultative Arrangements," YCGR 0273, sent from Canadian Delegation to the European Communities (BREEC) to Extott (the European Community [REM division]), March 21, 1990, p. 3.

21. At the close of the Washington Meeting, Jacques Delors Underlines Common Responsibilities with regard to Eastern Europe Countries, for the Uruguay Round, and in the Environmental, Technological and Social Fields, *Agence Europe*, April 25, 1990, p.8.

22. Telex entitled "US/EC Ministerial: 23-24 April," sent from Canadian Delegation to the European Communities (BREEC) to European Community Relations (REM) division, May 8, 1990, p. 3.

23. Telex entitled "USA/EC Relations: New Institutionalization," from Canada's embassy in Washington to Extott (European Community Relations (REM) division) in Ottawa, March 28, 1990, p. 4.

24. Horst Krenzler and Wolfram Kaiser, "The Transatlantic Declaration: A New Basis for Relations Between the EC and the USA," *Aussenpolitik*, Vol. 42, No. 4, 1991, p. 366.

25. Devuyst, p. 8.; see also R.I. Ridgeway, Assistant Secretary of State for European Affairs, *Remarks before the Committee on Foreign Relations*, Minneapolis, March 31, 1989. See Smith and Woolcock.

26. Devuyst (p. 8) points out that this is one of the main arguments made in M.J. Hogan, *The Marshall Plan: America, Britain, and the Reconstruction of Western Europe, 1947-1952* (Cambridge: Cambridge University Press, 1987).

27. Michael Smith, "The Devil You Know: EC-US Relations in the 1990s," *International Affairs*, 1990, and also Smith and Woolcock, (1992).

28. President George Bush, *Boston University commencement address*, Boston, May 21, 1989.

29. USIS Transcript: *Bush news conference*, Brussels, December 4, 1989, p. 5.

30. The history of US-EC relations is peppered by periods in which there have been serious mutual recriminations. See for example, Roy H. Ginsberg, "US-EC Relations", in Juliet Lodge (ed.), *The European Community and the Challenge of the Future* (London: Pinter Publishers Ltd., 1990), pp. 256-278; and also R. Talbot, *The Chicken War: An International Trade Conflict between the United States and the EEC* (Ames, Iowa: Iowa State University Press, 1978); and Michael Smith, "EC-US Relations: The Devil you Know," *World Politics*, Vol. 15, 1991, pp. 89-97.

31. Confidential interview with official on the Policy Planning Staff, Department of External Affairs and International Trade, February 13, 1992. [Stuart Carre, desk officer]

32. Confidential interview with official at Canada's embassy in Washington, February 28, 1992. [Gail Tyerman, Second Secretary]

33. Telex entitled "USA/EC Relations: New Dynamism," YCGR0269, from Canadian Delegation to the European Communities (BREEC) to Extott (European Community [REM]) relations division).

34. Canadian officials noted that the last time there had been this concentration of US attention to Europe was during Henry Kissinger's "Year of Europe" in 1973. See telex entitled "USA/EC Relations: New Institutionalization," UNGR1276, sent from Washington embassy to Extott, March 28, 1990, p. 4

35. As a further measure of the interest at the political level in Canada's relations with the Community, in late 1989 a review of bilateral Canada-EC trade irritants was prepared by the Minister for International Trade for consideration by Cabinet. It should be noted that the Going Global was an initiative created by EAITC to ensure a larger trade development budget for itself.

36. External Affairs and International Trade Canada, *Statements and Speeches*, 90/09 and 90/32.

37. Canada undertook four major initiatives in response to the dramatic changes in Eastern Europe and the Soviet Union in 1989: (1) Prime Minister Mulroney's trip to the USSR which had wide-ranging political and economic significance; the allocation of \$10 million for the Economic Development Fund for Poland and Hungary, \$12 million in food aid for Poland, and \$20 million in export credits to Poland, as part of Canada's contribution to the G-24 process of aid to Eastern Europe; \$29.1 million to support the Polish zloty through the Stabilization Fund; and participation in the creation of the European Bank for Reconstruction and Development (EBRD).

38. Confidential interview with senior official in the Dept. of External Affairs and International Trade who was a former Director General of the Policy Planning Staff, March 1992. [Interview based on Memorandum to Cabinet on Canada-Europe relations prepared by Mark Moher, Director General of the Policy Planning Staff, February 1990]

39. Confidential interview with senior official at Dept. of External Affairs and International Trade, March 1992. [Mark Moher, former Director General of the Policy Planning Staff, who informed the author of the Memorandum to Cabinet on Canada's relations with Eastern Europe and the Soviet Union]

40. Europe as a formidable political and economic actor had been encouraged by German Foreign Minister Genscher's proposal to Joe Clark for an EEC-North American Declaration "which would confirm shared principles and interests in openness and enhanced co-operation". See text of speech by Joe Clark, "Canada and the New Europe", *Statements and Speeches*, May 26, 1990, p.7. Underlining Canadian interest in this proposal, correspondence between PM Mulroney and President Bush, although emphasizing the continued vitality and complementarity of NATO and the CSCE, did nevertheless make reference Mr. Genscher's suggestion of a transatlantic declaration.

41. *Minutes of Proceedings and Evidence of the Standing Committee on External Affairs and International Trade*, Issue No. 48, Thursday, April 5, 1990., pp. 6-7.

42. *Minutes of Proceedings and Evidence of the Standing Committee on External Affairs and International Trade, Issue No. 48, Thursday, April 5, 1990., p. 9.*

43. Confidential interview (by telephone) with senior official from the Dept. of External Affairs and International Trade, April 2, 1992. [Thomas Delworth, Canadian Ambassador to Germany]

44. Secretary of State for External Affairs, *News Release No. 063, March 30, 1990.*

45. Confidential interview (by telephone) with senior Canadian official at Dept. of External Affairs and International Trade, April 3, 1992. [Thomas Delworth, Canadian Ambassador to Germany]

46. The Canadian Embassy in Germany did raise the matter of picking up on Genscher's proposal and putting some flesh on Canadian thinking but no follow-up was taken by Ottawa until September. Confidential interview, April 3, 1992. The senior Canadian official was probably Jeremy Kinsman, then Assistant Deputy Minister, Political and International Security.

47. Numerous officials at EAITC indicated to the author that the centrality of Ambassador Burney to the current conduct of Canadian foreign policy should not be discounted.

48. The Under-Secretary of State for External Affairs (USS) is DFAIT's top bureaucrat and is at the level of a deputy minister. Marchand started as USS in January 1990.

49. Confidential interview with senior official on the Policy Planning staff, Dept. of External Affairs and International Trade, March 1992. [Michael Hart, Director, Economic Planning] It was also rumoured that Clark and the top official in the Department's European Bureau did not get along, which seriously undermined the effectiveness of this Bureau in acting as a source of innovative policy advice for the minister.

50. After numerous problems in the PMO during his first term in office, Mulroney had brought in Burney from EAITC to "put his shop in order". While at EAITC Burney had risen to associate under-secretary of state, making him the third highest ranking civil servant in the Department behind the Under-Secretary of State for External Affairs (i.e., the Deputy Minister) and the Deputy Minister for International Trade. Burney had cut his teeth on the Liberal government's 1983 Trade Policy Review. As evidence of Burney's powerful role and influence in the foreign policy decision-making process, it was taken as fact that on a number of foreign policy issues (particularly the free trade negotiations) the lines of communication went from Mulroney directly to Burney

when he was ambassador to the United States, circumventing altogether the normal bureaucratic reporting relationship between the Under-Secretary of State at EAITC - De Montigny Marchand at the time - and his ambassador in Washington.

51. Confidential interview with senior official on the Policy Planning Staff, Dept. of External Affairs and International Trade, February 17, 1992. [Michael Hart, Director, Economic Planning]

52. Telex entitled "Trade Arrangements Between Canada and the European Community," from Washington embassy to Extott, May 1990, p. 3. Confidential interview with senior Canadian official in Washington embassy who drafted the above telex, February 21, 1992. [William A. Dymond, Minister Counsellor (Commercial)]

53. Telex, "Trade Arrangements Between Canada and the European Community in the 1990s," pp. 6-7.

54. *Ibid.*, p. 8.

55. From text of speech by Joe Clark, "Canada and the New Europe", Humber College, May 26, 1990, p.7.

56. Letter from Prime Minister Brian Mulroney to President George Bush, dated May 8, 1990, p. 3. A copy of this letter was passed to this author by an official at the Dept. of External Affairs and International Trade in April 1992.

57. *House of Commons Debates*, May 31, 1990, p.12091.

58. The assertion by the SSEA of the desirability of a more formalized, open trading arrangement between Canada and the EC was added by the Minister's staff and did not come from officials at EAITC. The Minister's staff evidently believed that what was necessary was some "general yet decisive statement" that would indicate that Canada wanted to play a serious role in the future of Europe. Confidential interview with member of Minister's staff; see text of Joe Clark speech, "Canada and the New Europe," Humber College, Toronto, May 26, 1990, p. 7.

59. Hyman Solomon was one of the few Canadian journalists who picked up the potential significance and far-reaching nature of Clark's trans-atlantic trade treaty proposal. See Hyman Solomon, "Trade deal with Europe becoming a major issue," *Financial Post*, May 30, 1990.

60. Confidential interview with former senior official of the Trade and Economic Policy unit of the Policy Planning Staff at the Department of External Affairs and International Trade, February 26, 1992. [D. A. Bryce, Director]

61. Geoffrey Edwards, "The European Community and Canada," *Behind the Headlines*, Vol. 50, No. 2, (Toronto: Canadian Institute of International Affairs, Winter 1992-93), pp. 18-23; see also Joe Clark, Notes of Speech, "Canada's Stake in Europe," presented at luncheon sponsored by the *Conseil des relations internationales de Montreal*, Montreal, June 20, 1990, p.2.
62. Joe Clark, Notes of Speech, "Canada's Stake in Europe," presented at luncheon sponsored by the *Conseil des relations internationales de Montreal*, Montreal, June 20, 1990, p.2.
63. Confidential interview with former senior official in the Economic and Trade Policy unit of the Policy Planning Staff, Dept. of External Affairs and International Trade, February 26, 1992. [A.D. Bryce, Director]
64. It was rumoured that the "Going Global" exercise was a way by which the bureaucrats at the then-named EAITC rationalized the need for increased funds from the Treasury Board. Initially a request prepared for the Treasury Board by the Asia Pacific Branch of EAITC for increased funding for its trade development programs, it was felt by the Department's senior managers that EAITC stood a better chance of having such requests for funding above those stipulated in the Department's annual budget approved if they put a competitiveness spin on the proposal. Given the Government's "competitiveness" mantra at the time, i.e., it had just finished explaining to Canadians how the CUFTA would force Canadian firms to be more competitive in world markets, Departmental officials reasoned correctly that the Government would be unlikely to turn down a more wide-ranging proposal for trade development funds. In the end Treasury Board approved EAITC's request for a multi-year trade development program focusing on the United States, Asia Pacific and Europe.
65. Confidential interview with senior official in the Economic and Trade Policy unit of the Policy Planning Staff, Dept. of External Affairs and International Trade, November 26, 1992. [D. A. Bryce, Director]
66. Confidential telephone interview with Commission official in DG I, February 1992. [Mave Doran, desk officer for Canada]
67. Confidential interview with senior official on the Policy Planning Staff, Dept. of External Affairs and International Trade, October 1991. [Howard Balloch, Director General]
68. Michael Hart, "Multilateralism and Professionalism" unpublished book manuscript, p. 525 received by the author from Mr. Hart when he was on staff at the Policy Planning Staff in 1991-92.

69. There is, however, a countervailing force to this influence due to the organizational nature of the foreign service. With a rotational foreign ministry service, for example, the maintenance of a high level of bureaucratic support for a particular initiative can dissipate once the public servant with a vested interest in that initiative is re-assigned.

70. A sure measure of the working-group's diminishing priority was the absence of senior officials, i.e. Directors General, during the last two meetings of the no more than five meetings that were ever held.

71. A number of factors have made the Policy Planning Staff (CPD) the foreign policy bureaucracy's weathervane on the issues of greatest concern to the government in power: 1) the Director General of CPD reports directly to the Under-Secretary of State for External Affairs, and because this position affords the only overview of departmental operations and policy, it can be a position of considerable influence; 2) due to its advisory role CPD provides short-term forward planning briefs (at the request of the Minister or Cabinet) on the impact of international economic and political developments on Canadian interests; and 3) with its Cabinet liaison section CPD forms the institutional link between the foreign policy bureaucracy and the Cabinet.

72. Although it is true that Canada had initiated discussions for a World Trading Organization (WTO).

73. G. Bruce Doern and Brian W. Tomlin, *The Free Trade Story: Faith and Fear* (Toronto: Stoddart Publishing Co. Ltd., 1991), p. 278.

CHAPTER SEVEN

THE TRANSATLANTIC DECLARATION: NEW TRANSATLANTICISM IN OLD BOTTLES?

7.1 INTRODUCTION

The Conservative government of Brian Mulroney, having won the 1988 "free trade" election with a comfortable majority (although smaller than the 1984 majority) and having pushed through the CUFTA, was by mid-1990 once more concerned about ending up on the spoke - rather than the hub - of a U.S.-Mexico free trade agreement. The Conservative government found itself in a world order characterized by the disappearance of old rules and certainties. In Canada, throughout the 1980s the left had argued that the CUFTA ensured that Canada was a dependent power; the new world order now forced a reconceptualization of Canada's role as a middle power.

This chapter examines how Canada engaged its allies, in Cooper et al.'s words, as a "nimble dancer," in finding a role for itself in the new international order as the cement of Western transatlantic alliance began to crack and Canada was no longer assured a place as a full partner in any new transatlantic institutions. Canada as a "benign, responsible and selfless" middle power would not describe Canada's role in securing a transatlantic declaration. With the end of the Cold War it was evident that Canada's value in the eyes of its allies - based in large measure on its ability to mediate East-West tensions over the previous forty-five years - had declined, if not precipitously, then

certainly noticeably.¹ This came as a rude shock to many Canadian officials and politicians who had grown accustomed to being automatically consulted on any major initiatives affecting transatlantic relations. This chapter's analysis of Canada's negotiation of the transatlantic declaration would tend to support John Holmes' rejection of the thesis that Canada was a middle power because of its "moral superiority," which he viewed as a "moral arrogance [which had] crept into the concept of middle power".² There are, of course, shades of Canada's wounded pride as a good and deserving Atlantic partner when the Europeans and Americans appeared to be ignoring Canada's rightful place in any transatlantic negotiations. The analysis also shows that Canada's behaviour during the negotiations manifested typical middle power roles of "stabilization" (separating, counter-balancing and mediating among other states); "negative roles" (free-riding, fence-sitting, and status-seeking); and "good multilateral citizenship"³, but ones that can be reconciled with the Holmesian view that Canadian internationalism in the post-War, and then the immediate post-Cold War period, is still "based on a very hard-boiled calculation of the Canadian national interest".⁴

7.2 THE CREATION OF A POLITICAL DECLARATION

As was pointed out in the last chapter, without any real interest evinced by either the Commission, the Presidency of the Community or the United States (which had been steadily formalizing its

bilateral political - rather than economic - links with the Community), a transatlantic free trade deal in practical terms was a non-starter.⁵ What seemed to attract more sustained political attention from the United States and the West Europeans was a much more general proposal for cooperation that did not threaten existing multilateral trade institutions, but incorporated them instead. Indeed, officials on EAITC's Canada-EC working group concluded that many of the political requirements that were being served by the re-examination of EC-Canada trade relations, that is, demonstrating Canada's new approach to Europe, were already being served adequately through the Government's "Europe 1992" trade development program and its lobbying in Brussels. The prevailing view at EAITC was that if the option of a transatlantic trade treaty was not feasible, then what was needed was a declaration of goodwill and cooperation - a follow-up to Genscher's very general, ill-defined declaration proposal. As will be shown, the difference between Canada and the U.S. was that Canadian officials and politicians perceived a need for a transatlantic declaration to formalize high-level political ties with the Community; those formalized ties which did exist were almost entirely inter-bureaucratic mechanisms anchored by the economic and trade consultations established under the Framework Agreement. For the U.S., on the other hand, although a declaration was useful, it was not a necessity.

The trigger for the Canadian TAD appears to have been the result of two events. First, on September 18, 1990 discussions

between the Canadian Embassy in Washington and the State Department alerted Canadian officials to the fact that the U.S. intended to issue a transatlantic declaration with the Community.⁶ (The EC had prepared a draft declaration to this effect.) This was confirmed in discussions between secretary of state Baker and secretary of state for External Affairs Clark on 21 September, in which Baker explained that this declaration was to replace Baker's more formal treaty proposal that he had made at Berlin. An EC-U.S. Declaration would simply formalize bilateral U.S.-EC contacts that already *de facto* existed.⁷ The U.S., as we have pointed out, wanted to use a Declaration about common principles to reinforce the EC's commitment to consult with the U.S. before Community foreign policy decisions were set in stone. It appears, however, that the Canadian side felt it had a proprietary interest in any transatlantic declaration not least reason because (as officials in EAITC constantly reminded the author) Genscher had first made the proposal in Ottawa (although the record shows that he had actually made it in Washington the day before).⁸ Canadian officials, PM Mulroney and Clark all felt that Canada had a right to be full party to "any declaration on the Principles of Transatlantic Declarations," because the very term "transatlanticism" traditionally included Canada and therefore Canada's exclusion from the Declaration would have presented perceptual difficulties.⁹

7.3 THE FORMULATION OF PARALLEL DECLARATIONS

Inserting itself into the process of re-thinking transatlantic relations, Canada floated the idea for a short declaration that would have pulled the Community, Canada and the United States into a new transatlantic alliance. Under this scenario, NATO would not have been replaced; rather, the alliance would have acted as a broader overall consultative mechanism into which NATO could have been subsumed.¹⁰ The Canadian fear was that a bilateral EC-U.S. declaration would change the nature of the existing Atlantic alliance into a bipolar European and U.S. alliance that would be detrimental to Canadian interests.

The Bush Administration, however, argued that Canadian participation could lead to a dilution of the effectiveness of its Declaration. That is to say, a trilateral form would (1) not allow the Administration to make as forceful a point with Congress, and (2) raise the possibility that Mexico would also seek inclusion.¹¹ From the Bush administration's perspective, then, the transatlantic Declaration was a strictly bilateral affair. The U.S. position against a trilateral Declaration was supported by the French (although they did believe Canada had a role to play); the Italians, who at the time had the Presidency of the European Community, wanted to move ahead quickly with an EC-U.S. declaration; and Bonn, to no one's surprise (given Genscher's public pronouncements), was supportive of a trilateral approach.¹²

The U.S. rejection of a trilateral Declaration naturally created a certain sense of urgency on the Canadian side to be associated with and included in the exercise of a new formalization and intensification of transatlantic relations. The flow and nature of the telex traffic between officials in Canada's Washington Embassy and Ottawa on this matter indicate that the Canadian government was clearly surprised at how quickly Baker's and Genscher's proposals had resurfaced, metamorphosed and gained momentum.¹³

The second trigger was that the bilateral discussions between American and Canadian officials in Washington on the state of transatlantic relations coincided with the first state visit to Canada (at the invitation of Canada) of German President Richard von Weizsaecker, lasting from 16 to 21 September.¹⁴ This coincidence would merit no mention if it were not for the fact that during Dr. Weizsaecker's visit, Canadian officials apparently received a draft transatlantic declaration from their German counterparts¹⁵; It is unclear whether the Canadian officials had this declaration when they met with the State Department's then-under-secretary of state for European and Canadian affairs, Raymond Seitz, in Washington.¹⁶ In any case, with Canada preferring a trilateral declaration, the U.S. refusing to have one, and the EC unwilling to issue a declaration with only one North American partner and not the other, a compromise solution was necessary. In light of the positions of Canada's interlocutors, officials at EAITC pushed for a second-best solution: they could "live with" a

separate declaration signed bilaterally by the EC and Canada in addition to the EC-U.S. declaration whose drafting was already in progress.¹⁷

The challenge for the Canadian side was to convince the Europeans (primarily the French and Italians) and Americans that Canada had a right to insert itself into the negotiation process; that Canada's "milieu" interests had to be protected.¹⁸ Immediately, Ottawa made several *démarches* in Europe, Ottawa and Washington stressing Canada's integral role in any process that sought to re-formalize transatlantic relations. When this did not elicit any immediate positive response, Canadian officials decided that a more proactive approach was needed. Officials in the West European Relations Division and the Policy Planning Staff at EAITC subsequently (on the basis of the German draft) drew up a draft one page Declaration outlining Canadian interests and circulated it to all the Member States of the Community, to the Commission, and to Washington.¹⁹ It is clear that the personalities of officials did play a role in influencing Canada's commitment to drafting its own text.²⁰ Canadian officials feared that the longer the EC-U.S. draft circulated among the Member States and in the Commission and the Presidency of the EC, the more difficult it would be for an EC-Canada draft to be inserted. Canadian officials sought to impress on their counterparts in the Commission and the Member States that there needed to be two TADs, not just the EC-U.S. TAD.²¹

In early October, however, it became apparent that the EC-U.S. negotiations were not as advanced as the Canadian side had

initially estimated. This provided the window of opportunity for Canadian officials to lobby Washington, the Community and the Member States to support a separate EC-Canada TAD that would be released along with the EC-U.S. TAD. The Italians were particularly helpful at this stage in supporting the Canadian position although, as will be pointed out, there was disagreement with the Italians with regard to where and when the Canadian TAD would be issued. By mid-October a consensus was formed among all the participants that what was developing was a process of parallel negotiations.

Because all parties agreed that a degree of parity was desirable between the U.S. and Canadian TADs, the U.S., the Commission, the Italy and other Member States all had to be satisfied with the initial Canadian effort. The Americans and the Commission, in particular, were not. They wanted a more "substantive" declaration. Over the course of six weeks various longer drafts of the Canadian TAD were produced and distributed, in addition to German, American, and Italian draft transatlantic declarations already in circulation. Not surprisingly, given the U.S.'s rejection of a trilateral declaration, during this period there was little cross-fertilization of ideas on the substance of the declarations between U.S. and Canadian officials as they drafted their respective TADs; indeed, the Canadian side received a working copy of the EC-U.S. TAD in confidence from sympathetic officials of a Member State, which was rumoured to be the United Kingdom.²² If Canadian officials did receive it from this source

it would not be surprising since Clark had a good working relationship with Douglas Hurd, the British Foreign Secretary, who supported Canada's position that it had a right to be fully involved in any transatlantic negotiations. But lest the impression be given that Canada could rely on support from only the key Member States, it must be stated that Canada also received support from Spain and Portugal - widely regarded as the most pro-Community of all the Member States.

Due to the parallel negotiations, the Canadian government, wanted the TADs to be issued simultaneously. Timing, however, became a problem: the Italians wanted to sign the EC-U.S. TAD during Prime Minister Andreotti's visit to Washington in mid-November; and the Canadian side wanted to issue the Canada-EC TAD on 22 November in Rome since this would coincide with PM Mulroney's trip to Europe to attend the Paris CSCE meeting. The Canadians were particularly concerned about a prior release of the EC-U.S. TAD. Any time-gap between the public announcement of the EC-U.S. TAD and the EC-Canada TAD would have proved "awkward" for Canada: the notion of a Canadian prime minister going to Washington to sign a tripartite or bilateral declaration during an official visit by another head of state, in this case Italy's Andreotti, would, according to Canadian officials, have been a political embarrassment at home.²³

Within the Canadian bureaucracy there was also a problem of defining the focus of the Declaration. There was a flurry of activity in EAITC to determine whether the Declaration was to be

purely political or more trade and economic-oriented. In the end, the PMO, the PCO and Clark's ministerial office took into consideration the concerns of the trade officials - particularly the trade-oriented staff at Canada's mission to the EC in Brussels - but nevertheless decided that the TAD's focus should remain political.²⁴ There was also considerable concern among Canadian officials that the EC-U.S. and EC-Canada texts be similar with regard to shared transatlantic principles, values and consultative mechanisms, so that Canada would not be viewed as a "second-class" transatlantic citizen.²⁵ But perhaps the most important reason for the PMO's strong interest in bilateral relations with the Community and therefore in a transatlantic declaration, was the impact domestically of the dizzying pace of developments in Europe. As a result, officials in EAITC consulted with and provided the PMO with ongoing reports on the status of negotiations.²⁶

In the end, after much consultation and drafting - it would be tendentious to try to assert which country had the most input in the final product - an idea that had initially started out as an American treaty proposal, that was recast as a transatlantic declaration by the Germans, and which had - in the final phase - considerable Canadian participation, was transformed into the EC-U.S. and the EC-Canada TADs. In the fall of 1990, following discussions between Ottawa and Washington and the Community's own internal consultations on establishing enhanced political relations with Canada and the U.S., the "Declaration on European Community-Canada Relations" was unveiled in Rome by Prime Minister Mulroney

and Italian Prime Minister Andreotti on November 22, 1990.²⁷ The Transatlantic Declaration with the U.S. was issued a day later in Brussels.²⁸

7.4 THE SIGNIFICANCE OF THE TRANSATLANTIC DECLARATION

It should be noted, in the first instance, that the TAD was "issued" rather than signed, indicating that Canada and the EC were not legally bound to adhere to the Declaration's terms - giving it a more symbolic rather than substantive quality.²⁹ Second, as Edwards observes, when compared to the signing of the Charter of Paris, the day before, on November 21, by the 34 participating states of the CSCE, which formally declared the end of the Cold War, the institutionalization of bilateral political and economic relations through the TAD was a fairly modest achievement.³⁰

That being said, the process of negotiations leading up to the TAD and the document itself raised a number of questions about the nature of Canada's place in the new Atlantic order. How important were high-level political ties? What about the impact of institutional changes in the EC? How many new bilateral links were actually created and how important were they? How important was the bureaucracy's support on both sides of the Atlantic? Did the TAD fill the "legitimation vacuum"? In an international system characterized increasingly by geoconomics rather than geopolitics, how economically "real" was the Declaration? However, before attempting to answer these questions, it would be useful first to

compare the Canadian and American TADs. That is, despite their similarities, there are important differences between them that illuminate the differing natures and foundations of American and Canadian relations with the Community.

7.4.1 Comparing the U.S. and Canadian TADs

In making this comparison it is difficult not to ascribe a certain "me-tooism" to Ottawa. Given the parallel sets of negotiations it is not surprising that the texts of the Declarations are strikingly similar. Most generally, both the Canadian and American Declarations emphasized the need for multilateral institutions such as the UN to be responsible for world-wide conflict mediation; they called for the strengthening of the multilateral trading system through the implementation of GATT and OECD principles to reduce the number of non-tariff barriers in industrial and agricultural trade, services, competition policy, transportation policy, standards, telecommunications and other areas. Assistance to Central and Eastern Europe was also encouraged.

More practically, as a result of the TAD, meetings would take place "regularly" in Canada and in Europe between the Canadian Prime Minister and the President of the European Council and the President of the Commission (see Figure 1 at end of this chapter). Second, bi-annual meetings were scheduled on each side of the Atlantic, between the Canadian secretary of state for External Affairs and the President of the Council of the European

Communities and the Commissioners for External Relations and Trade Policy (at the time of the TAD's issuance these two portfolios were held by the same Commissioner). Significantly, under the U.S. TAD the U.S. president would meet "bi-annually" with his European counterparts while the Canadian prime minister would do so only "regularly". Furthermore, rather than being new - as in the Canadian case - the "bi-annual" meetings between the U.S. President and the President of the EC Member State holding the six-month Presidency of the Community, had already been occurring for several years prior to the Declaration, a fact that serves to highlight the lack of a similar Canadian political will in relations with the Community this time.³¹

It has been conjectured that the use of the word "regular" in Canada's TAD was a "tactical" move on the part of Canadian officials who believed that the imposition of "annual" meetings on the Prime Minister would have created a "failure trap" since they were not convinced that a Canadian Prime Minister (given Mulroney's and Clark's track record on European issues prior to 1989) would have been able to live up to this type of commitment.³² Having "regular" meetings meant that Canada could be spared the "embarrassment" of missing some future high-level meetings; Canadian Prime Ministers would instead be able to "work their way up" to annual meetings.

At the level of officials, the U.S. TAD stipulated an annual meeting between U.S. officials and the political directors of the EC Presidency's Troika, which was essentially a continuation of an

existing practice. Canadian negotiators felt that regular access via the Troika was not necessary since they would be briefed at the ministerial level following EPC meetings.³³ There was also an "evolution" clause in the U.S. Declaration which provided for an adjustment of the existing structures of cooperation to the progress made in European integration, whereas there was none in the Canadian Declaration, presumably because Canada already had the Framework Agreement. Significantly, the EC and the U.S. retained the option to specify contractually the arrangements upon a greater cohesion in EC foreign policy and to make them legally binding.

Finally, the Canadian and American TADs also called for co-operation on such transnational, or "co-operative security," issues as terrorism, drug trafficking, control of population migration, and the environment. The reference to encouraging bilateral investment in the Canadian TAD, something not found in the U.S. Declaration, lent it more of an economic flavour than its American analog, although the intents of both Declarations were clearly political. More pointedly, given this dissertation's assertion that Canada's approach to its relations with the EC continued to be state-led, there was no mention in either Declaration of the need to bring the transatlantic business communities closer together; indeed, there were no consultations with the private sectors on this initiative.

7.4.2 The Importance of High-Level Political Ties

Returning to the set of questions posed above, the key element of the Canadian TAD was the establishment of a new transatlantic institutional framework. The Declaration re-affirmed the need for the full use of the mechanisms established under the Framework Agreement and of the already existing political contacts, such as the annual meetings between the Canadian secretary of state for External Affairs and the EC Commissioner for External Relations and Trade Policy under the Joint Cooperation Committee.

Since the Declaration did go some distance to meet Canadian officials' persistent requests for a more elaborate range of political consultative mechanisms, it succeeded in making bilateral relations less uni-dimensional and focused on trade irritants; it provided a broader bilateral context within which these irritants could be discussed. Second, the Declaration established political relations between Canada and the EC on a level comparable, as we have discussed, to that of the U.S.. And, certainly, at the time, Canada had "exclusive" access to the Community in comparison to other "middle powers" such as Australia and New Zealand.³⁴ (The Japanese, in fact, used the Canadian TAD as a model in their own negotiations with the EC in 1991.)

A senior official in Canada's mission to the EC in Brussels viewed the TAD as a "powerful top-down tool" that allowed both sides to keep abreast of the relationship and make appropriate adjustments because it "suffuse[d] an entire range of formal and

informal bilateral contacts on international issues of mutual interest with a renewed spirit of dialogue and cooperation," and it "broaden[ed] the interaction at the personal and institutional level and considerably enhance[d] Canada's ability to promote its interests and pursue its bilateral and multilateral political and economic agenda."³⁵ An example of the broadened interaction at the personal level was the Canadian SSEA's twice yearly consultations with the Member State foreign minister who is the President of the Council of the European Communities. This was highly symbolic (the President "invited" the Commissioner of External Relations and Trade Policy to these meetings) because it stressed contact between Canadian and European politicians rather than between officials, the latter having been the norm heretofore. Although the formalization of bilateral political links was clearly an advance, given the evolution of bilateral relations by the end of 1993 (see Chapters Nine, Ten, and Eleven), it was premature for senior Canadian officials to have stated unequivocally in 1990 that the TAD was a "powerful" tool.

7.4.3 TAD and the Re-institutionalization of Canada-EC Relations

In looking at Figure 1 it can be quickly established that the two new links established by the TAD were (1) the Canadian PM meeting with the President of the European Council and the President of the Commission (#4), and (2) the SSEA meeting with the President of the Council of the European Communities (#5). The other stated links

(i.e., the Canadian SSEA's meeting with the Commissioner for External Relations and Trade Policy and the contacts between Canadian missions and EPC already existed. The Canadian SSEA and the EC Commissioner for External Relations and Trade Policy were theoretically supposed to have met annually to discuss bilateral relations through the Joint Cooperation Committee established under the Framework Agreement (see Figure 2).³⁶

Another example of increased political cooperation was evident in debriefings on EPC decisions for non-Member States. Canada did not have the same level of access to the EPC decision-making process as the U.S.. As noted, Canada's links to EPC were formalized in the early 1980s when it began to receive a general briefing on the Community's final decisions along with other "like-minded" (mostly OECD) non-Member States; starting in 1988 it received more exclusive access through the bi-annual separate bilateral "political directors" meetings. This being said, in the domain of EPC, it was unclear how much more Canadian access had been brought about through the TAD, although there were now presumably more ad hoc links between the Canadian Mission to the EC in Brussels and the EPC expert groups as well as between the Mission and the EPC Secretariat and the EC Council's Secretariat for EPC.

Also, with the additional links created as a result of the TAD there was initially some doubt whether the practice of having "High-Level" Ministerials (which predated the 1976 Framework Agreement by 4 years) would need to be continued.³⁷ In establishing

the net number of bilateral institutional linkages it becomes apparent that there was a fair amount of redundancy in the bilateral institutional structure. Of course, this was to be expected in the short-term before some of the old linkages were either abolished outright, indefinitely suspended or subsumed under new institutional links. At the time of writing, the "High-Level" Ministerials had not yet been subsumed under the new links established by TAD. It was unclear what significant benefit that their continuation would bring to bilateral relations.

Decisions not to eliminate certain structures thus fed the perennial criticism in the academic and corporate communities that the conduct of bilateral relations was over-bureaucratized. The creation of new institutional links represented an accretion of organizational mass; there was an inherent belief within the bureaucracy that more was always better. Although officials in Ottawa contended that Canada's relationship with the EC was considerably greater than the government-to-government dialogue that they had fostered through the TAD, even a cursory examination of the history of bilateral relations and a review of the institutionalized nature of the relationship (Figures 1 and 2), would leave the analyst with the impression that the process appeared to have become an end in itself. Indeed, such observations do not differ greatly from those of Pentland et al., who, writing about the Framework Agreement in the early 1980s, state that

The largely exploratory and technical work undertaken within the Working Groups of the continuing machinery of the JCC constitutes, in a sense, its own justification. The product

is the process...and not what might actually emerge from it in the form of contracts and deals in trade and investment areas.³⁸

While the TAD's "product" was clearly political, the problem remains the same. This assessment, however, must be qualified since the process-driven nature of bilateral relations can be traced to the inherent difficulties for Canadian policymakers when dealing with an international organization that displays both supranational and intergovernmental characteristics.

Finally, another problem highlighted by Pentland et al. was Canada's reluctance to pursue a strategy whereby issues would be linked. Therefore, even with the renewal of bilateral as a result of the TAD, the structure was still vulnerable to the charge that the combination of general reviews of the relationship (through regular and private meetings at the political level) with "intense, narrow and isolated exercises in trade negotiation and cooperation", would cause opportunities to be missed for the constructive linkage of issues in which both sides could gain something.³⁹

7.4.4 Institutional Changes in the EC

As mentioned, the SEA in 1987 ensured that by the time the TAD came along there was no longer a strict intra-Community separation between the powers of the Community in the field of foreign economic policy on the one hand and EPC on the other. In a speech to the European Parliament in January 1990, President Delors had

stressed the impossibility in the long run of separating the economic in the role of the EC in international relations from its political role.⁴⁰ On the European side, therefore, the Declaration had anticipated a common European foreign and security policy, which was then legislated through the second Intergovernmental Conference and at Maastricht.⁴¹ From Ottawa's perspective, not only did the TAD extend bilateral relations but in so doing it recognized that the EC was evolving from a foreign policy actor with limited power - a "political pygmy" - to one with increasing diplomatic clout. This had been evident with the Community's primary role in the G-24 since 1989, and continued - albeit with varying levels of success - as it attempted to mediate the civil war in Yugoslavia.

7.4.5 Filling the "Legitimation Vacuum"

A more intangible, short-term outcome of the TAD was that at a time of great institutional uncertainty in transatlantic relations between 1989 and 1991, it filled the legitimization vacuum on both sides of the Atlantic created by the end of the Cold War. It marked a new epoch in Canada-West European relations in so far as it represented an attempt by Canada to maintain its status as an equal partner with the Community. In many ways, though, as the post-TAD Community pushed for greater economic, monetary, political and even defence integration, Canada was destined to become a distinctly unequal partner. There was now the likelihood that the economic

asymmetry in the relationship (see Chapter Eight), traditionally balanced by the security guarantee offered by Canada's membership in NATO as evident in the negotiations leading to the 1976 Framework Agreement, would become increasingly politicized and put Canada in an increasingly disadvantageous position. From the

More tangible evidence of the attempt to fill the legitimization vacuum was found in the TAD's reference to increasing transatlantic cooperation on such "soft" security issues as migration, illegal drugs, and terrorism. This was a partial way of filling the void created by the decreasing need to cooperate on transatlantic "hard" security issues since Canada was no longer be needed to "symbolically" defend Western Europe from Soviet attack. This void was then widened two years later when, as part of the 1992 federal budget, the Mulroney Cabinet decided that in the absence of the Cold War Canada would no longer maintain troops in Europe; it was decided that all permanently stationed Canadian troops would be withdrawn by the end of 1994.

7.4.6 The Declaration as a Way of Reforging Economic Ties

The Canada-EC relationship is often described as being driven by trade irritants. The Declaration was of limited significance in dealing with specific trade irritants, although, to be fair, as a political document it was not designed for this purpose. That being said, in recognition of the increased importance of formalizing frameworks for transatlantic economic as opposed to military ties,

the Canadian TAD did promise to "make full use of the mechanisms established under the Framework Agreement" to enhance economic and trade linkages. However, as will be discussed in the next chapter, given the poor track record and even the outright characterization of the Framework Agreement as a "failure" in helping to resolve bilateral economic and trade concerns, its reference in the Declaration appeared more perfunctory and declaratory than real.

Another factor preventing the TAD from having more than a negligible impact on bilateral economic relations, despite its stipulation of high-level ministerial links to reinforce the existing machinery of the Framework Agreement and therefore to help resolve trade conflicts, was the low participation by both the Canadian and European business communities in the Joint Cooperation Committee, the administrative machinery of the Agreement. As noted in Chapter Three and discussed in Chapter Eleven, neither Canada's broad business associations (e.g., Canadian Chamber of Commerce, Canadian Exporters' Association) nor the Community's (e.g., UNICE) had ever been convinced of the benefits of meeting within the structures set up under the Framework Agreement to resolve bilateral trade disputes.

7.4.7 The TAD From the EC's Perspective

The Europeans, like the Canadians, also advocated a continued Canadian presence in Europe and expressed this through the TAD. European members of NATO supported continued Canadian military

engagement in Europe even after the end of the Cold War and were disappointed with the Canadian decision to leave. On the aid front, the Europeans recognized that support from Canada was important for the overall success of the Phare program to provide Western assistance for the political and economic reconstruction of central and eastern Europe. This assistance could only be meaningful and effective if it was allocated in close consultation among all the transatlantic partners.⁴² Thus, the TAD was a statement of intent about a new type of transatlantic burden-sharing that concerned economic assistance rather than military resources.

A second, reason for the Commission to join the United States and Canada in issuing the TADs was that, as it had done in the early to mid-1970s in the context of the Framework Agreement and the establishment of a Delegation office in Ottawa, this was an opportunity for it to further its competencies in the foreign policy arena. Third, and perhaps most importantly, it wanted to secure the political "goodwill" of its Western allies for further integration steps along the road to economic, monetary and political union. In light of German unification in October 1990, the ratification of the European Economic Area (EEA) with the EFTA states in 1992, and the association agreements with Poland, Czechoslovakia and Hungary, Brussels faced strong concerns in North America about the future of "European architecture".⁴³ But this is not to suggest that there was not already significant goodwill in bilateral relations before November 1990. After all, on many issues with foreign policy dimensions such as immigration and the

environment, Canadian and Community positions were mutually reinforcing. Nevertheless, the Community recognized that additional goodwill was particularly important given the concern among observers - both in and out of government - in Canada and the U.S. that the process of European integration would lead to an increasingly "inward-looking" Europe. Therefore, from the European perspective, both TADs sought to allay this concern.⁴⁴

Finally, there was also a more tangential link between the TAD and the pace of North American integration. Just as its North American partners initially feared a "Fortress Europe" the Commission, responsible for the foreign economic policies of the Member States, feared that the U.S., especially in the face of economic downturns in North America, would become more protectionist and depart from the principles of multilateralism.⁴⁵ The Community felt that Section 301 (1974) of the U.S. Trade Act and its expansion through the Omnibus Trade Act (1988) was particularly objectionable. Although Canada did not have the equivalent of the Exon-Florio legislation, under the Free Trade Agreement, foreign, that is, non-U.S. companies had to notify Investment Canada of proposed investments under a threshold value of \$5 million; if they sought control of a Canadian company with a value over \$5 million they had to go through a formal review process; in contrast, the threshold level for U.S. companies was over \$140 million. Therefore, even though the provisions to block incoming foreign investment were, in practice, rarely enforced, they nevertheless created a "psychological" barrier for European

firms. For this reason, given the investment provisions being contemplated under NAFTA, the EC continued to monitor carefully whether the impact of North America-wide investment regulations would run contrary to GATT regulations.

On the whole, then, the European responses to both TADs should be seen in the context of the time that they were negotiated. Although the Community took a a very low key approach to the North American free trade negotiations, deliberately saying nothing as long as the signatories' obligations in any future agreement did not run contrary to their GATT obligations, lowering the barriers internally between Canada, the United States and Mexico, nevertheless translated into discrimination against countries that did not benefit from the same lower thresholds. Thus, although the Europeans may not have fanned the flames of a protectionist North America - clearly sensitive to North American perceptions of a "Fortress Europe" - they were certainly not blind to its potential consequences.

7.4.8 Bureaucratic Support in Canada

At the bureaucratic level, the various consultations and meetings scheduled under the aegis of the Declaration were intended to complement existing channels of communication with Canada's West European partners. In this way the TAD was to serve as a convenient bureaucratic mechanism to assist Canadian officials in "systematizing" the conduct of Canada's relations with both the

Commission and its Member States.⁴⁶ The problem with this belief was that it assumed a consensus at EAITC on the TAD's utility. Throughout 1990 and 1991 there were spirited discussions within the Department on the relative importance of the EC to Canada's foreign policy in Europe. During the TAD negotiations, for example, the European Bureau at EAITC (not surprisingly) was of the view that the "NATO flag was coming down, and the EC flag was going up". But the reaction of the Department as a whole, according to some observers, was that while Canada "belonged" to NATO and the CSCE it did not "belong" to the EC.⁴⁷

Compounding this pitting of the security against the economic/political divisions at EAITC, was a feeling across all the line divisions in the Department that the reference in the TAD to the "privileged relationship" established by the 1976 Framework Agreement was inaccurate at best and disingenuous at worst since EAITC's own internal memoranda on Canada-EC relations rarely mentioned the Framework Agreement as an example of Canada's "privileged" relationship with the Community. In fact, on the contrary, there was a deep-rooted cynicism within the Canadian federal bureaucracy about the Agreement's ability to act as a focal point of bilateral relations. Therefore, it was argued by some officials, without an effective Framework Agreement to promote bilateral economic relations, how much value-added could be derived from having the opportunity for "regular" high level political contacts? This in turn throws open to question the bureaucracy's own faith in the ability of the TAD to fortify the Community pillar

of Canada's European framework.

7.4.9 The TAD and "Atlanticism"

Finally, what did the Declaration mean for Atlanticism at a watershed period in Canada's post-war foreign policy? From a pro-Atlanticist view, such as that proffered by Halstead⁴⁸, Canada should have been able to negotiate directly with the EC on a bilateral Declaration in order to assert its role as a member of the transatlantic alliance and to create a "counterweight" to U.S. influence.⁴⁹ This, of course, presupposed a convergence and balancing of interests that existed, for example, in the 1970s, but that clearly no longer existed by 1990. There is also implicit in the above assumption a suggestion that Canada-EC negotiations on potentially precedent-setting bilateral initiatives could exist independently of, or even contradict, what Washington would consider its vital national interests. But this assumption of Ottawa's independent ability to negotiate bilaterally with the Community requires closer examination and may exaggerate Canada's relative power in transatlantic relations. Why? Put quite simply, given the history of West European sensitivity to U.S. perceptions⁵⁰, it was always difficult for Canada to negotiate independently with the Community. For instance, the Commission would never have negotiated the Framework Agreement in 1976 without prior assurances from Washington. Indeed, this returns the discussion to the schema outlined in Chapter One on the four

determinants of Canada's relations with the Community: it reaffirms the U.S.'s important role in setting the parameters of Canada-EC relations.

Apart from the political rhetoric on both sides of the Atlantic, it was doubtful that in the immediate aftermath of the TAD that Europeans saw Canada as a nation with a "right" to a seat at the European table. While this author would argue that Canada had and continues to have real and pressing interests in Europe, there were those who questioned the ultimate utility and seriousness of the TAD as a mechanism to reinforce Canada's Atlanticist ties. In other words, not only did the non-Atlanticists probe the significance of TAD as a framework within which to strengthen Canadian-EC relations, but they challenged the entire premise that TAD provided a Canadian seat at the European table.

They also did not see Canada's political, commercial, and military retreat to its continental shell as a sole reaction to European integration. In their view, a number of factors were at play. As a result of budget cuts, Canada's diplomatic posts were severely cut by the early 1990s⁵¹, development and aid programs scaled down and the national focus redirected south to the United States. No more symbolic manifestation of this Canadian drift from Europe in Europe was the decision in the spring of 1993 by Ottawa, as part of the federal government's deficit reduction program, to eliminate fully one-third of the 318 jobs at the Canadian High Commission in London. Given the UK's dual position as a pillar of

transatlanticism and Canada's eyes and ears on the Community this was both an administrative and symbolic cut.

In the non-Atlanticist view, then, although the existence of the TAD may have strengthened the emphasis on relations with Europe in official Canadian rhetoric in the early 1990s, this declaratory foreign policy was in fact belied by economic and strategic reality which ensured the decline of the Atlantic idea. Long-time analysts of Canadian foreign policy such as Kim Nossal pointed out that as wartime bonds faded, with exchange rates shifting Canadian exports to the United States, with the CUFTA and NAFTA creating a continental economy, with the Pacific Rim creating a new pole of attraction for Canadian policies, with changing demographic patterns (i.e., by the early 1980s most immigrants to Canada came from Asia), and with the rapid decline of the former Soviet threat, there was a full-blown challenge to the Atlanticist orthodoxy in the Government's rhetoric. Nossal asserted that "Canadians came to believe that they had less concrete need for an Atlantic connection; they no longer were as inclined to buy the arguments of the Atlanticists that being in Europe gave Canada a seat at the table; or allowed Canada to add a moderate tone to the North American voice in the alliance; or provided a counterweight to the United States".⁵² Others went so far as to point out that seeing Canada as an Atlantic nation, or a Pacific nation, or an Arctic nation was a futile attempt by some Canadians to transcend their reality, to make Canadians "anything but what [they were] – a nation of the Americas," an attempt to deny the "incontrovertible

fact of geography that makes Canada an American nation."⁵³ From the non-Atlanticist perspective, the whole legitimization argument in favour of the TAD was moot.

7.5 CONCLUSION

This chapter has shown that the significance of the TAD should not be overstated. On the one hand, it provided a framework within which existing bilateral mechanisms could be used and new ones developed. It was a recognition by Canadian policymakers that the strategic management of Canada's relations with the Community in the years to come would have to be broadened from the prevailing, and some would say, "toxic" focus on trade irritants. The TAD was important because it brought grist to the mill. The question was whether it could be made into a vehicle of real cooperation in the 1990s. While it obviously cannot be compared to the roles played by NATO and the CSCE as pillars in Canada's European framework, it did act as the foundation of a renewed effort to strengthen Canada's approach to the European Community.

But what the Declaration did not do is to introduce any fundamental changes to existing institutional mechanisms, particularly not to the unfulfilled 1976 Framework Agreement; there were no binding contractual commitments to make the TAD 'real'. That is to say, because the TAD has such a broad, all-encompassing mandate, there was a concern that mechanisms set up under it to facilitate political ties would become ritualistic (as some

observers contended existing bilateral mechanisms already were).

Were false expectations - à la the "Third Option" - once more being created? One cannot help being reminded of a former Liberal External Affairs Minister, who, in reflecting on the disappointment of the "Third Option," said he could not help being reminded about "sound and fury signifying nothing" and then changed the metaphor to the "mountain labouring and bringing forth a mouse". Because the TAD was a strengthening of Canada's European policy by another name, great care must be taken that the public, politicians, and bureaucrats judge the declaration on its own merits, rather than on ulterior motives and desires that Canada and the EC have failed to agree on.⁵⁴ This may prevent the feelings of cynicism that have dogged the Framework Agreement for the past decade.

Even more sceptically, and less generously, between November 1990 and 1993 it is hard to see the immediate substantive results of the Declaration apart from institutionalizing high-level political contact.⁵⁵ After all, the bilateral Canada-EC memoranda of understanding (MOUs) and mutual recognition agreements (MRAs) on a number of issues (e.g., competition policy, fisheries, standards, Science and Technology) and that will be discussed in greater detail in Chapters Nine and Ten, would have been negotiated irrespective of the TAD's existence. Moreover, with regard to the big, highly politicized bilateral issues such as the offshore fisheries dispute (see discussion in Chapter Nine), it is difficult to conclude with any certainty that Portuguese and Spanish fleets began to respect the NAFO quotas for fish caught off Canada's East

Coast as a result of Prime Minister Mulroney's entreaties during his private meetings held in April 1993 (under the auspices of the TAD) with the Portuguese president of the European Council and the President Delors of the Commission.

Furthermore, this study's description of the process leading up the issuance of the TAD reinforces the perception that the conduct of U.S. foreign policy limits the options available in the conduct of Canadian foreign policy. This has both positive and negative consequences for Canada. On the one hand, without the cooperation of the U.S., Canada would not have achieved the institutionalization of high level political links in such a short time-frame. On the other hand, the process of achieving the TAD had also, in European eyes, no doubt reinforced the traditional "two pillar" theory of bilateral relations in which Canada either had to be excluded entirely or included in the American pillar. Despite having provided the text for the TAD, it was not clear that Canada was viewed by the EC as anything other than an adjunct of the U.S.; once more there were suspicions on the Canadian side that the EC had difficulty in making clear distinctions between Canadian and U.S. interests.

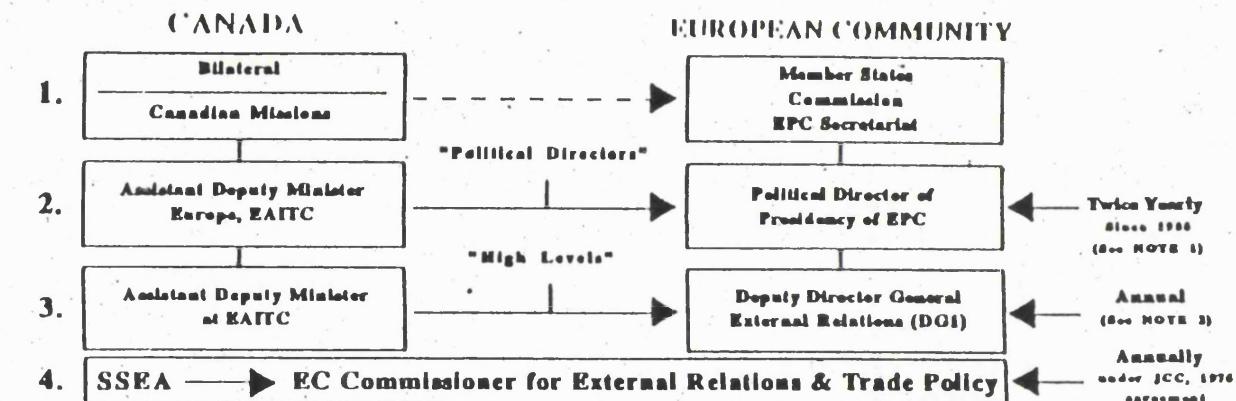
Perhaps the best way of putting the development of the TAD into perspective is to note that there was no one **predominant** causal factor: not the momentum of EC-U.S. discussions (although they undoubtedly had an important trigger effect); nor the effect of the dramatic geopolitical developments in Eastern Europe on the thinking of the Canadian Cabinet (i.e., would they have been as

desirous of an Agreement if the U.S. had not been engaged in negotiations?); nor the role played by Canadian officials, primarily at EAITC in interpreting and reacting to the developments in Eastern and Western Europe by undertaking two major reviews of Canada's policy framework towards the regions. Rather, these were all mutually reinforcing variables.

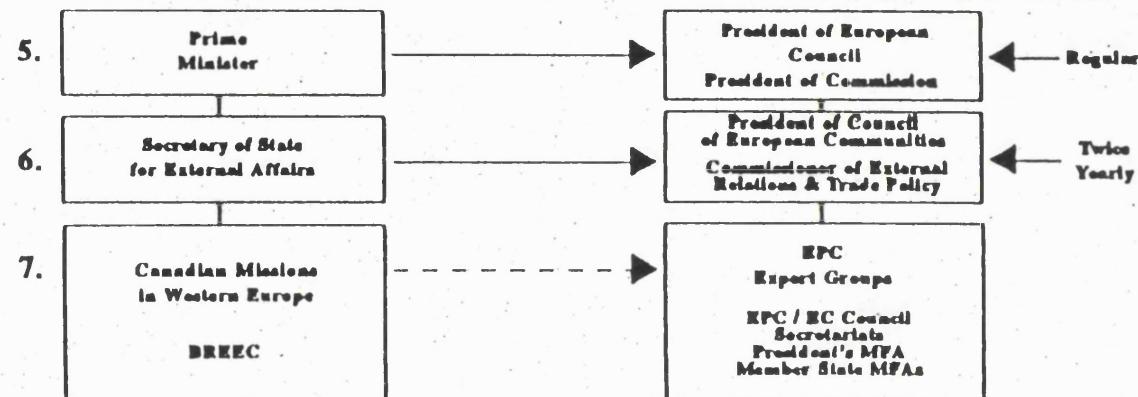
What does the TAD say about the manoeuverability of a middle power such as Canada in the post-Cold War era? While the musings of Clark on the desirability of a transatlantic trade agreement, spawning his Department's short-lived Canada-EC working group, did not bring about any direct results and has only a tenuous link to the political document that is the TAD, nevertheless this action along with the Government's other internal reviews in 1989 and 1990 of its European policy framework highlights the Canadian desire to strengthen ties to Europe.⁵⁶ The process of negotiating the TAD itself shows Canada as the *demandeur* in the negotiations, and as highly dependent on its relations with Member States, specifically the UK and Germany, to ensure policy outcomes in its favour. Canada's courting of the EC can also be linked to Prime Minister Mulroney's ambition to be seen as an international statesmen (as he had been on gaining the support of the Commonwealth to impose sanctions on South Africa in the mid-1980s). The personal challenge for him between 1989 and 1991 was how to insert Canada as a major player in the refashioning of the post-Cold War order.⁵⁷ All in all, the processes leading up to and including the TAD demonstrate three aspects of Canada as a middle power in the post-Cold War era. The

first is Canada's ability to modulate U.S. tendencies towards bilateralism. The Canadian TAD was Ottawa's attempt in light of the tremendous changes in Europe to create a lever; it was and is Ottawa's most visible attempt not to be left out of the Washington-Brussels axis. Second, it demonstrated Canada's capacity to leverage its limited clout by acting quickly and persuasively to influence its larger international interlocutors. Finally, we are left with the irony that if the TAD is considered a limited "counterweight" to the Washington-Ottawa axis, its achievement was inextricably tied to the momentum of EC-U.S. relations.

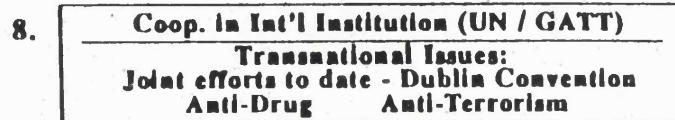
PRE-TAD CANADA - EC INSTITUTIONAL LINKS



NEW INSTITUTIONAL LINKS AS A RESULT OF TAD



LINKS STILL TO BE REALIZED AS RESULT OF TAD



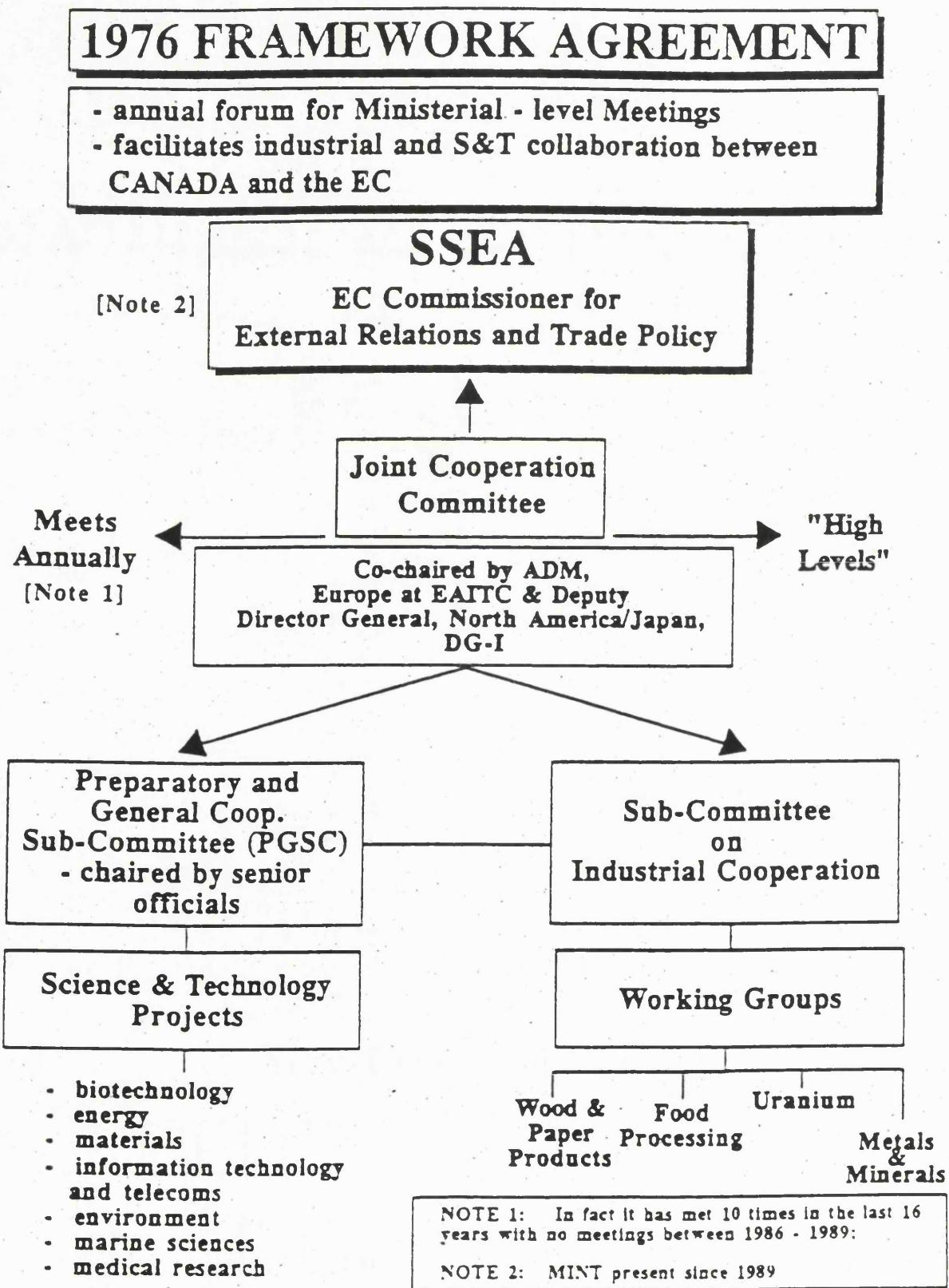
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NOTE 1: Meetings institutionalised as a result of Agreement signed during German Presidency of European Political Cooperation.

NOTE 2: Official meetings that preceded the 1976 Canada-EC Framework Agreement; they continued parallel to the JCC set-up under the 1976 agreement and fell into abeyance with JCC between 1984-1989; and they were revived in 1990. There is now question, in light of additional links brought about by TAD, whether there will be a need for continued high level official links in a separate track.

Figure 1

Figure 2



NOTES

1. Arthur Andrew, a former senior Canadian diplomat, traces the decline of Canada's international influence from the end of the Golden Age of Pearsonian diplomacy in the late 1950s to the loss of independence during the Mulroney Government. See Arthur Andrew, *The Decline of a Middle Power: from King to Mulroney* (Halifax: James Lorimer Ltd, 1993).
2. John W. Holmes, *Canada: A Middle-Aged Power* (Toronto: McClelland and Stewart, 1976), p. 37 as quoted in David R. Black and Heather A. Smith, "Directions in Canadian Foreign Policy Literature," *Canadian Journal of Political Science*, XXVI:4 (December, 1993), p. 761.
3. For an excellent study that attempts to identify the characteristics of middle powers see Bernard Wood, *The Middle Powers and the General Interest*, (Ottawa: North-South Institute, 1988).
4. John W. Holmes, *Canada: A Middle-Aged Power* (Toronto: McClelland and Stewart, 1976), p. 6.
5. Evan H. Potter, "Canadian Foreign Policy-making...", p. 17.
6. This is supported by a senior Canadian official's assertion that follow-up on Genscher's proposal was only taken by the Canadian side when "it appeared that the US was moving forward". Confidential interview, April 1992.
7. Peter Riddell points out that the American TAD was to be phrased in vague terms and confirm the action already taken by the Americans in 1990 to establish more regular meetings between the US president and the presidency of the Commission and the Council of Ministers. See Peter Riddell, "US-EC ties to be strengthened", *Financial Times of London*, 9 November 1990.
8. Translation of Genscher's speech in front of White House on April 4, 1990, from transcript provided to the author by Department of External Affairs and International Trade.
9. Confidential memorandum. Dated October 1, 1990, from West European Relations division (RWR), Department of External Affairs and International Trade, to Paul Tellier, Clerk of the Privy Council.
10. Confidential interview with senior official, Policy Planning Staff, Department of External Affairs and International Trade, March 24, 1992. [Howard Balloch, Director General]

11. Confidential telephone interview with Canadian official posted to Canadian embassy in Washington, D.C., February 28, 1992. [Gail Tyerman, Second Secretary].
12. Confidential interview, February 28, 1992. [Gail Tyerman, Second Secretary]
13. Telex from Canadian embassy in Bonn, ZQGR0911, September 20, 1990.
14. The visit to Canada provided an opportunity for discussions on German re-unification, the state of bilateral relations, and the "historic changes under way in Europe". See Press Release, Office of the Prime Minister, August 9, 1990.
15. Confidential interview with senior official, West European Relations division (RWR), Department of External Affairs and International Trade, March 26, 1992. [Gilles Landry, Director]
14. Again it may be entirely coincidental that the Assistant Deputy Minister, Europe, at EAITC and the Assistant Deputy Minister, Political and International Security Affairs at EAITC were both in Washington on 18 September and also met with Seitz.
15. Telex entitled "Transatlantic Declaration" (WGTR1542) from Canadian embassy in Rome to West European Relations (RWR) division, September 19, 1990.
18. See Arnold Wolfers, *Discord and Collaboration: Essays on International Politics* (Baltimore: The Johns Hopkins Press, 1962), Ch. 5, pp.67-80. Wolfers discusses national goals under the categories of milieu goals, general possession goals, and specific possession goals. The former seeks to influence the nature of the international environment beyond the country's borders (e.g., the UN, the multilateral trade system), while the last two goals seek to protect and promote the things that are possessed by the country.
- 19.. As a measure of the amount of responsibility that is devolved to select officials in the making of Canadian foreign policy, it should be noted that the first draft Canadian declaration was the product of 4 officials in two bureaus at EAITC. It does not appear that the document was a product of consultation with other bureaus within EAITC or other federal government departments. Nor does it appear that the SSEA's own staff had any direct involvement (much less the Prime Minister's Office or the Privy Council Office) with a document that was going to be hailed as a new mechanism to reinforce Canada's trans-Atlantic ties.
20. Howard Balloch, who was then the Director General of the Policy Planning Staff at the Department of External Affairs and International Trade (EAITC), was one of the drafters of the

Canadian text. In terms of the reporting relationships within EAITC during the period when the TAD was being drafted, Balloch and his counterpart in the Europe Bureau, Assistant Deputy Minister (ADM), David Wright, had direct access to the Under-Secretary of State (USS), De Montigny Marchand, through a once-a-week operations committee meeting and a policy committee meeting. All other contacts between the USS and his senior officials would have been *ad hoc* or through the USS's executive assistant.

21. Telex entitled "Transatlantic Declaration" (WGTR1542) from Canadian embassy in Rome to Headquarters (West European Relations (RWR) division, September 19, 1990.

22. Confidential telephone interview with Commission official at DG I responsible for Canadian affairs, November 20, 1992. [Mave Doran]

23. Telex (RWR3411) from Extott to Canadian embassy in Rome, October 10, 1990.

24. Confidential interview with middle-level official in the West European Relations (RWR) division of the Department of External Affairs and International Trade, February 21, 1992. [Charles Court, Deputy Director]

25. Memorandum from Extott (i.e., West European Relations (RWR) division at Ottawa headquarters of Department of External Affairs and International Trade) to Canadian embassy in Rome, RWR3411, October 10, 1990.

26. *Ibid.*

27. Government of Canada, "Canada-European Community Agree on Transatlantic Declaration", *News Release*, November 22, 1990.

28. "Declaration on EC-US Relations", in *European Political Cooperation Press Release*, 23, November 1990.

29. Signing would have required ratification by legislatures on both sides of the Atlantic.

30. Edwards, p. 18.

31. Although it should be noted that President Bush was not initially in favour of having bi-annual meetings.

32. Confidential interview with middle-level official at West European Relations (RWR) division, February 21, 1992. [Charles Court, Deputy Director]

33. Confidential interview with middle-level official in the West European Relations (RWR) division of the Department of External Affairs and International Trade, March 2, 1992. [Charles Court, Deputy Director]

34. Memorandum to the Secretary of State for External Affairs and to the Prime Minister from the West European Relations (RWR) division at the Department of External Affairs and International Trade, RWR-1084, October 24, 1990.

35. Confidential memorandum entitled "1992: A New Chapter Begins" Telex YCGRO512 from Gordon Smith, Ambassador at the Canadian Delegation to the European Communities (BREEC), January 14, 1992, p. 13.

36. Since 1989 the Minister for International Trade (MINT) has accompanied the SSEA to the JCC meeting.

37. Since 1976 the practice has been to have the "High-Levels" on the same day that the JCC meets.

38. Robert Boardman, Hans J. Michelmann, Charles C. Pentland, and Panayotis Soldatos, *The Canada-European Communities Framework Agreement: A Canadian Perspective* (Saskatoon, Sask.: Canadian Council for European Affairs, 1984), p. 57.

39. Pentland et al., p. 26. There have been explicit linkages of issues in the history of bilateral relations such as the purchase of Leopard tanks by Canada which assured Bonn of Canada's commitment to NATO and hence the political acceptability of the Framework Agreement in the first place.

40. Jacques Delors, *Presentation of the Annual Programme of the Commission for 1990, Report of Proceedings*, European Parliament, 17 January 1990.

41. An intergovernmental conference (IGC) is usually called when the Member States wish to amend or extend significantly the Treaty of Rome. In 1985, an IGC was established which culminated in the signing of the Single European Act. In 1990 two intergovernmental conferences were established to consider respectively, economic and monetary union and political union. At Maastricht in December 1991 these IGCs were concluded with the draft Treaty on European Union. Amendments to the Treaty of Rome negotiated in an intergovernmental conference must still be ratified by the national parliaments of all the Member States.

42. For an analysis of the connection between the dynamics of reform and unification in Europe and the intensification of transatlantic contacts. See for example Reinhardt Rummel, "Modernizing Transatlantic Relations," in *The Washington Quarterly*, Vol. 12, No. 4 (1989), pp. 83-92; see also Mark Nelson,

"Transatlantic Travails," *Foreign Policy*, No. 92, (Fall 1992), pp. 75-91.

43. For a discussion of the US-EC relations in the light of the EC-US Transatlantic Declaration see Horst G. Krenzler and Wolfram Kaiser, "The Transatlantic Declaration: A New Basis for Relations Between the EC and the USA", *Aussenpolitik*, Vol. 42, No. 4, 1991, pp. 363-372; and Youri Devuyst, "European Community Integration and the United States: Toward a New Trans-Atlantic Relationship?", *Journal of European Integration*, XIV, No. 1, 1990.

44. Confidential telephone interview with Commission official in DG I, February 1992. [Mave Doran]

45. See for example, Services of the Commission of the European Communities (ed.): *Report on United States Trade Barriers and Unfair Practices 1992: Problems of Doing Business with the US*, (Brussels: 1991).

46. An internal EAITC document prepared in mid-1992 does just this by laying out all Canadian diplomatic initiatives with a European dimension under the TAD - whether in the form of bilateral Canada-EC agreements or consultations with the Community or the Member States on a wide range of issues.

47. Confidential interview with official at the Policy Planning Staff, Department of External Affairs and International Trade, April 2, 1992. [Stuart Carre, desk officer]

48. John Halstead, "Atlantic Community or Continental Drift?", *Journal of European Integration*, Vol. 16, No. 2 (Spring), pp. 162-63.

49. For a good historical discussion of Atlanticism see Robert Wolfe, "Atlanticism without the wall: transatlantic cooperation and the transformation of Europe," *International Journal*, 46 (Winter 1990-1991).

50. As noted in Smith (1984), Ginsburg (1989a, 1989b), and (Smith 1993).

51. In 1983 Canada had 124 diplomatic posts in 85 countries; in July 1993 it had 106 posts in 77 countries. Some EAITC officials have concluded that Canada's international priorities consist basically of the G-7 plus Mexico. Madelaine Drohan, "Home Alone," *The Globe and Mail*, 10 July 1993, pp. D1, D5.

52. Kim Richard Nossal, "A European Nation? The Life and Times of Atlanticism in Canada," Paper presented at the Conference on Canadian Foreign Policy, Toronto, 10-11, December 1991, p. 31.

53. Michael Hart, "Canada discovers its vocation as a nation of the Americas," in Fen Osler Hampson and Christopher J. Maule, eds., *Canada Among Nations, 1990-91: After the Cold War* (Ottawa: Carleton University Press, 1991), p. 83.; see also Donald S. MacDonald, "Should we break our bond with Europe?", *Globe and Mail*, Friday, April 10, 1992, p. A17. In the same article, from an Atlanticist perspective, Gijs M. De Vries, a Dutch member of the European Parliament, argues that Canada's withdrawal of its troop commitment to Europe is a mistake considering that it could become an important economic partner for the Community.

54. For instance in negotiating the 1976 Framework Agreement records show that the European interest was mainly resource-oriented whereas on the Canadian side the most important element of the agreement was industrial cooperation. Thus it should come as no surprise that once the Europeans were no longer faced with a situation in which their resources supplies were threatened their interest in the Framework Agreement waned.

55. As a postscript, officials in EAITC would counter this less positive appraisal by pointing out that the TAD has already had a positive impact — witness the visit to Canada by the Portuguese Prime Minister and Commission President Delors on April 24, 1992, to meet with Prime Minister Mulroney as part of the process of formal political consultations. The Canadian officials further point out that in the practice of Canadian foreign policy although a foreign policy issue may not rank high on the SSEA's agenda, it is a fact of life that once it lands on the Prime Minister's agenda it pulls with it the attention of the entire Cabinet.

56. These reviews resulted in more resources devoted to the Canada's trade development programs for eastern and western Europe.

57. The final example of Prime Minister Mulroney's desire to be seen as an elder statesman manifested itself three years later, after he had announced his intention to resign, when he engaged in personal diplomacy with G-7 members to support Russian President Boris Yeltsin's request for increased Western assistance.

PART THREE

POST-TAD CANADA-EC RELATIONS AND THE SOURCES OF CHANGING TRANSATLANTICISM

CHAPTER EIGHT**THE STATE OF CANADA-EUROPEAN COMMUNITY ECONOMIC RELATIONS****8.1 INTRODUCTION**

The following three chapters examine post-TAD Canada-EC relations until the ratification of the Maastricht Treaty in 1993, with particular emphasis on the nature of bilateral economic relations. This chapter, after profiling the domestic and international economic challenges facing Canada, analyzes the major trends in Canada-EC trade and investment relations. Chapter Nine examines the Canadian response to the creation of a Single European Market and assesses whether the fears of "Fortress Europe" were well founded. Chapter Ten, after looking at Canada's position within the Triad and the Community's changing relative position in the international system, studies Ottawa's calculations of the benefits and drawbacks - in response to the SEM and the changing nature of threats in Europe - of a variety of frameworks to manage Canada-EC economic and political/security relations.

Economies converge toward or diverge from each other depending upon the policy and institutional choices each country makes. If policy or institutional differences become too large, contends Nau, countries cannot achieve significant economic interdependence.¹ That is, if governments pursue divergent exchange rate policies, as they did in the 1930s and to a lesser extent in the 1970s and early

1980s, this will discourage stable trade and investment flows. Nau points out that more deterministic approaches to international politics emphasize "the role of relatively long-term and deep-seated institutions or social coalitions in economic policy," while his public choice approach emphasizes the role of more "immediate" government policies at the domestic level (e.g., macroeconomic and microeconomic policy), exchange-rate policies, and trade policies.²

From an historical perspective, then, the reason for the high degree of transatlantic economic interdependence was that Western Europe and Canada had over the course of more than three decades adopted converging economic policies (e.g., pursued international trade liberalization, promoted stable exchange rates, and created regulatory institutions to ensure greater transparency). As would be expected, in the 1980s and early 1990s "domestic" policy choices on both sides of the Atlantic in reaction to domestic interests and the changing dynamics of the international system, in part, determined the level of transatlantic economic interdependence. However, what differentiated interdependence in this decade from earlier decades was that it was no longer possible to draw a distinct separation between what was "domestic" and what was "international." Therefore, before looking at Canada-EC trade and economic relations, it is our purpose to provide a brief overview of both the domestic and international economic environments facing Canada in the post-TAD early 1990s.

8.2 THE DOMESTIC ECONOMIC ENVIRONMENT

8.2.1 Lack of Competitiveness

Following from the discussion in Chapter Three, starting in the early 1980s, a consensus had formed among both private and public sector elites that Canada was slipping further and further behind its major Asian and European competitors because of its long-protected industries and the low value-added of its exported goods. It was recognized that although Canada's trade-dependent economy was undergoing a painful transition to a more knowledge-intensive, and internationally-oriented economic base, its export mix was still heavily dependent on raw materials and low manufactures. As outlined in Part Two of this study, to facilitate the transition from a protected economy to a more liberal and competitive one, the Mulroney Government - betraying the protectionist legacies of previous Conservative governments - adopted an outward-looking trade policy centred on the United States as one of its most important policy levers. The Government committed itself to improving Canadian access to foreign markets through CUFTA, NAFTA, and the successful completion of the Uruguay Round; ironically, just as the Government was making progress at the international level, it faced the more intransigent domestic inter-provincial trade barriers that were costing the Canadian economy an estimated \$5 billion annually.³

The right mix of domestic policies was also seen to be critical to Canada's competitiveness. Adopting sound fiscal and monetary policies, creating a more skilled labour force, removing internal market barriers, establishing tax and regulatory policies that encouraged investment, and human resource development were all essential ingredients in any framework to promote increased Canadian competitiveness. With an average rate of unemployment of 10 per cent between 1988 and 1993 and a domestic economy that was likely to remain subdued for several years, Ottawa had a keen interest in assuring that all of its economic policy levers were aligned with the objectives of improved international competitiveness. More specifically, increasing the exports of Canadian SMEs - the fastest growing segment of the private sector - was seen as critical to this enhanced national competitiveness because, as government economists had calculated, every billion dollars in exports created 12,000 jobs in Canada.⁴

8.2.2 A Service-Led Economy

Globalization created not only a more competitive environment for Canada but a qualitatively different one as well. For example, commercial services (i.e., those that could be traded⁵) accounted for perhaps 20 per cent - or approximately \$1 trillion - of world exports by the end of 1992.⁶ Given Canada's dependence on trade it was not surprising that services accounted for more than 60 per cent of national economic output and fully 72 per cent of all jobs

- proportions that were likely to rise in the future.⁷ Although the manufacturing and resource sectors both remained critical to generating economic value-added and export earnings, firms in these sectors also formed a core customer base for service providers since services typically represent a significant portion of the value of traded manufactured goods. Policies that promoted competitive service industries were therefore seen also to have a great potential to bolster Canada's manufacturing competitiveness. With one of the largest service sectors relative to GDP in the world, Canada had strengths in a number of commercial service industries - including telecommunications, insurance and other financial services, transportation, engineering, construction management, and various technical and professional services. These were precisely the industries most affected by the SEM.

8.2.3 Fiscal Disorder

But perhaps the single most important factor affecting Canada's economic viability was its fiscal performance. In the space of little more than a decade between 1981 and 1993 Canada's accumulated federal and provincial debt more than doubled from \$300 billion, or around 42 per cent of GDP⁸, to close to \$700 billion⁹, which represented over 95 per cent of GDP (in contrast, the U.S. ratio was only 51 per cent). This made Canada one of the most debt-burdened countries in the industrial world; its debt was greater than all the OECD countries except Belgium, Italy and Ireland. Even

more troubling, however, was that by 1993 Canada owed \$300 billion more to foreign creditors than it was owed. The high ratio of foreign indebtedness to overall economic resources was also revealed by the fact that Canada's external debt was more than 165 per cent of annual exports, the generally accepted measure of a country's ability to finance itself (in contrast, the U.S.'s external debt was 120 per cent of its exports; Japan's was minus 75 per cent).¹⁰

This bleak and deteriorating fiscal picture ensured that for both the federal and provincial governments fighting the debt and deficit - through austerity programs and government downsizing - and enhancing national competitiveness - through, for example, increased R&D expenditure and government-funded trade promotion programs targetting SMEs - became twin and linked key national policy objectives by the late 1980s and early 1990s. Finally, Canada's economic recession starting in 1989 was exacerbated by the political instability arising from the failure of the Meech Lake constitutional accord in 1987 and the subsequent rejection of the Charlottetown accord in 1992, both of which had been designed to, among other things, achieve a national consensus on Quebec's future role in Confederation.

8.3 THE IMPACT OF GLOBALIZATION

If one were to try to separate out the "international" dimensions of Canada's policy environment from the above discussion, the major

global factors shaping Canada's international economic policy between 1983 and 1993 were: (1) globalization, characterized by increased import penetration along with, as mentioned, the emphasis on knowledge-intensive production and trade in services; (2) a more complex trade policy agenda (e.g., investment, intellectual property, research and technology, regulations of service industries, competition policy); and (3) regionalism (on the assumption that trade would continue to grow more within regions - in North America, in Europe, in Asia Pacific - than between them [see discussion in Chapter Ten]).

First, starting in the 1960s but particularly in the course of the 1980s, there were dramatic changes in industrial organization and international trade, with the latter led by knowledge-based industries and services.¹¹ Previous declines in the relative value of natural resource and agricultural trade were thus accelerated.

Second, trade had become investment driven, conducted on an intra-firm and intra-industry basis, particularly in OECD markets.¹² For instance, there was a four-fold increase in stock of world outward foreign direct investment from \$519 billion in 1980 to \$2 trillion in 1992.¹³ As companies competed more and more on a global basis investment flows also grew almost four times as fast as trade flows.

Third, the emerging regionalism - Europe, Asia, North America - at the same time forced companies to develop a distinct presence and approach for each region. As a result, companies themselves became more sophisticated; trade, technology and investment were

now viewed as complementary tools to international business development.¹⁴ Despite the impressive growth of trade in goods, cross-border flows of services, portfolio finance, foreign direct investment, and technology became the main forces driving international economic integration.

As a result of the above trends, Canada's economy became much more open and exposed to international commerce, especially vis-à-vis its most important markets in the U.S., Europe and Japan. As Canada's total world exports increased, reflecting in part industry's adjustment to the CUFTA, NAFTA, and the post-Uruguay Round, import penetration in the domestic market also increased. In 1991, the share of the Canadian market for manufactured goods held by imports reached a record 45 per cent, up from just 27 per cent in 1980.¹⁵

Another reaction to globalization was the changing composition of Canadian trade with the Triad between 1970 and 1990, with end products forming an increasing percentage of Canada's merchandise exports. In 1980, 23 per cent of Canadian manufacturing shipments were exported. By 1993, the figure had approached 50 per cent.¹⁶ However, as we shall see below, this dramatic shift to manufactured goods was not reflected in the composition of Canada's exports to the EC, where there continued to be a substantial - if declining - dependence on raw materials.

Lower tariff and non-tariff barriers and the reduced requirement for suppliers to be located close to manufacturers, of course raised the question of how prepared were Canadian SMEs -

touted by Ottawa as the vanguard of economic recovery in the early 1990s - to compete on a global basis. Despite the pace of globalization, it appears that many firms lacked the necessary motivation to compete. Judging by the statistics, Canadian companies in general still felt they could survive and prosper by concentrating on domestic markets or by looking no further than the United States. The statistics are telling: by 1993, 60.4 per cent of all Canadian exports were made by just 100 mostly-resource companies. More startling still, given Canada's dependence on trade, was the fact that only 7.6 per cent of all Canadian firms exported, and only 15.4 per cent of those firms were listed as manufacturers. But most disturbing of all was the fact that SMEs, the only segment of the economy that had seen increases in employment in the late 1980s, represented only 9 per cent of Canadian manufacturers' exports.¹⁷ Finally, when the Canada-U.S. trade figures and intra-firm transactions were calculated out of these numbers, the number of SMEs involved in business transactions outside Canada's borders was even smaller.

In the face of this discouraging export performance, the Mulroney Government made substantial commitments to trade promotion and investment development programs to encourage Canadian firms to diversify their markets overseas. Veering away from the more universal export programs of the past, Ottawa now employed a more targetted approach, anchored by SMEs, to secure global niches in those knowledge-intensive industries (e.g. telecommunications, biotechnology, etc.) and services where Canada had and could have

a competitive advantage.¹⁸ But resources alone could not change attitudes. Canada's dependence on resource-based production, close proximity to the U.S., limited size, and its high dependence on foreign investment, had all historically combined to undermine the incentives to develop a more outward-oriented economy.

On the matter of investment, the CUFTA marked a significant change in attitude toward foreign direct investment (FDI) in the Canadian economy. It put an end to a 100-year strategy of encouraging investment in Canada to serve the Canadian market. In fact, until as late as 1984, Canadian officials were still not permitted to promote outward direct investment.¹⁹ Time had eroded the relevance of such a strategy, however. By the mid-1980s, Canada - through Investment Canada²⁰ - began to compete actively for investment to serve the North American market and global markets, a trend which was to accelerate with the creation of a free trade area in North America. With regard to Europe, as opposed to previous decades when the Canadian government's emphasis was on promoting Canadian exports, it now included the aggressive promotion of outward and inward investment in response to the creation of the SEM.²¹

With the above analysis on the domestic and international economic challenges facing the Canadian economy, the next section examines the bilateral Canada-EC economic relationship.

8.4 BILATERAL CANADA-EC TRADE AND INVESTMENT FLOWS

8.4.1 Trade

Although the EC was, after the United States, Canada's second largest trading partner, by the end of 1993 trade with the EC accounted for only about 8 per cent of Canada's total world merchandise trade. Tables 5 and 6 (in Appendix 3) show Canada's trading relationship with the EC since 1957. Figure 3 provides a visual representation of trade and investment flows.

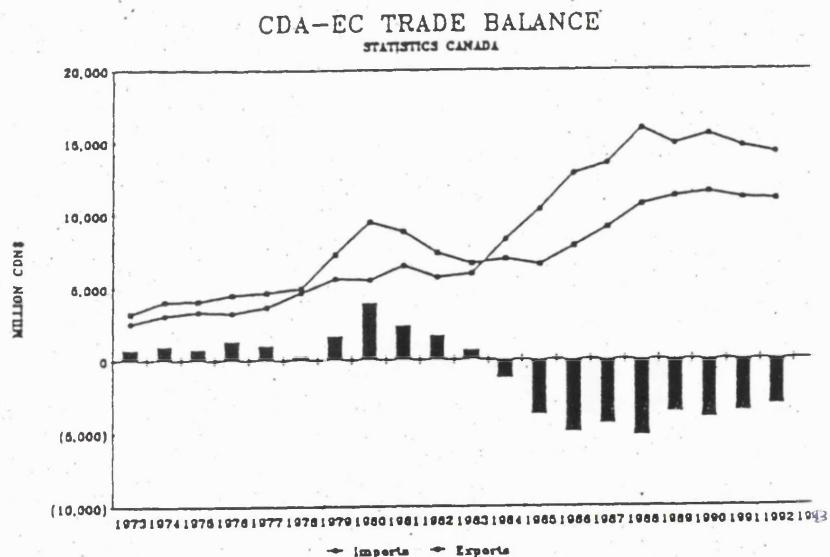
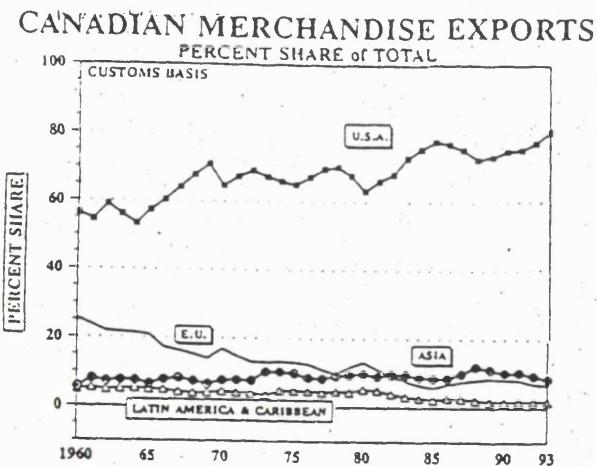


Figure 3

Significantly, during the decade of the 1980s, the benign neglect of Canada-EC relations and the renewed attention to the U.S. market were reflected in a steady erosion of the Canada-EC trading relationship. In 1982, for instance, Canada's exports to the EC accounted for 9 per cent of total exports and imports accounted for

8.4 per cent; by 1993, Canadian exports to the EC amounted to 5.7 per cent of total exports and imports accounted for 8.7 per cent of total imports. In marked contrast, Canada became more dependent on the U.S. market over the same time period: in 1982, the U.S. was the destination of 68.2 per cent of Canada's merchandise exports and the source of 70.5 per cent of Canada's imports; by 1993 Canada's exports to the United States totalled 80.7 per cent while its imports from the United States were 67 per cent. In the period since the CUFTA went into effect in 1989, Canada's trade with the U.S. as a percentage of its world trade, increased by almost 2 per cent annually (see discussion in next chapter on the trade diversion effects of NAFTA). In the same time period, Canadian exports to Asian markets remained level in percentage terms, hovering just below 10 per cent. And as shown in Figure 3 and Table 5, in 1984 Canadian exports to Asia for the first time surpassed Canadian exports to the EC. For the EC, meanwhile, trade with Canada represented less than 1 per cent of its total world trade.

From the creation of the EC in 1957 until 1984, Canada had usually posted an overall trade surplus with the EC, except in 1975. However, the relative stability in exports to the EC (due to a favourable Canadian exchange rate), coupled with the increase in imports from the EC, combined to produce for the first time a deficit of slightly more than \$1 billion in 1984. In 1993, the deficit for bilateral trade with the EC amounted to \$4.1 billion. If one includes the EFTA members to create the European Economic Area, this trade deficit increased to \$5.3 billion.²²

If we look at Canada's trading relations in terms of blocs, trade figures show that Canada's total trade with the U.S. rose throughout the course of the 1980s and early 1990s. It rose with Latin America in the early 1990s²³, in general was flat with Europe (i.e., comprising the EC, EFTA, and some of the larger Central and East European countries), and declined with the Pacific Rim (from \$17.1 billion in 1988 to 15.7 billion in 1992). In fact, in the same way that Canadian observers had anticipated the trade-diverting effects of the Community's creation in 1957 and again when Britain joined (recall the description in Chapter Four), the creation of the SEM once more raised the question of whether renewed European economic integration (this time through increases in intra-EC trade and EFTA preferences)²⁴ - in terms of their trade-diverting and trade-creating effects - would be protectionist or trade-liberating for Canada.

As we shall discuss in Chapters Nine and Ten, the process of European integration could also be seen as an incentive for North American integration. There was concern among some analysts in Canada that the CUFTA was contributing to more trade creation in North America and less trade diversification away from North America.²⁵ The Mulroney Government had, after all, predicted that CUFTA, by making Canadian firms more competitive, would lead to greater not lesser trade diversification. To take an example, between 1992 and 1993 Canadian exports to the U.S. increased by more than the increase in its exports to all other OECD members combined, thus further reinforcing the world's largest bilateral

trading relationship (valued in excess of \$200 billion annually or almost ten times that of Canada-EC trade).

In addition to the erosion of the transatlantic trading relationship, another characteristic of Canada's trade with the EC was its weakness in manufactured exports as indicated in Figure 4. This confirmed the maxim about Canada's role in global commerce, namely, that it was "a hewer of wood and drawer of water". Trade opportunities for Canada in Europe fell into two basic categories: the price-sensitive and the less price-sensitive.

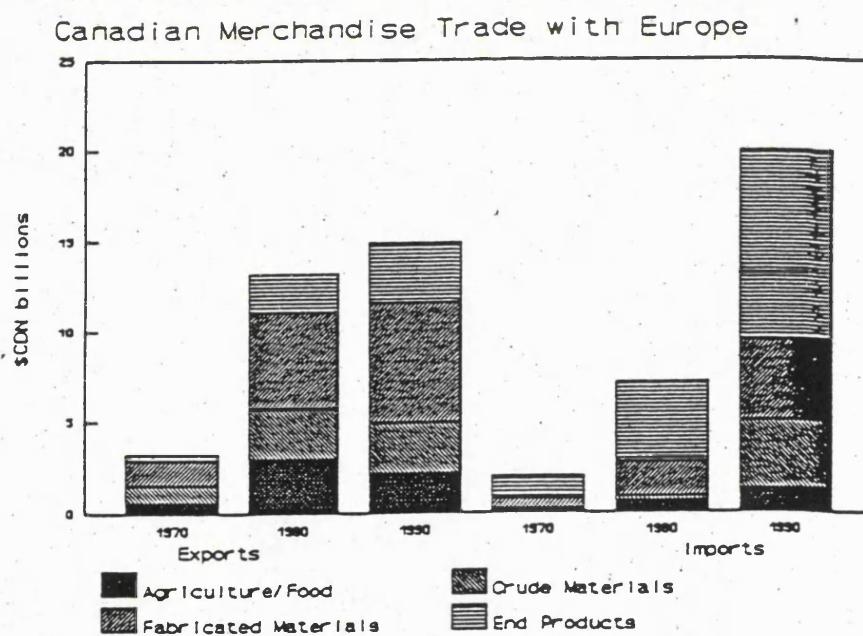


Figure 4

The former included most forestry products, metals and minerals, construction materials, fish and other unprocessed products. Despite improvement, notably the rise of office machinery and equipment which comprised Canada's third largest export to the EC in 1993, Canadian exports continued to be concentrated in fabricated and crude materials. In fact, the two main exports

during the period examined in this study were (and continue to be) wood pulp and similar pulp, and softwood lumber, and newsprint - worth \$3.1 billion in 1992 or fully 27 per cent of the value of Canada's total exports to the EC - with other metals in ores coming in fifth place (see impact of EC phytosanitary requirements on Canadian lumber exports in Chapter Nine). Neither Japan nor the United States were the recipients of such a highly resource-dependent export mix from Canada. By contrast, imports from the EC - with the exception of crude oil - consisted mostly of end products and fabricated materials such as airplanes, automobiles, and auto parts, with organic chemicals strongly represented.

On the services side, nearly 60 per cent of Canada's business services receipts were attributed to the United States, half from related companies. Corroborating the earlier observation about the increased trade in services worldwide, Table 7 (in Appendix 3) indicates that there was an extraordinary 80 per cent increase in Canada's exports of business services to the EC between 1986 and 1992, due in large measure to the creation of the SEM, with this area making up 17 per cent of total receipts with over 30 per cent from affiliates. The most important business services sectors for Canada were transportation, insurance, financial, and communications services.²⁶ Not surprisingly, the patterns of Canada's service trade with the EC mirrored the pattern of its goods exports, with the UK by far the largest market. But as large an increase as there was in service exports to the EC, service sales to the EC nevertheless made up a declining percentage of

Canada's world service exports.

8.4.2 Investment

8.4.2.1 Trends and Characteristics of Canadian FDI

Canada was a significant exporter of capital during the 1980s.²⁷ Between 1982 and 1993, the stock of Canadian foreign direct investment abroad (CFDI) more than tripled from \$35.6 billion to \$115 billion, increasing at a faster pace than the global stock of direct investment and as a greater percentage of Canadian GDP (from 8.7 per cent to 14.4 per cent).²⁸ What factors accounted for the dramatic increase in Canadian FDI observed in Tables 8 and 9? How did the geographic distribution of Canadian FDI change between 1970 and 1990? Was there a marked shift in its industrial composition - away from primary and resource-based manufacturing industries towards services and technology-intensive manufacturing industries? And how did these trends affect Canada's investment patterns with regard to the Community?

To answer the above questions, it would be helpful to first examine three broad trends in CFDI: (1) a much faster growth rate in CFDI abroad than in inward foreign direct investment to Canada; (2) a decline in the U.S. share of CFDI in the second half of the 1980s, largely in favour of Europe (see Table 10); and (3) the increasing importance of the financial services and chemicals and chemical products industries.²⁹ In 1993, research by Industry

Canada, building on earlier work by Dunning, Cantwell, Rugman and Globerman, examined some of the major push and pull factors that explain the rapid expansion of CFDI relative to incoming foreign direct investment into Canada. Those factors include a recession in the late 1980s that pushed investment away from Canada, the changing structure of international commerce, the changing profitability of foreign locations, increased non-tariff barriers, exchange rates, and greater aggregate demand in Canada.³⁰ The conclusion drawn from this research was that the increased outward orientation of Canadian firms was due less to exchange rate and labour force costs³¹, and more to the emergence of mature and strong Canadian firms, the increased importance of scale economies, the threat of non-tariff trade protection in the U.S. and post-1992 Europe, the need for market diversification, and the emergence of niche markets.³²

Based on the statistical data in tables on the following pages, how well do the general observations about changing Canadian investment trends and patterns account for the nature of Canada's investment toward the Community? As Tables 8, 9 and 10 show, Canadian FDI to the EC increased by more than 500 per cent between 1982 and 1993, although it had stagnated during the early 1980s. By the end of 1991 a historic high of 21.1 per cent of all Canadian foreign direct investment abroad was in the EC, with the greatest percentage of investment flow and stock in the UK.³³

Table 8:

CANADIAN FOREIGN DIRECT INVESTMENT (CFDI)
IN EUROPEAN COMMUNITY 1971-1993
 (Cdn. \$ million)

Country	1971	1979	1982	1984	1986
France	87	278	229	121	402
Germany	87	327	269	415	649
Netherlands	33	211	277	434	572
Belg./Lux.	35	68	63	101	146
Italy	46	112	122	141	225
U.K.*	-	2188	2779	3415	4558
Spain*	-	-	-	-	186
Portugal*	-	-	-	-	19
Greece*	-	-	189	285	285
Denmark*	-	125	74	39	22
Ireland*	-	148	394	622	785
Total CFDI in EC	288	3,457	4,396	5,573	7,849
Total CFDI	6,538	20,496	35,558	47,422	58,492
CFDI in EC as % of total	4.4	16.8	12.4	11.8	13.4
CFDI in U.S.	3,399	12,165	23,781	32,151	39,424
CFDI in U.S. as % of total	52.0	59.4	66.9	67.8	67.4
CFDI in Japan	58	82	110	231	225
CFDI in Japan as % of total	0.9	0.4	0.3	0.5	0.4

CANADIAN FOREIGN DIRECT INVESTMENT (CFDI)
IN EUROPEAN COMMUNITY 1971-1992
(Cdn: \$ million)

Country	1988	1990	1991	1992	1993
France	1,450	1,671	1,715	1,970	
Germany	666	837	868	1,066	
Netherlands	836	1,528	1,602	1,557	
Belg./Lux.	410	625	852	1,349	
Italy	178	368	853	839	
U.K.	7,050	11,292	12,269	11,360	
Spain	271	541	440	401	
Portugal	106	110	162	176	
Greece	76	89	89	91	
Denmark	22	46	34	36	
Ireland	814	939	1,102	1,766	
Total CFDI in EC	11,879	18,046	19,986	20,611	22,763
Total Can. FDI	72,146	87,886	94,435	106,534	115,375
CFDI in EC as % of total	16.5	20.5	21.1	19.3	19.7
CFDI in U.S.	46,497	52,800	54,639	61,527	65,072
CFDI in U.S. as % of total	64.4	60.1	57.9	57.8	56.4
CFDI in Japan	354	770	1,721	2,641	2,973
CFDI in Japan as % of total	0.5	0.9	1.8	2.5	2.6

Source: Canada's International Investment Position, Statistics Canada, cat. 67-202 Historical Statistics, 1926-92 and cat. 67-202, 1993.

Note: Figures for the final two years may not be strictly comparable with previous years.
* Figures are not provided for years prior to a country's membership in the EC.

TABLE 9					
CFDI	ABROAD	1980-91	(C\$MILLION)		
YEAR	UNITED STATES	EC	JAPAN	OTHER	TOTAL
1980	16,781	4,440	109	5,637	26,967
1981	22,356	4,827	99	6,565	33,847
1982	23,781	4,612	110	7,055	35,558
1983	26,576	4,076	200	9,007	39,859
1984	32,151	5,573	231	9,467	47,422
1985	37,074	6,803	232	10,014	54,123
1986	39,424	7,849	225	10,994	58,492
1987	43,365	10,395	242	12,792	66,794
1988	46,497	11,880	354	13,415	72,146
1989	50,341	15,200	395	14,843	80,779
1990	52,800	18,046	770	16,270	87,886
1991	54,639	19,988	1,721	18,087	94,435
1992	61,527	20,611	2,641	21,755	106,534
1993	65,072	22,763	2,973	24,567	115,375
Increase 1983-88 (%)	80	134	77		81
Annual av'ge (\$)	3,984	1,361	51		6,457
Increase 1988-92 (%)	30	73	646		48
Annual av'ge (\$)	3,757	2,183	577		8,597

Source: Table 9, Jorge Niosi, "Foreign Direct Investment in Canada," in Lorraine Eden, ed., *Multinationals in North America* (Calgary: University of Calgary Press and Industry Canada, 1994), p. 380; and author's calculations.

TABLE 10:				
RELATIVE	DISTRIB.	OF	CFDI ABROAD	IN %
YEAR	UNITED STATES	EC	OTHER	TOTAL
1951	78.2	6.9	14.9	100
1961	66.4	13.2	20.4	100
1971	52.0	14.3	33.7	100
1981	66.1	14.3	19.6	100
1984	71.7	8.9	19.4	100
1988	64.4	16.5	19.1	100
1991	57.9	21.1	21.9	100
1993	56.4	19.7	23.9	100

TABLE 11:

FDI (\$U.S. billion)	In the U.S.	On	Historic Cost	Basis	1985-1991
YEAR	EC	Japan	Canada	Other	Total
1985	107.1	19.3	17.1	41.1	100
1986	124.8	23.4	18.3	42.8	100
1987	161.0	34.4	24.7	43.3	100
1988	108.2	51.1	26.6	48.9	100
1989	212.3	67.3	30.4	58.9	100
1990	224.4	81.8	30	60.5	100
1991	231.9	86.7	30	59.4	100

Source: U.S. Dept. of Commerce, *U.S. Survey of Current Business*, various issues.

A number of other significant trends also come to light. In the three-year period between 1989 and 1991, why for instance was CFDI in the EC for the first time higher than CFDI in the rest of the world (denoted as "other" in Table 9 and excluding the U.S. and Japan)? And based on Tables 10 and 11, what would account for the startling fact that beginning in 1988 the annual percentage increases in CFDI flowing into the EC exceeded that flowing into the United States. At first glance, this would appear to have been very unusual given the U.S.'s proximity and historic source of foreign investment. Indeed, according to Table 10, the share of Canadian FDI going to the U.S. dropped from 71.7 per cent in the mid-1980s to 56.4 per cent by the end of 1993, with the relative decline being picked up by Europe whose share went from 8.9 per cent in 1984 to 19.7 per cent in 1993.

One explanation for this development is that real aggregate demand in the U.S. between 1980 and 1985 increased by 3.4 per cent, compared to only about 0.9 per cent in the EC. Thereafter, the

cent between 1985 and 1992; meanwhile, the real aggregate demand of the EC increased by 3.1 per cent in the same time period, with the significant improvement in the relative profit position of the UK reflected in its position as the major host of Canadian FDI in Europe.³⁴ Another explanation is the "aggressiveness" of Canadian firms. The total growth of Canadian FDI in the EC from 1984 to 1990 was about 10 times less than that of American investment over the same time period (\$12 billion compared to U.S.\$100 billion). This meant that, proportionate to the size of their economies (the U.S. economy is about 10 times bigger than Canada's), the increase of Canadian investment in the EC was about the same as that of American investment. In fact, it would appear that Canadian firms were just as aggressive as their U.S. counterparts. This is because U.S. investment stock was mature. Therefore, much of the annual capital flows into the EC were reinvested earnings.³⁵ Canadian capital flows had also been in re-invested earnings but there had been a greater degree than the U.S. of greenfield investment or acquisitions. In sum, the explanation for the sharp increase in CFDI in the EC between 1986 and 1991 appears to rest on: (1) the magnetic pull of Western Europe with the formation of the SEM and the associated fear of a "Fortress Europe"; and (2) the increased "aggressiveness" and global orientation of Canadian firms.

The first conclusion in the above explanation is supported by the fact that with the completion of the SEM, the pull of Western Europe as a host of CFDI waned. As shown in Table 10, after 1991 there was a decline in the annual percentage increases in CFDI in

the EC, a decline in CFDI in the EC as a percentage of total CFDI, and a noticeable diversion of Canadian investment away from both the Community and the United States to Asia and Latin America.

On the second conclusion concerning the outward orientation of Canadian firms, since the purpose of this chapter is to outline the general trends in Canada-EC economic relations, the detailed examination Canadian private sector strategies in response to the SEM will be left to the next chapter. Suffice it to note here that the Canadian private sector's response to the emergence of the SEM must be differentiated between large firms and SMEs. Therefore, following from our description of the Canadian private sector's orientation in Chapter Three, the characterization of Canadian investment towards Europe as "aggressive" can only be ascribed legitimately to the few, very large (with annual sales in excess of \$5 billion) Canadian multinationals which made significant investments in niche markets in Western Europe (see Appendix Three, Table 17). Canadian SMEs, as pointed out earlier in this chapter, were not outward-oriented (unlike for example those of Germany, a country with a similarly high trade/GDP ratio), and, if they exported and invested at all, were preoccupied with the ramifications of North American rather than European free trade. Further to this point, Niosi hypothesizes that smaller Canadian firms preferred to invest and/or transfer technology to the United States rather than to the EC, probably because of more limited resources and knowledge of the European markets.³⁶

TABLE 12: COMPOSITION OF CANADIAN DIRECT INVESTMENT IN THE EC,
1985-91 (C\$million)

INDUSTRY	YEARS		INCREASE (%)	
	1985	1988	1991	1985-88
Beverages	1,424	2,431	2,789	71
Non-ferrous metals	1,784	2,109	3,292	18
Wood and Paper products	721	1,716	2,608	138
Iron and iron products	187	553	801	196
Chemical and allied products	254	257	495	1
Other manufacturing	130	318	548	145
Manufacturing subtotal	4,499	7,384	10,531	64
Merchandising	201	387	451	93
Mining and Smelting	130	73	151	-44
Petroleum and Natural Gas	655	856	1,055	31
Utilities	166	30	164	-82
Financial	1,054	2,617	1,474	148
Other Enterprises	98	534	1,230	445
Total	6,803	11,880	19,998	75
				68

Source: Table 11, Jorge Niosi, "Foreign Direct Investment in Canada," in Lorraine Eden, ed., *Multinationals in North America* (Calgary: University of Calgary Press and Industry Canada, 1994), p. 382 based on Statistics Canada, *Canada's International Investment Position, Historical Statistics 1926-1991*, Cat. 67-202, (Ottawa, 1992).

With regard to the composition of CFDI in the EC, as Table 12 shows, the growing share of services and technology-intensive industries is consistent with the structural changes in the global economy mentioned earlier, such as the decline in prices of resources and resource-based manufacturing and the liberalization of financial services. But despite a discernible shift in the composition of Canada's worldwide CFDI, it is noteworthy that the

shift was less pronounced in CFDI in the EC, where resources and resource-based manufacturing (e.g., non-ferrous metals and wood and paper products) continued to account for a large share, due in large part to the types of Canadian firms doing the investing. That is, not only were the foreign activities of Canadian firms highly concentrated, with the top 20 firms in 1991 contributing to about 80 per cent of the total foreign assets and sales of all Canadian MNEs³⁷, but these same firms' activities were concentrated in the resources sectors (see Appendix 3, Table 17). Thus it was not surprising that, as Table 12 points out, in 1991 manufacturing accounted for 53 per cent (or \$10.5 billion) of the total stock of CFDI in the EC, down from 66 per cent in 1985. Much of this investment in 1991 was concentrated in non-ferrous metals (31 per cent), beverages (26 per cent), and wood/paper products (25 per cent) - which had shown significant increases especially between 1985 and 1988. Financial services (a traditional sector), including corporate/personal banking, investment dealers, and insurance, accounted for a still significant but declining share of CDIA, amounting to 7 per cent of the total in 1991. Also significant was that more than 10 per cent of Canadian investments was in computer technology (in the category "Other Enterprises"). The petroleum/natural gas sector accounted for an additional 5 per cent of Canadian investment in the Community. The industrial composition of this investment reflected Canada's traditional strengths and the international presence of Canada's computer and electronics firms.

8.4.2.2 Canada as a Host of EC Investment

Since this chapter is measuring the level of Canada-EC economic interdependence, it cannot ignore the Community's stake in its economic relations with Canada. While European companies were preparing themselves for a more open internal market, many EC firms turned to North America in the late 1980s, partly in response to the CUFTA. As EC MNEs advanced their relative global positions, by 1990 their overseas investment in North America was larger by far than North American (Canada and the U.S.) FDI in the EC. The Community's FDI into Canada during the period 1983 to the end of 1992 rose from \$13.4 billion (17.3 per cent of total inward investment stock) to \$31 billion (23 per cent of total inward investment stock), with the UK accounting for more than half the investment. While the previous discussion showed how important the UK was as a destination for Canadian FDI, Canada was also important for the UK - ranking fourth as a destination of UK investment; over 650 British firms had subsidiaries in Canada.³⁸ From Table 13, the annual average increase between 1983 and 1988 was \$2.3 billion and slowed to \$1.9 billion annually on average between 1988 and 1991; between 1987 and 1988 EC FDI in Canada increased by a startling 20 per cent. In 1989-90, the EC, as the second largest source of total FDI stock in Canada, had the distinction of, in aggregate, replacing for the first time the United States as the leading foreign investor (in terms of annual inflows) in Canada. Canada had become as attractive a destination for European investment as the

United States.

TABLE 13:

TOTAL FDI	IN CANADA	1950-91	(C\$MILLION)		
YEAR	UNITED STATES	EC	JAPAN	OTHER	TOTAL
1950	3,549	468*		81	4,098
1965	14,408	3,075	10	371	17,864
1983	58,446	13,454	1,611	3,902	77,413
1984	63,355	14,118	1,790	4,122	83,385
1985	66,013	14,860	1,925	4,428	87,226
1986	67,025	18,164	2,291	4,921	92,401
1987	71,806	20,485	2,479	7,073	101,843
1988	73,710	24,963	3,149	8,723	110,545
1989	78,217	27,488	4,104	9,149	118,958
1990	80,931	31,094	4,138	10,425	126,588
1991	83,775	30,786	5,345	11,724	131,630
Increase 1983-88 %	25	88	106	131	43
Annual av'ge (\$)	2,943	2,380	340	1,019	6,681
Increase 1988-91 %	14	23	70	34	19
Annual av'ge (\$)	3,355	1,941	732	1,000	7,028

Notes: *Figure for the UK only.

Source: From Table 1A in Jorge Niosi, "Foreign Direct Investment in Canada," in Lorraine Eden, ed., *Multinationals in North America* (Calgary: University of Alberta and Industry Canada, 1994), p. 370.

To what can we attribute the large jump in annual Canada-EC investment flows between 1986 and 1990 and the combined \$50 billion in investment stock? No doubt they are in great measure a function of the magnet pulls of both North American and European economic integration and the significant degree of globalization underway that was discussed earlier in this chapter. In terms of North

America, it should be noted that the substantial growth of FDI flows had also greatly increased the economic linkages between the EC and the United States. In 1991, for example (see Table 11), EC investors owned more than half the FDI stocks in the U.S., while two-fifths of American-owned FDI stocks were located in the EC. At historical prices, these investments together were worth more than U.S. \$420 billion.³⁹

The growth evident in bilateral North America-EC investment flows thus supports the thesis that globally growth in foreign investment was outstripping growth in world merchandise trade. For this reason, it was clear that investment would be of increasing importance in Canada's relations with the EC. For example, as the trade statistics show, the precipitous decline in average annual percentage increases in the value of Canadian exports to the EC between 1986 and 1990 (e.g., from 18 per cent average annual increases between 1986-1988 to 4 per cent between 1988 and 1990) and which turned into annual percentage declines from 1990 to 1993, were partially offset by the annual percentage increases in Canadian FDI flows during the same time-period. This shift in the value and nature of Canada's economic links to the Community can be explained not only by the trade-diverting aspects of, say, the CUFTA and NAFTA, but also by Canadian companies having decided to replace their exports by investment in the Community. The trade-investment link will be explored in greater detail in the next chapter.

8.4.2.3 Policy Implications of Investment Regimes

What, then, were the policy implications for Ottawa of (1) the high level of CFDI, and (2) the high level of CFDI in the Community? With the rapid increase in Canadian investment abroad, there was more pressure on Ottawa, not surprisingly, to create effective international investment regimes. For this reason, Canadian policymakers pressed for a number of initiatives, including the inclusion of investment provisions in both the CUFTA and the NAFTA, the review of the OECD Code of Liberalization in Capital Movements, the OECD Code of National Treatment Instrument (NTI), the trade-related investment measures (TRIMs) in the MTN, and the bilateral foreign investment protection agreements. The concern from the Canadian standpoint was that without a single European standard of entry for investment (i.e., Article 58 of Treaty of Rome), it remained under the jurisdiction of the individual Member States, allowing for a wide variety of discrimination on foreign direct investment across the Community.

As discussed earlier, from the EC's point of view, since Canada accorded national treatment on investment to the U.S. under the CUFTA and with the improved North American investment regime under NAFTA, similar treatment was of interest to the EC and the Member States, particularly without an OECD-wide obligation for Canada to extend the CUFTA threshold levels for foreign direct investment. In 1993 threshold levels were still higher for U.S.

investors than they were for investors of other countries. This issue was an irritant for EC countries and arose in the context of the OECD Code of Liberalization of Capital Movements, since the preferential treatment accorded to the U.S. was inconsistent with the non-discrimination obligation of the Code. What this meant was that the NAFTA, through its substantial liberalization of investment and services, would benefit those EC interests (across most sectors with the exception of automobiles and textiles, where more stringent rules of origin applied) that already had a substantial business presence in one of the NAFTA countries.⁴⁰

The Canadian side was slow to move on EC concerns, because even if it had extended thresholds to OECD member countries this would not have resulted in any reciprocal treatment for Canadian firms. This is because, as mentioned, the EC had no formal policy on foreign direct investment. Brussels had not gained competence in this area from either the Treaty of Rome or subsequent Community law. Thus, it was the Member States, not the European Commission acting for the Community, that had had to individually adhere to FDI-related international obligations in multilateral fora, such as the OECD, or in bilateral arrangements, such as bilateral investment treaties.⁴¹ In short, Canadian policymakers realized that they would receive nothing in return from the OECD Member States. This was a major concern given that a number of larger Member States (most notably France and Germany) - that presented significant markets for Canada - had considerable and effective formal and informal barriers to inward foreign investment.⁴²

8.5 The Context of Canada-EC Economic Relations

Having examined the trade and investment trends and before going on in Chapter Nine to discuss the Canadian reaction to the SEM, it is important first to understand the context of Canada's economic relationship with the EC. This includes Canada's relative place in the EC's external relations, the level of tariff barriers facing Canadian goods, and the key bilateral trade irritants.

8.5.1 The EC's Preferential Agreements

For both historic and economic reasons, the EC maintained a multi-layer system of trade preferences vis-à-vis third countries on both a reciprocal and unilateral basis.⁴³ About 60 per cent of EC imports originated from preferential sources, with the full Common Customs Tariff (CCT) applied only to Canada, the U.S., Japan, Australia, New Zealand, and South Africa. Preferences were granted in the context of free trade agreements, through a wide range of association and cooperation agreements⁴⁴ and the Community's Generalized System of Preferences (GSP) scheme.

The EC's external trade was conducted through a hierarchy of preferential trading agreements built around a network of about 50 bilateral agreements introducing strong elements of discrimination into the multilateral trading system. Its most important preferential ties were with other states in Europe, usually described as the first and second concentric circles of influence.

The EFTA represented the first concentric circle of third countries and was the EC's largest single trading partner, accounting for more than one-fifth of trade outside the Community. The EEA, ratified by all the EFTA countries in 1993, promised to significantly expand the size and importance of the SEM. Canadian policymakers anticipated that the EEA would be but a short step before some EFTA states received full EC membership, which happened on January 1, 1995 with the accession of Austria, Finland, and Sweden. The second concentric ring represented the former COMECON states, most of which, after 1989, had signed individual "association" agreements with Brussels.

The impact of the emergence of a pan-European economic zone on Canada and other industrialized non-European middle-sized states (e.g., Australia, New Zealand) meant they were relegated further to the third, or outer, ring of the EC's external relations. Policymakers in Ottawa watched with some apprehension as the spillover from the SEM program to the first and second "concentric circles" promised to lead to a further increase in intra-European trade (see discussion in Chapter 10.2) and thus to fewer opportunities for Canadian products to be price competitive.

8.5.2 The Impact of EC Tariff Rates on Canadian Exports

In general, EC tariffs on Canadian exports were relatively low. For instance, from the mid-1980s onwards, the simple average tariffs were 6.4 per cent for industrial products and 12.4 per cent for

agricultural products (although it was less the tariffs that were a concern to third countries than the variable levies and quotas imposed on agricultural exports).⁴⁵ And with a range of raw materials - including wood pulp, hides and skin, unwrought copper, nickel matte and tin - subject to very low or zero tariffs, Canada, with a large proportion of its export mix (e.g., wood pulp) in raw materials, was affected less by EC tariffs than, say, the United States or Japan.

However, this was not to say that tariff rates were not a concern for Ottawa. Since the Commission imposed low or zero tariffs on primary, unprocessed products and increased its tariffs as the degree of processing of a particular product increased, Canada faced particular barriers to the upgrading of its natural resource exports. For instance, a variety of other wood products (e.g., wood panels) faced a series of escalating tariffs the more these products were processed; semi-fabricated copper goods faced duties of 5 to 6 per cent; aluminium, lead, and zinc in metal form faced tariffs of 3 to 6 per cent; and steel faced both import quotas and tariffs.

The above description leads to two observations. First, the increasing depth and breadth of the EC's preferential trading arrangements with its European neighbours (see Chapter 10.3.2.2 and 10.3.2.3), including arrangements for freer trade in precisely those sectors (e.g., most prominently wood products) that mattered the most to Canada's transatlantic trade, ensured that even a 1 or 2 per cent tariff rate on Canadian products would make them

uncompetitive in relation to the same tariff-free products entering the Community from Nordic or East European suppliers. And second, in the absence of a Canada-EC free trade agreement, it is easy to see why Canadian trade officials were especially motivated to use the MTN to push for zero tariffs across a range of products (e.g., steel, pharmaceuticals and medical equipment) but particularly for forestry products (including paper and wood)⁴⁶.

8.5.3 Bilateral Irritants

When combining the bilateral trade and investment flows, there is no question that the Community was and remains Canada's second most important economic partner after the United States. Given the overall volume of economic ties it is not surprising that a number of major trade conflicts arose over the years. For the most part, however, the EC and Canada were able to resolve their differences bilaterally through compromise. For a few seemingly intractable problems, both sides resorted to trade dispute settlement mechanisms within the GATT framework.

What were the major bilateral trade irritants? From the European perspective they included Canadian countervailing duties on certain EC beef exports, discriminating provincial liquor board practices, and the appropriation by Canadian winemakers of certain European geographical names. On the Canadian side, they were the ban on certain sealskin imports (effectively ending the Newfoundland seal industry in the 1970s), the Commission's threat

to ban furs from animals caught in leghold traps, allegations of European overfishing just outside Canada's 200-mile economic zone on its East Coast and Ottawa's subsequent ban (starting in 1986) of EC vessels from Canadian ports⁴⁷, the allegedly reduced access to the EC market for Canadian grains due to the EC's Common Agricultural Policy, the size of the Community's tariff-free quota for Canadian newsprint, and, as will be discussed in the next chapter, the impact of plant health issues on the export of Canadian lumber.

To be sure, bilateral Canada-EC trade conflicts were overshadowed by the larger economic stakes in Canada-U.S. trade relations; nevertheless, the nature of the former disputes should not be downplayed since they had very real domestic political and regional economic ramifications in Canada and tended to - as mentioned earlier in this study - make bilateral relations appear irritant-driven to publics on both sides of the Atlantic. Not surprisingly, Eastern Canada and specifically the Maritimes were most severely affected by the above-mentioned disputes.

The bilateral Canada-EC fisheries dispute [which would come to a head in March and April 1995] perhaps best illustrates how the relationship was perceived by both sides. Although the fishing dispute had its origins in the early 1980s, it took another decade before the prospects of the eradication of certain fish stocks forced Ottawa to declare a moratorium on their harvesting and thus pushed Canada headlong into a conflict with the Europeans, who insisted that Canada was unreasonable and inflexible in its

conservation policy and that several years of restructuring were needed before the Spanish and Portuguese fishing industries could adjust to lower quotas. The continued perception in Canada of the deleterious effects of European overfishing, particularly by Spain and Portugal, in violation of NAFO quotas and after Ottawa had taken the decision in 1992 to shut down its own fisheries industry, ensured that there was considerable domestic political and economic pressure on Canadian politicians to confront Brussels. The dual economic and political pressure is easy to understand since with the largest source of employment in Newfoundland and Nova Scotia now gone and 30,000 workers unemployed, Ottawa was forced to increase its transfer payments and to offer compensation to the Maritime provinces - the traditional "have-nots" of Canadian confederation. Although it would have been possible to sustain such expenditures in previous decades, by the early 1990s with recessions and burgeoning provincial and federal debt the European actions (the Europeans considered themselves scapegoats for Canada's own mismanagement of its fish stocks) came to be seen as an attack on the very economic survival of Canada's Maritime provinces.

Another important dispute was linked to a 1985 Canadian countervailing duty on European beef imports. Although the EC won a GATT ruling on a technical point (the cattlemen, as primary producers, did not have the "standing" to request the imposition of a duty on processed beef), Canada rejected the ruling and the countervailing duty remained in place. As we shall see in the next

chapter, the EC's phytosanitary requirements, such as the concern over the pinewood nematode (PWN), also posed a serious restriction (depending on exchange rates) on exports of forestry exports, a \$30 billion dollar export industry and Canada's second largest export earner after automobiles and auto parts.

What can be concluded from the range of bilateral irritants? First, the impact of the disputes was larger in certain regions than in others: in the case of forestry products, for example, Eastern Canada (in particular Quebec and New Brunswick) suffered more than British Columbia, which had alternate markets in the Pacific Rim.

Second, with regard to the resolution of disputes, there appeared no interest by either side to use the bilateral mechanism, the Framework Agreement, that ostensibly had been set-up for this very purpose. Article II of the Agreement, for example, discourages restrictive trade practices by firms in either Canada or the EC and creates an obligation to resolve trade disputes by "cooperat[ing] at the international level and bilaterally in the solution of commercial problems of common interest, and us[ing] [the parties'] best endeavours to grant each other the widest facilities for commercial transactions in which one or the other has an interest." Furthermore, Article IV provides the rudiments of a dispute settlement mechanism. This article envisaged that the Joint Cooperation Committee (JCC) would meet at least once a year. The article stipulates that special meetings "...shall be held at the request of either Party. Subcommittees shall be constituted where

appropriate in order to assist the Committee in the performance of tasks." In fact, the history of the JCC showed that it met infrequently - not once between 1986 and 1989 - and had become a "rubber-stamp for industrial cooperation and other bilateral activities in the area of environment and science and technology".⁴⁸ After analyzing the Agreement, Roseman criticized both Canada and the EC for the Framework Agreement's underutilization and went so far as to say that it was a "misused" resource.⁴⁹ He advocated the selection of a few low-level trade irritants for resolution within the JCC to increase its credibility in the eyes of Canadian and European officials as well as the respective business communities. The suggestion was not adopted and trade disputes continued to be dealt with through GATT mechanisms or through the separate semi-annual high-level consultations.

Third, as we will examine in greater detail in the next chapter, the "re-regulation" of Europe fostered by the SEM in tandem with an increase in absolute terms of the volume of bilateral trade promised to cause more contested bilateral trade issues, not necessarily fewer. This would prove to be the necessary incentive to re-examine the conflict resolution methods available to both parties and the utility of other bilateral trade agreements (see Chapter 10.3). Finally, to put the impact of Canada-EC irritants on the bilateral trading relationship into perspective, it should be noted that while bilateral irritants affected approximately 10 per cent of two-way trade, or \$2.5 billion, in Canada's much larger trading relationship with the

United States they affected a smaller percentage - about 5 per cent - but a larger value at \$15 billion.⁵⁰

8.6 CONCLUSION

What concluding observations can be distilled from this chapter's analysis of bilateral trade and investment flows? From Ottawa's perspective, and borrowing from David Baldwin's analysis of "sensitivity" and "vulnerability" interdependence, the transatlantic economic relationship displayed "asymmetrical vulnerability interdependence". It was "asymmetrical" because the cost of altering the relationship was much higher for Ottawa than it was for Brussels, since trade with Canada represented less than 1 per cent of the EC's world trade and was the location of about 5 per cent of the total foreign investment stock of the EC Member States. Furthermore, the review of historical statistics showed that although there was an erosion in Canada's trading relationship with the Community from the mid-1980s on, there was also a significant increase in bilateral investment between 1986 and 1991 as private sectors on both sides of the Atlantic responded to regional economic integration. This surge in investment was, however, followed by a decline in subsequent annual bilateral FDI flows.

The erosion of bilateral trade ties, the post-1991 decrease in bilateral investment flows, and the higher growth rates in Asia Pacific, did not however displace the EC from its position as the

second most important economic (comprising trade, investment and portfolio investment) partner for Canada. Indeed, by 1993 the over \$50 billion in bilateral investment stock ensured sufficient economic interdependence that neither side of the Atlantic could ignore the other over the short- to medium-terms, something that was evident in mutual concerns over prevailing investment regimes. In fact, there was a clear paradox in Canada's trade relations with the EC: the erosion in bilateral trade was offset by surges in bilateral investment, particularly in the EC's FDI to Canada. In 1988, for the first time (see Table 9 and Table 5 in Appendix Two) the value of Canada's investment stock in the EC (\$11.8 billion) exceeded the value of total exports (\$11.2 billion). European and Canadian business were now favouring investment rather than trade ties in transatlantic relations, whereas historically exports had preceded investment (see discussion in Chapter Nine).

It would be conjecture to attribute this growth in bilateral investment solely to the emergence of regional trading blocs in North America and Europe, yet the fact remains that the emergence of these blocs in conjunction with, or as a response to, the structural transformation of the world economy contributed to greater not lesser economic ties between Canada and the Community. However, judging from the response of Canadian policymakers to the bilateral relationship until 1989 (during the decade of "benign neglect"), the consensus was that as a foreign economic policy interest, the EC was less of a priority than Asia Pacific or even Latin America. This (mis)perception, no doubt fed by memories of

the "Third Option," was also due to the fact that observers tended to focus on trade imbalances rather than on the overall context of the economic relationship. There was less of an appreciation of how much bilateral economic convergence there was due to increasing bilateral investment flows.

Another factor that was frequently overlooked was that even with only a minute share of the EC's world trade, Canada still received a disproportionate amount of the Community's attention, a fact that can be attributed to Ottawa's penchant for multilateralism and its ongoing contacts with Western Europe at a cross-section of international fora.⁵¹ One senior EAITC official termed this the "hidden leverage" that most observers of transatlantic relations (on both sides) grossly underestimated.⁵² Of course, changes in regulations in either Europe or North America - whether on investment regulations, tariff-rates, or non-tariff barriers - that often led to trade conflicts always placed Canada in a more "vulnerable" negotiating position since it had more at stake in bilateral economic relations.

Nowhere was this vulnerability more apparent, as we discussed, than in the catch-22 situation that Canada found itself in with regard to diversifying its export base. Here Canada faced a "double whammy". First, in response to the decreasing importance of raw materials in the post-industrial age, Canada sought to increase the value-added proportion of its export mix, but as it did so these goods were destined to be slapped with higher EC duties. Nonetheless, Canada appeared to have no choice but to upgrade its

exports due to increasing competition - particularly in resource exports - from non-EC European countries. Canadian officials concluded that based on current trends there was a looming danger that Canada would eventually become only a residual supplier to the West European market. Second, as will be discussed in the next chapter, while Ottawa recognized that the Community's Single Market program would provide increased opportunities for precisely those types of non-resource-based industries (e.g., high-technology, services) that it felt would fuel Canada's future economic growth, at the same time it saw the potential for value-added Canadian products to face protectionism by another name since EC "1992" also represented a "reregulation" of the West European economy.

Finally, as a result of structural changes in the world economy and their attendant impacts on domestic policy choices, that is, with the "big business"-led CUFTA and NAFTA agreements having forced Canadian industry - large and small - to adopt a north-south rather than east-west orientation, it is somehow not surprising that Canada's economic policy approach to its relations with the Community - as large as the bilateral economic stakes were - was left to be fashioned largely by EAITC and not Bay Street (the Canadian equivalent of Wall Street). This lack of Canadian private sector interest in re-thinking the frameworks for transatlantic economic relations was evident by the fact that only ^{one} ~~a~~ government minister (Joe Clark) and a prime minister (Lester Pearson) had ever publicly advocated transatlantic free trade. Keeping this in mind, the next chapter examines the Canadian response to the SEM.

NOTES

1. Henry Nau, "Europe and America in the 1990s: No Time to Mothball the Atlantic Partnership," in Jonathan Story, ed., *The New Europe: Politics, Government and Economy Since 1945* (Oxford: Blackwell Publishers, 1993), p. 68.
2. *Ibid.*, Table 2.1.
3. See Canadian Manufacturers' Association *The Aggressive Economy* (Toronto: Canadian Manufacturers' Association, 1992).
4. Morley Martin, "Exports and Job Creation," *Policy Planning Staff Paper*, No. 93/06 (Ottawa: External Affairs and International Trade, June 1993), p. 15.
5. International services are defined as transborder transactions with nonresidents of Canada which cover travel, freight and shipping, business services, government transactions and other services.
6. Jock Finlayson, "Directions for Canadian Trade Policy: Suggestions for the New Government," *Canadian Foreign Policy*, Vol. 1, No. 3., p. 114.
7. *Ibid.*, p. 115.
8. Alan S. Alexandroff, "The Global Economy and Canada: Meeting and Managing Change," p. 43. Draft Report prepared for the Canada 21 Report, made available to the author.
9. Finlayson, p. 116.
10. *Ibid.*
11. For a review of the literature on this phenomenon see Lorraine Eden, "Bringing the Firm Back In: Multinationals in International Political Economy," in Lorraine Eden and Evan H. Potter (eds.), *Multinationals in the Global Political Economy* (London: Macmillan Ltd., 1993), pp. 46-48.
12. See discussion of the impact of investment on the global economy in Lorraine Eden, "Foreign Direct Investment in Canada: Charting a New Policy Direction," *Canadian Foreign Policy*, Vol. 2, No. 3 (Winter 1994), forthcoming.

13. Industry Canada. "Canadian-Based Multinationals: An Analysis of Activities and Performance," *Working Paper Series*, No. 2, (July 1994), p. i.
14. See chapters by Raymond Vernon, Raphael Kaplinsky, and Sanjaya Lall in Lorraine Eden and Evan H. Potter (eds.), *Multinationals in the Global Political Economy* (London: Macmillan UK Ltd., 1993).
15. The observations on the impact of globalization on Canada is adapted from Jock Finlayson, pp. 113-117. See also Canadian Manufacturers' Association, *The Aggressive Economy* (Toronto: Canadian Manufacturers' Association, 1992), pp. 45-47.
16. Finlayson, p. 115.
17. Presentation by Industry Canada to the Canadian Council for International Business, January 13, 1994, Canada's Competitiveness Challenge, quoted in Alan S. Alexandroff, "Global Economic Change: Fashioning Our Own Way," in Maureen A. Molot and Harald von Riekhoff, eds., *Canada Among Nations 1994: A Part of the Peace* (Ottawa: Carleton University Press, 1994), p. 39.
18. For a list of these government programs, see Andrew Griffith, "Straight Talk on Why Canada Needs to Reform its Trade Development System," *Canadian Foreign Policy*, (Winter 1992/93), Appendix.
19. Interview, Jim Hyndman, former senior DFAIT official. June 6, 1994.
20. Under the Trudeau Government's Foreign Investment Review Act (FIRA) the emphasis was on screening and restricting inward FDI. This caused considerable consternation among Canada's principal economic partners - especially the United States - who viewed this policy as highly discriminatory. In 1985 the Mulroney Government replaced FIRA with Investment Canada; mandatory reviews of all new investments were eliminated and Investment Canada emerged with a new mandate: to promote foreign direct investment. Between 1985 and 1993, Investment Canada had a double mandate: to screen FDI and to promote FDI, that is, to have an open-door policy for most inward investments with a narrow screening window for sensitive areas such as biotechnology (Connaught Laboratories) and cultural industries (book publishing).
21. *Foreign Policy Framework, 1991: Managing Interdependence* (Ottawa: Policy Planning Staff, Department of External Affairs and International Trade, October 1991), p. 22.

22. While bilateral imbalances in the end of themselves, are not the sole indicator of the economic health of a relationship, they do point to underlying problems and important issues. Moreover, in the political world persistent imbalances translates into the perception of lost jobs for the domestic economy, although if a bilateral imbalance is offset by a surplus elsewhere there is no reason one imbalance should be considered good or bad.

23. See James Rochlin, p. 187 and Tables A.1 and A.2, *Discovering the Americas...*

24. A good example of the preferences was the fact that starting in 1986 Scandinavian wood products and newsprint began entering in the EC at zero rates of duty; while Canada remained outside these preferences.

25. See Keith Christie, "The Day After: An Agenda for Diversifying Free Trade," *Policy Staff Paper*, No. 94/04 (Ottawa: Department of Foreign Affairs and International Trade, January 1994).

26. Statistics Canada, *Canada's International Trade in Services, 1991-92*, cat. no. 67-203, (Ottawa, 1992), p. 39.

27. Much of the detail on investment in this chapter is from a briefing note on Canada's investment in the European Community prepared by the European Community Division at External Affairs and International Trade Canada.

28. Industry Canada, "Canadian-Based Multinationals: An Analysis of Activities and Performance," *Working Paper Series*, No. 2, (July 1994), p. i.

29. Industry Canada, p. 8.

30. J. Cantwell, *Technological Innovation and Multinational Corporation* (Oxford: Basil Blackwell, 1989); J.H. Dunning, *Multinational Enterprise and Economic Analysis* (Cambridge: Cambridge University Press, 1982); and S. Globerman, "CDIA: The Private and Public Interest," Simon Fraser University, Vancouver, 1993, monograph.

31. Industry Canada, p. 13.

32. *Ibid.*

33. This significant jump in investment since 1988 (from \$11.9 billion) was, among other things, influenced by the Reichmann's Canary Wharf project in London. Within the EC, the UK was by far the largest recipient of CFDI. Between 1982 and 1992, the last

year for which a breakdown is available, CFDI in the UK more than quadrupled, growing in size to \$11.3 billion (with the most significant increase between 1988 and 1990, although there was significant divestiture between 1991-92), with its share of total CFDI in the Community decreasing from 59 per cent in 1988 to 55 per cent four years later.

34. Industry Canada, pp. 13-15.
35. Interview with Jeoffrey Lowe, Bureau of Economic Analysis, U.S. Department of Commerce, January 28, 1992.
36. Jorge Niosi, "Foreign Direct Investment in Canada," in Lorraine Eden, ed., *Multinationals in North America* (Calgary, Alberta: University of Calgary Press and Industry Canada, 1994), p. 381.
37. Industry Canada, p. 16-17.
38. From a Briefing Note provided to the author by an EAITC official at the Canadian High Commission in the UK, July 1994.
39. European Commission, *1993 Report on US Barriers to Trade and Investment* (Brussels: Commission of the European Communities, April 1993), p. 7.
40. Richard G. Lipsey, Daniel Schwanen, and Ronald J. Wonnacott, "Inside or Outside the NAFTA? The Consequences of Canada's Choice," *Commentary*, No. 48, (Toronto: C.D. Howe Institute, June 1993), p. 2.
41. Industry Canada, "Formal and Informal Investment Barriers in the G-7 Countries: The Country Chapters," *Occasional Paper*, No. 1, Vol. 1, (May 1994), p. 279. This report notes, however, that the situation on the EC's lack of jurisdiction on investment is changing. For example, at international fora such as the OECD and the European Energy Charter negotiations, the Commission of the European Communities now speaks on behalf of Member States, following consultations among the twelve members on a Community position.
42. For instance, unlike the relatively streamlined procedures for foreign investment in Canada, of all the EC Member States, France (and to a lesser extent Italy) has the most obstacles running the gamut from nationality requirements for personnel, multiple authorization requirements for different federal authorities, to reciprocity requirements. Germany's investment regime is characterized by financial-commercial linkages that effectively block foreign takeovers. For the impediments to investment in the

large Member States, see *Ibid.*, pp. iv, v, Chs. 1 (France), 2 (Germany), 3 (Italy), and 4 (United Kingdom).

43. For an excellent review of the Community's preferential trading areas see Anna Michalska and Hellen Wallace, *The European Community: The Challenge of Enlargement* (London: Royal Institute of International Affairs, 1992). The major preferential agreements were with the Lomé countries and the ACP states.

44. While cooperation agreements only seek to establish a thorough economic cooperation, association agreements go much further in terms of cooperation and financial assistance. Association agreements can be a preliminary step before integration (as in the case of Greece in 1962) or just aim to create a customs union. The EC had association agreements with most Central and East European states by 1993.

45. An example of variable levies restricting access was in the area of processed food products containing sugar, milk or flour.

46. In tandem with their American colleagues, this was the strategy adopted by Canadian officials at the 1993 Quadrilateral meeting held in Tokyo.

47. The Canadian government argued that the Europeans, by not respecting NAFO quotas, overfished (this was directed particularly at the Portuguese and Spanish fleets) and dangerously depleted North Atlantic fish stocks at a time when Canada was reducing its own domestic quotas for preservation purposes. For a discussion of Canada-EC fishing relations see, Gordon R. Munro, "Evolution of Canadian Fisheries Management Policy under the New Law of the Sea: International Dimensions," in Claire Cutler and Mark W. Zacher eds. *Canadian Foreign Policy and International Economic Regimes* (Vancouver, B.C.: British Columbia University Press, 1992), pp. 306-308.

48. Daniel G. Roseman, "Canada-European Community Relations: An Agenda for Action," *Behind the Headlines*, Vol. 46, No. 3, (Spring 1989), p. 9.

49. *Ibid.*, p. 10.

50. The 5 per cent figure quoted is from an interview with Canada's ambassador to the United States, Raymond Chrétien. "No Scapegoat," *The Ottawa Sun*, July 31, 1994.

51. As a measure of Canada's importance and the EC limited resources, the officer responsible for Canada in DG 1 is also responsible for Community relations with the United States and Australia. The fact that the Eurocrat responsible for Canadian

affairs is also the point person for US relations may partially explain why it may be easier - in light of time and resource constraints - to lump Canada in with the United States on a cross-section of transatlantic issues.

52. Confidential interview with senior official in the West European Relations (RWR) division, Department of External Affairs and International Trade, July 11, 1993. [Michel Duval, Director]

CHAPTER NINE

CANADA AND THE CHALLENGE OF THE SINGLE EUROPEAN MARKET

9.1 INTRODUCTION

Thus far, this study has explored the context for Canadian responses to European integration, both in historical terms - from the creation of the EEC, to the "Third Option", and to Ottawa's participation in the TAD. Building upon our earlier description in Chapter Three of the differentiated interests of Canada's foreign policy actors and on Chapter Four's discussion of Canadian concerns over the loss of the Commonwealth Preferences and the common EC tariff, the purpose of this chapter is to examine the Canadian response to the creation of the SEM.

A number of observations are in order about what this chapter will confine itself to. First, since detailed analysis of the "1992" program - the creation of a truly single market, entailing the free movement of goods, services, capital and people, by January 1, 1993 and one which targets non-tariff barriers to trade¹ - is well covered elsewhere², this chapter will avoid a re-description of the essential elements of the SEM.

Second, it is clear that the Single Market's promise of European economic renewal and growth had ramifications for the Community's structural power and leverage as a member of the Triad. By definition, then, the creation of the SEM promised to change the

relative power balance within the Triad and Canada's role therein. The SEM's inescapable economic and political effects on the nature of transatlantic relations will be left to Chapter Ten.

Third, following from the previous chapter's discussion, although the "1992" program clearly had the potential to spawn new bilateral irritants, in retrospect, the SEM had a less of a direct impact on Canada-EC economic relations than did the bilateral fisheries dispute, that was the single longest-running source of Canada-EC tension during the period from 1986 to the completion of the Single Market on January 1, 1993. Although the value of East Coast fisheries exports to the EC were negligible when compared to lumber or newsprint, it was the domestic impact of Community actions that ensured that this agenda item remained at the top of Ottawa's "hit list" in its diplomacy with Brussels. However, as with coverage of agriculture³, because fisheries had little to do with regulatory change as a result of the "1992" program, we leave this to future research.

Finally, it should be noted that it is a serious underestimation to limit the assessment of the external impact of the "1992" program to the changes in the functioning of the EC market and to modifications in EC external trade policy. The implementation of the Single Market program had far more important and numerous consequences than were first expected due to the exigencies of increased integration. This required the Community to intervene into new policy territories and to reinforce some other common policies. Thus we must acknowledge that Canada industry was

not only affected by, for example, changes in the "horizontal" elements of the "1992" program such as public procurement legislation and changes in standards and certification procedures, but also by how these changes affected "flanking" issues - that is, phytosanitary, plant and animal health, environmental and Science and Technology policies - that were more indirectly affected by the SEM. This demonstrated the breadth and depth of the integration process.

TABLE 14: SECTORS MOST AFFECTION BY THE SEM		MNE INVOLVEMENT	GAINERS
IMPACT	SECTOR		
1. Reduction in protection and increased competition	a. Financial services b. Telecommunications services c. Pharmaceuticals	High High Medium	Europe & Japan & Canada Europe and U.S. Europe
2. Shift from fragmented local to integrated EC market	a. Distribution b. Food processing c. Transport	Low Medium Low	Europe ? Europe
3. Gain of technical economies of scale through sale of standardized goods and services	a. Electronics b. Packaging c. Consumer goods	High Medium Medium	Japan Europe & U.S. & Canada Europe & Japan
4. Dependence on public procurement	a. Computer equipment and services b. Defence contractors c. Telecommunications equipment	High Low Medium	Europe & Japan & Canada Europe & U.S. Europe & U.S. & Canada
5. Industries where the single market leads to import substitution (EC goods instead of imports)	a. Chemicals b. Electrical components c. Office equipment	Medium High High	Europe & U.S. Japan Japan

Sources: John Dunning, "MNE Activity: Comparing the NAFTA and the EC," in Lorraine Eden, ed., *Multinationals in North America* (Calgary, Alberta: University of Calgary Press and Industry Canada, 1994), Table 3, p. 289. The conclusions on Canadian gains are drawn from: Royal Bank of Canada, "Is Canada Ready for Europe 1992?", *Econoscope*, Vol. 16, No. 1, (Feb. 1992), pp. 13-16; *Europe 1992: Implications of a Single Market, Part 1* (Ottawa: EAITC, April 1989); *Europe 1992: Your Business Opportunity* (Ottawa: EAITC, 1989); and the author's own survey of 253 Canadian firms with major interests in Europe.

Following from Table 14, the focus of this chapter will be to show the response of the two most affected Canadian commercial sectors - telecommunications and financial services - to the changes brought about by the "1992" program. Due to limitations of space, we cannot cover all the affected Canadian industries in one chapter (e.g., chemicals, biotechnology, transportation), since this would require a book-length analysis along the lines of the sector-by-sector treatment in Hufbauer's *Europe 1992: An American Perspective*.⁴ In addition, given the importance of "flanking" issues, we will also examine bilateral relations in Science and Technology (S&T) and assess the impact of Canadian forestry practices, technical standards and the Community's phytosanitary concerns on exports of Canada's forestry products.

Following these case studies, this chapter will evaluate the effectiveness of Canada's response to the SEM by examining the impact on the Canadian private sector of Ottawa's international business development/trade policy approach to the SEM as well as the differentiated impact of the "1992" program on Canadian SMEs and MNEs. By examining the responses of a sample of key Canadian industries to the creation of a West European free trade area, and by evaluating the state and private sector motivations and strategies, we will demonstrate the validity of the modified state-oriented approach in describing the conduct of Canada's foreign economic policy to the EC.

But before looking at the sectors most affected by the SEM, we will first set the stage by outlining the forecasts of the trade

diversion and trade creation effects of the SEM and how Canada, along with other third countries such as the United States, Australia and New Zealand, initially responded the prospect of a West European trade "bloc".

9.2 THE BENEFITS OF THE SEM

9.2.1 Estimates of Trade Creation and Trade Diversion

As mentioned, the SEM while continuing the process of trade liberalization among the EC members, also raised some fears among third countries. Since there is an abundance of literature on theories of economic integration and their effects⁵ and good treatments of customs unions theory as they apply to EC enlargement, We will concentrate on the trade diversion and trade creation projections of the SEM.

The projections of the expected growth generated by the SEM, not surprisingly, have varied among both the Commission, scholars and other analysts. As a rigorous analysis of all these projections is already set out elsewhere⁶, it is sufficient for us to note the various estimates of trade creation and trade diversion and then to look at the estimated impact of the SEM on Canada's trade patterns with the EC. It is impossible, as Redmond cautions, to isolate with any precision the impact of the SEM on the EC external trade partners. This is because governments, companies and consumers inside and outside the

Community are continuing to adjust.⁷ What can be done is to identify the principal trade effects - that is, the internal trade creation, trade diversion, external trade creation, trade suppression and so on.⁸

A growing number of studies have tried to quantify these and similar effects for EC trade with the rest of the world - for example, for the EC's trade with EFTA⁹ and with the developing world¹⁰. To this author's knowledge, however, no public studies have attempted a rigorous quantification of the effect of the SEM on Canada's overall trade patterns with the EC (there were many such studies on the impact of the CUFTA on Canada's trade with the U.S.). But before going on to look at possible affects on Canada-EC trade patterns, let us review the various estimates of trade creation as a result of the SEM.

The Commission, through the Cecchini Report, estimated the benefits from the completion of the SEM to be an increase in the Community's GDP by a range of 4.5 to 7 per cent - 200 billion European currency units or almost \$300 billion Canadian (based on 1992 exchange rates).¹¹ Baldwin estimated slightly higher gains from the internal market than Cecchini, in the region of 3.5-9 per cent. Furthermore, in addition to his prediction of a medium-term bonus, Baldwin predicted that this bonus would be augmented by a permanent rise in growth that, when expressed as increase level of output, would be about 9-29 per cent of GDP.¹² El-Agraa has reservations about Baldwin's high projections, which, if added to Cecchini's estimate, would create an overall figure of 11-35 per cent increase

in EC GDP.¹³ Whatever the exact gains, they were of sufficient magnitude as to attract the attention of non-EC nations such as Canada.

What was the evidence available to Canadian decision makers that the SEM was leading to an increasingly protectionist EC trade bloc? While this is a complex issue, one indicator of protectionism was the degree of trade diversion that took place between 1986 and 1993, for which one rough measure was the increase in the "regional bias ratio," or the ratio of intra-regional trade to the share of world trade. Prior to 1986 intra-Community trade had largely benefitted from the creation of a customs union and the integration process more generally. Demers and Demers state that the regional bias in the EC rose from 1.28 in 1980 to 1.77 in 1989, a more important increase in regional bias than in any other regions such as North America or East Asia.¹⁴ Under another measurement, from 1958 to 1986, intra-EC trade grew by a factor of 36 in nominal terms, while EC trade with the outside world grew by a factor of 16. Compounding this increased intra-EC trade was the impact of the EEA and the evolving economic links with Central and Eastern Europe. The magnetic pool of the SEM on these countries also, in general, increased regional European trade flows at the expense of European exports to non-European countries.

Yet this did not necessarily mean that there was greater trade diversion than trade creation. In the case of the impact of EC integration on EC-U.S. trade, for example, estimates made by Yannopoulos suggest that the formation of the original common

market of six led to trade creation in excess of trade diversion to the extent of U.S.\$18.5 billion (in 1988 prices); the further enlargement to nine members generated a positive balance of approximately U.S.\$800 million; and the subsequent enlargement to 12 had the effect of reducing U.S. exports.¹⁵

As for Canada, it is likely that the creation and enlargement of the EC has historically been more detrimental to trade. This was noticeable when the United Kingdom joined the EC in 1973, causing the disappearance of preferential tariffs for Canadian products in the British market. Canada's exports of grain to the UK, for example, went from \$400 million to \$30 million.¹⁶ In addition, free-trade agreements between the EC and some of Canada's main competitors for forest products - notably the Nordic countries - also hampered Canadian exports to the EC (e.g., the Community's import of Finnish rather than Canadian newsprint). But as noted in the previous chapter, trade diversion did not necessarily mean that overall bilateral Canada-EC economic relations had been eroded as Canadian firms chose to use European subsidiaries to serve their European markets.

So what were the SEM's possible effects on Canada's export position? Assuming that the income elasticity of Canadian exports to Europe was not lower than 1.5¹⁷ and taking the Cecchini report's lower estimate of 4.5 per cent GDP growth, Potter and Bence have estimated the trade-creating effects of the SEM would raise the level of Canadian exports by a further \$776 million or about 6 per cent (based on 1993 total export value).¹⁸ Another Commission study

estimated that the merchandise trade diversion effect of the Single Market program could represent up to 2.6 per cent of overall EC imports, which in the case of Canada would amount to \$300 million.¹⁹

Whether the economic gains accruing to Canada as a result of the SEM would be \$300 million or \$776 million, Canadian observers calculated that if the SEM produced the expected growth, then trade creation would, all things being equal, exceed trade diversion. However, if the growth stimulus of the Single Market did not occur, the trade diversion effect would be more threatening. For instance, it was recognized that lack of growth coupled by increasing competition from not only the EFTA countries but also the EC's southern tier (e.g., Greece) would create additional pressure on traditional Canadian exports such as textiles where Canada faced tariff barriers.²⁰ Exacerbating this scenario was the calculus that since the successive GATT rounds had reduced tariff barriers what was even more worrisome was the prospect of the multitude of possible non-tariff barriers.²¹ Canadian observers of European integration were thus very concerned about the impact of measures such as anti-dumping duties, rules of local content and origin, technical standards, and requirements for certification, and environmental regulation.

9.2.2 Intra-North American Trade as a Source of Trade Diversion

Other regional integration movements such as the creation of the

North American free trade area reinforced any trade-diverting or trade-creating effects of the SEM on Canada-EC economic relations. It could be expected, for example, that since the Canada-U.S. economic relationship was the world's largest bilateral economic relationship, that further bilateral economic integration through the CUFTA and the NAFTA would affect the bilateral trade and investment flows between Canada and the Community.

Although a number of factors - e.g., exchange rates, diminishing levels of demand in Canada and abroad, the composition of exports to the EC and the US, downturns and upturns in the global economy - obviously make it difficult to isolate with any precision the trade-creating and trade-diverting effects of CUFTA, nevertheless if the objective of Canada-U.S. free trade was to increase Canadian access to the American market then the statistics show that there was significant trade creation. Canadian exports to the U.S. market increased by an annual average of 0.56 per cent between 1986-1993 or approximately \$900 million per year. Or, put another way, trade in goods with the U.S. became eight times greater than trade with the EC (the ratio in trade in services remained constant, however). Schwanen, for one, surmises that in those sectors liberalized under free trade, two-way trade between Canada and the U.S. rose sharply relative to trade between Canada and the rest of the world between 1989 and 1992.²²

Can it be concluded, therefore, that North American economic integration created an incentive for Canadian trade diversion away from Europe or that the SEM created an incentive for intra-North

American trade and investments? In the absence of a sector-by-sector comparison of Canadian exports to the United States and the EC we can only posit a correlation between the CUFTA and this greater intra-North American trade, where the estimated \$900 million increase would have certainly compensated the Canadian economy for any trade diversion resulting from the SEM.

The next section shows how the above calculus of the relative economic costs and benefits of North American and European economic integration coloured and shaped the policy responses of Canadian decision makers to the SEM.

9.3 INITIAL THIRD COUNTRY REACTIONS TO THE EC'S SINGLE MARKET

By 1988 the EC was at pains to reassure the world community - through communiqués²³ and speeches by its Commissioners²⁴, and through the document "Europe 1992: Europe World Partner,"²⁵ - that a "Fortress Europe" was not in the offing. But the Community's industrialized third country trading partners such as Canada, the United States, Japan, Australia and New Zealand could have been excused for being wary of the SEM's initial intentions for them. The Cockfield White Paper contained only a single sentence on relations with third countries, and a menacing one at that: "Moreover the commercial identity of the Community must be consolidated so that our trading partners will not be given the benefit of a wider market without themselves making similar concessions".²⁶

Michael Smith calls the lack of sustained attention to the external dimensions of the SEM a "blind spot" in the early stages of the program and one that boded ill for EC-U.S. relations.²⁷ Redmond does not appear surprised at Brussel's lack of attention to its external relations in the early part of the "1992" program, given the Community's historical track record. For example, as Redmond notes, the Treaty of Rome devotes only 10 of its 248 articles to relations with the outside world.²⁸

In general, the increasingly assertive use of rules of origin and "local content" regulation by the Community in the late 1980s created the initial impression among industrialized third countries that the SEM had a protectionist agenda. The debacle surrounding semiconductors, for example, raised suspicions about "forced investment" and indirect protection of EC manufacturers. The SEM also raised the issues of Voluntary Export Restraints (VERs) and quotas in sensitive areas: whereas prior to 1992 these were at the national level, after the completion of the Single Market they were to be established at the Community level.

A sampling of third country concerns about the SEM indicates that these countries did not consider the "1992" program to be benign. For the Americans, the greatest concern was that "the use of 'reciprocity' measures seemed to indicate that even long established foreign enterprises could be affected by the changing terms on which access to the Single Market could be granted."²⁹ Perhaps more menacingly, the EC posed a challenge to American domestic structures; if reciprocity could be sought in areas such

as financial services, it could translate into major domestic reforms. For Japan, the concern was that the Europeans would now use the SEM to single out Japan and impose an increasing number of VERs on Japanese products - especially Japanese automobile exports - to redress the Japan-EC trade imbalance.³⁰ For Australia and New Zealand (although their respective trade patterns had by the late 1980s already shifted to the Pacific at the expense of Europe), the Single Market program once more (after the loss of preferential access to the UK market) created the spectre of a preferential trading zone which would limit access to the exports of their raw materials and agricultural products.³¹

Canadian policymakers, although obviously concerned at the possibility of a "Fortress Europe", appeared more willing than either the Americans, Australians or the New Zealanders to accept Brussels' post-1988 vows to make the Community a world partner. Based on the trade diversion and trade creation calculations noted in section 9.2 above, the Canadian reaction was largely positive because of the belief that the SEM would facilitate access for Canadian exporters and direct investors.³² Ottawa saw a number of advantages:

(1) the opening of public procurement in the previously excluded sectors;

(2) the prospect of a European Monetary Union (EMU) that, by eliminating all exchange rate uncertainty among EC countries and the transactions costs involved in operating in more than one currency, offered considerable savings³³;

(3) the single EC financial markets offered Canadian banks and their investment dealer affiliates interesting opportunities, especially since Canadian banks had expertise in mergers and acquisitions, one of the most important areas of activity in

the completion of the Single Market; and

(4) it was felt that direct investment by Canadian firms would complement Canadian exports, as previous empirical work had demonstrated for U.S. multinationals.

By 1989, the EC's granting of "Single Licenses" in the financial services area and the fact that third countries such as Canada were permitted to have input into the European standard setting process, had gone some way to mollifying Ottawa. Because the composition of Canadian exports to the Community over the decades had become less concentrated in agriculture and raw materials, Canada's response to the "1992" program, unlike New Zealand's, was not overshadowed by its concern with the efforts to liberalize agricultural trade within the GATT.³⁴ Indeed, what differentiated Canadian responses in the late 1980s and early 1990s from those at the time of the EC's creation was that, although the CAP was a continuing concern, it no longer dominated Canada's perception of the impact of Europe's integration on its economic interests. In essence, there was no longer the knee-jerk antagonism towards the process of European integration that had typified earlier Canadian responses.

There were three other major reasons for Ottawa's more balanced reaction and the Canadian business community's general indifference to transatlantic policy convergence. Following from the discussion in Chapter Five, ever since the findings of the 1985 Royal Commission on Canada's Economic Union, the perception in Canada was that western Europe had been supplanted by the United States and Asia Pacific as the major sources of economic threat. With the CUFTA in hand and with the negotiations started on the

NAFTA, the federal government and the business community had achieved their goal of a "level playing field" with Canada's largest trading partner. The foundation was thus laid for a future anchored outside the Atlantic Community; the United States, in contrast, saw a "new" economic superpower on the horizon just as it had defeated the Soviet military superpower. Second, the major bilateral irritants outlined in the last chapter (e.g., oil seeds, wine appellations, the fishing practices of EC Member States) all predated the "1992" process and were not directly affected by it.

Third, Canada's response to the SEM should be seen, as Woolcock perceived the case to be with the United States, as one which did not treat the "1992" process in isolation but which subsumed the process within the larger question of market access in both the EC and Canada and the evolution of the multilateral trade negotiations in the Uruguay Round. Ottawa's key concern, having observed EC-U.S. frictions over steel and agriculture, was that the coexistence of the SEM with the Uruguay Round and the fact that EC-U.S. relations were central to the GATT would lead to Ottawa being "side-swiped" by U.S.-EC trade disharmony. This, especially so, if an agreement in the GATT became intertwined with important aspects of the SEM, and if problems encountered in the Uruguay Round fed back into attitudes towards the SEM itself. By the spring of 1991, after the failure of the Round to make progress on agriculture in particular, Ottawa's worst fears appeared to have been confirmed.

Problems in the interlinkage between the SEM, Canada foreign economic interests, and the GATT were not just confined to

agriculture, but rather manifested themselves due the actions of the Community in a range of trade disputes. On certain issues, the EC, for example, had a tendency to stonewall when facing arbitration under the GATT's dispute-settlement mechanism. Thus a number of international trade disputes over non-tariff barriers (e.g., rules of origin, quantitative restrictions) that were the basis of negotiation during the Uruguay Round became inseparable from the challenge of the SEM strictly defined. For example, as far as Japanese car exports from the United States or Canada were concerned, it seemed the EC would recognize them as Canadian or American. Canadian officials emphasized to both the EC and Japan that products from Honda, Toyota, CAMI, and Hyundai assembly facilities were Canadian products and should have been considered for export to the EC and not included in any quantitative restrictions between the EC and Japan. There was nevertheless a concern in Ottawa that the EC and Japan would quietly negotiate a voluntary restraint system that would limit exports from Canadian plants.³⁵ Although Ottawa monitored the rules of origin and quantitative restrictions issues closely, in retrospect they were much more central to EC-U.S. and EC-Japan trade relations, and the affects of these disputes on Canada's market access to the Community (apart from in the telecommunications sector) were negligible. Nevertheless, they demonstrated how the overlap between the SEM and the Uruguay Round agendas had the potential to squeeze Canada foreign economic policy between the often conflictual relations of the Triad members (see discussion on Canada in the

Triad in Chapter 10.2.1).

To conclude, on one level Ottawa's approach to its bilateral relations with Brussels focused on the external implications of the "1992" program and whether this represented a move towards a "Fortress Europe". On a second level, however, the debate concerned bilateral relations in terms of market access issues in the EC and Canada and how this interrelated with the multilateral system, a discussion which covered the old festering disputes going back to the early days of the Common Market and the CAP, and to the early-to mid-1980s dispute over fisheries. In these cases, the impact of the SEM was indirect but nonetheless important.³⁶

Moving away from the more general discussion of the initial Canadian reactions to the SEM, The next section looks at the Mulroney Government's specific program responses.

9.4. OTTAWA'S PROGRAM RESPONSE TO THE SEM

Two major factors shaped Ottawa's program response to the SEM. First, Ottawa was prepared to agree with the Commission that, as pointed out in the last chapter, tariffs were generally low on its exports to the Community and that, in any case, the "1992" program was about eliminating non-tariff barriers. And second, related to this point, for Canadian firms to be more internationally competitive and thus by definition for them to be more adept at penetrating the larger, more efficient Community market, Canadian federal officials concluded that: (1) Canadian firms would have to

be encouraged by government to invest abroad (which would entail a fundamental change in Canada's international business development strategy); and (2) that government would have to simultaneously push at the level of the EC Member States and multilaterally to put in place investment regimes that both encouraged and protected CFDI.

Ottawa's approach reflected a growing realization that due to structural change in the global economy it was no longer heretical for government to promote FDI, since research showed that there was not a clear trade-off between outward direct investment and jobs lost in the domestic economy.³⁷ With the Canadian labour movement battered by the setback of the CUFTA, a consensus was achieved between the business community and the Mulroney Government on the benefits of strengthening the forward and backward linkages of international business with the domestic economy³⁸; which meant that it was difficult for Ottawa to discourage Canadian companies from "exporting jobs" to the EC.³⁹

The Mulroney Government's position was that an expanding Community would require Canadian companies to position themselves increasingly within the EC through outward investment, strategic alliances and joint-ventures.⁴⁰ In 1991, approximately 70 per cent of Canadian business alliances were made with other Canadian firms, but it was recognized that a growing number were also being organized with foreign companies.⁴¹ A number of federal programs were thus developed to promote technology-transfer and investment as complementary techniques to exporting. The overarching framework

for this international competitiveness strategy was, as mentioned earlier in this study, the federal government's 1989 "Going Global" international business strategy.

9.4.1 "Going Global": A New International Business Strategy

With "Going Global" Ottawa for the first time not only privileged investment, but also sought to integrate investment strategies with technology innovation, production and marketing. The reasons were not difficult to discern. Investment in distribution channels and service facilities which provided customer services in local markets promoted exports to the home company. Alternatively, when a Canadian parent could sell components to its affiliate in Europe, exports would follow Canadian foreign investment in the EC, whereas without a Canadian presence in the EC this market could be lost to competitors. Chapter Eight's findings and this chapter's investigation into the types of Canadian investment in the EC demonstrate that Canada-EC economic relations reflected a more general phenomenon in the global economy: increasingly exports followed investment rather than the historic pattern of investment following exports.

Recalling Chapter Three's discussion on the "disconnect" between Ottawa and the private sector on Canada's international trade strategy, "Going Global"'s significance was that it demonstrated that Ottawa was beginning to wean itself off its reliance on the traditional export-oriented trade development strategies (e.g., based on trade fairs and ministerial-led trade missions) and to

recognize the complementarity of trade and investment. The Government recognized that the promotional aspect of Canada's international business strategy would have to be de-emphasized in favour of a greater concern about how Canada's Trade Commissioner Service (rather than just Canada's trade negotiators) could increasingly monitor and react to emerging market access issues (e.g., investment, labour, social, environmental policies).⁴²

The SEM, which promised to change the contours of the European economy, therefore had the effect of highlighting the anachronistic nature of Canada's traditional international business development programs and was an incentive for the above mentioned changes in Ottawa's strategy. How so? First, the new EC regulations and market access concerns that resulted from the "1992" program, particularly at the Commission and major capitals (e.g., Bonn and London for environmental standards and regulations, Brussels on Canadian forestry practices etc.), were precisely the types of market access issues that the Canadian government and business would be facing in other parts of the world. And second, as noted in the last chapter, although the proportion of Canadian exports to the EC composed of end products had steadily increased since the creation of the Common Market, raw materials and low manufactures still represented more than 50 per cent of Canada's exports. Canadian officials recognized that these goods, if they continued to be only exported, would become increasingly vulnerable to environmental restrictions as a result of the emerging pan-European market that stemmed from the spillover

effects of the SEM.

9.4.2 The "Europe 1992" Component of "Going Global"

The West European, or "Europe 1992" component of the Mulroney Government's "Going Global" strategy was two-pronged and consisted of: (1) the *European Trade and Investment Development Strategy*, with its investment development component, known as *Strategic Ventures*, receiving an unprecedented \$505 million worth of funding⁴³; and (2) targeted programs to strengthen Canadian capabilities in priority high-technology sectors (see discussion on S&T in this chapter). Under the new "Europe 1992" program traditional market development programs (such as EAITC's Program for Export Market Development [PEMD])) were de-emphasized in favour of the *Strategic Ventures* program whose objective it was to foster linkages between Canadian SMEs and small, rapidly-growing high-tech firms in Europe (see 9.7.1). This, Ottawa felt, would help Canada's commercial relations with Europe to become more investment- and technology-driven, to improve Canadian competitiveness more directly, and to increase the value-added of Canadian exports to EC markets.⁴⁴ It is significant to note that unlike the more universal trade development programs of years past, "Going Global" targeted Canadian SMEs to help them become more outward-oriented; Canada's MNEs were considered to have adequate resources and, so it was rationalized by Ottawa, did not require what amounted to indirect subsidies.

As well, with Canada as partner to the CUFTA, Ottawa wanted to "sell" Canada to European companies as a North American base. It was noted by Canadian federal officials that Canada's reputation as a less competitive market than the United States ironically served it well as the initial springboard. In addition, with the high-level of EC investment in Canada, Canadian subsidiaries of EC companies could benefit from the Canada-U.S. Free Trade Agreement's provision for enhanced access to each other's public procurement markets (as discussed in Chapter Eight).

The focus on investment in the Mulroney Government's trade response to the SEM - in contrast, for example, to the lower emphasis placed on the investment in the Asia Pacific dimension of "Going Global" - was not at all surprising. Given the high dependence of Canada's forestry sector on the EC forestry products markets, Canadian officials predicted that a failure for this sector to engage in joint ventures or mergers would endanger its future export prospects. Indeed, using the calculation of 15,000 Canadian jobs resulting from \$1 billion in exports, officials calculated that significant losses in this sector's market share in Western Europe would have serious economic repercussions for the economies of Quebec and New Brunswick.

In other cases, the choice between exporting to or investing in the EC was affected by protectionist measures adopted by the EC. For instance, as we shall discuss in section 9.5.2.1 of this chapter, Canadian firms in the telecommunications sector faced the choice between expanding plant, equipment and Research &

Development (R&D) in the EC or in Canada, and many decided to locate in the EC simply because of the origin and local content rules, even if cost considerations would have otherwise favoured a Canadian location. And, although the issue of "screwdriver" plants was a volatile issue in Japan-EC relations, what attracted more attention in Canada, as exemplified by the DeHavilland case was how the EC's competition policy would exert an important influence on bilateral investment patterns through the treatment of proposed mergers and acquisitions.⁴⁵ For these reasons, Canadian policymakers saw how protectionist tendencies in the EC could lead to distortions in direct investment patterns as well as a reduction in the benefits of the integration process for Canadian and non-EC firms. Thus, as noted in the previous chapter, it was in the interest of Ottawa to push for both a bilateral competition policy agreement with the Commission as well as an international investment regime.

In sum, then, Ottawa believed that Canadian industry needed to have a better understanding of whether its products and services could be sold on an EC-wide basis or whether national markets would remain paramount, and, if exports were uncompetitive, whether investment was warranted. For this reason, under the "EC 1992" component of "Going Global" starting in 1989, EAITC embarked on a two-year informational program in Canada to apprise Canadian industry of the implications of the SEM. This exercise, which entailed 21 sector studies, six general guides for investors and exporters⁴⁶, and numerous seminars and conferences, was notable in

that although it was organized by industry associations (e.g., Canadian Exporters' Association, Canadian Pulp and Paper Association) it was financed almost entirely by the federal and provincial governments.

This largely passive Canadian business response to the SEM, as noted in Chapter Three, contrasted sharply with the keen interest displayed by the Canadian private sector in any trade policy initiatives undertaken by Ottawa with the United States. Here Canada's business community needed no prodding and was willing to both participate and fund independent analysis of the CUFTA's and the NAFTA's impact. The state-led nature of Canada's response to the SEM will be detailed in the following sections on specific sectors.

9.5 THE CANADIAN PRIVATE SECTOR RESPONSE TO THE SEM

As Table 14 shows, based on this author's survey⁴⁷ of 253 of the most active Canadian firms in the EC, and calculations by the Royal Bank of Canada, the Single Market was of least benefit to the Canadian food processing, food products, metals and minerals sectors, while its greatest benefit was in highly, specialized niche markets for Canadian firms such as in telecommunications and computers and in traditional sectors such as financial services. It was estimated that the Canadian machinery and equipment sectors would be more adversely affected, as firms in these sectors meet increased competition from European producers. In fact, it was

conjectured that the development of Canadian exports to the EC was hampered even more by the "1992" phase of European economic integration (than it had been by the UK's accession and, before that, the creation of the Common Market) due to the rapid increase of intra-EC trade and EFTA preferences. Thus while the "1992" program may not have been as protectionist as initially anticipated, neither was it going to present Canada's private sector with boundless opportunities. Furthermore, at the peak of the preparation for the SEM, most Canadian businesses were still adapting to the new environment created by the CUFTA.

The following section analyzes the specific impacts on Canada of the "1992" program.

9.5.1 Standards and the Elimination of Technical Barriers

According to the Cecchini report,⁴⁸ technical barriers (i.e., technical standards or regulation and certification procedure) constituted the most important obstacle to intra-Community trade. Before 1985, and in the absence of a new approach to standards and technical regulations, the European Community had tried to reduce technical barriers to trade through harmonization measures (i.e., directives aimed at the adoption of similar technical rules applicable in all Member States).⁴⁹ In nearly all sectors, this approach proved to be inefficient.

In a resolution dated 7 May 1985, the Council adopted a new approach in favour of more flexible rules. Harmonization was still

accomplished through directives in a limited number of cases, but these directives only laid down essential requirements in critical areas related to public health, safety and environment. With the exception of these essential requirements, national standards became subject to mutual recognition, a principle derived from the 1979 decision of the European Court of Justice in the "Cassis of Dijon" case. This principle of mutual recognition appeared to make it harder in theory for an EC country to discriminate against an EC-based subsidiary of a non-EC firm.

Parallel to this process, European standardization bodies (CEN, CENELEC, ETSI)⁵⁰ began to develop non-compulsory, European-wide standards to the maximum extent. For instance, Woolcock et al. note that by 1990 1,250 ENs (European standards) had been worked out, although national standards in the Member States still exceeded those at the European level by a factor of nine to one.⁵¹ The Commission therefore demonstrated a willingness to move as quickly as possible, although it was recognized that the complete harmonization of standards at the European level would take a great deal of time because of the complexity of the problems involved.

But there remained some uncertainties and concerns about the European standard-making process, starting with the need to produce EC technical regulations or to promote acceptance of third country products not made to voluntary European standards. Related to this, despite improvements in the transparency of the process, was the fact that third countries, except those of EFTA, had historically had little if any direct input into the policy

process. Second, the EC's strict essential requirements related to health and safety affected third country producers, although here the effect was more pronounced on developing as opposed to developed countries. Third, there was the fear that the EC would introduce technical standards for high-tech products in order to exclude, at least temporarily, foreign competitors and to allow time for its own industries to become competitive.

That being said, it was true that most EC standards were actually inspired by international standards produced by such organizations as the International Standards Organization (ISO). Third countries such as Canada had input (one vote) here, although not as much as the Europeans who could pool their votes (viz., the EC, Germany, the UK and the other Member States each had one vote). Thus it was no accident that Canada was highly active in the various steering committees, not only of the ISO but also the other international standard-setting bodies.

Because Canada recognized the likelihood of any new EC standards being harmonized and closer to the existing international standards, Ottawa was very keen to transmit its views on specific standards to the European standardization bodies through its crown corporation, the Standards Council of Canada (SCC). While it was recognized that the purpose and structure of the European Standardization System were both significantly different and considerably more complex than the National Standards System in Canada, many of the responsibilities assigned to elements of the proposed new European Standardization Council were markedly similar

to those in corresponding elements of the SCC.⁵² The Canadian side used this similarity in order to stimulate increased cooperation and transparency and convince the Europeans of the benefits of an arrangement between the SCC and CEN and CENELEC in the form of an information exchange.⁵³ In 1992 Canada and the Commission began to negotiate an MRA on standards; in the same year the Canadian Standards Association opened an office in Brussels. Because Canada's highly centralized standards setting system made its system more compatible with the European approaches (indeed the Europeans looked to the Canadian system as a model for their proposed Council) than the highly decentralized American system, Canada was able to exert more influence on European standards decisions.⁵⁴

Another concern for third countries such as Canada was the EC policy on testing and certification. Until 1991, while EC-wide procedures on mutual recognition of national testing and certification procedures were implemented internally, there was no system to manage relations between the EC and third countries. Canada was concerned that its private sector would be forced to undergo much more costly and time-consuming approval procedures than its EC competitors. The Commission eventually allowed third countries, including Canada, to establish trial procedures for mutual recognition so that foreign laboratories were able to certify the "Euro-worthiness" of their exports.

It is difficult to make a general statement about the impact on Canada of changes in the EC's standards and certification

regimes, since these regimes affected different sectors in different ways. In comparison to, say, the United States with a higher value-added percentage of exports to the EC, standards were less of a concern for Ottawa's policymakers than they were for Washington's. Obviously, the principle of mutual recognition was good for Canada in that Canadian manufacturers could expect to see a considerable cut in the time required for approval for the export of their goods to a given Member State. But, in the high end sectors of communications and electronics, the standards issue was still very much on the minds of Canadian industry, especially in high-technology industries (see discussion on telecommunications). Institutionally, given similar structures, the standards is one area of the "1992" program where there appeared to be substantial convergence between Canadian and European policy approaches.

9.5.2 Public Procurement

Liberalization of public procurement markets in the EC was one of the major goals of the Single Market program. Public purchasing among the 12 Member States varied between 10 and 20 per cent of GDP, and was significantly higher than the average of 8 to 12 per cent of GDP estimated for all industrialized countries.⁵⁵ The economic stakes were thus considerable, with state and local governments accounting for about 70 per cent of all government purchasing in the EC. The other purchasing was done by central government departments and by bodies which benefitted from

exclusive rights granted by public authorities. The main components of this latter category were the four traditionally excluded sectors of energy, telecommunications, water, and transport.

The European Commission saw important economic consequences emerging from the opening-up of procurement markets in the formerly excluded sectors, since it affected areas where public demand was capable of providing Community firms with a sufficiently large market to enable them to strengthen their competitiveness in world markets. Since detail on the main legislative changes to liberalize EC public procurement is available elsewhere⁵⁶, we will focus on how these changes affected Canada's market access.

With respect to third countries, the Commission envisaged two kinds of measures when it appeared that European firms did not get from a third country the equivalent access that third country's firms enjoyed in Europe, or when European companies did not enjoy national or MFN treatment. In particular, the Commission would first conduct negotiations with the third country to try to solve the differences. If the issue was not resolved, the Commission could implement some measures to limit third country access to the EC market.

Changes in EC regulations were intended to open public contracts more effectively to all Community-established firms. Consequently, European subsidiaries of Canadian firms were to receive the same access throughout the Community to government purchases and contracts as European companies. Suppliers from outside the EC continued to be governed by the GATT code on

Government Procurement. Signatories to the code had agreed to provide mutual, non-discriminatory access to public procurement markets in specified sectors. (But as will be pointed in section 9.5.2.2, the multilateral procurement code was insufficient, and thus the liberalization of public procurement in the EC created incentives for Canadian investment.)

The concern in Canada was that some provisions of the EC's utilities directive would hamper Canadian industry's ability to take advantage of more open public procurement. To begin, under this directive external bids did not have to be considered. If they were, of particular concern were: a 50-per-cent value-added rule which enabled public authorities to reject a bid if more than 50 per cent of the value of the goods was generated outside the EC; a mandatory 3 per cent price preference granted to EC bids over equivalent offers of non-EC-origin; and a provision that described the circumstances under which entities could have obtained waivers from adhering to existing European standards in favour of national standards. In addition, there was an EC requirement for reference to European standards in public procurement contracts, and the public authorities did not even have to consider a non-EC tender if it did not meet the content requirements.

But perhaps the biggest problem for Canada was that procurement practices in the excluded sectors were characterized by close relationships between the procurement agencies and national suppliers.⁵⁷ Between 70 and 95 per cent of the procurement in these sectors was sourced from national suppliers, with the result that

intra-Community trade was very small. Compounding this natural difficulty in displacing host nation suppliers, Canadian suppliers did not have assured access to procurement bodies in the EC in the excluded sectors because these sectors were excluded from the disciplines of the GATT Government Procurement Code.

The protectionist implications of this situation must be qualified, however. First, Canadian officials repeatedly expressed their frustration to this author that even though Canadian business had been provided with ample opportunity to bid on Community public procurement contracts, there was little interest. Second, Canadian firms benefitted from the piecemeal liberalization of procurement that took place in the excluded sectors. Much of this was linked to privatization efforts in the UK (the location of the bulk of Canadian FDI in the Community), the greater role of the private sector in infrastructure development, and the Commission's agenda to end the Post, Telephone, and Telegraph (PTT) monopolies in the provision of services and equipment other than basic voice telephony.

In sum, it was felt that the creation of SEM would result in significantly improved access of EC-based suppliers to the previously excluded sectors in all the Member States, and that this would open up new opportunities for Canadian firms. At the same time, it was also recognized that the new entrants would face formidable challenges. Those challenges included strong competition from existing suppliers, high start-up and distribution costs, the 50 per cent local content provision and, during the transitional

period, ongoing technical and certification barriers to trade. In short, it appeared that although Canada produced a range of internationally competitive products that were compatible with the needs of the EC procurement entities, the effect of strong EC competition combined with the high institutional, commercial and non-tariff barriers would limit future direct export opportunities to a handful of products, primarily in the telecommunications sector, which will be discussed in the following section.

9.5.2.1 Telecommunications

Perhaps nowhere was the impact of the liberalization of public procurement practices felt more than in the telecommunications market. This was a particular target for the Commission given its significance for Europe's economic future. Woolcock et al., for example, point out that the EC market for telecommunications services was one of its largest and most dynamic sectors, worth about 80 billion ecus (1988 figures) and projected to grow at a rate of 11.5 per cent to 154 billion ecus by 1995.⁵⁸

In Canada, as well, the telecommunications equipment and services sector was a major sector of the Canadian economy. In fact, by 1991 as a percentage of Canada's exports it had outstripped lumber. Widely considered a world leader in the telecommunications field, the carriage and manufacturing industries in Canada in 1991 together generated more than \$23 billion in revenues and employed some 125,000 people, representing 3.5 per

cent of Canada's exports.⁵⁹ It was also one of the fastest growing sectors, with the telecommunications share of GDP having a real growth rate of 5.8 per cent in 1991 compared to a decline of 1.1 per cent for the national economy.⁶⁰

How, then, did the procurement changes prompted by the Single Market program affect export opportunities for Canadian firms in the telecommunications market? To start, EC tariffs on telecommunications equipment were low - between 5.1 per cent and 7.5 per cent, although as mentioned in the last section this was the least of Canadian suppliers' concerns. In the period leading up to "1992", the EC was the second largest export market for Canadian telecommunications equipment after the United States. The major markets for Canadian telecommunications parts and equipment in the EC were the UK and Ireland, which together accounted for 80 per cent of total Canadian exports to the EC. As would be expected, given the changing investment and export patterns, a significant portion of these sales consisted of exports of Canadian parts, components and sub-assemblies to manufacturing operations owned by Canadian firms in these two countries (e.g., UK - Northern Telecom's STC PLC subsidiary, Newbridge, Mitel and Gandalf; France - Northern Telecom; and the Netherlands - Gandalf). It has been estimated that in 1990, sales to the EC of the four largest Canadian telecommunications companies (Northern Telecom, Mitel, Gandalf and Newbridge Networks) totalled \$490 million. And, in August 1992, the Commission approved the partial acquisition of Matra Communications, a French company, by Northern Telecom.⁶¹ This

joint venture (see Table 16 in Appendix Three) and public networks in France, provided the Canadian multinational with new markets in the European Community. This acquisition was consistent with the trend among Canadian multinationals (see Table 17 in Appendix Three) to invest in the EC by entering into joint ventures, not only with firms in the UK but also with firms from the other Member States.

A few observations about Northern Telecom's international activities would perhaps also highlight some of the broader trends in Canada-EC economic relations. Indeed, the experiences of Northern Telecom makes for an interesting case study. For our purposes, suffice it to note here that the evolution of Northern Telecom from an essentially North American company in 1988⁶², to one of the top three "outward-oriented" Canadian communications firms by 1993, with foreign assets making up 61 per cent of total assets, demonstrates the impact of globalization and the pull of regional integration (CUFTA, SEM) on the strategy of one of Canada's largest multinationals.⁶³

In fact, so great was the pull of the European market that just over one-half all of Northern's outward investment between 1986 and 1993 - see Table 16 in Appendix Three - was made in the EC. In the wake of the (U.S.) \$2.8 billion acquisition of STC PLC, a large British telecommunications company, 26 per cent of Northern Telecom's sales were generated outside of North America and it

became the eighth largest telecommunications equipment supplier in the EC.⁶⁴ By the end of 1993, Northern Telecom's "identifiable assets" in Europe as listed in Table 16 exceeded those in either Canada or the U.S..

But with the notable exception of Northern Telecom, and even with the low tariff barriers, Canadian industry found the telecommunications equipment market largely closed to competition from suppliers from other Member States, much less third countries. This would explain the high degree of intra-firm trade between Canadian manufacturers and subsidiaries in the EC. As mentioned, the main barrier to entry was the monopoly purchasing power of the telecommunications authority and its close working relationship with certain national suppliers. Between 70 and 90 per cent of contracts awarded by telecommunications administrations were found to have gone to national producers. The ratio was highest in those member states that had a strong national industry (e.g., Germany, France).⁶⁵

There were other problems for Canadian suppliers, too. For example, market access restrictions existed for terminal equipment through standards and standard-setting procedures; testing, certification and attachment policies; and, in some cases, foreign investment policies. Large companies such as Northern Telecom as well as smaller third country suppliers faced high costs in meeting different national standards in the EC. Company executives complained to this author that it cost millions of dollars every time a new product was taken through the redevelopment and

approvals process needed to enter the new European market. This occurred because the markets for terminal equipment were maintained in separate national markets because the state administered authorities monopolized domestic sourcing, importation and supply of terminals. In some countries, notably France, Italy and the UK, companies were required to fulfill certain nationality or residency requirements before they could even enter the approvals process; having an agent to circumvent this requirement also proved costly. In some Member States, Canadian firms found that procurement decisions by PTTs were overtly political. Northern Telecom, for example, encountered such interference when trying to bid for a switching system for the Italian telephone company (SIP).⁶⁶ To mitigate these problems, some large Canadian telecommunications firms invested heavily in the EC market. This would explain, for example, Northern Telecom's acquisition of STC PLC, as it brought about the desired treatment as a domestic supplier.

In terms of value-added service providers, many of the Member States imposed restrictive terms and conditions. With the significant exception of the UK, the price of leased lines was kept artificially high by PTTs (particularly in Germany, Spain and Italy) to deter the development of private networks. Over the years, some Member States had used regulations to close their domestic telecommunications markets to foreign companies by prohibiting foreign ownership of basic facilities and denying the right of establishment for foreign providers of enhanced services.

The relationship between purchasers and suppliers in the

telecommunications industry in most Member States had become one of near-monopsony in procurement counterbalanced by an oligopolistic supply industry. Even with liberalization, it was clear to both Canadian officials and to the Canadian business community that it would be difficult for new entrants to displace some of the existing national suppliers such as Alcatel, Siemens and Ericsson - the three firms that were expected to continue to dominate product manufacturing in the Community into the mid-1990s - as well as the second rank suppliers such as Bosch, Philips, and Italtel/ATT.

Thus, in the telecommunications sector - uniquely among the excluded sectors since it was the one sector in which Canadian companies were world class - an open, unified Europe promised greater export opportunities as well as increased returns on direct foreign investment. It was forecast that the increased export opportunities would likely be in the terminal equipment market, since this market was to be liberalized unconditionally. In contrast, increases in direct exports were less likely in the network equipment market due to its high entry barriers together with the 50 per cent value-added rule. Thus, for this market segment investment, licensing arrangements or joint ventures would be necessary for Canadian firms. Finally, it seems obvious that as European firms benefitted from economies of scale they would also pose increased competition for Canadian firms in their domestic markets.⁶⁷

What can we conclude about the Canadian telecommunications sector's response to the SEM? First, it is significant that exports of half a billion dollars in

telecommunications equipment by four Canadian companies (not to mention Northern Telecom's investment) was only about \$100 million less than the total value of softwood lumber exported by Canada to the Community in 1992. Thus, the effect of the expansion of the Canadian telecommunications sector was not only that it further diversified Canada's export mix to the EC, but instead of investment replacing exports, the magnetic pull of the SEM created increases in Canadian investment flows and exports.

It appears then that although Canadian firms had been successful in competing against EC firms in third markets (based on the principal criteria of competitive prices, product quality, technical and financial reliability, and product compatibility with existing systems), in the previously excluded sectors the presence of strong, well-connected national suppliers in most Member States meant that Canadian firms would have had a very hard time competing unless they did so with a strong local partner.

For the above reasons, the Canadian federal government encouraged joint venturing and other forms of partnership as an integral part of Canada's response to the SEM (see also Table 18 in section 9.7). Another impulse, as we will discuss in section 9.6.1. on Canada-EC cooperation in S&T, was to not only use strategic alliances for their marketing and distribution benefits but also to permit Canadian firms to tap into foreign research. For example, in an innovative industry such as telecommunications, it was recognized that for Canadian firms to remain competitive they would have to have access to world-class technology, much of which resided in the

EC. This was Northern Telecom's strategy when it gained an R&D facility in the UK to complement its existing R&D facility at Maidenhead through its purchase of STC PLC.

9.5.2.2 Reciprocity for EC Firms in Canada

With the EC adopting a comprehensive procurement offer by opening up procurement at all levels of government and in the formerly excluded sectors, this had the effect of putting pressure on countries such as Canada and the U.S., signatories to the GATT Public Procurement Code (the EC represents Western Europe), to in turn pressure their sub-federal units. At the time of writing, the GATT Public Procurement Code covered purchases by central governments only, and it excluded purchases in a number of major sectors such as power generation, telecommunications, transportation, construction and services contracts. In fact, the Code covered less than 5 per cent of the total non-defence purchases of its members.

Therefore the other side of the liberalization of the EC's lucrative procurement market was that the Commission had made it clear that it expected EC-based firms to be given preference in procurement decisions in the excluded sectors in the absence of multilateral or bilateral agreements ensuring "comparable and effective" access for EC firms in third countries. How then did the Commission view its "comparable and effective access" to the

Canadian market? In the telecommunications industry, for instance, EC officials charged that Canada had refused to open its lucrative yet much smaller market by not allowing the Europeans to break into vertical supplier arrangements. The Europeans had an interest in seeing a deregulated domestic telecommunications market, preferably with Northern Telecom no longer enjoying a privileged supplier relationship with Bell Canada. EC officials note rather wryly that Northern Telecom was "sitting rather pretty," since Canada did not intend to introduce competition from Alcatel and Siemens.⁶⁸ In addition, the Europeans complained that the regulations for common carriers and pricing set by the Canadian Radio-Television and Telecommunications Commission (CRTC) also worked to exclude EC companies from providing services and selling their products. The issue of "reciprocity" brought out by the "1992" program that had so exercised American decision makers in the late 1980s, then, raised in Ottawa's mind the issue of whether to protect Canadian commercial interests in Europe by negotiating a bilateral procurement agreement with the EC, or encouraging the EC to negotiate improvements under the GATT Public Procurement Agreement.

Another risk high in the minds of Canadian decision makers was the disruptive effects on Canada of a U.S.-EC bilateral deal on procurement, especially if such disharmony was over the telecommunications sector and caused Canada to be side-swiped. In the first scenario, Canadian officials realized that this would almost certainly cause Canadian telecommunications equipment suppliers to source their products to the EC from their U.S.

operations.

Ottawa was also served notice by the Commission that it would be looking at the major provincial utilities such as Quebec Hydro, Ontario Hydro, and British Columbia Hydro. In this regard, the Community was very interested in the attempts in Canada to remove existing inter-provincial barriers to trade in public procurement. One success was the "Intergovernmental Agreement on Government Procurement," covering goods only, which was signed in November 1991 and came into effect in April 1992. Although Quebec did not sign this agreement, it did state at the time that it would comply with its stipulations. Western Canada and the Maritimes had regional agreements in effect that extended beyond the national agreement in terms of lower thresholds for covered goods contracts and some services.

Despite the movement in both Canada and the Community to increase access to public procurement, Canadian officials had to be realistic about how much progress could be made given the relative power of Canada to negotiate bilaterally with the EC on this issue: in 1992, the total Canadian public procurement market was worth about \$84 billion compared to the \$1.7 trillion value of the total public procurement market of the members of the GATT Public Procurement Code. In reality, then, despite the excessively optimistic projections of Canadian government trade officials, what the liberalization of EC government procurement meant was enhanced Canadian export opportunities in all the formerly excluded sectors, but with the greatest returns coming from investment in the

transportation and telecommunications sectors.⁶⁹

9.5.2.3 Financial Services

In the financial services sector, the SEM sought the elimination of many internal Community barriers. Again, this process raised the question of the EC's leverage to press for "effective market access" vis-à-vis its trading partners. One of the issues that was raised by the Commission with regard to the Canadian financial market was the receipt of the same financial sector concessions as provided to the United States under the FTA.

The Banking Directive was considered the bellwether for how the Community would deal with third countries in financial services. Early drafts of the directive gave grounds for fears of narrow reciprocity. The final draft called for "national treatment offering the same competitive opportunities [to EC credit institutions] as are available to domestic credit institutions" and "effective market access comparable to that granted by the Community to credit institutions from [third countries]." This wording was less overt in demanding sectoral reciprocity than earlier formulations, but its precise significance depended on the criteria used to determine "effective market access comparable to that granted by the Community." Similar "effective market access" requirements existed in the insurance directives.

In practice however, the EC's commitment to grandfather existing authorized operations of foreign financial institutions in

the EC alleviated many Canadian concerns. In particular the EC grandfathered Canadian institutions both with respect to their ability to continue current operations and to branch out. The ability of a Canadian bank to make acquisitions in the EC could, however, still be undercut by reciprocity requirements.

The EC, especially the UK, complained about Canada applying the federal 10/25 rules to all countries except the United States. Under existing Canadian policy, the transfer of shares in banks (Schedule A), federally-chartered life insurance and trust companies, cannot result in any single non-U.S. non-resident owning more than 10 per cent of a company incorporated in Canada; nor can it result in non-U.S. non-residents owning collectively more than 25 per cent of the company's shares.

In addition, the commercial logic and effect of the Directives was expected to increase intra-EC collaboration between Member States' financial firms. This would result in a stronger European financial sector which would promote the expansion internationally of European firms in the financial services industry. At the same time, Canadian banks did not appear interested in using the benefits of the Single Market to expand their European operations. This was because of their retreat from the more competitive EC markets, which preceded and succeeded the implementation of the Single Market program. Indeed, the Royal Bank, Canada's largest chartered bank, announced in 1992 that it was retreating from its retail operation in continental Europe. Indeed, it was ironic that in that same year it released a study that was quite positive on

Canadian market opportunities in the Single Market.⁷⁰ Finally, the effect of the SEM on Canadian securities and insurance sector was estimated to be small. In the securities sector, London was the focus for Canadian interests and essentially no barriers existed for traders; the Canadian non-life insurance sector was foreign dominated.

An early bilateral initiative with the Community in the financial sector was considered by some Canadian officials in response to the EC's request for further liberalization of foreign access to Canada's markets, particularly in the banking sector. The benefits to Canada of the approach were not clear in Ottawa. Canadian officials considered negotiating with the EC - for a price - the same treatment provided to the United States under the CUFTA. It was felt in Ottawa that timing was of the essence if Canada were to obtain any benefits. In particular, the Canadian side wanted to carefully assess: (1) the extent to which the EC would put pressure on Canada to provide "effective market access" as the implementation of the various 1992 Directives got under way; and (2) the results of the services negotiations in the Uruguay Round, before developing firm views regarding an initiative in the financial sector. Because financial services had been negotiated within the Uruguay Round negotiations on services (General Agreement on Services), there had been no formal requests to the Community by Canada for a bilateral Canada-EC agreement on financial services as there had been on science and technology, competition policy, and on standards and certification. Again, this

demonstrates the intersection of the SEM, the GATT, and Canada's foreign economic policy.

The following two sections of this chapter examine the indirect impact of the SEM on Canada-EC relations in S&T and in the forestry products sector.

9.6 The SEM'S SPILLOVER EFFECTS

9.6.1 Canada-EC Cooperation on Science and Technology

By 1989, two years after the Single European Act had come into effect, Canada became very keen to exploit the advantages of the SEM in the area of S&T. With the Single Market program having accelerated the Community's research programs, Willy de Clerq, then External Relations Commissioner, gave Ottawa what Ottawa took to be green light to pursue a bilateral S&T agreement with Brussels by stressing the possibilities of international cooperation in science and technology, space, transport and communications.⁷¹ The needs and benefits of closer S&T links with the Community, in Ottawa's view, stemmed from Canada's relatively modest role in the field of international S&T: it contributed only 4 per cent of the world's scientific literature and 2 per cent of the world's global technology pool. This performance was reflected downstream from R&D activities as illustrated by the growing deficit in Canada's trade in technology-intensive products despite the impressive growth - as mentioned - in the communications sector. Recalling our discussion

of Canada's competitive position in Chapter Eight, this lack of S&T was a contributing factor to the continued reliance on the exports of low-manufactures and raw materials. At the same time, Canada faced increasing competition from the opening of Eastern Europe and the former Soviet Union⁷² and the increased technical sophistication of the Pacific Rim countries.

In a global economy that placed a premium on value-added goods and services, all of which required a strong technical foundation in order to remain competitive, it was easy to see why Canadian policymakers were very eager to raise the profile of Canada/EC S&T collaboration. The existing arrangements, for example, of bilateral S&T ties with Germany, France, and the United Kingdom and some provincial arrangements were seen as insufficient by the late 1980s. In institutional terms, Ottawa increased its S&T resources so that by 1989 EAITC had a five S&T officers, three of whom were in Europe, plus one "space" officer in Paris; by 1992 the number of S&T officers had risen to seven and were supported by an S&T division at EAITC, with eleven technology development officers. As well, EAITC earmarked \$175,350 for "Contributions for Technology Development with Europe" in the fiscal year 1992-93, an amount that was, however, dwarfed by the Department's \$1.8 million contribution to the Japan Science & Technology Fund.⁷³

To provide some perspective on the state of EC-Canada S&T relations in the period leading up to the SEM, despite the Framework Agreement having been intended to intensify scientific and technological cooperation, in actual fact Canada's formal

cooperation with the EC in this sphere had never gone much beyond the exchange of information and scientists, and the occasional joint research project between laboratories. Until the end of 1992, access to the major Research and Technology Development Framework Programs of the Communities was restricted to European partners only. As research was tied directly to the goals of the Single Market - both to improve trans-S&T capacity and international competitiveness - Canada's exclusion was also seen by Ottawa as an exclusion from the EC's economic/trade objectives. The fear in Canada was that to the extent that the Single Market program incorporated a greater degree of pan-Europeanization, this in turn would lead to pressures on each constituent Member State and also on other European countries (most notably the EFTA members) to look to others in Europe for more S&T collaborations. This would be at the expense of potential collaboration with non-EC nations such as Canada.

But Canada was not completely frozen out of the Community's S&T programs. Canada's most focused experience in collaboration with Western Europe took place in conjunction with the EUREKA program.⁷⁴ To support Canadian companies interested in EUREKA, Ottawa had established a \$20 million program called Technology Opportunities in Europe (TOEP). However, because of the program's low use by Canadian firms it was terminated in 1989.

Given its spotty record on S&T collaboration with the EC, the Canadian government starting in 1989 began to approach the EC with a view to negotiating a bilateral S&T agreement.⁷⁵ However, after

the disappointment of TOEP, the renewed impetus from the Canadian side was based on the belief that such a framework agreement would build on and tie together activities that already took place bilaterally and through multilateral forums such as IIASA, IASC, the OECD/CSTP, NATO Science Program and ESA. A 1990 study produced under the auspices of the "Going Global" strategy, called for a more focused approach to bilateral relations with the EC on S&T. The idea was that an Agreement on Cooperation in Science and Technology would facilitate the matching of consortia and R&D networks, the assessment of standards, and the cataloguing of international interests and priorities of Canadian universities and corporations, with a view to permitting Canadian organizations to get access to the Community's S&T programs.⁷⁶

With the Commission receiving the mandate in mid-1992 to negotiate an S&T agreement with Australia, Canada saw a strategic opportunity to push again for its own S&T agreement. In June 1992 the Canadian Government presented a "strengths" paper to the Commission highlighting the scope for S&T partnerships given that many of Canada's strategic sectoral priorities mirrored the Community's.⁷⁷ The Canadian paper noted that with the particular technologies featured in the Community's Third Framework Program there were Canada-EC "complementarities" in light of Canadian strengths in communications technologies, information technologies, the development of telematics of general interest, environmental research and technology development, agriculture, forestry, non-nuclear energy, nuclear research and development, and

biotechnology.

The Europeans appeared interested in taking increasing advantage of the linkage between S&T activities, trade and investment highlighted in the Canadian study for a number of reasons. First, particularly in the high technology sectors, conventional marketing was being replaced by strategic alliances based on licensing, joint ventures, co-production, subcontracting, and marketing arrangements. Second, as the CUFTA and the NAFTA were phased in, the Community recognized that Canada would become increasingly attractive as the entry point into the North American market and, significantly, Canada had a well established community of SMEs which would be attractive to EC SMEs. Undoubtedly, this was one of the reasons why the Commission saw the benefits of having Canada join its BC-Net system, as we discussed in Chapter Three. In early 1993 the Commission received the mandate to negotiate an S&T agreement with Canada, although at that time it was estimated that it would take a year or more for the agreement to get through the Council.

In conclusion, the above discussion demonstrates: (1) the spillover effects of the SEM; (2) the asymmetrical nature of Canada-EC relations, with Canada as the *demandeur*; (3) that the 1976 Framework Agreement had failed to expand S&T relations; and (4) the lack of Canadian private sector in receiving government assistance to participate in EC research programs.

9.6.2 The Impact of the Environment on Canada's Forestry Exports

Between 1991 and 1993, concerns with the environment were at an all-time high internationally. The destruction of tropical rain forests focused attention on the Earth's bio-mass. With 10 per cent of the world's forest products of Canadian origin and half of Canada's landmass consisting of forests, it was perhaps not surprising that the management of Canada's forestry resources were coming under increasing domestic and international scrutiny. To the extent that the Single Market process had raised the profile of environmental issues in Europe, this raised the question of whether Canada's forestry practices affected Canada-EC economic relations in the late 1980s and early 1990s. As it turned out, Canadian forestry practices created a major bilateral Canada-EC economic and political irritant; so much so that, as in the case of the fisheries, this conflict succeeded in overshadowing and undermining the multiplicity of other bilateral contacts.

Before describing the conflicts, it is important to understand that the largest component of exports from Canada's forestry sector come in the "commodity" sectors of lumber, wood pulp and newsprint, as opposed to further value added sectors.⁷⁸ As well, forest industry development within Europe must be recognized such as the growth in newsprint capacity and changes in the EC's preferential arrangements (particularly with regard to the Nordic countries).

To begin, the EC was the world's largest importer of, and Canada's second largest customer (after the United States) for, forest products. As noted previously, Canadian forest product exports to the EC comprised more than a quarter of all Canadian

exports. The reason that access to the European market was vital to Canadian interests was that with net exports exceeding \$19 billion annually making up 14 per cent of Canada's total world exports, the forest products sector was the largest contributor to Canada's balance of trade and the second largest export sector after automobiles.⁷⁹ For this reason, both Ottawa and the provincial governments were very concerned that the Canadian share of the EC market would be deleteriously affected by: the European environmental movement (which had received support from some members of the European Parliament); the EC's technical standards on forestry products; EC phytosanitary and plant health policies; and the prospect that Canada's market share would be eroded by competing European producers at both ends of the value-added spectrum. At stake directly were 45,000 domestic jobs.

Although criticism in Western Europe of Canadian forest products and practices rather than being widespread was concentrated in the UK - where the criticism focused on the issues of recycling and sustainable yield (i.e., destruction of virgin forests) - and Germany - where the criticism focused on acid rain, forest management, and mill effluents⁸⁰, the media coverage both in Canada and the spillover into the European press (pushed by what the Canadian government and industry referred to as "fringe groups"⁸¹) could not be ignored. Canadian government and industry were forced to act, as both the European Commission and the European Parliament increasingly expressed concern over the state of the tropical forests of the world, as well as of Europe's own

forests; environmental standards started to figure prominently on the EC agenda (particularly on the processing with the use of chemicals and preservatives). This occurred despite the fact that historically management of forestry resources had rested solidly with the Member States. As a result of contact between certain Euro Parliamentarians (primarily the Greens and Socialists) and Aboriginal groups in Canada, the European Parliament was exposed to Canadian forestry practices and the issue gained a high visibility. That discussions in the European Parliament⁸² would link national and "domestic" issues such as Aboriginal land claims with disputes over the efficacy of managed clear-cutting in British Columbia and Canada's export quota of newsprint, stung Ottawa particularly hard.

There was also a strong economic anchor - smacking of protectionism to Canadian observers - to the protests of some Euro MEPs who demanded that the Commission initiate anti-dumping actions on both Canada and Scandinavia on the grounds that because their industries were not engaging in ecologically sound forest management practices, they were able to dump pulp on the Community market and thus caused serious damage to the EC's forestry industry.⁸³

In addition to these environmental concerns, there were a number of specific barriers to Canada's exports of forestry products. The EC Construction Products Directive (CPD), put in effect in June 1991 and dealing mainly with codes and standards affecting engineering and design, concerned Canadian industry because it appeared set to precipitate a large number of testing

and certification procedures. The process was driven by the Commission, with technical committees appointed by the EC.⁸⁴ There was some debate on the effect of Eurocode 5 - the attempt to set a common EC building code for wooden structures - on Canadian interests. There was also concern in Canada that the new standards, such as those that applied to fire-testing, might be inconsistent with Canadian standards and that Canadian suppliers could therefore face adjustment problems.⁸⁵ The feeling among EAITC officials was that because the code would be product-neutral (containing no product information) it would not pose a large barrier.⁸⁶ What was of greater concern to Canadian officials was the development of product standards, since, once completed, these Euro-standards would replace Member State standards and would thereby directly affect Canadian interests. Ottawa's approach, therefore, was to get as many Canadian products included in the product standard lists.

In order to ensure that Canada had direct input into the product standards decision-making process, that is, so that Canada would have a say on drafts produced by the European technical committees (TCs) responsible for drafting product standards (including those pertaining to timber), Ottawa made sure that the Confederation of Forest Industries of British Columbia (COFI)⁸⁷, which had an office in London, had representation on the Eurocode technical committees. COFI tracked CEN work on standards through the UK members of CEN such as BSI. Apparently, the impetus to get COFI more intimately involved in standards monitoring came from EAITC which provided COFI with a stream of grants; by 1993 COFI was

one of the few Canadian industry associations still receiving direct subsidies from EAITC.⁸⁸ According to a senior Canadian official who was interviewed, COFI's eight-person London office (reduced to three at the end of 1993) had always acted as a marketing arm of the Canadian forest industry rather than a shop monitoring trade policy issues.⁸⁹ The implication was that Canadian industry was not equipped financially to deal with EC market access issues by itself as the debacle over the Pine Wood Nematode (PWN) worm in 1991 would demonstrate.

9.6.2.1 The Pine Wood Nematode (PWN) and Canada's Lumber Exports

The PWN was one of the most contentious of bilateral EC-Canada issues in the period leading up to the SEM. By 1991 Canada (and the U.S.) had for many years been exporting lumber to the EC, which in that year had a total value of \$1 billion of which \$700 million was so-called "green" or untreated lumber. Lumber was Canada's single biggest export item to the EC.

The pine wood nematode is endemic in North America forests and is primarily found in the pine tree species. The PWN is transmitted from one tree to another by a vector (a beetle) which enters host trees which are weakened or decaying. However, the PWN apparently does not result in significant losses to North America forests due to climatic conditions - the PWN needs a temperature of minus 20 degrees Celsius to develop. (In contrast, the PWN has caused serious damage to Japanese pine forests, where it is widely

accepted that the PWN was transmitted many years ago from North America by the export of full tree logs with bark on.)

Until January 1, 1991, there were no common EC-rules on import conditions for lumber from North America to safeguard against the introduction of the PWN. Some countries required a drying treatment to bring the moisture content down to below 20 per cent - so-called kiln drying. This process was supposed to kill off any PWN, but was considered a time-consuming and costly process increasing with the size of the lumber. Other countries, like the UK which was prime importer, had for 10 years been practicing a less rigorous requirement demanding that the lumber be debarked and inspected for grubholes to verify the possible presence of the PWN. This verification was undertaken by the sawmills in exporting countries - producing the so-called "mill certificate" accreditation.

In the early 1980s Finland detected the presence of PWN in a consignment of Canadian wood (chips), and as a consequence prohibited the entry of coniferous wood from Canada and the U.S.. This led to the request for common EC import rules and the phytosanitary-related requirement to kiln-dry all Canadian softwood lumber, which took effect on January 1, 1992. Thereafter, all imported coniferous wood from North America had to be treated by kiln drying to less than 20 per cent moisture content. However, at that time Canada and the U.S. had insufficient kiln dry capacity to fulfill this requirement. Consequently, the EC granted them a temporary derogation applicable for one year and for ten Member States, allowing them to export lumber under the mill certificate

system under the auspices of Agriculture Canada and USDA.

In the meantime, a joint Canada/Community research program (initiated in 1991) was verifying the effectiveness of the kiln drying requirement and alternative methods including the mill certificate. This research concluded that an effective method to kill PWN and the vector was to pasteurize (heat treat) the wood to obtain a minimum wood core temperature of 56 degrees Celsius for 30 minutes.⁹⁰ These requirements were approved by the Standing Committee on Plant Health (SPC) in July 1992 and were implemented into Community legislation by Commission decision in December 1992. Upon presentation of the results of the scientific study, both Canada and the U.S. in September 1992 requested the above mentioned measures only be applied to high risk species (primarily pines) and that less stringent requirements apply to medium- and low-risk species.

Canada's attempt to have less stringent requirements brought the arguments to a head since the scientific evidence produced by Canada was considered inconclusive by the SPC. The SPC proposed having heat treatment for all high risk species (pine and mixtures) starting in June 1993; making non-pine and non-thula lumber imported into the Community that was under the mill certification program at that time also submit to the heat treatment, but only after a phase-in period of 8-12 months; and allowing large dimension wood to be exempted from the heat treatment until such time that technical developments would allow heat treatment. Canada's reaction was that it wanted to differentiate among species

of wood. The Member States, however, showed no readiness to accept this, with the exception of the large dimension non-pine wood (provided that this type of wood still had a mill certificate). The reason was that the danger of transmission of the PWN from non-pine to pine was considered real.

On the Canadian side, there was much consternation at the Commission proposals and the Member State reactions. Officials responsible for Canada-EC relations at EAITC found themselves spending, in the words of one official at the height of bilateral discussions in the summer of 1992, "80 per cent of his time" on just the PWN issue.⁹¹ Indeed, it was projected that because Canadian industry's capacity for heat treatment was still inadequate, there would be significant disruption in the exports of lumber from Quebec, the Maritimes and coastal British Columbia. Further, the requirement to have all lumber heat treated without allowing Canada (and the U.S.) to justify their case would result in significant increases in the costs of exports to the EC.

TABLE 15: CANADIAN EXPORTS OF LUMBER TO THE EC

Lumber Type Quantity Value (CDN \$000)	1988	1989	1990	1991	1992
Lumber, conif.	3,832,940	3,607,401	4,088,221	3,177,314	2,548,201
	\$721,207	\$695,211	\$834,028	\$662,560	\$625,824
Lumber, Oak	95,420	31,553	22,452	25,482	21,770
	\$50,116	\$22,762	\$16,417	\$15,608	\$16,672
Lumber, Beech	379	552	953	778	868
	\$64	\$161	\$291	\$288	\$270
Lumber, non-conif	84,195	49,348	66,581	63,329	50,520
	\$38,372	\$26,606	\$28,505	\$29,198	\$30,581
Total	4,012,934	3,688,854	4,178,207	3,266,903	2,621,359
	\$809,759	\$744,740	\$879,241	\$707,654	\$673,349

Source: Statistics Canada, Cat. 270-202, 1993.

Based on the above description of the PWN as a bilateral trade irritant, lumber exports was one area where there was a clear causal link between an EC non-tariff barrier and changes in Canada's export patterns to the EC. In 1993, UK inspectors found a PWN larvae which led to a ban on Canadian lumber imports. In Canada's exports to the UK - the largest importer of Canadian lumber - the addition of the higher production costs associated with heat treatment on top of the UK importers' existing requests that Canadian lumber be cut to special sizes, combined to lead to a significant loss in green lumber exports. As Table 15 shows for the aggregate EC market the loss was an estimated \$200 million (based on exchange rates) in green lumber exports between 1990 and 1992 plus an estimated \$100 million in additional losses due to the uncertainty created by the PWN. The hardest hit region of Canada as a result of the PWN was the lumber industry in Nova Scotia; the

least affected region was British Columbia industry since it still had the Pacific market.

As in other bilateral disputes, this Canada-EC trade irritant was taken to Geneva under a draft agreement in the GATT discussions on Sanitary and Phytosanitary Measures (SPS-Agreement). The finding was that the European importer had the right to take protective SPS-measures determined by the level of protection against risks. The importers' measures had to be the least trade restrictive in achieving this objective, not be maintained against available scientific evidence, and be proportional to the risk. It was up to the exporter, however, to demonstrate that his measures were equivalent to the importer's requirements in order to avoid any risk.

Another observation that arises out of the PWN case-study is the role of a key Member State such as the UK with which Canada has a special relationship. As told to this author by a Canadian official, Canadian interests were stymied by one UK official in particular who was responsible for coordinating the EC's forestry research program. It appeared from the example of the UK's position on the PWN, that although Canada could count on the UK to represent its interests on many issues, it could not do so for one that posed so significant a threat to Canadian commercial interests. This should not strike one as surprising especially as the machinery of government in the UK adjusts to increasing integration with the Community machinery and the shift in Britain foreign policy from the Atlantic and Commonwealth to Europe becomes in Wallace's words

"incremental and pragmatic".⁹²

If the EC's phytosanitary restrictions caused Ottawa headaches with regard to Canada's lumber exports, then the situation with Canadian newsprint exports was largely self-inflicted. Together, both highlighted a "double whammy" on Canada's forestry products industry. As indicated, pulp and newsprint was generally traded duty free. There was a quota of 600,000 tons for tariff-free newsprint (worth about \$0.5 billion to Canada at 1992 exchange rates and representing on its own about 5 per cent of the total value of Canadian exports to the EC) beyond which a levy of 4.9 per cent was charged (9 per cent if not waterlined). The story on the Canadian quota, as told to the author by Canadian officials, is that in 1986 Canada's Minister for Trade, James Kelleher, miscalculated when, rather than waiting to see what the Commission would offer in terms of a duty-free quota for Canadian newsprint, went into negotiations with the Europeans and "lowballed" with an offer of 600,000 tons - which the Commission officials to their delight apparently promptly accepted.⁹³ Canadian officials believe that the EC would have accepted a higher Canadian quota, pointing to this as a major bungle that had had ramifications ever since in terms of making Canadian exports less competitive.

What can we conclude from looking at developments in the forest products sector in the period leading up to the SEM? While non-tariff barriers such as environmental concerns (e.g., banning certain grades of Canadian pulp which used processes resulting in unacceptable emissions), standards and certification procedures, and plant health issues such as the PWN, and poorly negotiated

quotas, certainly all had an impact on Canada's most export important sector with the EC, it should be remembered that these were not the only and, perhaps, not the most important factors.

In weighing the relative impact of the SEM on Canada's forestry sector, it should be kept in mind that it was the combination a larger more efficient market being created plus the EC's preferential agreements with other European states that reduced Canadian competitiveness. The outlook for Canadian exports to the EC, although looking reasonably favourable in volume terms in the early 1990s would clearly have been better if there had been an agreement on free trade in forestry products - thus eliminating the duty advantage enjoyed by the EFTA members, notably Sweden, Finland, and Austria. Canada's traditional export products to the EC - paper, paper board, market pulp, newsprint, and unseasoned construction grade lumber - were under increasing competition from new low-cost producers, with only slight growth forecast in the coming two decades⁹⁴; meanwhile, market growth for solid products (e.g., construction grade lumber) was expected to face increased competition from low cost sources such as the Baltics and the Commonwealth of Independent States and the Nordic countries⁹⁵; and the EC and Nordic countries were moving quickly towards self-sufficiency in higher value-added products. Even when Canada attempted to focus on the growth in demand of printing and writing papers, it was clear that Scandinavian producers already dominated the EC market; Canadian suppliers were not easily going displace their innovative Nordic competitors. In short, Canada was in the

uncomfortable position of witnessing market share erosion at both spectrum's of the forestry sector, its most important export sector to the EC.

That being said, other factors may still have had a greater impact on the ability of Canadian suppliers to compete in the EC market than tariffs and quotas (for example, exchange rates, investment climate in Canada, product innovation (R&D), increased capacity in the Southern United States and Latin America and environmental constraints). In terms of the impact of EC tariff barriers, the price effect of EC tariffs on Canadian forest products was offset in the late 1980s and early 1990s by the shift in exchange rates.

In conclusion, the emergence of a Single Market had less of an impact on Canada's forestry sector than it had on, for example, the Canadian telecommunications sector; nevertheless, issues related to the SEM, such as the environment, and the expansion of preferences to the EFTA states and the countries of Central and Eastern Europe, did significantly hinder the access of Canadian forestry products to the EC market. And furthermore, the Canadian forestry industry - accustomed to promoting its goods rather than tracking market access issues - appeared particularly ill-prepared and dependent on the federal government to protect its interests with regard to environmental campaigns launched from Europe and on specific non-tariff barriers such as the PWN.

9.7 EVALUATING THE BUSINESS AND GOVERNMENT RESPONSE TO THE SEM

Given the SEM's breadth, any evaluation of the Canadian response risks being weakened by its lack of precision. Yet, a number of observations can be made and are supported by the statistical evidence in Chapter Eight, the data on the investment decisions of individual Canadian firms, and this chapter's more qualitative discussion of the challenges and opportunities for third countries resulting from the Community's attempt to legislate an end to inefficient non-tariff barriers.

In general, it is striking to discover that despite Ottawa's efforts to respond aggressively to the SEM on first the trade policy front (e.g., calling for global free trade, negotiating reduced tariff rates on those products heavily represented in Canada's export mix to the EC, promoting new regimes on investment and other emerging trade policy issues, and proposing and negotiating bilateral sectoral accords with the Commission) and, second, on the international business front, through "Going Global," the combined results were decidedly mixed. Nevertheless, it is probably too soon after the implementation of the SEM to label the Canadian response as a "disappointment" as was the case with the "Third Option". On the one hand, Ottawa's effort probably did reduce the amount trade diversion at Canada's expense that arose from the economic repositioning leading up to the SEM; on the other, it is unlikely that the Mulroney Government's response would, in the medium- to long-terms, succeed in fundamentally reversing the trend of weakening transatlantic economic links. The reasons are five-fold:

1. Although the SEM first affected large European companies it also had very real ramifications for large non-EC companies in

non-EC markets. However, the breakdown of the Canadian corporate sector indicates the paucity of large, global, and majority-owned Canadian companies. Those that did exist were restricted to those certain sectors (mining, forestry products, engineering) that were less affected by the SEM but more vulnerable to the EC's preferential agreements.

2. Those large Canadian companies capable of responding aggressively to the SEM were in many cases subsidiaries of U.S. firms, and the strategies for the Single Market had already been elaborated by the parent firms.
3. Some of the strong Canadian sectors (mines and resources, forestry, and fishery products) were only indirectly affected by the SEM, although the case of the PWN showed that even an indirect effect could have deleterious domestic economic consequences for Canada. As well, although these sectors may have been less affected by the SEM they were more vulnerable to the EC's growing network of preferential trade accords.
4. Canadian supply was weaker in sectors such as agri-food and public procurement, in which the impact of the Single Market was significant.
5. For many Canadian companies, especially SMEs, the U.S. and Mexico were more obvious markets. This was because the elimination of non-tariff barriers, which was the hallmark of the "1992" program benefitted those Canadian suppliers - usually not SMEs - who could afford to invest in the EC.

As mentioned in Chapter Three, for an evaluation of the Canadian response to have any value a distinction must first be made between how Canadian MNEs and SMEs responded both to the SEM and to Ottawa's planned approach to European economic integration. Historically, Canada's largest, mostly resource and financial services firms had been responsible for the vast majority of Canadian investment and exports to Europe.

The concentration of Canadian trade and investment with Europe in a few MNEs was quite extraordinary and can be discerned from Table 17 in Appendix Three. For instance, it is significant that of the 30 Canadian firms with the largest interests in Europe, 16 were among the 30 most outwardly-oriented Canadian-based firms⁹⁶, and 11 of Canada's 20 largest firms also happened individually to have

made the largest investments in Europe.⁹⁷ Furthermore, based on the survey data compiled by this author on the 253 Canadian firms with the largest interests in Europe and aggregate CFDI data⁹⁸, the eleven Canadian firms with the largest interests in Europe were responsible for approximately 80 per cent of the total investment in the EC between 1988-1992.⁹⁹ And to reinforce the point even more, it is instructive to recall that if 60 per cent of Canada's exports were from 20 of Canada's largest firms, we may surmise that the same large Canadian multinationals (listed in Table 17) responsible for the preponderance of CFDI in the EC were also responsible for the majority of Canadian exports to the region.

Thus, what the emergence of the SEM did was to further increase the concentration of Canadian MNE activity in Canada's investment and trade patterns with the EC, something that may not have been anticipated or planned by Ottawa in its focus on SMEs and its desire to diversify transatlantic links across all firm sizes.

9.7.1 The Role of Canadian SMEs

TABLE 18:

INTERNATIONAL SECTOR	TECH. U.S.	ALLIANCES EC	OF JAPAN	CANADIAN OTHER ^A	FIRMS, TOTAL	1990- 91	% DISTR.
Advanced materials	10	10	2	2	24	15	
Biotechnology	16	27	3	2	48	30	
Electronics	16	30	10	10	66	41	
Transportation	9	8	4	1	22	14	
Total	51	75	19	15	160	14	
Total (%)	32	47	12	9	100		-

Note: ^AMostly Korean firms; there were no Mexican firms among the "other".

Source: From Table 12 in J. Niosi, "Foreign Direct Investment in Canada," in Lorraine Eden, ed., *Multinationals in North America* (Calgary, Alberta: University of Alberta and Industry Canada, 1994), p. 382.

But, as Table 18 above shows, there were some positive benefits to Canada's state-led response to the SEM. Indeed, of Canada's international alliances, Europeans were by far the most popular partners. During the 1980s, the number of strategic alliances formed by European firms increased dramatically, partly in response to research and development programs and regional initiatives. From 1990 through 1991, Niosi indicates that Canadian firms concluded more foreign technical alliances with the EC than with American partners. Table 18 shows that alliances with EC partners constituted almost half the total foreign alliances of Canadian firms. American alliances were less numerous than EC alliances across the board, except in transportation equipment. In short, after 1989, there was a significant shift of Canadian MNEs abroad but, despite the CUFTA, Canadian investors considered the EC to be at least as good a destination as the United States.

The findings on strategic alliances - for example, those between BCE/Northern Telecom group in Europe (with Matra in France and Mercury in Britain) and Bombardier (with the Transmanche consortium and Aérospatiale in France) as well as the lure of small Canadian biotechnology firms that attracted large European pharmaceutical firms (like Allelix, and Biochem Pharam) - can be explained by the complementarity of European and Canadian industries. It can also be explained by the more widespread use of strategic alliances in the EC than in the United States through the many inter-European programs launched since 1984, including the previously discussed EUREKA S&T program and the SME-oriented BC-Net (to be discussed below).

Although strategic alliances were up, what Ottawa apparently could not do was to induce Canadian SMEs to form alliances with EC

firms. As noted in Table 17, the Canadian partners of international alliances were most often large corporations with significant FDI. Of course, it is true that certain SMEs, particularly in the technological sectors such as computers or telecommunications or biotechnology adopted measures to reinforce their presence in the EC through alliances, but this appears to have been the exception rather than the rule.

But the rather discouraging response of Canadian SMEs to Ottawa's inducements to penetrate Community markets and to participate through strategic alliances in Community S&T programs, rather than causing federal officials to move resources out of Western Europe to other regions, instead appeared to strengthen the resolve of the Government. It so happened that in the late 1980s while the Canadian Chamber of Commerce was exploring the modalities of mechanisms to help its membership exchange trade leads and strategic alliance information through electronic means, the EC was at the same time exploring ways of linking the SMEs of the Member States. At that time, the Commission's SME matching system, known as BC-Net, was not yet open to third countries such as Canada. It was this focus on the promotion of strategic alliances for SMEs that in July 1993 led to the accession of Canada to the European Commission's BC-Net, for the first time allowing Canadian SMEs to be linked to the EC's SMEs.¹⁰⁰ The rationale on the Canadian side was that the BC-Net was consistent with both government and business strategies to help Canadian SMEs, which, as mentioned earlier in Chapter Eight, flowed from the belief by Canadian decision makers that Canada would only be brought out of its recession in the late 1980s and early 1990s through an export- and investment-led economic recovery spearheaded by SMEs.

The state-led nature of the BC-Net initiative was readily apparent. Ottawa hoped that this program would help to diversify Canada-EC relations away from their state-to-state character by creating a separate channel for Canada-EC business links. Although the Canadian dimension of BC-Net was promoted as a "private sector-led" initiative with the Canadian Chamber acting as the private sector link in Canada and was "supported" by the federal government departments of Industry, Science, and Technology Canada (ISTC), EAITC, as well as the provinces of Ontario, Quebec, British Columbia, and Nova Scotia, it should be noted that neither the Chamber nor any other Canadian private sector actor evinced any interest in setting up this transatlantic business network independent of government funds. In fact, the Chamber only agreed to act as the Canadian business partner once it was assured by the Industry department that it would not be responsible for the start-up costs. This was in stark contrast to the Chamber's willingness to pursue setting up private sector trade offices in the United States, something it presumably could ask its 170,000 members to support.¹⁰¹

Interestingly, the focus on joint ventures between Canadian and EC firms - through the mechanism of business cooperation centres - had been called for nearly 20 years before at a forum on Canada-EC relations.¹⁰² As noted by Hodges at the time, while governments propose, non-governmental actors "dispose, negate or bring to fruition links set up at the governmental level".¹⁰³ Thus, the success of the BC-Net in fortifying non-governmental Canada-EC ties would rest largely on the interest of Canadian SMEs in pursuing commercial opportunities. Canada's historical track-record in this regard was not good.

Another point that emerges from the creation of BC-Net is that not only was it not private sector-led, but the lead government department was ISTC (since it was responsible for the government's SME strategy)¹⁰⁴ and not EAITC, further reinforcing the thesis, outlined in Chapter Three, that the management of Canada's foreign and trade policy was increasingly becoming fragmented. That being said, the almost corporatist character of BC-Net fit nicely into the calls by both the federal government and the private sector for a new form of public-private sector partnership in the promotion of Canada's commercial interests abroad.

In sum, the Mulroney Government's response to the SEM between 1986 and 1993 did not appear as of this writing in 1994 to have made any significant changes in the way Canada's business community reacted to the SEM. This is because the state's programs targetted SMEs, yet the vast majority of the investment, exports and strategic alliances was undertaken by Canada's few large MNEs. Indeed, it would be expected that with the major Canadian MNEs (Bombardier, Northern Telecom, Seagram, and McCain) having already made most of their investments in the EC before 1990 (see Table 17 in Appendix Three and cross-reference with aggregate investment flows in Table 9 in Chapter Eight), the fear of Canadian officials would come true, namely, that Canada would become an increasingly residual supplier to the EC market.

In the past, it was suggested that the "Third Option" had failed because it was state-led, yet the case of the Canadian response to the SEM suggests that there was not so much of a "failure" on the part of government as there was relative disinterest on the part of private actors due to the structural make up of the Canadian economy.

9.8 CONCLUSION

A number of conclusions may be drawn from this chapter. First, while the creation of the SEM may have removed many of the statutory barriers, it also revealed in starker terms many of the structural impediments that existed in Europe.

Second, as difficult as it was to measure empirically the impact of the SEM on specific Canadian industries because the evidence was often fragmentary and anecdotal, in the case of the PWN the case study in this chapter showed that there was an unambiguous link between this non-tariff barrier and the precipitant drop in Canadian lumber exports to the Community between 1990 and 1992.

Third, it appeared that Canada's responses to the SEM were both similar to, and different from, those of its larger neighbour, the United States, and those of other middle powers to which it is frequently compared, notably, Australia and New Zealand. It is not hard to see why. Although each country was in the proverbial "third" concentric circle in terms of the EC's external relations and therefore had similar general concerns about the third country impact of the "1992" program's horizontal measures, there were clear differences in these countries' sector-by-sector level of response to the SEM since each country had qualitatively and quantitatively different export and investment profile in its relations with the Community. For instance, Canada was less concerned about the SEM in terms of automotive parts exports in

comparison to the United States and Japan, although it shared these same countries' concerns about access to European telecommunications markets; Canada was less concerned about agricultural exports (although they were of course still important) in comparison to, say, Australia and New Zealand; but it was certainly much more concerned about phytosanitary requirements than were the United States, Japan, Australia and New Zealand. Third,

Fourth, spillover from the 1992 process raised contentious issues in specific sectors such as European concerns about plant health in terms of Canadian lumber shipments, which often occurred against a background of existing trade frictions such as European and Canadian environmental campaigns to force changes in Canadian forestry practices.

Fifth, the response of the Canadian business community was most highly visible by the reactions of a handful of Canadian multinationals; the response from SMEs was generally one of indifference given the pull of the U.S. market in the aftermath of the CUFTA.

And finally, as vexing as bilateral trade problems were for both Ottawa and Brussels, the major bilateral issue between 1987 and 1993, was not directly related to trade or the SEM: The fisheries dispute puts into perspective the overall impact of the SEM on Canadian economic interests in Europe.

NOTES

1. The four main elements of the Community having potential effects on exporters and investors, either directly or through some modifications in the Community's external trade policy, were: (1) the abolition of border controls and rules of origin; (2) the elimination of technical barriers; (3) the opening up of public procurement; and (4) the Community trade instruments
2. C.F. Michael Calinghart, *The 1992 Challenge from Europe* (Washington: National Planning Association, 1988).
3. This is not to say that agriculture was not an important bilateral sector. It was important in assessing EC and Canadian positions in the multilateral trade negotiations. See Hans Michelmann, *The Political Economy of Agricultural Trade and Policy: Toward a New Order for Europe and North America* (Boulder, CO: Westview Press, 1990).
4. See Gary C. Hufbauer, "An Overview," in G.C. Hufbauer (ed.), *Europe 1992: An American Perspective* (Washington, D.C.: Institute for International Economics, 1990).
5. C.F. John Dunning, "MNE Activity: Comparing the NAFTA and the EC," in Lorraine Eden, ed., *Multinationals in North America* (Calgary, Alberta: University of Calgary Press, 1994), esp. pp. 279-284; and G.N. Yannopoulos, *Customs Unions and Trade Conflicts: The Enlargement of the European Community* (New York, N.Y.: Routledge, Chapman & Hall Inc., 1988).
6. Ali M. El-Agraa, "Japan's Reaction to the Single Internal Market", in Redmond, pp. 13-17. Here El-Agraa provides a good review of the various projections for trade creation and trade diversion that have been attributed to the SEM.
7. Redmond, "Introduction", p. 5.
8. Trade diversion arises when a European firm replaces a lower cost third-country supplier with a European supplier due to the removal of non-tariff trade barriers in intra-Community trade. Trade creation occurs when the EC increases its imports from third countries because of the economic growth generated by the Single

Market program.

9. V.D. Norman, "EFTA and the Internal European Market," *Economic Policy*, 9 (1989), pp. 423-466.
10. See M.W. Davenport (with S. Page), *Europe: 1992 and the Developing World* (London: O.D.I., 1991).
11. See Commission of the ECs, *Completing the Internal Market: An Area Without Internal Frontiers* (Brussels: COM (88) 650); and Cecchini, P. 1992: *the European Challenge* (London: Gower, 1988). For a more technical appraisal of impact of the SEM on growth rates, see M. Emerson, et al., *The Economics of 1992: the EC Commission's Assessment of the Economic Effects of Completing the Internal Market* (Oxford: Oxford University Press, 1988).
12. Robert Baldwin, "The Growth Effects of 1992," *Economic Policy*, Vol. 2, pp. 247-81.
13. A rigorous specification of these reservations can be found in A.M. El-Agraa, *The Theory and Measurement of International Economic Integration* (London: Macmillan, 1989) and A.M. El-Agraa, *The Economics of the European Community*, 3rd ed. (Hemel Hempstead: Simon & Schuster, 1990), Chs. 4 and 5.
14. Michel Demers and Fanny Demers, "Europe 1992", *Canada Among Nations 1992-93* (Ottawa: Carleton University Press, 1992), p. 196.
15. G.N. Yannopoulos, *Customs Unions and Trade Conflicts* (London: Routledge, 1988).
16. Bob Merner, Counsellor Commercial, Canadian High Commission, Confidential Interview, July 31, 1994.
17. In "United States External Adjustments and the World Economy," (Washington: Institute for International Economics, 1989), William Cline (pp. 172-74, Tables 4A.2, 4A.3) estimates that U.S. exports' income elasticity to Europe is 1.9.
18. Calculated as follows: (1992 Canadian exports to the EC, \$11.5 billion) times (assumed income elasticity of European demand for Canadian exports, 1.5) times (Commission medium-term macroeconomic gains, 4.5 per cent) equals \$776 million.
19. Michael Emerson and others, "The Economics of 1992, European Economy, no. 35, (Luxembourg: European Communities Directorate-General for Economic and Financial Affairs, March 1988), Table A.5.

20. Canadian officials told this author that they had by 1993 already begun to see this type of additional competition on clothing exports where dresses made in Canada were slapped with a 14 per cent tariff rate and were uncompetitive against the same type of products being exported within the Community from Greece and Italy. Interview with Cécille Latour, Counsellor (Commercial), Canadian High Commission, July 31, 1994.

21. Stephen Woolcock identifies four broad categories of "barriers to market access": tariff barriers, two types of non-tariff barriers ("industrial policy-related" and "regulatory policy-related"), and structural impediments. As was shown in the previous chapter, tariff barriers have been significantly reduced through the GATT trade negotiations over the past 30 years. What Woolcock calls "industrial policy-related non-tariff barriers" are all those governmental measures that are specifically aimed at promoting international competitiveness of an industry or company, or providing protection from import competition. The "regulatory policy-related non-tariff barriers" are those that result from national regulatory policy. See Stephen Woolcock, *Market Access Issues in EC-US Relations: Trading Partners or Trading Blows?* (London: Chatham House Papers, Royal Institute of International Affairs, 1991), Chapter 1.

22. Daniel Schwanen, "Were the Optimists Wrong on Free Trade? A Canadian Perspective," *Commentary*, No. 37, (Toronto: C.D. Howe Institute, October 1992), p. 2.

23. Hanover Summit Communiqué, June 1988; and the Rhodes Summit Communiqué, December 1988.

24. Speech by Willy de Clerq, "The European Community in a Changing World", Fundacion Jorge Esteban Roulet, Buenos Aires, 2 August 1988.

25. Commission of the ECs, *Europe 1992: Europe World Partner* (Information Memo P-117, October 19, 1988).

26. As quoted in John Redmond, "Introduction", in *Ibid.*, p.4.

27. Michael Smith, "The United States and 1992: Responses to a Changing European Community," in John Redmond, (ed.), *The External Relations of the European Community: the International Response to 1992* (New York, NY: St. Martin's Press, 1992), p. 36.

28. Redmond, p. 4.

29. Smith, p. 36. and endnote 13.

30. On Japan's reaction see Ali M. El-Agraa, "Japan's Reaction to the Single Internal Market," in Redmond, ed., pp. 12-30.

31. For an analysis of Australian and New Zealand responses to the SEM see Juliet Lodge, "New Zealand, Australia and 1992", in Redmond, ed., pp. 161-176.
32. Demers and Demers, p. 193.
33. *Ibid.*, p. 195.
34. Juliet Lodge, New Zealand, Australia and 1992 in John Redmond, ed., *The External Relations of the European Community* (London: Macmillan Press Ltd., 1992), p. 165.
35. Confidential document, International Economic and Trade Policy Issues, Quarterly Preview, October - December 1989, from John L. Paynter, ADM, Economic and Trade Policy Branch, EAITC.
36. The use of a broad definition of market access issues is borrowed from Stephen Woolcock, *Market Access Issues in EC-US Relations: Trading Partners or Trading Blows?* (London: Chatham House Papers, Royal Institute of International Affairs, 1991), Chapter 1. Woolcock points out that a narrow definition of "market access" was used in the Uruguay Round of trade negotiations in the GATT, in which a number of negotiating groups -including tariffs, non-tariff barriers, agriculture, and textiles and clothing - are referred to as the "market access issues". A broader definition of market access as used in this paper includes all those questions being addressed in the other negotiating groups, such as services, investment, government procurement, and standards.
37. See Robert Stranks, "Outward Direct Investment: Implications for Domestic Employment," *Commentary*, (Ottawa: Policy Staff, EAITC, March 1994).
38. This recognition prompted a flurry of private and public-sector financed studies between 1991 and 1992 that examined ways of improving Canada's international competitiveness. CF *Prosperity Final Report* (Ottawa: Industry Canada, 1992), Alan M. Rugman and Joseph D'Cruz, *Fast Forward: Improving Canada's International Competitiveness* (Toronto: Kodak Canada Inc., 1991); and Michael E. Porter and the Monitor Company, *Canada at the Crossroads: The Reality of a New Competitive Environment* (Ottawa: Business Council on National Issues, 1991).
39. For a bureaucrat's perspective on the changing international business environment and investment's role therein, see Andrew Griffith^b, Section III.
40. Andrew Griffith^b, p. 89.

41. Lynn K. Mytelka, "Strategic Alliances," in Fen Osler Hampson and Christopher J. Maule, eds., *Canada Among Nations, 1993-94: Global Jeopardy* (Ottawa: Carleton University Press, 1993), p. 129.

42. On the shift away from trade promotion to monitoring and reacting to market access barriers, See Evan H. Potter and Murray G. Smith, "Trade Policy and Trade Development: Making the Market Access Connection," a discussion paper prepared for the International Business Studies Division at EAITC on the occasion of the 100th anniversary of the Trade Commissioner Service, July 1994.

43. Griffith^a, Appendix. It is noteworthy that under the "Going Global" program only \$135 million was allocated for the promotion of CFDI to Asia Pacific.

44. Pentland, in *Canada Among Nations*...pp. 139-40.

45. Ottawa did not have to wait too long after the entering into force of the EC Merger Regulation in September 1990 to feel its effects. In its first two years, the Commission's Merger Task Force reviewed 136 notifications and of that total, only one - the proposed acquisition of DeHavilland aircraft company of Canada by France's Aerospatiale and Italy's Alenia - was blocked. For an excellent summary of the major issues at play in this case, see Industry Canada, Micro-Economic Policy Analysis Staff, "Formal and Informal Investment Barriers in the G-7 Countries: Countries Chapters," *Occasional Paper*, No. 1, Vol. 1 (May 1994), pp. 286-289.

46. CF. *Moving Into Europe* (Ottawa: EAITC, 1991); *Link '92: The experience of successful Canadian companies in Europe: United Kingdom, France, Germany, the Netherlands* (Ottawa: EAITC, 1991); *The European Community: A Canadian Perspective* (Ottawa: EAITC, September, 1989); *1992: Implications of a Single Market. Part I* (Ottawa: EAITC, April, 1989); *Europe 1992: Your Business Opportunity* (Ottawa: EAITC, 1989); *The European Economic Community: A Guide for Canadian Exporters* (Ottawa: EAITC, 1989).

47. In the summer of 1992 the author conducted a survey of 253 Canadian firms with major interests in Europe (based on a confidential list provided to him by an official at EAITC). The spokespersons for the contacted firms were asked to describe their companies' history in the EC market, to describe the types of investments that their companies had made before 1986 and after 1986 (including the names of the European partners or acquisitions), and to detail what the SEM meant for their industry sector. Where possible the interviewees were asked to provide the dollar amount of their investments. The top 30 Canadian firms with interests in Europe are reflected in Table 17 in Appendix Three.

48. Paolo Cecchini with Michel Catinat and Alexis Jacquemin, *The European Challenge 1992 - The Benefits of a Single Market*, (Aldershot, UK: Wildwood House, 1988).

49. Between 1968 and 1985 the EC adopted a total of 270 standards directives. See Stephen Woolcock, Michael Hodges, and Kristin Schreiber, *Britain, Germany and 1992: The Limits of Decentralization* (London: Royal Institute of International Affairs, 1990), Ch. 4.

50. CEN: European Committee for Standardization; CENELEC: European Committee for Electrotechnical Standardization; ESTI: European Telecommunications Standards Institute.

51. Woolcock, Hodges, Schreiber, p. 47.

52. Correspondence from George Archer, President of Standards Council of Canada to John Mogg, Deputy Director General, Directorate General for Internal Market and Industrial Affairs, Commission of the European Communities, February 6, 1991, p. 1.

53. Beginning in 1991 Canadian firms through the Standard Council of Canada were given the opportunity to comment on various standards proposals before they were passed at the various technical committees at CEN and CENELEC.

54. On EC-US approaches to standards and certification, see Stephen Woolcock, *Trading Partners or Trading Blows: Market Access Issues in EC-US Relations: Trading Partners or Trading Blows?* (London: Pinter Publishers Ltd., 1991), Chapter Six.

55. *Ibid.*, p. 71.

56. *Ibid.*, Ch. 5 on public purchasing.

57. A broad statement such as this must be qualified, however. Canadian officials have repeatedly expressed their frustration at the fact that even though Canadian business has been provided with the opportunity to bid on Community public procurement contracts there has been little interest.

58. Woolcock, Hodges and Schreiber, Ch. 5 "Telecommunications", p. 59.

59. For a good summary of Canada's telecommunications industry see Steven Globerman, Hudson N. Janisch, Richard J. Schultz and W.T. Stanbury, "Canada and the Movement Towards Liberalization of the International Telecommunications Regime," in Claire Cutler and Mark W. Zacher eds. *Canadian Foreign Policy and International Economic Regimes* (Vancouver, B.C.: Univ. of British Columbia Press, 1992) pp. 237-285.

60. "Overview of Telecommunications Policy Developments: Canada and the European Community," (Ottawa: Delegation of the European Communities, April 1993), p. 1.

61. The joint venture fell within the scope of the EEC Merger Regulation since the four main sectors affected by the transaction, namely, public switching, private switching, telephone sets, and mobile telephony, were felt to be in largely different geographic areas. *European Community News*, Delegation of the European Communities, Ottawa, August 12, 1992.

62. Its non-North American sales accounted for less than 5 per cent of total sales. See Fernand Amesse, Louise Séguin-Dulude & Guy Stanley, "Northern Telecom: A Case Study in the Management of Technology," in Steven Globerman, ed., *Canadian-Based Multinationals* (Calgary: University of Calgary Press and Industry Canada, 1994), p. 439.

63. K. Knubley, M. Legault, and S. Rao, "Canadian Foreign Direct Investment in North America," in Lorraine Eden, ed., *Multinationals in North America* (Calgary: University of Calgary Press and Industry Canada, 1994), p. 86, Table 4.

64. The attraction of the EC for Northern Telecom apparently was that it expected Europe's telecommunications market to grow at a rate of three times that of the U.S. domestic market from 1991 to 1995. Amesse et al., pp. 439-440.

65. A 1986 U.S. Dept. of Commerce report states that in Germany local suppliers benefit from elaborate technical requirements although there is no "buy Germany" bias per se; it has been very difficult for foreign suppliers and their French subsidiaries to get approval from the French Directorate General of Telecommunications. At the time of this report, there had been no opportunities for North American firms to bid on central office switch contracts in France.

66. Confidential report prepared for the European Community division (RWM) at EAITC, June 1990.

67. The major value-added telecommunications services provided in Canada were mostly provided by US or EC-controlled firms such as Motorola, Novatel and Ericsson-GE Mobile Communications.

68. Shannon Day, "Canada Risks Sideswipe in U.S., EC Telecom Spat," *The Globe and Mail*, June 30, 1993.

69. This was the conclusion of the Royal Bank of Canada in its February 1992 report, "Is Canada Ready for Europe 1992?" *Econoscope*, Vol. 16 No. 1.

70. Royal Bank of Canada, "Is Canada Ready for Europe 1992?" *Econoscope*, Vol. 16 No. 1 (February, 1992).

71. *Agence Europe*, No. 4775, p.8.

72. The countries of Eastern Europe occupied the second tier, after the EFTA nations, in terms of access to EC S&T programs, a fact not lost on Canadian officials responsible for developing Canada's S&T policy approach in Europe.

73. Department of External Affairs and International Trade, 1994-1995 Estimates, Part III (Ottawa: Ministry of Supply and Services, 1994), p. A-115.

74. On Canadian access to Community high-technology projects, see J. William Galbraith, "Eureka: What Implications for Canada-EC Technology Relations?", *Journal of European Integration*, Vol. 11, Nos. 2-3 (Winter/Summer), pp. 141-161.

75. Canada as a third country could only negotiate at the project-not the program-level of the European Framework Program. What this meant was that a Canadian firm could bid on an EC project as long as there were at least two other EC partners. The author thanks John Klassen, Director, European Community division (RWM) at EAITC for this point.

76. See *Canadian Science and Technology: Moving Forward to Cooperate with the Research and Technological Development Framework Programs of the European Community* (Ottawa: Government of Canada, June 30, 1992).

77. *Ibid.*

78. The other forestry products sectors consist of other papers, and paper board; the value-added paper products category includes: (1) the likes of corrugated containers, folding cartons, packaging products; (2) sanitary tissue and other consumer disposables; (3) specialty commercial paper; (4) specialty institutional paper; and (5) wallpapers.

79. Michael Hart, *Trade - Why Bother?* (Ottawa: Centre for Trade Policy and Law, 1991), pp. 14, 17.

80. Report on the Meeting of Canadian Forest Products Commercial Offices in Western Europe, Brussels, 21-22 May 1991, pp. 7-8.

81. *Ibid.*, p. 8

82. On the question of newsprint, in 1993, Palu Lannoye, co-president of the European Parliament's Green Group and also a member of the EP's "delegation for relations with Canada", called for the suspension of the preferential import rate into the Community of Canadian newsprint. In addition to the Canadian government, Canadian multinationals in the forestry industry (especially McMillan Bloedel, International Forest Products and British Columbia Forest Products) were blamed for the negative consequences of the destruction of primary forests on Aboriginal populations. *Europe*, No. 6091, Friday, October 22, 1993. See also European Parliament, Delegation for Relations with Canada, Political Affairs Committee, "Broken Promises: Canada and its Aboriginal Peoples", January 8, 1992, a paper by Gijs de Vries, Chairman of the EP delegation for relations with Canada; European Parliament, Session Documents, "On the Massive Deforestation Caused by Timber Felling in Canada," July 10, 1992, B3-0898; and also questions by Euro MPs on Canadian forestry management in *Official Journal*, No C 195/6-7, 19. 7. 1993; *Official Journal*, No C 65/28, 8. 3. 1993; and *Official Journal*, No C 51/19, 22. 2. 1993.

83. *Europe*, No. 6052, Saturday, August 28, 1993.

84. Government of Canada, *Report on the Meeting of Canadian Forest Products Commercial Officers in Western Europe* (Brussels: Government of Canada, 21-22 May 1991), p. 32.

85. Fanny S. Demers and Michel Demers, "Europe 1992: Implications for North America", in Fen Osler Hampson and Christopher Maule (eds.), *Canada Among Nations 1992-93: A New World Order?* (Ottawa: Carleton University Press, 1992), p. 200.

86. Report on the Meeting of Canadian Forest Products., p. 32.

87. COFI is the major vertical industry association of the lumber producing industry as such its focus is different from the powerful Canadian Pulp and Paper Association whose members comprise the value-added components of the forestry products sector.

88. For example in the fiscal year 1992-93 COFI received \$395,891 in grants from EAITC. *Foreign Affairs and International Trade Canada, 1994-95 Estimates, Part III Expenditure Plan*, (Ottawa: Minister of Supply and Services, 1994), p. 116-III.

89. Bob Mercer, Counsellor Commercial, Canadian High Commission in the UK, July 31, 1994.

90. Thuja wood was excluded from this requirement not being susceptible to infestation with PWN and could therefore continue to be exported under the mill certificate.

91. Interview, John Klassen, Director, RWM, at EAITC, June 14, 1994.

92. See William Wallace, *Britain's Bilateral Links within Western Europe* (London: Royal Institute of International Affairs, 1983), esp. Chapter 3.

93. *Ibid.*

94. According to study by Woodbridge Reed & Associates, December 1988.

95. As an example of the latter trend, in 1993, 45 per cent of Scandinavian forestry exports to the EC were in solid wood; Canada's share of solid wood exports had dropped to 15 per cent of its total forestry exports to the EC.

96. Appendix 2 "List of Top Outwardly-Oriented Canadian-Based Firms," in "Canadian-Based Multinationals: An Analysis of Activities and Performance," *Working Paper Series*, Working Paper No. 2, (Ottawa: Industry Canada, July 1994). The top 30 includes the Canadian subsidiary of Ford Motor Co.

97. This figure is achieved by cross-referencing list of 20 largest Canadian-based firms and list of 20 Canadian firms with largest interests in Europe as detailed in Table 17 in the Appendix. For list of largest Canadian-based firms, see John Knubley, Marc Legault, and Someshwar Rao, "Multinationals and FDI in North America," in Lorraine Eden, ed., *Multinationals in North America* (Calgary, Alberta: University of Calgary Press and Industry Canada, 1994), p.166.

98. This figure was derived from a list of 253 firms with major interests in Europe that was compiled by the European Community Division of EAITC in July 1991, and passed to the author.

99. The author conducted a telephone survey of 253 Canadian firms with major interests in Europe (from a list provided to him by EAITC) in the summer of 1992. The interviewees were asked to describe their companies' history in the EC market, to describe the type of investments that their companies had made before 1986 and after 1986 (including the names of the European partners or acquisitions), and to detail what the SEM meant for their industry sector. Where possible interviewees were asked to provide the dollar amount of their investments.

100. BCNet is now linked to over 23 non-EC countries in the world. Since 1988 it has helped over 38,000 businesses find new markets, undertake joint research and development, co-manufacturing and co-marketing, as well as helping SMEs to identify investors and arrange transfers of technology. "Canada Links up with International Business Network," *Press Release*, Toronto, January 26, 1994, p. 1.

101. On this point it should be noted that the agreement between the Chamber and the government and provincial partners calls for the Canadian BC-Net to be self-financing by 1995.

102. Michael Hodges, "Canada and the European Communities: Problems in the Management of the North Atlantic Interdependence," in *Les Relations Exterieures de la Communauté Européenne: Le Cas Particulier du Canada* (Montreal: Université de Montréal, July 1975), p. 54-55.

103. *Ibid.*, p. 56.

104. Frank Deeg, interview, Mr. Deeg, Commercial Counsellor at the Commission's delegation office points out that the inclusion of Canada in BCNet was not an industry-led initiative as the press release announcing the initiative would suggest. In fact, ISTC had approached the Chamber, just before its year-end when it had surplus funds that it would have had to return to the Treasury Board, and asked if the Chamber would be interested in acting as the private sector link with the financial support of ISTC.

CHAPTER TEN

PROSPECTS FOR NEW ECONOMIC AND SECURITY ARRANGEMENTS IN CANADA-EC RELATIONS**10.1 INTRODUCTION**

Thus far in this study we have examined and appraised the Canada-EC relationship from a Canadian perspective in a number of fashions: historically, by outlining Canada's approach to West European integration from the immediate aftermath of the Second World War to the formation of the Common Market; by charting the vicissitudes of the Trudeau and Mulroney governments' differing approaches to the EC, from the STAFEUR Report, through the 1976 Framework Agreement and to the negotiations leading to the TAD; and by looking at the state of bilateral economic relations as well as the impact of the SEM.

The purpose of this chapter is quite ambitious. It is to bring the post-TAD economic, political, and security strands of Canada-EC relations together. The backdrop to the Canada-EC relations is, of course, the uneven progress and nature of post-1990 European integration until the ratification of the Maastricht Treaty in November 1993. Since a veritable academic and policy industry has arisen on European integration¹, this chapter will only address details of European integration as they pertain to Canada's larger European interests.

The first section of this chapter examines Canada's interests

in the context of its relations with the Triad. As this study has shown, Canada was historically vulnerable to problems in U.S.-EC relations and, as Japan's economic might grew, felt (albeit to a far less extent) the problems in U.S.-Japan and EC-Japan relations as well. As we shall explain, this was a symptom of three more deep-seated structural features of transatlantic economic relations, such as the relative increase in the economic muscle of the EC compared to the United States, the loss of Canada's Atlanticist influence, and continued growth in economic interdependence without commensurate progress in policy convergence between Canada and the Community. This raises questions about the respective roles of Canada and the EC in the world economy and how they coped with the linkage between domestic structure and demands of ever more integrated economies.

The second section, following from Chapters Eight and Nine, looks at the options Canadian decision makers faced as they sought to reconfigure the economic framework for Canada-EC relations in light of the inadequacy of traditional bilateral and multilateral institutional mechanisms and the EC's growing economic power as a result of the SEM. This section therefore provides an evaluation of five different scenarios contemplated by Ottawa in the early 1990s as a new basis for Canada-EC economic relations, including a Canada-EC free trade agreement and a NAFTA-EC free trade zone.

Since this chapter is concerned with the transatlantic security debate only in so far as it has affected Canada-EC relations, the analysis on this dimension of bilateral relations

will be necessarily brief. This is not to say, however, that the nature of transatlantic security - as the historical record shows (e.g., the Trudeau government's position on NATO) - was unimportant in the evolution of bilateral relations between 1989 and 1993. Certainly, the economic dynamic of the relationship still far outweighed the political and security dimensions, although the TAD had shown that there was now interest on both sides to broaden contacts. Indeed, the Common Foreign and Security Policy (CFSP) "pillar" of the Maastricht Treaty promised to precipitate more, not less, interaction between Canada and the EC on European and international security issues. For the first time in their respective bilateral histories, each party would face the other across a broader range of bilateral security issues running the gamut from the "hard" security issues of non-proliferation and arms control to the ascendant "soft" or "cooperative security" issues, including sustainable development, peacekeeping, promotion of good governance and human rights, and the problem of refugee flows. The problem was that as the Community attempted to extend its competencies into the security and defence domains, it was difficult to reconcile the Europeans' search for greater independence in security and defence policy with a continued, active North American involvement in Europe's security architecture through the traditional Atlantic institutions of NATO and the CSCE. From the Canadian perspective, then, there was some confusion as to the appropriate European institutions with which to pursue the "hard" and "soft" tracks of transatlantic security relations. In

terms of bilateral Canada-EC relations, the question was whether Ottawa saw the Commission becoming as important a "security" player as NATO and the CSCE. And, if so, how would the intersection of West European (e.g., WEU, Eurocorps) and Atlantic security institutions affect Canada's security interests?

Finally, this chapter concludes that Canada-EC relations past, present and future can only be understood in the wider context of Canada's bilateral relations with the Member States (both major and minor) and the participation of both Canada and the EC and/or its Member States in various multilateral forums, whether security-related as in NATO and the CSCE or economic as in NAFO, the G-7 and the GATT.

10.2 CHANGING HEGEMONS: THE EC IN A MULTINODAL WORLD

As noted by Woolcock, the EC's trade and investment relations with the outside world are characterized by two contradictory trends. On the one hand there is an ever closer economic interdependence which creates a high level of policy interdependence.² On the other hand, there appears to be a tendency towards increasingly fractious political relations associated with claims and counter-claims about the construction of regional trading blocs. The global trading system is radically different if we consider Europe as a single unit rather than the sum of its constituent parts. As it devotes more and more of its attention to a pan-European preferential trading area, there is a greater tendency for the EC to shape the

international system rather than for it to be a passive taker.

The EC's claim to global powerplayer status - a fact that had been hotly debated in the 1970s (e.g., "civilian superpower"³) - appeared legitimate finally with the "1992" program and the move toward monetary and political union. This status was now less controversial and a more empirically supportable assertion. Indeed, a fundamental change in the world economy was the growing weight of the EC. The EC's population of 340 million was more than 12 times larger than Canada's, almost 100 million times larger than that of the United States, and more than 200 million larger than Japan's. Until the ratification of the NAFTA, the EC represented the largest trading area in the world, with a total GDP that exceeded (U.S.) \$6 trillion in 1991. Community competence, as pointed out in this study, had also been extended to more and more policies of relevance to international commerce, creating a magnet effect on neighbours.⁴ If the GDPs of all the EFTA Member States were added to the EC's GDP to create the European Economic Area, the GDP of this pan-European market easily exceeded that of the North American bloc.

Another indicator of the EC's economic stature was that in 1991, exports originating in the EC accounted for 41 per cent of total world exports (including exports to other EC Member States) and almost 25 per cent of Community GDP.⁵ In contrast, Canada's exports made up less than 4 per cent, while U.S. exports accounted for about 15 per cent of total world exports. In terms of investment, in 1990, for the first time since the end of the 1970s,

the EC had larger direct investment flows than the United States⁶, for example, accounting for 41 per cent of U.S. FDI in that year.

But perhaps the most illuminating trend was not that the EC's world trade was surpassing that of the North American bloc or that it was taking significant amounts of North American investment, but rather the degree to which it was internalizing multilateralism, reflected in the fact that although its share of world exports increased by 5 per cent from 36 per cent in 1980 to 41 per cent in 1990, much of this was due to intra-EC trade.⁷ In fact, excluding intra-EC trade, the community's 16 per cent share of world exports had actually decreased slightly between 1985 and 1990, a trend attributed to the growing importance of the newly industrializing Pacific Rim economies.⁸ Indeed, as this study has noted, the high level of intra-Community trade (at almost 60 per cent of all Community trade) likely explains the increasingly weak correspondence between Canada's trade and investment links with Europe.⁹

The EC was a powerful political organization: it includes two of the world's five nuclear powers and four G-7 members (in addition to have an observer role itself). Moreover, if the G-7 Summit is considered the premier post-Cold War international forum for the industrialized world, then it is significant to note the steady economic decline of the United States relative to the EC and Japan: for example, at the inception of the Summit in 1975 the United States by itself commanded 45.5 per cent of the Group's economic power (as expressed in Gross National Product [GNP] in

1995 U.S. dollars); in 1993 it commanded 39.5 per cent.¹⁰

This decreasing relative U.S. economic power has led observers of U.S.-EC relations such as Michael Smith to note the "regression" of North American images of the EC in the early 1990s.¹¹ According to Smith, the key difference between North American reactions in the 1950s and reactions in the 1990s to transatlanticism was that in the 1990s the EC not only acted at least as the equal of the United States on the economic front, but acted as its political equal as well.¹² This was evident in the EC's role in dealing with the economic and political needs of Eastern Europe after 1989. Furthermore, despite the Community's internal economic difficulties in the early 1990s (characterized by low annual growth rates and high unemployment), the steady way in which the Community progressed to enacting the 282 directives to create a fully integrated market as part of the "1992" program demonstrated that it had become more disciplined compared to the period in the 1970s when it ^{had} lost its momentum. In addition, the EC's move towards monetary union was very significant and sure to change the perceptions of its international partners, since the EC had never had a single voice in monetary and exchange rate policy.

To repeat a point made at the end of Chapter Nine, this decline in U.S. power had implications for the manoeuverability of smaller states such as Canada. The changing status and role of the U.S. influenced Canada's perceptions of the Community. Thus while the Community was largely irrelevant to Canadian policymakers in the early to mid-1980s, there was a cautious change in perception

in the 1990s at the official level. It was certainly not a full return to the great expectations of Canada-EC relations in the 1970s, however, in large measure because Canada's economic relations were now more oriented to the United States and Asia Pacific.

10.2.1 Canada in the Triad

Canada as a middle power has always been keenly aware of how relations between the other members of the Triad have the potential to affect its political and economic interests, both negatively and positively. This is because Canada's major political and economic relationships are formed within the Triad. For this reason it is useful to look at how inter-Triad relations affected Ottawa's interests in its dealings with the Community. The focus in the following discussion will be on EC-Japan relations, since the EC-U.S. dimension is addressed throughout the present study.

As mentioned, it has been the mantra of Canadian government officials (and less so of Canadian academics), based largely on the existence of the Framework Agreement, that Canada's relations with the Community have historically been more "special" and "privileged" than those of Japan or the United States. This view was not necessarily shared by the Commission, however. Willy de Clercq, the EC's former Commissioner for External Relations, once remarked that he was surprised that Canada-EC Ministerial-level contacts were considerably less frequent than those between the EC

and the U.S., the EC and Japan. Nevertheless, most commentators on EC-U.S. and Japan-U.S. relations would agree that generally they have been conducted on an *ad hoc* basis, according to multilateral ground-rules. Although, to be fair, Canada is not as "privileged" since most bilateral trade conflicts in its relations with the Community are likewise taken to the GATT.

As described, EC-U.S. relations have historically been characterized by periods of intense bickering over specific trade irritants and misunderstanding as Washington preferred to deal bilaterally with the Member States or exercise its power in Europe through its leadership in NATO. El-Agra observes that relations with Japan also tended to be cool if not outright hostile.¹³ Starting around 1989, however, there was a general rapprochement in both EC-U.S. and EC-Japan relations as both Washington and Tokyo adopted a more positive outlook on the Community's post-Cold War role both in Europe (e.g., SEM, aid to the CEEs) and globally.

Conceptually, then, it is perhaps useful to see Canada as an appendage in an EC-U.S.-Japan trade triangle although, as Nanto points out, this triangle really does not exist. Instead, there is a dynamic of three separate bilateral relationships - "each varying in intensity and balance," with the EC-U.S. link historically the strongest and deepest, followed by the Japan-U.S. link, and the Japan-EC nexus the weakest.¹⁴ Canada, therefore, as we saw in the context of the TAD, had the option to use its leverage through its special relationship with Washington to improve its access to the European market and European decision makers. However, given the

much weaker Japan-EC axis, prior to 1990 Ottawa saw little benefit in indirectly pressing its interests to the Community via Tokyo. The Tokyo-Brussels route gained more legitimacy in Canadian eyes in the 1980s once Japan was pushed away from increasing exports to the United States and pulled to larger markets in Europe. At the same time, Europe was looking to the higher growth rates of Asia Pacific.

By the early 1990s, with the duels over Japanese "screwdriver" plants no longer aggravating Japan-EC relations and with Brussels for the most part viewing Tokyo as a more responsible actor in the international trade system¹⁵, Ottawa found itself increasingly using its diplomatic goodwill with Tokyo¹⁶ to move the Community on specific bilateral issues. At the same time, Ottawa also sought to benefit from the EC's efforts to reduce market access barriers in Japan that were, in Brussels' eyes, the cause for its substantial trade deficit. Of course, there was also the danger that this liberalization would be skewed to the EC's advantage and therefore to Canada's disadvantage. For this reason, Ottawa saw particular benefit to teaming up with the EC in pressing for a multilateral trade negotiations track in Asia-Pacific, thereby liberalizing Japan's market. This approach was evident in Ottawa's preparations for its Ministerial-level meetings with the EC in 1989.

It is somewhat ironic that Canada, which had begun in the 1980s to disavow its "Europeanness" in favour of its "North Americanness," was in the early 1990s using its European connections to secure its interests in Asia Pacific. This is not

urprising, however, since Canadian policymakers by the late 1980s viewed Asia-Pacific (especially China¹⁷) as vital - both economically and politically - to Canada's international standing into the next century.¹⁸ The Asia Pacific region, with a population of almost two billion and an aggregate gross national income twice that of the European Community and growing rapidly, and having four of Canada's ten largest export markets (Japan, China, South Korea, Hong Kong) representing just under 7 per cent of Canada's world exports (compared to the EC's 6 per cent share), had by the end of 1993 become a region hard for Canadians to ignore.

How much of a "free rider" was Canada in these evolving bilateral relations within the Triad? On the one hand, the apparent rapprochement in bilateral EC-U.S. and EC-Japan relations boded well for Canada. It allowed Ottawa to reinforce its bilateral negotiations with Brussels by selectively using its influence in Washington and Tokyo, where Ottawa/Washington and Ottawa/Tokyo concerns overlapped *vis-à-vis* the Community. At the same time, Canada could use a selective alliance with the Community to further its separate interests in Washington and Tokyo. On the other hand, Canada could no longer claim with any legitimacy that it was the only industrialized third country with a "privileged" relationship with the Community, thus creating the potential that its interests would be marginalized as the EC's relations became more institutionalized with Japan and the United States.

But for all the talk of bilateral rapprochement, Ottawa's policymakers were aware that the period of harmony during the

immediate post-Cold War period (1991-93) could be but the "lull before the storm," the "storm" being the potential for greater rather than lesser transatlantic and transpacific trade conflicts in the absence of a common, unifying, transcendental cause such as the containment of Soviet power. Multilateral aid packages to Eastern Europe and the former Soviet Union obviously did not create the same value-driven transatlantic and transpacific interests. The Clinton Administration's "two-edged trade policy" - for example, supporting the expansion of trade while threatening sanctions unless U.S. firms received fair treatment abroad - threatened to make bilateral discussions with the Europeans and Japan all the more nettlesome, leading to escalation of reprisals from both sides, and ultimately down a slippery slope towards a full-scale trade war.¹⁹ This meant that just as in the EC market, where EC-U.S. tensions threatened to side-wipe Canada²⁰, Canadian exports to Japanese markets were threatened by American action. The perception in Ottawa was that if the Americans wanted to bludgeon Tokyo into an artificial "balance" of exports and imports, the Japanese could be forced to simply buy U.S. instead of Canadian. Thus, the extent that bilateral relations within the Triad became less or more conflictual had very real implications for a small open economy such as Canada's caught between the larger members of the Triad. It seemed likely that with their growing economic power, largely at the expense of the United States, the EC and Japan would increasingly lock horns with the U.S. as the other shaper in the international system, leaving Canada in the vulnerable position of

being side-swiped as the three giants grappled.

10.2.3 REACTING TO THE SEM AND THE TRIAD: NEW ECONOMIC FRAMEWORKS FOR CANADA-EC TRADE RELATIONS²¹

This chapter has thus far reflected on the evolution of the world trading regime from an American-led system to conditions of rough equality among the EC and North America, with the Asia Pacific region rapidly gaining ground. The discussion has also highlighted Canada's limited room to manoeuvre in this three-way configuration of economic power, making any meaningful initiative to improve Canada-EC relations all the more difficult. Yet these bilateral relations had to be reinforced because the management of transatlantic trade and economic issues was seen by Canadian decision makers to be more critical than ever before as economic security supplanted military security as the paramount national interest. So, after the completion of the NAFTA and the issuance of the TAD, and in light of the ongoing efforts to encourage Canadian trade, investment and other business links to the Community in anticipation of the SEM, the next challenge for Canadian policymakers tasked with rethinking Canada's European policy framework in 1993 was a re-visitation of the transatlantic "options" articulated by Derek Burney and his officials at the Washington embassy (recall our discussion in Chapter 6.3.2 and 6.3.3).

Before evaluating the various options, a number of questions were raised by Canadian officials. First, could Canada compete for

EC attention at a time of intense European integration (i.e., in terms of its deepening and widening) activity without recruiting the U.S. in this activity? If Canada attempted to pursue such an initiative alone - as it did with the Framework Agreement in the first half of the 1970s - did it risk an equally shallow outcome? On the other hand was a formalized U.S.-Canada-EC and possibly Mexico alliance in Canada's interests (see "Future Research Agenda" in Chapter Twelve)?

Second, under conditions of international economic tripolarity there was the inclination for North America to ally itself against Japan. Thus how would a transatlantic alliance affect Canada's relations with Japan, especially if the North Atlantic trading relationship, although a key pillar of the global economy, no longer outstripped trans-Pacific economic relations? Would there have to be a parallel initiative (as suggested by prime minister Mulroney's successor, Kim Campbell) of an Asia Free Trade Agreement?

Third, even the success of completing the Uruguay Round was viewed as unlikely to protect the interests of the advanced and highly sophisticated North Atlantic trading bloc. The GATT was, and its successor the World Trading Organization (WTO) would be moving slowly into the "new areas" of services, intellectual property, and investment. The GATT had not yet come to grips fully with the trade consequences of environmental protection measures. Thus, it would have to be decided whether Canada would seek specifically to improve bilateral prospects with the Community only on economic

matters, and within this category in those sectors where the GATT was insufficient, or whether such a transatlantic trading arrangement would be part of a larger design to (1) encourage trading liberalization among the U.S., Japan and the EC, and (2) be linked to increasing Canada's presence in light of diminishing traditional security concerns. If a new transatlantic trading relationship was deemed appropriate what would be the best tactical way of achieving it? Would Secretary of State for External Affairs Joe Clark's call for an OECD-wide initiative be revisited? Or would it be a smaller Canada-EC or Canada-EC-U.S. approach. And if a broader OECD or a strictly transatlantic initiative was taken how would its issue-inventory differ from the current MTN? The agenda might include those areas not dealt with in the MTN negotiations such as competition policy, policy convergence on tax policy, consumer protection and the environment.

Fourth, as a result of the Framework Agreement's ineffectiveness, Canada had always used as its primary mechanism the various GATT rounds to seek improved access to the EC market. Consultative meetings between Canada and the EC tended to focus on lists of trade irritants, specially on agriculture, fish, and beverages, without any bilateral contractual mechanism for resolving them. Major bilateral irritants such as the dispute over overfishing were being addressed, primarily by ad hoc means outside the scope of the Framework Agreement such as at the UN or NAFO. GATT panels had been used in some instances, but had been difficult to arrange in others, and the results had been incomplete

or unaccepted. Canada, more than any other member of the G-7 depended on the strength and credibility of its GATT rights. It was therefore in Canada's interests to ensure that any new bilateral agreements would be GATT-compatible and add to the vitality and consistency of GATT principles.

Fifth, the EC's trade with other countries of Europe such as the EFTA members and Eastern Europe, including that with the former Soviet Union, was expected to involve in the medium- to long-terms increased access for the EC to energy, mineral, forest, and agricultural resources, precisely those elements of Canada's export mix to the Community.

Sixth, as pointed out in Chapter Eight, Canada had only had a marginal presence in European market and a marginal influence upon European economic and trade decisions. Eighth, any successful new arrangement between the EC and Canada would have to be compatible with the Treaty of Rome and the GATT.

Seventh, there would have to be consideration of what EC procedures govern the decision to open talks and conclude negotiations. For example, although the Commission was responsible for negotiating trade agreements, the Council of Ministers had an important role in authorizing any negotiations. Finally, what would be the chances - given the history of negotiations leading up to the TAD outlined in Chapters Six and Seven - for the EC and U.S. to sign a bilateral agreement?

10.3.1 The Emergence of Bilateral Agreements

In light of the above considerations, what had in fact emerged between 1991 and the end of 1993 (parallel to the ratification of the directives that were creating the SEM) were negotiations on a series of five bilateral Canada-EC sectoral and issue-specific trade arrangements. Following from our discussion in Chapter Nine, for instance, in 1992 the European Council had given the Commission the mandate to start negotiating a S&T agreement with Canada. By the end of that year, the Standards Council of Canada and the European Organization for Testing and Certification (EOTC) had completed a Mutual Recognition Agreement (MRA) for products in non-regulated sectors; for regulated products, the Commission gave Canada notice that it would also be ready to negotiate.²² An MRA on national testing and certification procedures was clearly of benefit to Canada since, as a third-country, it enabled Canadian rather than European laboratories to certify the Euroworthiness of Canadian exports across a number of specific categories of products. This created a more level playing field for Canadian firms exporting to Europe in these categories. There was also a requirement for reciprocity, meaning that the European Organization for Testing and Certification (EOTC) would also be able to test and certify conformity to Canadian standards. A bilateral Canada-EC fisheries agreement was also signed in 1992.

In 1993, Canada and the EC finished negotiating a Memorandum of Understanding (MOU) on competition policy that by the end of the

year was awaiting political ratification. A Canada-EC customs co-operation agreement was also completed. On the issue of investment, the larger EC market had relatively few major Canadian corporations established on a scale that would enable them to take advantage of the Single Market. For this reason, Ottawa was eager to obtain a provision for national treatment of investments to: (1) ease the way for smaller Canadian firms to form alliances in Europe, and (2) increase two-way flows of investment at all levels.

10.3.2 Alternative Models for Canada-EC Trade Relations²³

Although the above bilateral agreements had indeed created another "layer" of transatlantic policy interdependence, they were considered more as "victories" on the Canadian side than on the Commission side (the Commission had been in no hurry to begin negotiations). There was a strong suggestion that Ottawa would have preferred a network of interlocking sectoral agreements with Brussels but had to settle for a more piecemeal approach. (Recall that Trudeau's Liberals had approached the Reagan administration in the early 1980s about bilateral sectoral free trade but the proposal was rejected by Washington because it did not provide enough incentives.) In Ottawa's eyes, the bilateral MRAs and MOUs, in combination with existing mechanisms (e.g., Framework Agreement and the GATT), while necessary, continued to be inadequate as a means of "ordering" Canada's relations with the Community. To ameliorate this state of transatlantic economic affairs, Canadian

officials had seven choices:

- 1) reliance on existing Framework and GATT arrangements
- 2) an improved Framework Agreement
- 3) A traditional EC-EFTA-style link
- 4) An EEA-type link
- 5) Canada-EC Free Trade Agreement
- 6) A Transatlantic Free Trade Agreement
- 7) Canadian membership in the EC

These choices were, however, quickly reduced to five more realistic choices. The first, namely the status quo, was no longer appropriate for the management of Canada's relations with the new Europe of the early 1990s. The last choice - raised in a House of Commons debate by the Conservative Diefenbaker government as a response to the creation of the Common Market - was equally a non-starter. These five choices were further consolidated into three realistic options: 1) an improved Framework Agreement supplemented by "deep cut" liberalization in areas not covered by GATT and the continuation of negotiations at the GATT for other sectors; 2) an EFTA- or EEA- style link; or 3) a Canada-EC or a Canada-EC-U.S. transatlantic free trade agreement. The obvious drawback of the first option was that Canada would only be one of many countries having such a relationship with the EC. Also, the first two options implied only limited change. The third was the most radical and would depend on substantial political will among Canadian, U.S. and EC leaders.

10.3.2.1 Improving the Framework Agreement

The Framework Agreement neither added to nor subtracted from GATT rights and obligations. For Canada, as we have discussed, the Agreement emerged as part of the "Third Option" policy, and, despite the general, non-binding nature of the Agreement, the Canadian side expected it would increase Canadian exports, particularly in the manufacturing sector. In the 1970s, the EC - faced with the prospect of energy shortages - considered the Agreement as a means to gain access to the supply of Canadian raw materials (e.g., uranium). Measured against these differing expectations the Agreement had already by the late 1970s failed to live up to its promises. The trade data in Chapter Eight reveals that the composition of Canadian exports remained heavily dominated by resource exports; meanwhile, the EC continued to seek assured access to Canadian raw materials (e.g., fish allocations).

In terms of the cooperation undertaken through the various working groups, there was significant activity in the Science and Technology areas (e.g., radioactive waste issue). However, the latter did not appear to have generated direct commercial benefits. Of the Industrial Working groups, the Metals and Minerals were active and useful. Until as late as 1990 activity in other sector Working Groups such as Aerospace and Telecommunications was less fruitful, although in the last three years discussions have become more substantive.

Some assessments conclude that the EC has not been forthcoming

in some areas, particularly, as we have discussed, on resource upgrading and manufactured exports, where Canada is the demandeur. To reiterate, as Canada upgraded its resource exports it was slapped with higher tariff rates, although as a result of the Quadrilateral meeting in Tokyo in 1993, tariffs were to be reduced in these areas over a 10-year period.

Another problem was that the Agreement and its subsidiary groups were always government bodies without any major participation from the private sector. As a result, the focus appeared, more than anything else, to be on exchanges of information among government agencies with little direct link to the private sector, particularly on the EC side. Furthermore, at a time when Canada was becoming less and less activist under the neo-Conservative ideology of the Mulroney Government, leading increasingly to privatization and the delegation of responsibility to non-state actors, the Agreement's inter-governmental focus was anachronistic to say the least and operated far less efficiently than, say, the ITAC/SAGIT consultative structure (set up, as noted in Chapter Three, to bring the Canadian private sector into the discussions on the CUFTA). On a more positive note, the Agreement and the "high levels," as the semi-annual meetings of senior EC and Canadian officials were called, at least provided a formal "framework" whereby Canada was able to raise bilateral issues at senior official levels within the Commission.

For the Agreement to be reformulated and have any status in bilateral relations, it was considered that a first step could be

the folding of the institutionally separate "high levels" into the organizational structure of the Agreement. Thus an expanded Framework Agreement would consolidate all existing agreements under one umbrella including perhaps an environmental accord, a reciprocal agreement on government procurement, mutual agreement on product standards, certification and testing involving the Standards Council of Canada, membership in CEN/CENELEC/ETSI and in the EOTC and reciprocal agreements for European standards bodies, and a science and technology agreement. The chances of this happening were not propitious, however. The Agreement had never functioned as the primary means for Canada and the EC to pursue their objectives for developing the relationship. Indeed, it had been little more than a statement of good intentions on both sides, with little political or bureaucratic will to make fundamental changes.

10.3.2.2 EC-EFTA-Style Arrangements

To reiterate, the GATT governed the terms of access for the EC and Canada to each other's markets: it provided the dispute settlement procedures. The problem was that before the completion of the Uruguay Round in 1993, the GATT applied to trade in industrial products only (the negotiations for the General Agreement on Trade in Services [GATS] had not yet been completed). And, importantly, the GATT did not prevent the erection of preferential barriers to Canadian goods by virtue of the EC's network of bilateral trade

agreements with non-Member European countries, former colonies, and other groupings.

Canadian officials were well aware that virtually every nation that had entered into a cooperation agreement with the Community found it insufficient for the overall management of its relationship with the EC. Many of these countries saw their cooperation agreements as temporary "second-best" solutions or steps to achieving full member status. For instance, the EC had traditionally concluded agreements with the individual EFTA countries on a bilateral basis (primarily tariff-free treatment for most industrial goods). Although the preferential agreements with the EFTA countries excluded trade in agricultural goods, those association agreements with European states (e.g., Hungary) did provide preferences on their agricultural exports. In looking at these preferential agreements, Ottawa took a number of considerations into account. For example, what sector-specific or issue-specific arrangements had the EC been prepared to negotiate with particular countries? In the case of Sweden, for instance, Canadian officials noted that cooperation went beyond the EC-EFTA free trade agreement to include formal agreements on the exchange of information on transport, environment, fishing and transport. There were also informal meetings on industrial policy, development aid, and economic policy. Indeed, it is precisely these types of broad-based regular meetings and agreements that were envisaged by Canadian officials under the umbrella of the TAD.

Ottawa was also aware that the EFTA's motivation to negotiate

a broader agreement with the Community arose not so much from shortcomings in the bilateral agreements that its members had with the EC²⁴ as from the success of the SEM initiative which changed the economy in which the agreements had to function. The prospect of a stronger and more dynamic EC market had therefore led EFTA countries to increase the premium they placed on secure access to the EC market.

Canadian decision makers realized that if Canada wanted to emulate a traditional EFTA-style link this would be restricted to free trade in industrial goods, through the abolition of tariffs and quotas. It would not include trade policy issues including procurement, subsidies, and trade in services, precisely those issue-areas that would greatly affect value-added Canadian exports. Additionally, in the financial services area, the lack of mutual recognition on rules governing trade in bank supervision and trade in securities was a major obstacle to bilateral trade in the EFTA-EC case. Another consideration from the Canadian perspective was whether any of these arrangements had been subject to GATT challenge, or whether they could be challenged in the future.

10.3.2.3 EEA-Type Link

It was recognized that an EEA-type agreement would rectify the lack of breadth of the existing EFTA-EC agreements, since, as we have already described in this study, it would entail the free movement of goods (except agriculture), services, capital and persons on the

basis of the relevant *acquis communautaires*. Further, it would mean extending to Canada or harmonizing EC policies in fields as diverse as social programs, research and development, consumer protection, small business programs, and tourism. There would also be a joint judicial body for the settlement of disputes.

10.3.2.4 Canada-European Community Free Trade Agreement

By far the most ambitious option was to revisit the proposal for a Canada-EC free trade agreement, perhaps modeled on the CUFTA and to go beyond an EEA-style arrangement. This would entail the elimination of tariff and non-tariff barriers to trade and services, including those arising from product standards, restrictive rules of origin, and government procurement restrictions (as well, there was the possibility of looking at agriculture, although all parties realized that this would be an extremely sensitive area). It was expected that a bilateral free trade agreement would expand conditions for investment and services liberalization through national treatment, building on the Uruguay Round's GATT, the CUFTA, the NAFTA, and the OECD's NTI; it would facilitate conditions for fair competition within the free trade area; it would establish effective procedures for the joint administration of the agreement and the resolution of disputes modeled on the CUFTA or the NAFTA, including binding dispute settlement in trade remedy cases; and it would lay the foundations for further bilateral and multilateral cooperation to expand and

enhance the benefits of the agreement.²⁵ A permanent secretariat would be charged with institutional management and servicing the dispute settlement mechanism.

However, it was unlikely that this type of trade agreement could have been extended to include the expanded harmonization of trade policies envisaged by the EEA whereby Canada would harmonize its competition policy, government procurement and other policies with the EC. This would undermine the preferential nature of the EC's agreements with EFTA, not to mention infringing the United States' GATT rights for which the U.S. enjoyed remedies under the CUFTA. Finally, a key question here was what kind of incentive was there for the EC to conclude a full, GATT-compatible free trade agreement, or indeed an EEA-type agreement, if the magnitude of access granted - as the bilateral trade flows highlighted - was out of all proportion to its access gained.

10.3.2.5 A NAFTA-EC Free Trade Agreement

As noted earlier in this chapter's discussion of Canada's position within the Triad, the potential acrimony in post-Cold War EC-U.S. relations in conjunction with the lack of confidence in existing bilateral institutional structures (e.g., Framework Agreement) outside the GATT, in addition to the need to create an incentive for the Community to expand its economic links with Canada, led to renewed speculation on the Canadian side of the utility of a trilateral (Canada, U.S., EC) or NAFTA-EC transatlantic free trade

agreement. Indeed, there was some speculation in 1990-91 within the Canada-EC Working Group at EAITC that the next step or option for Canada's relations with the "new" Europe was, ironically, closer to the Pearsonian notion of an Atlantic Community: only now it would be expanded on both sides of the Atlantic to include the EFTA states (through the EEA) and Mexico through its accession to NAFTA.²⁶ In its broadest conception, as Joe Clark had implied in his 1990 Humber College speech, it could also be extended to other OECD members such as Japan. Its objective would be, perhaps under the overall umbrella of the TAD, to act as the new economic architecture for Canada and U.S. interests in Europe, and to protect European interests against the risk of a protectionist bloc in North America.

The benefits of a transatlantic free trade agreement were that it would enable Canada to carve out its own space in Europe and achieve the influence it did not have through current arrangements or indeed through a separate bilateral agreement. It would do so because unlike the Framework Agreement it would impose substantive obligations on the EC (as well as Canada and other participants) in areas currently under exclusive competence of the EC. It would give Canada, in the words of former U.S. secretary of commerce Mosbacher, a seat at the European table that it was in danger of losing given the waning influence of NATO and the CSCE. Such a free trade agreement, the argument went, would effectively weave Canada and the U.S. into the European preferential trading system, although with the perennial and unavoidable dilemma for Ottawa that

the EC and the United States would dominate such an arrangement.

The thinking within EAITC about the possibility of either a Canada-EC or a transatlantic agreement - recall that these discussions were internal to the Department; there was no support for such proposals from the Department of Finance, the more powerful of two departments in Ottawa - received a gentle rebuff from the West Europeans in 1992. The occasion was a fact-finding trip to Europe in the summer of 1992 by a Canadian Parliamentary Sub-Committee. The Canadian MPs raised just this possibility of an Atlantic free trade agreement with their European contacts and were told "'yes, but please not now'".²⁷ At the time, this was not surprising since the Community was preoccupied with a host of internal matters such as the implementation of the Single Market, ratification of Maastricht, the question of enlargement, and the Uruguay Round negotiations.

But there were other significant reasons why there was little possibility that, for example, Canada and the U.S. could create the momentum necessary for the negotiation of a true, GATT-consistent, free trade agreement with the EC. As this study has shown, the United States never seriously considered a bilateral transatlantic free trade deal with the Community. Even countries with much closer ties with Community had had to settle for partial coverage, with preferential access but not barrier-free. The EFTA countries had come the closest under the EEA, but the Community was careful to reserve substantial discretionary powers in managing these relationships. Moreover, in Community eyes, countries such as

Canada, New Zealand, Australia, and the United States, were likely to always rank in an outer, or third concentric ring, behind the EFTA nations and the Central and European nations.

On specific trade policy issues such as government procurement, resources and, for example, liquor boards, that involved sub-national governments, it was clear that it would be particularly difficult to guarantee the EC reciprocity without also admitting the Canadian provinces and the U.S. and Mexican states to the negotiating table. This was not to mention the difficulty in administering two free trade agreements with differing provisions on, e.g., rules of origin, dispute settlement, procedures, and contingency measures.

A second set of difficulties centred on the fundamental problem of differing levels of integration in North America and Europe. In comparison to the SEM, the CUFTA (or what Dunning calls NAFTA-phase one) was a modest initiative, that is, it abolished tariffs between Canada and the United States over a 10-year period, something that had been abolished in the Community in 1968. The NAFTA, by improving on certain elements of the CUFTA such as standards, investment and procurement, still did not approach the comprehensive nature of the integration project in Europe as a result of Maastricht.

There was thus the question of the lessons of European economic integration for North American integration. Table 19 shows that in a number of areas the levels of integration were so far apart that it would be hard to envisage possible harmonization to

form an "Atlantic Union" in the near- to medium-terms. For example, the EC's "single banking licence" versus the fact that all financial institutions in the United States and Canada had to comply with host country regulations; (2) the principle of mutual recognition on standards and norms between Member states and pan-European standards in matters of health, safety, and the environment versus the fact that mutual recognition of standards was not a formal part of CUFTA, although it began to be addressed in the NAFTA; (3) competition in the realm of public procurement and the transparency of tendering procedures versus the fact that the CUFTA did not cover provincial, state, and local governments and thus opened up only a small segment of the U.S. and Canadian procurement markets, something that was only partially remedied under NAFTA; and (4) a monetary union, scheduled for the end of the decade, would, if achieved, lead to a single European currency and central European bank, whereas nothing of this nature was contemplated by Canada, the United States and Mexico.

It is true, of course, that the side agreements on environment and labour between Mexico and the United States under the NAFTA were steps closer to broadening and deepening the North American integration process, as were steps (as recently as July 1994) to remove Canada's deleterious inter-provincial trade barriers. But given the level of European economic integration already achieved, the fact that it had gone beyond the economic arena and had begun to encompass "flanking issues" such as social policies, including joint legislation on such fundamental issues as environmental laws

and human rights, made it increasingly clear to Canadian officials (hopeful as they might have been) that it was unlikely the Europeans would contemplate (in the near-term) a comprehensive transatlantic agreement either individually or multilaterally with Canada and/or the United States and Mexico. Simply put, there was a glaring lack of parity in the respective levels of integration.

Table 19:

THE EC AND NAFTA (as at 1993):

SOME COMPARISONS AND CONTRASTS

EC		NAFTA
1. TRADE AND PRODUCTION		
(a) Informal cooperation		
(b) Complementation agreements		
(c) Removal of tariff barriers	All intra-EC barriers eliminated. Common external tariff adopted	All to be eliminated or phased out over 5,10, or 15 years. Special provisions for agricultural products, energy and basic petrochemicals. No common external tariff, e.g., Mexico will be allowed to maintain relatively high tariff levels on imports from the rest of the world.
(d) Removal of non-tariff barriers	Most to be removed by the end of the 1990s.	Some degree of liberalization is occurring, e.g., with respect to safeguarding government procurement. The elimination of NTBs, e.g., technical standards, trucking and port service, may take longer to achieve. Immediate goal is national treatment and intra-NAFTA compatibility in standard-related measures. Sets up a new regime in intellectual property.
(e) Rules of Origin	The question of what constitutes an "EC Made" good (i.e., a good with a substantial EC content) is still a matter of controversy, but the EC is gradually establishing the rules of the game.	Involves preferential tariff treatment for goods considered to be North American. Local content percentages beginning to be identified, e.g., in automotive products. Within NAFTA, rules of origin are replacing intra-North American tariffs and NTBs.
(f) Services	Inter-EC regulations on trade and rights of establishment to be largely eliminated. Principle of mutual reciprocity established. Under the "single banking license", a bank approved to operate in one Member State will be able to branch across the Community. Similar provisions incorporating this principle of mutual recognition are being developed for the securities and insurance services.	Principle of equal treatment to be established. Gradual liberalization of financial services up to 2000. At present, however, all financial institutions must comply with host country regulations.
(g) Dispute Settlement	Harmonized by European Commission.	Trilateralizes the CUFTA process.

Table 19:

(Continued)

(h) Special provisions	For agriculture and a limited number of strategically sensitive manufacturing and service sectors.	Economic coordination and transfers found in EC unlikely to be part of NAFTA. For example, each nation will operate separate agricultural programs.
2. FREE MOVEMENT OF PEOPLE	Gradually being accomplished by the introduction of the EC passport and the harmonization of labour laws and employment conditions.	A truly liberal movement of labour is not part of NAFTA. <i>De facto</i> , there are likely to be many obstacles to the free movement of people, especially between Mexico and the United States. Treaty specifically allows for the cross-border movement of business persons.
3. FREE MOVEMENT OF ASSETS	Largely activated. Most financial markets are already deregulated. There are currently few restrictions on the sourcing of capital or on currency movements. Concept (but not practice) of European Monetary Union is accepted by most of the 12 Member States.	Free movement of currency. Expropriation of assets forbidden. Concept of national treatment established. Some control permitted of intra-NAFTA corporate acquisitions.
4. MONETARY AND FISCAL UNION	A goal (of most of the EC) yet to be achieved. Some fiscal harmonization is being achieved in the "EC 1992" program.	Not immediately envisaged. Only a limited amount of fiscal harmonization is currently in operation (especially between Mexico and the United States and Mexico and Canada).
5. SOCIAL PROGRAMS	Extensive social policies and fiscal transfer mechanisms; EC developing its own environmental policies.	Little coordination of social programs; no clear policy on the environment.
6. POLICIES OF NATION STATES TOWARDS FDI	Attempts to move toward harmonization, but a recent study of the OECD shows considerable latitude among Member States remains, e.g., toward liberalization of FDI in services.	No formal coordinative system envisaged.
7. POLITICAL UNION AND COMMON SECURITY AND DEFENCE	Political Union (PU) as well as Common Security and Foreign Policy envisaged as a result of ratification of Maastricht Treaty.	Not currently envisaged.

Source: Adapted from John Dunning, Table 2, in "MNE Activity: Comparing the NAFTA and the EC," in Lorraine Eden, ed., *Multinationals in North America*, 1994, p. 280-81; and Royal Bank of Canada, "Is Canada Ready for Europe 1992?", *Econoscope*, Vol. 16, No. 1, (Feb. 1992), p. 6.

Further militating against European desires to negotiate, and moderated only slightly by the negotiations on bilateral MRAs and MOUs, were divergent transatlantic interests on a variety of very sensitive issues. For example, any new agreement from a European perspective had to address:

- (1) fisheries: where Ottawa wanted the Europeans to accept the NAFO moratorium;
- (2) agriculture: mutual controls on trade distorting practices-subsidies and variable levies;
- 3) access: grains, oilseeds, red meats from Canada in exchange for wines, meat, processed foods from the Community, with dairy products being most problematic in light of Canada's marketing boards; increased forestry/paper access for Canada through elimination of such non-tariff barriers as phytosanitary requirements plus elimination of the EFTA preference; and
- 4) government procurement: with Canada seeking access in those sectors such as telecommunications and power generation where it had the greatest comparative advantage and the EC seeking access to provincial utilities and domestic telecommunications market).

But, to reiterate, what incentive did the EC need to conclude a full, GATT-compatible, free trade agreement with Canada, since the magnitude of access granted would be out of all proportion to its access gained? Therefore, the only possibility for European interest hinged on whether the Americans could be convinced of the value of such a step. But, here as noted above, the differing levels of integration on both sides of the Atlantic were a major stumbling block. And, even if the EC and the United States could be interested, how would negotiations be initiated without frightening the Japanese and other countries of Asia Pacific into taking parallel measures? A transatlantic free trade agreement designed to slow the eroding economic link between North America and Europe would then endanger North America's links with a rapidly growing

Asia Pacific region.²⁸

This brings us to Article 2 of the NATO treaty. In 1992 this idea seemed again to arouse some interest among Canadian officials at EAITC since it was felt that it was precisely in the post-Cold War world when exhortation to greater economic collaboration could help maintain a solid North Atlantic community. However, the Europeans quickly made it clear to Canadian officials that they were not interested in discussing economic issues within the context of NATO when they were already doing so as part of their Single Market process and monetary union. Again, returning to the discussion about European attitudes to Atlantic free trade before the creation of the Common Market, then as now, the Europeans had trouble accepting the North American rationale for plurilateral economic institutions to bind the Atlantic partners when there already exist the Quadrilaterals, the OECD (for research), the G-7, and, in Europe, the UN's Economic Commission for Europe.

10.3.3 Learning from History: Prospects for an "Atlantic Community"

The above discussion also raises the question of what Canadian policymakers learned about the prospect for new transatlantic arrangements in the early 1990s from a decade of intensive transatlantic and European institution-building between 1947 and 1957. And, furthermore, how did the longstanding debates over the nature and future of "Atlanticism"²⁹ intersect discussions and negotiations over the future of bilateral Canada-EC relations?³⁰ It would be useful, for example, to discern whether the policy debate surrounding the negotiations of the NATO Treaty, touched upon in Chapter Four, brought to light any "laws" of transatlanticism and

Canada's role therein for Canadian policymakers in the early 1990s. And, if so, did these "laws" provide for a favourable or unfavourable prognosis for a comprehensive transatlantic treaty? As we have discussed, the major policy questions preoccupying the Western Alliance's members in the immediate aftermath of the Second World War and also extending into the mid-1950s - What to do about Germany? How much aid to channel to Europe? What to do about Eastern Europe? - in many respects mirrored those in the period 1989-1991 - Was German re-unification a positive development? How much aid could be channeled to the CEEs? How did Russia affect European security? The difference was that in the intervening period the EC had become at least an equal of the United States, the threat of nuclear war with the Soviet Union had dissipated, Japan had become an economic power, and Canada's relative economic power and "prestige" as a middle power, despite its G-7 member status, had seen a steady erosion since the Suez Crisis in 1957.

Furthermore, what lessons were there from the spate of speculation and scholarly research on the modalities of an Atlantic Union in the mid- to late-1960s³¹ that followed from Karl Deutsch's *Political Community and the North Atlantic Area*³², and that appeared to have been given impetus by John F. Kennedy's acclaimed Fourth of July speech in 1962? As Kennedy stated:

We do not regard a strong united Europe as a rival but as a partner. . . . We see in such a Europe a partner with whom we could deal on a basis of full equality in all the great and burdensome tasks of building and defending a community of free nations...I will say here and now on this day of independence that the United States will be ready for a Declaration of Interdependence - that we will be prepared to discuss with a United Europe the ways and means of forming a concrete Atlantic Partnership - a mutually beneficial partnership between the new union now emerging in Europe and the old American union founded here 175 years ago.³³ [my emphasis]

Perhaps the major lesson to be drawn was the continuing central role of the United States in any discussions of the future of transatlanticism. Indeed, Lester Pearson recognized that the United States was the "key to any progress toward an Atlantic alliance". He was apparently very frustrated by the State Department's lack of support in the late 1940s and early 1950s for his vision of an Atlantic Community on the count that it could have provoked the Soviet Union.³⁴ According to Holmes, Canadian decision makers were not attracted by George Kennan's "dumbbell" concept of an Atlantic Community which visualized two globes of power, one on the European end based on the Brussels pact, and another at the North American end which would be connected by a bar of mutual interest and collaboration.³⁵ The idea was that two representatives would be able to make decisions more quickly than the 15 representatives of NATO. It is not hard to see how Pearson and his colleagues were miffed, since it once more showed how the Americans were quick to marginalize Canadian interests and how the Europeans would continue to see transatlantic relations according to the "two pillar" metaphor. Following this theory's discreditation in the early 1950s³⁶, it would be a full decade before Kennedy's speech once more re-ignited the flame of Atlanticism.

The promise held in Kennedy's speech for an Atlantic Community (encompassing security ties and free trade) and anchored by the Common Market and the U.S., was soon overshadowed by a host of problems. Six months after the speech, de Gaulle barred Britain's membership in the Common Market and thereby undermined Washington's interest since the U.S. was only interested in a Partnership between "equals," a status that the Common Market could not

approach without Britain. Additionally, from Washington's perspective, there was the "Canadian problem" since Canada lay strategically in the heart of the Atlantic area. The Americans were in quandary, knowing that Canada could not become part of the Common Market and that Ottawa would not cede to Washington the power to speak on Canada's behalf on security and defence matters. This alone in Washington's eyes had the potential to preclude such a bilateral Common Market-U.S. partnership.³⁷ Furthermore, as Coffey points out, it became obvious in the course of the Kennedy Round negotiation, starting in 1963, that neither the U.S. nor the EEC was prepared to make the types of across-the-board tariff concessions that were necessary to create a free trade area.³⁸ Thereafter, as we have discussed in Part Two of this study, Washington-Brussel relations grew progressively more acrimonious. As it turned out, then, NATO - led by the U.S. - became the preferred multilateral institution that came to embody the notion of "Atlantic Partnership".

As we saw, although the TAD was not a transatlantic "treaty," it nevertheless did elicit within both the scholarly and policy-making communities renenewed speculation in the possibility of an Atlantic Union. Canadian officials realized that if there was to be any reasonable success in creating a more comprehensive transatlantic treaty, the ball would once more be in Washington's court. The greatest change from 45 years previously was that the UK's role would increasingly be one of onlooker, given that the locus of European input on transatlanticism was shifting from London to Bonn as the Anglo-American "special relationship" grew weaker.³⁹

But perhaps the most significant difference between the

choices available to Canadian, American and European policymakers in the early 1990s as compared to the late 1940s and first half of the 1950s was that the successful completion of the Uruguay Round on December 15, 1993 and the movement towards ratification of the WTO on January 1, 1995, in many ways made the search for a transatlantic trade treaty redundant and, in so doing, seemed at the time to lay to rest the Pearsonian vision of Canada's participation in a North Atlantic Community. (Although, as will be pointed out in Chapter Twelve's discussion of the future research agenda, with new Liberal Prime Minister Jean Chrétien's call for a NAFTA-EU free trade agreement in 1994, this was obviously not a permanent condition.) The dismissal of a transatlantic free trade agreement also presupposed that many of the outstanding issues in transatlantic commerce could be dealt with within the WTO.

Indeed, there were other "voices" that insisted the global economy still held incentives for such an Atlantic Union if: (1) the WTO did not progress as rapidly in its work program on the "new" trade policy issues such as the environment, competition policy, and investment, all of which had implications for Canada-EC relations; (2) the attempt to create an Asia Pacific free trade zone became bogged down in the protectionist tendencies in the region; and (3) as the Community devoted more and more of its attention to a pan-European preferential trading area, there would be a greater tendency for it to shape the international system rather than for it to be a passive taker. In the United States these voices contended that a confrontational approach to the Community was not in U.S. interests, leading to a detailed call for joint action issued by the Carnegie Study Group on U.S.-EC Relations in July 1993. That report, *Atlantic Frontiers*, called for

the building of a single market, based on broader and improved contacts over a range of new areas, including better coordinated microeconomic, environmental, and monetary policies. The aim of the report was to expand and deepen the constituencies that supported Atlantic ties.⁴⁰

What was curious from the Canadian perspective was that in 1992 and 1993 when neo-protectionist forces in the United States (e.g., due to domestic interests on agriculture, forestry, fishing off the coast of British Columbia, etc.) and in Europe were already threatening to undermine the WTO agenda, the Canadian policy community outside of government (i.e., pro-free trade think-tanks such as the C.D. Howe Institute, Fraser Institute, Centre for International Studies to the name the most prominent) evinced no interest in calling for a review of the benefits of transatlantic free trade or in allying themselves with like-minded U.S. institutes and study groups. Instead, Canadian analysts in these institutes concentrated on the need for a NAFTA to protect Canadian interests.

10.3.4 Balance of Benefits: Canadian Private Sector Interests

The discussion above has looked primarily at how the Mulroney Government viewed its transatlantic economic options and the historical precedents for closer transatlantic ties. But while government can create the conditions for trade, it is business that trades. For this reason it is important also to examine the Canadian business community's attitude towards free Canada-EC and transatlantic free trade.

The Canadian business community supported bilateral and

trilateral treaties with its North American trading partners to reinforce and "supplement" the market-liberalizing GATT. In the words of a 1988 Canadian Chamber of Commerce submission to the Canadian Parliament on the need for the CUFTA: "...at the end of the ten year phase-in period, Canada would be more productive and competitive in both its own and world markets as a result of this agreement."⁴¹ However, this did not imply that the same business community saw a need for a separate transatlantic free trade treaty. As was evident in the survey of Canadian companies with significant commercial interests in the Community, when Canadian executives were asked about their desire for an Atlantic free trade area - "To what extent would your company benefit from an Atlantic free trade area?" and "Do you think that the Government of Canada should push for an Atlantic free trade area"? - 80 per cent responded that they foresaw only a minor to medium increase in their exports. Significantly, to the second question, 90 per cent felt there was only a minor need for a new trade agreement given the existence of NAFTA and the WTO. For Canadian business the progress of the MTN combined with changing global business patterns - characterized by increased trade and investment in the Asia Pacific region combined with greater intra-European trade - superceded the incentives for an Atlantic Union.

Second, from a business perspective, the real question was whether a Canada-EC trade agreement or a broader transatlantic agreement would neutralize the advantage enjoyed by the EFTA countries and forestall any future advantage by the CEEs with respect to raw materials and agricultural exports to the EC. In other words, without such an agreement, was there a greater likelihood that Canada in the near- to medium-terms would become a

residual supplier to the EC? As noted, this was certainly a concern for the Canadian forestry products sector.

However, the real question was whether such sectoral interests in Canada could create the momentum for broader transatlantic free trade. Would an expanded agreement, for example, have provided the framework in the post-Uruguay Round to address the residual barriers to trade that remained on Canada's trade irritant "wish list" as discussed in Chapters Eight and Nine? Would a Canada-EC agreement, by according national treatment to investments, have neutralized or eliminated the discriminatory national investment regimes of the Member States and thus further increased the significant CFDI flows to the EC? And would such an accord have provided the private sector with a more effective way than the GATT of resolving existing and future bilateral trade disputes? This last question deserves further explanation. In the case of access to the United States market, Canadian business clearly wanted a more predictable, "less politicized" and more timely process with the power to deliver binding decisions when disputes over trade or investment practices occurred in either the U.S. or Canada⁴². With regard to economic relations with the Community, there was no where near the same broad-based (as opposed to sectoral) pressure from the private sector for the trade impairing issues mentioned in this study to be taken to an extra-GATT binational dispute settlement forum. With the federal government's historic inability to attract the Community to CUFTA or NAFTA-style dispute panels, the impression was that the business community was content to let Ottawa go down its "wish list" in order to test the Community's interest - with varying levels of success - in bilateral agreements on an issue-by-issue basis.

But even if there were noises about the desirability of a more comprehensive transatlantic trade agreement at the political and business levels, it was unclear whether there was sufficient support from a mandarinate in Ottawa that had, in the course of the 1980s, winnowed out its Europeanists. For example, the senior Canadian official responsible for formulating and implementing Canada's trade policy agenda in the late 1980s and early 1990s (indeed Derek Burney's successor at EAITC) viewed a bilateral or trilateral treaty as unnecessary. He noted the lack of convergence in transatlantic relations. Canada and the EC had adopted parallel deepening and widening strategies: the former had strengthened the NAFTA with follow up agreements (e.g., Chile) to act as counterweights to the U.S.; the latter meanwhile was "preoccupied" with developments in the East and thus, in this official's mind, had little energy left to deal with the rest of the world.⁴³ On the question of whether an Atlantic free trade agreement would reverse the apparent erosion of Canada-EC trade and investment flows, this official - subscribing to the Prime Minister's mantra - pointed out that the completion of the CUFTA and the NAFTA would in fact increase in value terms Canada's extra-U.S. trade since Canadian firms would use the American market as a springboard. Therefore, contrary to Joe Clark's musings on the need for a transatlantic treaty, this official, citing U.S.-EC friction as the major impediment to broader multilateral liberalization, believed Canada's interests were better served by working with the Community through multilateral channels rather than through bilateral ones. Finally, the official asked rhetorically how the rest of the world would react to a combined North American-European bloc.

In the end, what are we to conclude from the above cost-

benefit analysis of the choices facing Canadian decision makers and their European counterparts? It seemed the key prerequisite for any new transatlantic Canada-EC or Atlantic Community mechanism was a strong political commitment (and time and resources) to fostering this relationship on all sides. A first step in this direction had already been taken through the TAD. That being said, given a description of Canada's relations with the Community as one of "asymmetrical vulnerability interdependence" and the fact that the EC was preoccupied with its own internal interests, the most important variable was how interested the Europeans were in such an initiative, and whether it would be in the short- medium- or long- terms. At the time, however, there was no political will in Europe and the Canadians had to content themselves with the small "victories" of gaining bilateral issue-specific agreements.

10.4 THE POST-COLD WAR TRANSATLANTIC SECURITY ARCHITECTURE

At the same time that Canada was repositioning itself within the Triad and reacting to the SEM, it felt the loss of its Atlanticist influence in Europe as a result of the policy struggles that were part of NATO reform, the setting up of the North Atlantic Cooperation Council (NACC) in 1990⁴⁴, the reform of the CSCE, and the EC's development of a European security and defence identity (ESDI) for which the WEU⁴⁵ appeared to be its chosen instrument.

While this study is not about the evolution of Canada's security policy towards Europe, it is nevertheless important to show how the evolving transatlantic security debate between 1989 and 1993 over the future of certain multilateral security institutions - most notably NATO and the CSCE - had the potential

to intersect the Canada-EC bilateral relationship and to change the nature of future relations. The rationale for the following discussion is that just as there was an unambiguous link between Canada's security commitment to Western Europe in the 1970s and its ability to gain closer institutionalized relations with the Community, there was a similar attempt made in the early 1990s to link Canada's emphasis on "cooperative security" - that is, the thesis that national security is enhanced through consultation on the whole range of political, economic, environmental, and social, inter-state relations⁴⁶ - with its ability to forge a new basis of mutual interests with the Community.

But before looking at the EC-Canada dimension of transatlantic security, it is important to outline briefly the major transatlantic security debates and Canadian responses. There are a number of issues here, but the most important from this study's perspective was the problem of coordination between NATO and the WEU and the uncertainty over the U.S. role in Europe.

From the early 1980s onwards the strongest advocates of an independent West European defence structure were France and Germany, countries at the forefront of setting up European security and defence structures in the form of security competence for the new European Political Union, upgrading of the WEU and the establishment of a Franco-German army corps.⁴⁷ While France was more vocal, Germany stood by its side at every important juncture. Official documents always refer to basic compatibility between NATO functions and ESDI, even though everyone involved knew the process was very competitive and had impaired the Atlanticist spirit that united NATO during the Cold War. And after the collapse of the Soviet Union, these fissures in the transatlantic security

framework widened. Simply put, the authority and relevance of NATO - and thus the North American role in Europe - were being diminished. Where did Canada fit into this evolving debate? Moens cautions that although not much should be read into Canada's weakened position in European councils, there were nevertheless tell-tale signs as we shall discuss below.⁴⁸

Moens lays out three opposing views on Canada's security role in Europe in the post-Cold War period. To the "North American Continentalist", the EC's desire for an enlarged security role, the gradual American disengagement from Europe, combined with the creation of a single North American trading area, doomed to failure Canada's attempt to remain involved in European security. A second group, the "post-Cold War Atlanticists;" contended that the traditional rationale for Canada had not changed because in a worse-case scenario Canada wanted to avoid a deterioration of security in Central Europe, be it intra- or interstate, that would threaten the NATO area itself. In this logic, Canada wanted as much as possible to keep the United States directly engaged in Europe, including staying committed itself.

The third view, drawing its position from Canada's involvement in Europe (its 2,200 peacekeepers stationed under UN auspices in the former Yugoslavia) and the general attention given to a revitalized a post-Cold War UN, contended that Canada had to deregionalize and concentrate on its first international vocation - peacekeeping. In this view, any theological attachment to Atlanticism or a return to the Trudeau era's "Third Option" had to be abandoned in favour of a pragmatic position that viewed Europe as just one of many areas for involvement depending on UN commitments. It favoured the development of European institutions

as regional implementors of the UN, which meant advocating a peacekeeping mandate for NATO. Importantly, apart from Canada's UN obligations, supporters of this view saw little independent ground for Canadian security policy in Europe.

It is not necessary here for a detailed review of Ottawa's policy zig-zags on European security during these years.⁴⁹ Canada's "three pillars" approach to Europe announced in Joe Clark's Humber College speech in the Spring of 1990 seemed quite optimal at the time. Since NATO, the CSCE and the EC were in flux, it behooved Canada to try and engage all. Historically, the ability of Canada to gain "privileged" economic access to the European Community had been based, to a significant extent, on Canada's participation in the post-War transatlantic security framework.⁵⁰ Canada was rewarded for playing a support function in the military security provided by the United States. Suffice it to say that Canadian planners had a difficult time making Canada's voice heard given the competition among the various institutions, compounded by the Yugoslav crises and the unforeseen UN role on the continent. It is even difficult to place Ottawa's position firmly in any one of the above-mentioned schools of thought since the Mulroney Government was itself divided, with EAITC scrambling not to lose any ground in any European institutions and not to offend Canada's European allies by undertaking a variety of initiatives. These include advocating briefly, as mentioned earlier in this chapter, a renewed emphasis on Article 2 of the North Atlantic Treaty in 1992; proposing associate membership to NATO for stable Visegrad states; and attempting to mold the CSCE to fit Canada's vision of "cooperative security".⁵⁰

Beginning in the summer of 1991, Canada, usually a small

player in the European arena, made a major contribution by deploying troops to the EC monitoring mission in Yugoslavia, and later two battle groups to UN Protection Force in Yugoslavia (UNPROFOR). The Canadian commitment became the second largest contingent of peacekeepers in Yugoslavia after the French. In terms of Canada's interests, Moens points out that when a connection between NATO and the UN appeared, Canada played "a quiet but important facilitory role" in helping along a series of meetings between Brussels and UN staff in New York.⁵¹ Furthermore, by 1993, as if to underscore Canada's support of a UN-centred European policy approach, Ottawa insisted that the overall integrated command of the peacekeepers in the former Yugoslavia be in the hands of the UN, not NATO.

However, if the above comments seemed to signal a renewed Canadian security commitment to Europe, they must be balanced by the domestic constraints in Canada and the ongoing rivalry between the departments of External Affairs and the Department of National Defence (DND) on the appropriate Canadian role in Europe. By 1992, with a recession that would not go away, an ever-increasing national debt and deficit, and the Cold War over, it was increasingly hard politically for the Mulroney Government to close domestic military bases (historically part of regional industrial development) for budgetary reasons, and leave Canada's European bases open. In this environment, National Defence, burdened with aging equipment, the victim of budget cuts, and prohibited from closing unneeded domestic bases, supported the withdrawal of Canadian troops from Europe.⁵² External Affairs' argument, namely, that Canadian troops in Europe were an important signal of Canada's commitment to European security and were crucial to keeping NATO

North American, was overridden by the Conservative Cabinet. So, Prime Minister Mulroney, after stating in the fall of 1991 that Canadian troops would stay as long as they were "needed and wanted," decided by the spring budget of 1992 that they were no longer needed. Despite protests by Canada's European allies that echoed the displeasure 20 years earlier over Trudeau's downsizing of Canada's military presence in Europe⁵³ - Mulroney decided to withdraw all permanently stationed Canadian troops in Europe by 1994.⁵⁴

By 1993, this state of affairs had put Canadian policy-makers in a tricky position and re-ignited the "burdensharing" critique that the Europeans and Americans had directed at Canada since the early 1970s. If NATO became the inclusive (i.e., including all European states) collective security organization in Europe⁵⁵ rather than one that developed its security role in close cooperation with the "cooperation partners" of the NACC and further strengthened the CSCE to become a regional security organization under Article 52 of the UN Charter⁵⁶, then for Canada not to dissipate whatever influence it still had with its European and American allies, it would have had to begin thinking about reversing its decision on troop withdrawals. But apart from the peacekeeping commitment to Yugoslavia, the Mulroney Government had no political will to flip-flop on its European security policy and commit new troops.

Commentators have written extensively about the complications created by the existence of the WEU for the prospects of new European security architecture for the post-Cold War era. On the margins of the Maastricht Summit in December 1991, it was decided that an expanded WEU should embody the ESDI

and should also serve as the European pillar of NATO, and at the Petersberg Ministerial Meeting in June 1992, it was agreed to make the WEU more operational, through the creation of a military planning cell to refine three main tasks for WEU forces (humanitarian and rescue, crisis management, and peacekeeping).⁵⁷ Complicating matters even more from a Canadian perspective was the Franco-German army corps which it was agreed would be placed under NATO command in crises ranging from war to international peacekeeping.

These developments raised serious questions about the relationship between the WEU and NATO and by extension the role for Canada, as a North American partner, in crises on European soil. As Canada's former ambassador to NATO, John Halstead, has noted, the question was whether the focus of defence planning and consultations among the European members of NATO should take place in NATO or in the WEU, and should the WEU eventually have an independent military role? If the former, how can the EC develop an ESDI? But if the latter, how can the U.S. and Canada continue to be involved in European security?⁵⁸ The view in Washington was that the ESDI should develop in whatever way the EC wished, as long as it did not affect NATO's role as the forum where all the allies made common security policies and took decisions to execute them.⁵⁹ The U.S. supported the idea of a common European security policy, provided it was brought to NATO for debate and adjustment to the alliance position. There remained concern in Washington, however, that some European allies would want to establish policy making in the European Defence Community (EDC) as an alternative to NATO. If this were to happen, it would put in question the essential underpinning of

the transatlantic link.

Whatever formulas are reached to reconcile the mandates of the NATO and the WEU⁶⁰, none of them could alter the fact that between 1990 and 1993 there was an inherent tension between the transatlantic and the European view of the alliance, which served to complicate the construction of a new European security architecture in the future and thus undermined transatlantic solidarity, including the prospects for free trade.

10.4.1 "Cooperative Security" as Glue of Transatlantic Relations

So, where did Canada fit into this complicated landscape of cross-cutting interests and how did this affect its relations with the EC? Clearly, without a permanent troop commitment in Europe, it was increasingly difficult for Canada to have much influence on any major Alliance decision. That being said, and returning to our discussion of the various schools of thought on post-Cold War transatlantic security, there was a major structural transformation that Canada faced which was obviously not limited to the transatlantic relationship but affected it greatly, namely, the growing interpenetration of economic and security issues: a case in point was Canada's formulation of a "cooperative security" approach to its international security relations and its pursuit of organizing relations in Europe on the logic of this concept, as was done with the entrenchment of cooperative security elements in the TAD and its attempt to organize the CSCE around these principles. Thus, perhaps it can be said that the distinguishing feature of the early 1990s was that the objective change predicted in the academic literature on

interdependence in the 1970s was now matched by a "cognitive shift" on the part of policy elites.

The cognitive shift, though fundamental and substantial, by the early 1990s was not complete; it had not been thoroughly incorporated into policy processes and political dialogue on both sides of the Atlantic. In many ways it contributed to the institutional overlap and confusion described above that characterized the transatlantic relationship.

What was the impact of the cognitive shift on Canada-EC relations? The first, as mentioned, was to enshrine cooperative security issues in the TAD. Canadian policymakers expected that Canada's future participation in transatlantic security would likely be in peacekeeping or cooperative security-type issues. As the EC was developing its own apparatus to perform these functions, it was, however, increasingly difficult to see how Canada might benefit from performing a European role that would actually no longer be seen by the EC as a support function in a prioritized policy agenda (Soviet containment). Herein then lay the dilemma for Canadian foreign-policymakers. It was entirely unrealistic to expect Canada to have the same amount of influence in Europe in such a reformulated policy agenda. Although both Ottawa and Western Europe had an interest in cooperating on such 1990s "co-operative" security issues as terrorism, refugee management, drug trafficking, and nuclear non-proliferation, this cooperation, was not likely to produce the same type of close-knit, value-driven transatlantic relationship that bound Canada to Western Europe during the Cold War. Regardless of the level of adjustments to existing architecture, Ottawa had to ask itself on what policy congruence and with what rewards it was going to

build stronger political ties with Brussels if it was destined to have less and less influence in NATO and especially if the WEU took over NATO's functions in Europe, something that would depend in large part on Washington's perception of its European interests. Finally, if Canada did indeed want to build cooperative security relations with the EC, one has to question how serious Ottawa was. The evidence suggests that between 1990 and 1993 Ottawa was intent on making the CSCE - not NATO or the EC - the lynchpin of its European security architecture.

10.5 CONCLUSION

The three central or structural changes discussed in this chapter – the respective weighting of the EC, U.S. and Japan in the world economy, the loss of Canada's Atlanticist influence both in the economic and security domains, and governmental attempts to deal with growing interdependence – had important policy and institutional effects for Canada-EC relations.

This chapter, by looking at both the likelihood for new economic and security arrangements at the end of the Mulroney Government's second term, has emphasized how the politics of structural change, and the recognition of fundamental shifts by policymakers, are clearly at the root of many transatlantic policy difficulties. Although the policy agendas of both Canada and the EC had begun to diverge significantly after 1985, the radical transformation only began after 1989. The collapse of the Soviet Union, the move towards economic, political and monetary union in the Community and its implications for the rest of Europe, the completion of the CUFTA and the NAFTA in North

America combined with the completion of Uruguay Round and the start of the WTO, all meant that policymakers on both sides of the Atlantic were confronted with a radically transformed set of choices and issues. By looking at the options available to Canada in this new environment, that is, by examining Ottawa's emphasis on enshrining cooperative security principles in its relations with its European "pillars" and the modalities of a new transatlantic trading arrangement, what this chapter and indeed the entire study describes is the attempt by a middle power to streamline and coordinate divergent policy directions and institutions.

What also comes through the analysis is an interesting change in the complexion of Canada's relations with Western Europe. On the one hand, on one range of broad, overarching issues such as aid to Eastern Europe and the former Soviet Union, the desirability to complete the Uruguay Round, and assistance to the developing world, there is a basic consensus between Canadian and Community elites on both the goals and the means (with the exception perhaps on the means of resolving agricultural disputes within the Uruguay Round). This may not be surprising. What is notable is the other range of broad issues discussed, that is, the future of Europe's security architecture and transatlantic economic relations - where the policy conclusions or actions to these developments on the part of the EC and Canadian elites are notable for their lack of general agreement.

On transatlantic security links, as this chapter described, there was not only confusion regarding the Community's future security role with regard to its Member States' participation in NATO and the WEU, but in terms of Canadian responses there was

serious disagreement within the bureaucracy under the Mulroney Government on how to maintain Canada's security links to Europe. Meanwhile, on the trade side, the Canadian business community evinced no interest in a free trade agreement with the Community but exhibited great interest in a free trade agreement with Asia; meanwhile, Canadian Parliamentarians and Ministers threw up trial balloons about the utility of an Atlantic free trade zone; and senior Canadian bureaucrats, following the completion of the Uruguay Round, saw no value in embarking on a separate transatlantic free trade track. The Community for its part, was preoccupied with trying to realize the goals set out in the 1985 White Paper and the 1987 Single Europe Act, in addition to dealing with the complex issues surrounding expansion beyond the 12 Member States and domestic economic downturns. These internal developments took precedence over what to do about transatlantic relations.

Compounding the problem of making transatlantic interests more convergent was the fact that both Canada and the Community appeared to view the solutions to their respective Atlantic frameworks in fundamentally different ways. This chapter's analysis of the various options open to Canadian policymakers at the end of 1993 points to Ottawa's need to redefine the balance between prosperity and security; basically spending less on European security and gaining more from an expanded European market by investing more in West European trade and investment development efforts. However, it is not clear that there was a convergence of Canadian and European interests in this regard.

Not only this, but domestically there appeared to be no consensus on the appropriate Canadian response to European

integration. If we recall the discussion in Chapters Three and Nine, with the exception of the few Canadian multinationals, the Canadian business community was relatively indifferent to the Community market in spite of the federal government's exhortations, incentives and programs; Canadian business leaders talked about the "maturity" of the West European markets and lobbied government to spend less not more on trade development schemes for this region. And, at the same time that an aggressive, unified Canadian response to the SEM - that is, a "Team Canada" approach in which business and government would "sing from the same song sheet" - was missing in Canada, on the EC's side, the process of revising its role in Europe was almost entirely in the opposite direction from Canada's. So, in the two years after the TAD, while policymakers in Ottawa were framing their approach to the Community around the prospects for new bilateral trade arrangements, in Western Europe the debate had turned upon the ways in which a concern for security could be grafted on to the traditional civilian power base established through Community activities and institutions. This apparent divergence of Canadian and European strategies and outlooks was a major hammer-blow to transatlantic interdependence; Canada, as a result became much more of a *demandeur* in transatlantic relations. The extent to which Canada could intensify its relations with the Community now depended more than at any other time in its history on what the Community's interests were. The next chapter returns to the theoretical basis for Canada's evolving relations with the Community. Chapter Twelve then offers some predictions on the future of Canada-EC relations.

NOTES

1. For good overviews of this period in European integration see David Long, "Europe After Maastricht," in Maureen A. Molot and Harald von Riekhoff, eds., *Canada Among Nations 1994: A Separate Peace* (Ottawa: Carleton University Press, 1994), pp. 131-154.
2. Stephen Woolcock, *Market Access Issues in EC-US Relations* (London: Pinter Publishers Ltd., 1991), p. 7.
3. See discussion by P. Tsoukalas, "The Defence of the European Community," in Juliet Lodge, ed., *Politics of European Integration* (London: Pinter, 1989), pp. 320-360.
4. Smith and Woolcock, p. 36.
5. Royal Bank of Canada, "Is Canada Ready for Europe 1992?" *Econoscope*, Vol. 16, No. 1, (February 1992), p. 8, and for the figure on total world exports see Smith and Woolcock, p. 35.
6. *Ibid.*, p. 9.
7. Michael Smith and Stephen Woolcock, *The United States and the European Community in a Transformed World* (London: Royal Institute of International Affairs, 1993), p. 35. Or, put in another way, intra-EC exports have risen from 54 per cent of total EC exports in 1982 to more than 60 per cent in 1990; while on the import side the increase is from 50 per cent to 58 per cent during the same period.
8. Royal Bank of Canada, p. 9.
9. John Knubley, M. Legault, S. Rao, "Multinationals and FDI in North America," in Lorraine Eden, ed. *Multinationals in North America* (Calgary: Univ. of Calgary Press and Industry Canada, 1994), p. 151.
10. Figures from John Kirton, "The Diplomacy of Concert," paper prepared for conference entitled "Canada and the 1995 G7 Halifax Summit: Developing Canada's Positions," sponsored by the Centre for Trade Policy and Law, Carleton University, April 3, 1995. This revised paper will appear in *Canadian Foreign Policy*, Vol. 3, No. 1 (Spring, 1995).
11. Michael Smith, "'The Devil you Know': The United States and a Changing European Community," *International Affairs*, Vol. 20, No. 1 (1990), p. 87.
12. On the increasing relative political and economic weight of the Community, see Mark S. Mahaney, "The European Community as a Global Power: Implications for the United States," *SAIS Review: A Journal of International Affairs*, Winter/Spring 1993, p. 79; Smith and Woolcock (1993) discuss the relative weight of the EC and the United States in the world economy, pp. 34-40; and Mark Nelson, "Transatlantic Travails," *Foreign Policy*, No. 92, (Fall 1993), on pp. 80-84 talks about the EC replacing the United States as an international power.

13. Ali El-Agraa, "Japan's Reaction to the Single Internal Market," in John Burton, ed. *The External Relations of the European Community*, pp. 16-17.
14. Dick K. Nanto, "The U.S.-EC-Japan Trade Triangle," *CRS Report 92-500 E*, (Washington: June 4, 1993), Summary and pp. 3, 11-16; and "European Community-Japan Trade Relations," *CRS Report*, No. 86-166, by Dick K. Nanto (Washington: 1986), p. 36.
15. The impetus to for improvement in this bilateral relationship came from both sides. For Japan, the motivation came from a concern over continued and/or possible future protectionism. Second, Japan desired greater involvement in the new institutions which would shape the Europe such as the EBRD. The Community's strategy, on the other hand, came to be greatly influenced by the record of U.S.-Japan economic relations. For example, the EC expressed concern that it might be discriminated against as a result of the Structural Impediments Initiative between Japan and the United States.
16. This goodwill is a function of Canada's particular expertise and capabilities in its diplomacy in the Asia Pacific region (e.g., peacekeeping, verification, surveillance, and confidence-building) in Brian L. Job and Frank Langdon, "Canada and the Pacific," in Fen Osler Hampson and Christopher J. Maule, eds., *Canada Among Nations 1993-94: Global Jeopardy* (Ottawa: Carleton University Press, 1993), pp. 288-289. The authors point out that although the Japanese are not very supportive of Canadian efforts to create multilateral security regimes for Asia Pacific, they are very keen on learning, for example, from Canadian expertise on peacekeeping.
17. Stephen Lavergne, "China 2000: The Nature of Growth and Canada's Economic Interests," *Policy Staff Paper*, No. 94/10 (Ottawa: Department of Foreign Affairs and International Trade, May 1994).
18. See Christie (1993, 1994).
19. "Walking a Tightrope on Trade," *The Washington Post National Weekly Edition*, April 12-18, 1993, p. 19.
20. See "Canada risks sideswipe in U.S., EC Telecom spat," *The Globe and Mail*, April 19, 1993.
21. A summary of this section appears in Evan H. Potter, "The Impact of European Economic Integration on North America: Adjustment Versus Radical Change," in Donald Barry, ed., *Toward a North American Community? Canada, the United States, and Mexico* (Boulder, CO: Westview Press, 1995), pp. 241-267.
22. See "Canada and EC Mutual Recognition Agreements," *Europe 1992 Trade Winds*, (Ottawa: Standards Council of Canada, January 1992). The regulated products are under EC technical harmonization directives and corresponding to CEN/CENELEC/ETSI standards. At the time of writing, the EC Commission was awaiting its mandate from the EC Council of Ministers to open discussions with third countries.

23. This author is indebted to A.D. (Sandy) Bryce, Director, Economic Planning (CPE), Policy Planning Staff (CPB), at EAITC for outlining the "options" facing the Canadian government with regard to transatlantic relations in 1990-91. The author's discussion with Mr. Bryce was based on a memorandum drafted by Mr. Bryce entitled, "Europe-North America Linkages: a preliminary Assessment of Options" that he had sent on March 26, 1990 to both the Under-Secretary of External Affairs de Montigny Marchand and the Deputy Minister for International Trade, Don Campbell.

24. The lack of immunity from EC trade remedy law was however seen as a shortcoming in the existing arrangements with the EFTA countries.

25. Gary Hufbauer makes the case for a Free Trade and Investment Area (FTIA) of the OECD. His rationale is that this would "soften the edges of emerging regional trade blocs." It is interesting that Hufbauer's article in the Winter 1989-90 edition of *Foreign Policy* predates Secretary of State for External Affairs Joe Clark's call for an OECD free trade area by only a few months. See Gary Hufbauer, "Beyond GATT," *Foreign Policy*, No. 77, (Winter 1989-90), pp. 64-76.

26. Confidential telephone interview with Bill Dymond, Minister Counsellor, based at Canadian Embassy in Washington, April 1992.

27. Standing Committee on External Affairs and International Trade, "Canada's Relations with the New Europe," p. 9.

28. Stuart Carre, confidential interview, January 6, 1992.

29. It should be noted that the creation of an Atlantic Community was certainly not only a post-Second World War conception. The "Atlantic Triangle", for example, is a pre-war conception; as well, the notion of an Atlantic Union can be traced to such proponents as Clarence Streit in his 1939 book, *Union Now*, which advocated a Federal Union of Atlantic Democracies.

30. For a good analysis that integrates the historical debate with the geo-political realities of the 1990s, see Robert Wolfe, "Atlanticism without the Wall: Transatlantic Cooperation and the Transformation of Europe," *International Journal*, XLVI, (Winter 1990-91), pp. 137-163; and the special issue on the future of "Atlanticism and its Prospects" in the *Journal of European Integration*, Vol. 16, No. 2 (Spring), see especially contributions by John Halstead, "Atlantic Community or Continental Drift" and Alan K. Henrikson, "The New Atlanticism: Western Partnership for Global Leadership".

31. C.F. J. Kraft, *The Grand Design: From Common Market to Atlantic Partnership* (New York: Harper, 1962); Christian A. Herter, *Toward an Atlantic Community* (New York, N.Y.: Published for the Council on Foreign Relations by harper & Row, Publishers, 1963); Frank Munk, *Atlantic Dilemma: Partnership of Community?* (Dobbs Ferry, N.Y.: Oceana, 1964); Maxwell Stamp Associates, *The Free Trade Area Option: Opportunity for Britain* (London: The Atlantic Area Study, 1967); John Bartlett Brebner, *North Atlantic Triangle: The Interplay of Canada, the United States and Great Britain* (Toronto:

McClelland and Stewart, 1966); Lionel Gelber, *World Politics and free trade: Britain, U.S.A. and the West* (London: Atlantic Trade Study, 1968); David Robertson, *Scope for new trade strategy: dimensions of free trade* (London: Atlantic Trade Study, 1968); Edward H. English, *Transatlantic Economic Community: Canadian Perspectives* (Toronto: Published for the Private Planning Association of Canada by the University of Toronto Press, 1968); and Harry G. Johnson, *New Trade Strategy for the World Economy* (Toronto: University of Toronto Press, 1969). Of this research, the Brebner, English, Johnson and Gelber volumes provide a Canadian perspective. In the 1970s, there appears to have been less discussion of an Atlantic free trade area or Community after Kissinger's "The Year of Europe" statement in 1973, although there was still some research such as that by Elliot Goodman, *The Fate of the Atlantic Community* (New York, N.Y.: Published by Praeger for the Atlantic Council of the United States, 1975); Walter F. Hahn and Robert L. Pfaltzgraff, Jr., eds., *Atlantic Community in Crisis: A Redefinition of the Transatlantic Relationship* (Elmsford, N.Y.: Pergamon Press Inc., 1975); and Johan Holst, "NATO, the European Community and the transatlantic order," in Richard Mayne, ed., *The New Atlantic Challenge* (New York: John Wiley, 1975).

32. Karl W. Deutsch, *Political Community and the North Atlantic Area* (Princeton, N.J.: Princeton University Press, 1957/1968).

33. Quoted in Livingston Hartley, *Atlantic Challenge* (Dobbs Ferry, New York: Oceana Publications, Inc., 1965), pp. 39-40.

34. Lester B. Pearson, *Mike: The Memoirs of the Right Honourable Lester B. Pearson* (Toronto: University of Toronto Press, 197?), p. 49.

35. John Holmes, *The Shaping of Peace...Vol. 2*, p. 106.

36. Livingston Hartley, *Atlantic Challenge* (Dobbs Ferry, New York: Oceana Publications, Inc., 1965), p. 51.

37. *Ibid.*, pp. 41-45.

38. Peter Coffey, *The External Relations of the EEC* (London: The Macmillan Press Ltd., 1976), pp. 19-29.

39. On Germany's transatlantic role see for example, Klaus Naumann, "Euro-American Security Challenges - Germany's Role and Responsibility," *Transatlantic Brief*, No. 9 (Washington: Konrad Adenauer Stiftung, July 1994).

40. Cited in Mark Nelson, "Transatlantic Travails," *Foreign Policy*, No. 92, (Fall 1993), p. 89.

41. Press Release, "Chamber Appearance Before Legislative Committee on Bill C-130, 'An Act to Implement the Free Trade Agreement Between Canada and the United States of America,'" Canadian Chamber of Commerce, July 14, 1988, p. 2.

42. *Ibid.*, p. 6.

43. Comments made by John Weekes, Senior Assistant Deputy Minister (U.S.), at EAITC and the senior Canadian bureaucrat responsible for the NAFTA negotiations, at a symposium on Canada-Germany relations organized by the Konrad Adenauer Stiftung, May 13-14, 1994, Ottawa, Canada.

44. A forum to which the NATO members and the former Warsaw Pact members and the successor states of the Soviet Union belonged.

45. The WEU emerged from the transformation of the 1948 Brussels Treaty through the accession of West Germany and Italy, and the addition of new political and military functions. From the time of its creation in 1954 as an organization for regional defence and arms control to the early 1980s it lay virtually dormant.

46. For a definition of "cooperative security" see Christopher Anstis, "CSCE Mark II: Back to Helsinki from Paris via Berlin and Prague," *NATO Review*, No. 2, April 1992.

47. Charles Pentland, "European Security after the Cold War," in D. Dewitt, D. Haglund, and J. Kirton, eds., *Building a New Global Order: Emerging Trends in International Security* (Toronto: Oxford University Press Canada, 1993), p. 76; and see also David Haglund, *Alliance Within the Alliance? Franco-German Military Cooperation and the European Pillar of Defense* (Boulder, CO: Westview Press, 1991, esp. chapters 1 and 7).

48. Alexander Moens, "A New Security Strategy for Europe," in Mauren A. Molot and Harald von Riekhoff, eds., *Canada Among Nations 1994: A Separate Peace* (Ottawa: Carleton University Press, 1994), p. 165 and ft. 23.

49. Moens provides a good summary in *Ibid.*, pp. 162-165.

50. *Ibid.*, p. 163.

51. *Ibid.*, p. 164. Both the liaison person on the Military Committee at NATO and the chief Military liaison in New York happened to be Canadian.

52. *Ibid.*, p. 163.

53. Moens points states that Canada unilaterally withdrew its troops even though several allies (he does not name which ones) had "quietly" offered Ottawa "very substantial help" in covering costs from base and equipment costs. *Ibid.*, p. 163.

54. This withdrawal did not mean, as Canadian diplomats were careful to emphasize to their European counterparts, that Canada was eliminating its operational commitment to NATO. Canada's navy, for instance, continued to provide a minimum of one destroyer/frigate to the Standing Naval Force Atlantic as it had done for the previous twenty-five years on a continuous basis. In addition Canada's military would continue to provide numerous operational and staff positions within the NATO command structure.

55. *Canadian Security for the 21st Century* (Toronto: Centre for International Studies, 1994).

56. Cf. John Halstead, "International Security Institutions: NATO and the CSCE," *Canadian Foreign Policy*, Vol. 2, No. 1 (Spring 1994), pp. 45-63.
57. Diarmid Williams, *The Atlantic Council Letter* (June 1993).
58. Halstead, p. 55.
59. Former US Ambassador Williams H. Taft IV, *The Atlantic Council Letter* (July 1993).
60. Under the various options proposed NATO and the WEU would be mutually complementary, with neither being subordinate to the other, and would work together in a spirit of full cooperation and sharing of information. NATO would remain the centre for defence planning and coordination for all its members, while the WEU, as the "European pillar" of the alliance, would play the role of a bridge between NATO and an increasingly integrated European Union.

CHAPTER ELEVEN**LESSONS FROM CANADIAN FOREIGN POLICYMAKING TOWARDS THE EC****11.1 INTRODUCTION**

In this chapter we return to the discussion of the levels-of-analysis problem (Chapter Two) and the frameworks and process of Canadian foreign policy (Chapter Two and Three) to determine what this study on Canada-EC relations has taught us about the relative importance of domestic determinants and international constraints on Canada's foreign policy. This prompts a series of questions: Why was priority given to Canada's relations with the EC in 1989-91, leading eventually to the issuance of the TAD? Why was it so difficult to develop a new framework for Canada-EC relations that would encompass a multiplicity of inter-governmental links, and so go beyond a focus on bilateral economic relations? Finally, how did the structural change in the international system after 1989 either hinder or aid Canada's foreign policy approach to the Community?

On the first question, this study has shown that there are many factors at various levels, that is, both political and economic and domestic and international, that must be taken into account when analyzing any diplomatic relationship. The theoretical objective of this study has been to show the challenge in combining levels of analysis in order to weigh the significance of various factors. "What is needed," according to Benjamin Cohen, "is a methodology that considers domestic- and systemic-level variables

simultaneously, rather than sequentially, and specifies whatever interactions there may be among all relevant variables in a rigorous manner."¹ While acknowledging that systemic and domestic pressures impose constraints on state behaviour, this study demonstrates that there is still a degree of latitude for state action. How domestic actors in Canada, both inside and outside of government, identify their interests and recognize their latitudes of action *vis-à-vis* the EC with regard such policy challenges as the TAD and the SEM, is a function of the manner in which these problems are understood by these actors or are represented by those to whom they turn for advice under conditions of uncertainty, be they Canadian officials abroad (e.g., Derek Burney, Canada's ambassador to Washington or Donald MacDonald, the anti-EC Canadian High Commissioner to the UK, or Canadian business leaders' relative indifference to the SEM), or foreign figures such as the UK foreign minister, Douglas Hurd, and German Foreign Minister, Hans-Dietrich Genscher.

This study also shows that system-level factors played a crucial role in prompting a review of Canada's European policy framework in 1989, and that at the domestic level Canada's policy approach can be characterized as one of bureaucratic politics, which is consistent with the state-centric models of Canadian foreign policy. The examination of extensive government documents shows that with regard to the EC (as opposed to assistance to Eastern Europe) Canadian decision makers - primarily the Prime Minister, his Secretary of State for External Affairs, and

officials at EAITC - were reacting to system-level stimuli and only marginally to domestic actors. It demonstrates that Canada's political leadership and senior bureaucrats had devised a two-pronged response, the "Europe 1992" trade development component of the "Going Global" program and the TAD, based on their own perceptions of the threats that two systemic events, the creation of the SEM and the "legitimacy gap" in transatlantic relations created by the ending of the Cold War, posed to Canadian interests. The discussion below, in greater detail, applies the levels-of-analysis heuristic to the analysis of Canada-EC bilateral relations described in this study.

11.2 THE SYSTEMIC FACTORS

11.2.1 The Paradox of Canada's Post-Cold War "Room for Maneouver"

Starting in 1989, the old question of how Canada, as a middle power, could play a mediating role between the Cold War powers of the United States and the former Soviet Union gave way to a new question: How could Canada best respond to a world in which "ethnic-cleansing" zones and free trade zones existed side-by-side? At first glance, the end of the Cold War appeared to give Canada more room for manoeuver: rather than having a foreign policy that flowed from outside constraints, Canada's foreign policy could now flow from its domestic needs (a development that harkened Trudeau's motivation for his *Foreign Policy for Canadians* in 1970). This

however presented a paradox: on the one hand Canadian decision makers had more sovereignty; on the other, with the meshing of national and international issues and the increasing number of non-state actors the nation-state's room for manoeuvre became much more difficult to grasp.² Not only this, but while the traditional "constraints" imposed on Canada by a bipolar international system may have disappeared, they had been replaced by increased globalization and economic competition.

Canada was no longer the player that it once was. To allude to the title of a recent book by Arthur Andrew, a distinguished former Canadian diplomat, what Canadians witnessed over the 45 years since the end of the Second World War was the *Rise and Fall of a Middle Power*.³ Not only was Canada's ability to marshall resources in the pursuit of its objectives diminished, but other countries (particularly those in Asia) were rapidly catching up, and some, it was expected would, in the next decade, begin to pass it. There was even been speculation as to whether Canada deserved to be a G-7 member based on its GDP, which would actually make it the world eleventh largest industrial power. Furthermore, Canada's claim to being a middle power was now less credible in light of its ballooning national indebtedness to foreigners. What this discussion points out is that Canadian policymakers, after being released from the straighjacket of the Cold War, had to come to terms with Canada's diminishing relative global economic and political power as they faced an emerging European Community.

Canadian foreign policy in the immediate aftermath of the Cold

War was in large measure reactive, in contrast to Canada's leadership role during the "Golden Age" of its diplomacy. An initiative such as the TAD, where, as will be discussed below, Canada took a leadership position, may prove to be the exception rather than the rule of future Canadian foreign-policy making. The major challenge for Canada's foreign policy in the years ahead will therefore be to adjust to its declining influence while at the same time being actively engaged in those areas that provide a clear comparative advantage.⁴ The question is: Will its transatlantic relations and its bilateral relationship with Community constitute a comparative advantage in the years ahead in the context of its overall foreign policy agenda?

Canada-U.S. -EC Triangle

What also emerges from this study's analysis is the rational actor approach of Canada in the management of its relations with the United States. Evidence has been presented to support the thesis that Canada's relations with the United States in large measure determines the configuration of its other bilateral relations - in this case with the European Community. In this vein, although the TAD was very much an outgrowth of Brian Mulroney's desire by 1990 to be perceived as reacting positively to the new geo-political realities of Europe, which included the Community's increasingly important role, it was also a byproduct of Canada-U.S. relations. Some observers have asserted that the TAD, like the "Europe 1992"

component of "Going Global" that preceded it, reflected the Conservative Government's desire to use improved bilateral relations with the Community to decrease domestic political pressure. In other words, the existence of the TAD as part of a campaign of "diversification" was a useful way of deflecting criticism from a segment of the population - Canadian "nationalists" who claimed that free trade was a sell out and that Canada was becoming the 51st state.

The notion of creating a "counterweight" of course gives rise to a discussion of Canada's ability, despite its modest national attributes, and through its emphasis on and pioneering efforts in establishing multilateral institutions, to manage the impact of the international system beyond what could be expected. In Canada's diplomatic history there have been occasions in which it has exhibited a leadership capacity, to wit: Was Canada, in the case of the TAD, merely following U.S. policy responses to increasing European economic and political integration? That is a question. Or was Canada demonstrating a discernible leadership?

One likely interpretation, starting from the Bush and Baker speeches and moving through the more formal negotiations between the EC and the U.S. beginning in June 1990, would conclude that the U.S. led, while Canada followed. But as Cooper et al., assert, it is misleading to deduce leadership by looking solely at the leader's behaviour because it assumes that one need not bother "examining too closely what followers were actually doing, what is motivating them, what is driving their behaviour".⁵ For this

reason, in this study we have examined in detail the Canadian responses to the increasing EC-U.S. dialogue. What we are challenging is the tendency to paint a cynical portrait of Canadian participation in the formulation of the TAD in particular; and the suggestion that Canada as a smaller power is inherently reactive within the international system, although as we mentioned, the passing of the bipolar world will not greatly expand Canada's room for manoeuvre. Following from Chapter Seven, to determine whether Canada played a leadership or followership role in the creation of the TAD it is necessary first to define the terms and then to review the choices that were available to Canadian policy-makers.

It is useful first to distinguish between "leadership" as a political phenomenon from "dominance" and "naked power".⁶ Accepting that American leadership on the TAD was political, there still remains the problem of using a leader-centred approach because it "seriously distorts how we understand the nature of leadership in international politics".⁷ To see why one only has to look at the act of followership. As Cooper *et al.* state:

Those who look as though they are following may well be engaged in an act of followership...Then again, those putative followers may not be so much following a leader as finding themselves in step with a leader because of complementary interests. And finally, those who look as though they are following may also be engaged in an elaborate deception, purposely misleading those who are inclined to think...that they are leading.⁸

In the case of the TAD, Canada's followership role did not result from coercion (since the U.S. initially did not desire Canadian participation in a possible transatlantic accord), but was

closer to an act based on pragmatism (*i.e.*, it did not want to be left out of a possible transatlantic accord) reflecting the complementary political and economic interests of both Canada and the U.S. *vis-à-vis* the European Community. In other words, once Canada saw that the EC-U.S. negotiations were moving inexorably toward some type of Declaration, Canada insinuated itself into the process and made concrete recommendations on how the eventual declarations could be structured. It moved EC-U.S. discussions towards the TAD in such a way that it included a meaningful role for itself.

The case study of the TAD indicates that, as a player of modest size in the international system, Canada has had to move swiftly to ensure that its interests are taken into account. The EC's move towards economic and political union created structural changes in the international system and presented a number of options to Canadian decision-makers. Canada could have pursued a strictly national strategy and relied on its existing high level Ministerial meetings to enhance its political links with the Community; this, however, appeared unacceptable, especially from the perspectives of officials at EAITC who viewed the TAD as a unique opportunity to ensure that the Community would become a permanent fixture on the Prime Minister's and the Secretary of State for External Affairs' calendars.

Second, Canada could have done nothing as the U.S. and the EC negotiated a declaration. But, this option had two significant counts against it: 1) the Europeans were quite willing to use

Canada as an intermediary in their discussions with the U.S. (indeed Canadian officials were leaked confidential drafts of the EC-U.S. Declaration); and 2) neither Brussels nor Washington were exercising vigorous leadership roles in the drawing up of the Declarations.

The third choice was for Canada to attempt to make use of its niche role by being both an intermediary for the Community and an architect of the final agreement. As it turned out, Canada did take on a more proactive role as predicted in Cooper et al.'s conception of a more "entrepreneurial" Canadian foreign policy, but only once EAITC officials began to draft a "Canadian" text which swiftly became the model for the final text. Ottawa was moving from its Cold War role as a "helpful fixer" to one of a "good dancer". by moving swiftly to provide a model of the eventual TADs, Canadian officials became "policy entrepreneurs".

So, it may be more accurate to say that while Canada may have been a follower throughout the EC-U.S. preliminary discussions in the spring and summer of 1990, by October of that year Canada's role changed to that of leader. We conclude that just as the U.S. possessed "structural" (i.e., political) and what can be referred to as "transforming leadership" that transformed the interests, priorities and expectations of Canada in its policy responses to increasing European integration and transatlanticism, Canada also appeared to possess a certain "intellectual" leadership that allowed it to obtain the TAD on its terms – albeit in the format of a parallel agreement.⁹

Finally, the chronology of TAD shows unequivocally that increased personal contacts between Community leaders and Prime Minister Brian Mulroney and Mulroney's close relationship with U.S. President Bush, although necessary and important, were not sufficient to create the final agreement. Rather, the explanation lies in the proclivity of the EC and the U.S. to intensify bilateral relations which in turn determined the policy options available to Canadian decision makers. Thus the EC-U.S. negotiations set parameters for the subsequent EC-Canada Declaration.

On the economic side, the Mulroney Government's response to the SEM was two-pronged: on the trade policy side it wished to ensure that the "1992" program was not in fact creating new barriers of access for Canadian products and services; and on the trade development side, it was couched in terms of Canada's declining global competitiveness, that is, the belief that the CUFTA, by making Canadian companies more competitive in the U.S. and home markets, would also allow them to more easily penetrate European markets. The business community's response, however, was divided between the small number of Canadian multinationals that had made investments in Western Europe prior to 1992, and the many more Canadian SMEs that looked to the U.S. not as a "springboard to world markets" - as Ottawa would have preferred - but rather the final destination for their exports. This, then, were the systemic impacts on Canada-EC relations. The next section examines the interaction between the political and bureaucratic levels in Canada.

11.3 THE DOMESTIC DIMENSION: BUREAUCRATIC POLITICS

The fostering of closer political and economic ties between Canada and the EC in the late 1980s and early 1990s reinforces the axiom that just as the successful implementation of a trade development strategy depends on a coordinated trade policy approach, the success of a nation's overall foreign policy outlook and subsequent actions requires appropriate nursing and support at the highest political levels. Smith and Clarke, for example, state that the political framers of a strategy (*viz.*, the politicians as distinct from officials) can have an unexpectedly strong influence on its ultimate impact. The more politicians intervene in the subsequent or "sequential decisions" needed to implement a strategy by driving, influencing, testing or even side-stepping the bureaucracy, the more likely will it be for the initial decision and its eventual impact on intended targets to coincide.¹⁰

This assertion must be qualified, however, because a middle power such as Canada is most often a *demandeur* in the international system, which may explain why Canadian politicians, even if they want to side-step their foreign policy bureaucracy and follow up on the implementation of specific foreign policy initiatives, still have only limited success in making their initial foreign policy decisions bear a close resemblance to their actual impact. Accepting the inherent limitations of being a smaller state, the question then is to what degree was the necessary high level of political support evident in Canada's relations with the European

Community?

In light of these assumptions, the descriptions of Canada's foreign policy-making in Part Two of this study are consistent with other recent analyses of Canadian foreign policy-making in that Cabinet ministers held the ultimate authority for, and actively pursued, foreign policy outputs, while the members of the bureaucracy were the sources of most policy positions and were responsible for their implementation; other domestic actors remained on the sidelines.¹¹ The descriptions of the objectives, actions and interactions of the bureaucratic and political actors in the period leading up to the TAD support strongly the modified statist approach as an explanation for Canadian foreign policy actions.¹² This is consistent with Allison's bureaucratic politics model. Evidence of the "the pulling and hauling that is politics," that is, the search for compromise, was evident both within the Canadian government and at the international level. In the former case, the players - the Canadian and foreign officials and leaders - did not make decisions by a single rational choice¹³, but rather considered options through negotiation, resulting in a "political" TAD with references to the need for closer economic ties. At the inter-state level, in the process of negotiating the TAD with the EC (including the Member States) and the United States it was soon very clear to Canadian officials that, for example, given Canada's relative position of power, it would be impossible for them to stick rigidly to their ideal objective (i.e., a trilateral EC-Canada-U.S. transatlantic Declaration) when presenting their

positions to Cabinet members for approval. The form of the TAD (as do most policies) evolved as negotiations progressed and, in the end, the Canadian and U.S. TADs demonstrated a delicate balance of compromises.

Whereas there was no reason in the Canadian political leadership's mind to pursue aggressively relations with the EC from the end of the 1970s to about 1989, after this time as the international community's attention increasingly focused on the collapse of the communist regimes in Eastern Europe and the Soviet Union, bureaucratic actors, primarily officials at EAITC (but not as we saw necessarily those in the European divisions) were in a position of having the attention of the political leadership and were thus able to have considerable input into Canada's Europe policy by drawing up detailed strategies for Cabinet.

Although, in theory, there was a clear separation of power and responsibility between the Cabinet and bureaucracy, in practice it was a handful of officials in three EAITC Bureaux - the Policy Planning Staff, Political and Security Bureau, and the European Bureau¹⁴ - who played the lead role in positioning Canadian transatlantic interests. It is important to note that unlike in the U.S. federal government where the jurisdictional lines on Europe policy would have been spread among the Departments of Commerce, USTR, Department of Defense, and State, in Canada, because of EAITC's broad responsibilities for foreign, security (as opposed to defence), and trade policies, Canada's Europe policy at the bureaucratic level was fashioned in large part by EAITC.

But lest the impression be given that Canadian politicians had little to do but give their stamp of approval to their officials, it should be pointed out that the TAD was first proposed at the highest political levels by the Germans and the Americans - a systemic influence. Once Canada became involved, support from secretary of state for external affairs Joe Clark and prime minister Mulroney was crucial in determining the bargaining strengths and influence of the civil servants *vis-à-vis* each other in the various division at EAITC and the power of EAITC relative to PCO and DND, all of whose interactions affected Canada's role in the final outcome. The interest taken by the Prime Minister's Office in the negotiating process reflected the increased importance accorded to EC-Canada bilateral relations in the Prime Minister's foreign policy agenda. This is a significant development since in Canada, as mentioned, the Prime Minister has significant power to effect changes in foreign policy orientation. Finally, as is the norm in Canadian foreign policy-making, Parliament did not play a significant role in the development of the TAD.¹⁵

What also needs to be emphasized is that Canada's Europe policy was not just a product of the "pulling and hauling" between the political and bureaucratic levels (e.g., PMO vs EAITC) but also resulted from inter-bureaucratic turf wars such as those between EAITC and DND on Canada's security interests in Europe, and between EAITC and the rest of the federal government (e.g., in 1991 it kept the existence of its own Canada-Europe working group a secret from other departments while at the same time sitting on the inter-

departmental committee on Europe). There was also intra-departmental tension at EAITC between the pro-Community and pro-NATO forces, that is, between those officials in the divisions responsible for NATO and the CSCE pushing for a reformed NATO as Canada's primary European pillar, while officials on the Policy Planning Staff and in the European Bureau pushed for a Departmental position that reflected the increasing prominence of economic issues and the capacity of the Community to affect Canada's international economic and political positions.

At the same time, by 1989, as a result of Canada's support of the G-24's decision to aid in the reconstruction of Central and Eastern Europe, Canadian aid to the regions (eventually it would also be directed to the countries of the former Soviet Union) became a top EAITC priority and contributed to the "pulling and hauling" within EAITC's European bureau.¹⁶ From an institutional perspective, Canada's official aid program (known by its acronym RGZ), supported by a vocal and powerful domestic constituency of emigré groups and Canadians of East European descent, soon overshadowed all other divisions within EAITC's European Bureau. RGZ, Starting with a staff of 10 officials in 1989, by 1993 had expanded to over 60 program managers with a budget of \$75 million and dwarfed the regular European trade and relations divisions¹⁷; by comparison, five officials worked in the European Community division. It would appear, therefore, that in spite of Ottawa's substantial investment in the "Europe 1992" component of "Going Global," the institutionalization of the aid program did have the

effect of diverting ever scarcer Canadian governmental (and also private sector) resources (e.g., policy analysis, programs) away from Western Europe to the CEEs.

As Stephen Krasner puts it, bureaucratic politics analysis implies that the office - not the occupant - determines how players behave.¹⁸ But it is easy to overstate the role of institutions. This study suggests that the influence exercised by Canada's foreign policy decision makers on Ottawa's policy output, that is, their ability to exert power (which Allison defines as blend of bargaining advantages, skill and will), was not a function of their bureaucratic positions *per se*. Welch in a critique of Allison's *Essence of Decision* points out that Allison was his own clearest critic when he said that "The hard core of bureaucratic politics mix is personality". He continued, "How each man manages to stand the heat in *his* kitchen, each player's operating style, and the complementarity or contradictions among personalities and styles in the inner circles are irreducible pieces of the policy blend."¹⁹

Recalling the discussion in Chapter Three on the respective roles of the PMO and EAITC in the Canadian foreign-policy process, this mix of "operating style" was clearly evident in the formulation of Canada's policy towards the whole of Europe. As mentioned, due to Mulroney's dissatisfaction with policy advice on Europe emanating from EAITC, in 1989 he had appointed a new Under-Secretary of State for the Department. That the Under-Secretary, de Montigny Marchand, would send orders to draw up a new European strategy to the Policy Planning Staff, under its then Director

General Mark Moher -and not to the European Bureau under the Assistant Deputy Minister (Europe), Jacques Roy, was certainly a reflection of the low confidence Marchand and his minister, Clark, had in the "personalities" in the European bureau at the time. In addition, that a defining "Memorandum to Cabinet" on Europe in 1990, as it was explained to this author, was hashed out one afternoon in the office of Jeremy Kinsman, then the assistant deputy minister (Political and Security Affairs) and again not in the European Bureau²⁰ points to the fact that in Canada's policy approach to Europe bureaucratic offices did not play as determinative a role as did the occupants of those offices.

On the other hand, from an institutional perspective, it is clear that the pressures exerted by the emigré community in Canada and the personal situations of Mulroney (whose wife is of Serbian descent) and Clark, who before 1989 had had very little interest in things European but was compelled to return to the European file by virtue of his hosting the "Open Skies" conference in Ottawa in 1990, combined to force institutional change within the Canadian federal government. As mentioned, this institutional adjustment within EAITC favoured Eastern Europe at the expense of Western Europe. The reasons are not complicated. There were few votes to be had on the grounds that Canada had to "reconfigure" NATO and the CSCE. Such debates were left to the officials at DND and EAITC and a small clique of defence and strategic analysts largely situated in academia; second, the EC as a "pillar" in Canada's European policy framework meant little to Canadians who, if they had any European heritage, identified with the individual Member States. Most importantly, a large portion of the Canadian population could

identify with the plight of their East European cousins and thus aid to the region was a hot political issue for Prime Minister Mulroney and his Cabinet. So it can be said that societal actors succeeded in achieving institutional and therefore a policy change in Canada's external affairs that privileged Eastern Europe in Canada's overall European policy framework; relations with Western Europe and the EC in particular were left largely to the interplay of officials and Cabinet Ministers.

The foregoing discussion, by assuming a modified statist approach to Canadian foreign policy, highlights the problem of defining the state, where the principal divergence is between those who focus on institutions and those who emphasize the role of individuals.²¹ Therefore, should Canada's response to the SEM and indeed the Mulroney Government's overarching strategy for its response to European integration be traced back to public sector institution(s) - EAITC and/or the PMO? This would be consistent with Krasner's definition of states as "central decision-making roles and institutions"?²² Or, should its origins be traced back to the role of individuals within these institutions as per Nordlinger's view that "the state is made up of and limited to those individuals who are endowed with society-wide decision-making authority"?²³ Riddell-Dixon states that Nossal²⁴ refines the Nordlinger approach by noting the institutional affiliation as a key explanation for individual preferences. With EAITC responsible for both Canada's foreign security policy as well as its trade development and trade policies, this ensured that the preferences of the political, bureaucratic and private sector actors were influenced considerably by this Department's ability/inability to

respond to the SEM and the EC's emerging role.

Finally, given the high-level of bureaucratic/Ministerial tension normally associated with parliamentary systems of government, the case of the TAD shows - despite the significant bureaucratic turf battles over whether to favour a security-led (i.e., NATO-first) Europe policy approach or an economically-led one - that there was surprising little conflict between senior officials and Cabinet Ministers on whether Canada should have been engaged in Europe at all. The consensus at the political-bureaucratic level in 1989-1992 was that Canada's interests were better served by being "in," rather than "out" of, Europe. Fundamental disagreements over the means of staying in Europe (e.g., the TAD as a "political" or "economic" document) could not overshadow this reality. In contrast, this type of general consensus was not evident in the private-public sector interface, as discussed in Chapters Three (the 'disconnect' on trade promotion) and Nine and as will be noted below, on the appropriate policy response to West European economic integration.

11.3.1 Continuing the State-Led Approach

This study has focused largely on the political and bureaucratic actors in Canada-EC relations. But with disappearance of the threat of nuclear war in Western Europe and as economic discussions of the Europe "1992" package dominated the agenda, the observer might have expected a shift away from the conventional state-centred view of Canada's policy approach in its relations with the Community to one with greater input from the business and academic communities. Instead, we see a still further intensification of state-to-state

links in the post-1989 era.

The TAD exercise and the relative lack of interest in the SEM among Canada's SMEs (compared to opportunities in the U.S. and Asia Pacific) helps to explain the largely indifferent attitude of Canadian business to the changing nature of transatlanticism. This was clear in the negotiations leading up to the TAD where there was a discrepancy between the lack of reference to the private sector in that document and the Government's own public exhortations to the organized business community to participate more actively in Canada's policy approach to economic integration in Europe.

The growing policy interdependence, the globalization of business, and the re-intensification of a Community foreign policy in the late 1980s, pointed to a new plateau of complexity in bilateral EC-Canadian relations. At the same time, the number of important European institutional actors was on the rise: whereas before Canada could target the Commission and a few key Member States, now it also had to consider the growing authority of the European Parliament and the central roles of the European Court of Justice and the Council of Ministers as well as the re-invigorated EPC. All these developments made the task considerably more arduous of consolidating existing bilateral mechanisms of cooperation and consultation. In terms of Canada's Europe-wide policy framework the most apparent change was the gradual transfer of Canadian political capital away from NATO and the CSCE to the EC. Thus the experiences of the TAD and the SEM show that Ottawa's dominance in the foreign policy process vis-à-vis Europe did not change radically; it merely adjusted its agenda.

It should also be cautioned that Canada's last flirtation -

the "Third Option" - with a concerted effort to promote closer economic relations with Europe allegedly failed, to a large extent, because it was state-led. This in turn points to the domestic constraints that militate against a move away from the failure prone state-led approach to relations with the Community. As discussed in Chapter Three, relations with the Community received little sustained and coordinated support from Canada's business community as represented by the major broad-based business associations. To be fair, the response from the European side to creating bilateral transatlantic industry mechanisms to channel business views was equally underwhelming²⁵, with both UNICE (the EC employers' federation) and the PCCCI in Brussels declaring that they had no mandate to extend external links since they saw themselves as basically lobby organizations for EC businesses *vis-à-vis* Brussels.²⁶

There is a striking irony here. Although the Canadian federal government's diplomatic and trade resources were overweighted in Western Europe at the expense of other emerging markets and with Western Europe - after the United States - being Canada's most familiar market, the government received little broad policy feedback from the private sector on its strategic approach to the European Community - apart from business association representatives calling for the government to cut its program expenditures in Western Europe.²⁷ What *did*, in fact, happen was a largely *ad hoc* effort by the Canadian business community over the years to further Canada-EC business dialogue. The Canadian private sector preferred to work through industry-specific trade associations (e.g., Canadian Pulp and Paper Association, COFI,

Canadian Advanced Telecommunications Association), going so far in a very small number of cases to set-up association branch offices in Europe to act as listening posts, but largely ignoring attempts to set-up bilateral forums for broader discussions on policy issues that affected a cross-section of industries.²⁸

11.4 CONCLUSION

It is therefore hard to escape the conclusion that Ottawa's renewed attention after 1989 toward the EC was not so much a result of the pressure of Canadian industry as it was an attempt by political and bureaucratic elites to politicize Canada's relations with Brussels in order to compensate for Canada's relative loss of influence in NATO and the CSCE. This was logical since the EC itself of course promulgated a larger political role and indeed appeared to expand its competence quickly in the years after the release of the Draft Treaty on European Union and under the aggressively integrationist leadership of Jacques Delors. Indeed, as this dissertation has shown, to have received a similar TAD as the Americans was something of a policy victory for Canada. But of course Canada could not have done it alone. If it had not been for a few strong allies among the Member States such as Germany, the UK, and some of the smaller most pro-EC states such as Portugal, the Commission may have overlooked Canada. It is legitimate to ask, as Edwards does, whether bilateral Canada-EC relations ("remarkably immune to change in historical perspective") continued "to bumble along bringing about some marginal improvement to reinforce a sense of transatlantic solidarity in face of the profound uncertainty"?²⁹ Or whether

increased Canada-EC dialogue did indeed bring about a more fundamental change in transatlantic relations. But perhaps more pointedly, what needs to be considered is how long the artificial political relationship between Ottawa and Brussels could go on given Canada's underwhelming participation in European security fora and the Single Market. This, perhaps sharply worded question does not call for a scaling down of Canadian involvement in Europe but rather should lead to a re-examination of Ottawa's strategy of maximizing relations with Europe. A very brief discussion follows in the final chapter.

ENDNOTES

1. See an excellent review of the literature on the political economy of trade and the levels-of-analysis problem by Benjamin Cohen, "The Political Economy of International Trade," *International Organization*, Vol. 44, No. 2, p. 269.
2. Evan H. Potter, "A Holistic Approach to Canadian Foreign Policy," *Policy Options*, (Special Issue on Defence and Foreign Policy), Vol. 15, No. 5, (June 1994), p. 6.
3. Arthur Andrew, *The Rise and Fall of a Middle Power: Canadian Diplomacy from King to Mulroney* (Halifax: James Lorimer, 1993).
4. The Final Report of the First National Forum on Canada's International Relations, held in Ottawa on March 22-23, 1994, came to the conclusion that Canada faced "hard choices" in the years ahead in its foreign policy. The Report was subsequently published in *Canadian Foreign Policy*, Vol. 2, No. 1 (Spring 1994), pp. 179-190.
5. For a good theoretical discussion of leadership and followership see Andrew F. Cooper, Richard A. Higgott, and Kim Richard Nossal, "Bound to Follow? Leadership and Followership in the Gulf Conflict," *Political Science Quarterly*, Volume 106, No. 3, (1991), pp. 391-399.
6. Cooper et al., p. 396.
7. Cooper et al., p. 395.
8. Cooper et al., p. 397.
9. On intellectual leadership, see for example Oran R. Young, "Political Leadership and Regime Formation: The Emergence of Institutions in International Society" (Paper presented to International Studies Association, Washington, DC, 10-14 April 1990).
10. Clarke and Smith point out that one of the most overlooked aspect of the analysis of foreign policy decision-making is the distinction between foreign policy output and foreign policy outcome. Certain uncontrolled for variables, i.e. the anarchic international system or the values of officials, may cause the outcome of a policy decision to be different from the expected policy output. Moreover, this change can be traced to the implementation of the decision. They point out that the involvement or follow-up by political decision-makers in the implementation of a strategy is one of the most overlooked aspects of the analysis of particular foreign policy strategies. See

Michael Clarke and Steve Smith, *Foreign Policy Implementation* (London: Allan & Unwin, 1985), p.7.

11. A good example on the preeminent role of the bureaucracy can be found in Elizabeth Riddell-Dixon, *Canada and the International Seabed: domestic determinants and external constraints* (Kingston, Ont.: McGill-Queen's University Press, 1989); and on the non-governmental influences on Canadian foreign policy-making see Elizabeth Riddell-Dixon, *The Domestic Mosaic: Domestic Groups and Canadian Foreign Policy* (Toronto: Canadian Institute of International Affairs, 1985).

12. For examples of literature examining the domestic sources of Canadian foreign policy, see Kim R. Nossal, *The Politics of Canadian Foreign Policy* (Englewood Cliffs, New Jersey: Prentice Hall, Inc., 1985), Chs.3 and 4.; David Dewitt and John Kirton, *Canada as a Principal Power* (Toronto: Wiley, 1983), esp. Ch. 5, 167-193; John Kirton and Blair Dimock, "Domestic access to government in the Canadian foreign policy process," *International Journal*, 39 (Winter 1983-4), and Tom Keating, "The state, the public, and the making of Canadian foreign policy," in Robert J. Jackson, Doreen Jackson, and Nicolas Baxter-Moore, eds., *Contemporary Canadian Politics* (Scarborough, Ont: Prentice-Hall, 1988), 356-73.

13. *Essence of Decision*, p. 117.

14. The European Bureau included both trade and political relations with the countries of Western and Eastern Europe and the Soviet Union as well as a small, separate division for the European Community. Starting in 1989 it also encompassed Canada's aid program to Central and Eastern Europe.

15. Indeed this lack of accountability to Parliament was the source of some friction during a House of Commons debate on May 31, 1990, in which opposition MPs accused SSEA Clark of not consulting them before embarking on fundamental changes in the directions of Canada's foreign policy. See *House of Commons Debates*, May 31, 1990, p.12091.

16. At first, the Government's "Task Force on Central and Eastern Europe" was institutionally separate from EAITC; by 1993, however, it was situated within EAITC's headquarters in Ottawa and was part of the European Bureau with its Director General reporting to the Assistant Deputy Minister responsible for Europe. The program had expanded to include all of Eastern Europe, Ukraine, Russia and some other newly emergent states in the former Soviet Union;

17. On the evolution of Canada's assistance program see Jeanne Laux, "From South to East? Financing the Transition in Central and Eastern Europe," in Maureen A. Molot and Fenn O. Hampson, eds.,

Canada Among Nations 1994: Shaping the Peace (Ottawa: Carleton University Press, 1994), pp. 185-192.

18. Krasner, "Are Bureaucracies Important? (Or Allison Wonderland)," *Foreign Policy*, No. 7. (Summer 1972), p. 171

19. There have been a number of attempts to disentangle the role of personalities and the role of bureaucratic positions in explaining policy decisions. See for example, *Essence of Decision*, p. 166; David Welch, p. 122; and Hollis and Smith, "Roles and Reasons in Foreign Policy Decision Making," *British Journal of Political Science*, Vol. 16, No. 3 (July 1986): pp. 269-286. Hollis and Smith conclude that it is possible to concede that preferences depend in crucial aspects on personalities, without weakening the hypothesized correlation between preferences and bureaucratic positions.

20. Interview with Jeremy Kinsman, Assistant Deputy Minister, Political and Security Affairs, EAITC, June 4, 1992.

21. See Elizabeth Riddell-Dixon, "Canada's Policies on Technology Transfers," *International Journal*, Vol. XLVII, (Winter 1991-92), p. 176.

22. Stephen D. Krasner, *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy* (Princeton NJ.: Princeton University Press, 1978), p. 13.

23. Eric Nordlinger, *On the Autonomy of the Democratic State* (Cambridge, MA: Harvard University Press, 1981), p. 11.

24. See for example, Kim R. Nossal, "Mixed motives revisited: Canada's interest in development assistance," *Canadian Journal of Political Science* Vol. 21, (March 1988), pp. 35-56.

25. On the establishment of Euro-interest groups, see Rothacher, p. 31.

26. Delegation of the European Communities, "EC Commission initiatives in favour of Canadian firms, to promote EC-Canada cooperation," Ottawa, 27 April 1992, p. 6.

27. The science & technology projects focused on industrial co-operation on biotechnology, energy, materials, information technology, environment, marine sciences and medical research. The working groups consist of wood & paper products, food processing, uranium and metals & minerals.

28. A small number of sector associations (e.g., Canadian Pulp and Paper Association, Confederation of Forest Industries, Canadian Telecommunications Association) have gone so far as to set-up listening posts in Brussels. Hydro-Quebec also recently opened an

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office in Brussels.

29. Edwards, p. 18.

CHAPTER TWELVE**FUTURE DIRECTIONS: CANADA AS A DEMANDEUR IN TRANSATLANTIC RELATIONS****12.1 INTRODUCTION**

By the time of the Maastricht Treaty's ratification in November 1993, vestiges of the seminal 1969 STAFEUR Report final recommendations (described in Chapter Four) were still evident in Canada's policy towards Europe. In Ottawa's declaratory policy and in its foreign policy actions (e.g., Canadian peacekeepers in Yugoslavia), it was clear that Canadian decision makers still considered Canada's security to be intimately - although perhaps no longer inextricably - linked with that of Europe. And in keeping with the STAFEUR report's predictions, although Western Europe and the Community had become increasingly self-reliant, European decision makers nevertheless recognized that they still had to maintain a basic interdependent relationship with North America. However, given the changing face of Europe's security architecture and a nascent "common" EU-led security policy as outlined in Chapter Ten, the nature of this interdependence was now very different. With the creation of a pan-European economic area dominated by the Community, the security and economic tracks of transatlantic relations had a tendency to criss-cross more often, heightening transatlantic frictions.

And so this study has shown that with the end of the Cold War it is no longer possible to rely on shared perceptions of

interest shaped by the awareness of dominant conflicts and powers, as was arguably the case in the 1950s, 1960s, 1970s, and well into the 1980s. Put crudely, there is more than ever a need for the **definition of shared interests** and the **identification of clashing priorities** in the Canadian-Community relationship. At the same time, however, conditions make this infinitely more difficult than in the past. How can Canada rebuild the leverage with Europe that it has lost in the aftermath of the Cold War? In the thorny area of value differences, how can the decreasing "psychic" link be reversed or at least measures taken to demonstrate the importance of common understandings and values which bind Canada and Europe?

12.2 TOWARD A NEW TRANSATLANTIC DIALOGUE

In order to maintain a linkage between the greater concern with co-operative security issues and the Canada-EU economic relationship, it is time for Canada to consider launching an overarching dialogue with Europe - beyond the TAD - on the future of the transatlantic relationship. This discussion must include trade, investment, monetary and fiscal policy, defence and global burden-sharing. This process would involve six levers (in addition to Canada's link to NATO and the CSCE) including the Framework Agreement, the TAD, relations with the institutions of the Community (primarily a strengthening of relations with the Commission and especially the European Parliament), European Political Cooperation (through Canada's special access), relations with the key Member States (with

specific focus on Germany as the EU's economic engine), and relations with the countries of Central and Eastern Europe. These avenues would allow a number of practical steps to be taken, many of them bilateral initiatives which would not sit well with Canada's multilateralist traditions.

12.2.1 Canada's Future Role in Transatlantic Security

Canada has in the past used its founding role in NATO as a basis for much of its influence in Europe. Even in the post-Cold War environment this source of leverage should not be underrated. However, in the future Canadian security policy in Europe will only remain relevant if Canada plays along with the EU agenda. The political drive in Europe is for a European security and defence identity which is increasingly distanced from the traditional Atlantic Alliance. A more promising although less binding strategy is for Canada to pursue transatlantic cooperative security links with Brussels and, at the same time, to indirectly increase its leverage with the Commission by promoting itself as a trade partner and political role model to the countries of Central and Eastern Europe.

12.2.2 Less State-Driven Transatlantic Relations

Another element of change in Canadian-EU relations should be an attempt to make the process less state-driven. Despite Canada's high level of economic interaction with the Communities, there is no European Community studies association or transatlantic policy network similar to those

which Canada has with the Asia Pacific (e.g., the Vancouver-headquartered Asia Pacific Foundation, Pacific Economic Cooperation Council, and most major Canadian universities have Asia-Pacific Centres)¹, or those which address American-EU relations (e.g., European Parliament-driven Transatlantic Policy Network). Thus, Canada would benefit from a heightened interest in Europe on the part of not only the business community, but also academia as well.

12.2.3 Enhancing Diplomatic Links

One aspect of past approaches which will retain or increase its value in Canadian-European relations is the capacity of prime ministers to engage in personal diplomacy to ensure that Canada's voice is heard. In the absence of a value-driven, security alliance, formalized personal access through the TAD will prove invaluable. In the current global context and given an understanding of the dominant actors in the Canadian foreign policy process, the utility of personal diplomacy should not be underestimated², a practice made easier by the communications revolution and the fact that Canadian leaders meet frequently with their West European counterparts in an increasing number of fora.

Also in the realm of diplomatic relations, Canada will not be able to lessen its attention to the particular foreign policy perspectives of the individual Member States when consulting with the Community through the EPC framework. As Allen and Smith have suggested, by preserving the principal of consensus within the intergovernmental framework, the EU

Member States have, "undoubtedly chosen to accept limits on their ability to act in the world as a single entity."³ The importance of the individual Member States is underscored by the fact the each of them has a chance to influence Community policy during its six month presidency. In terms of assets which could provide leverage in these situations Canada could offer itself as a credible G-7 voice for the smaller EU states in return for access to EU decision-making which affects its interests. Canada can also bank on the fact that it is North American rather than American. As in the past, Canada could be useful as an intermediary, able to exert leverage to shift - however slightly or greatly - U.S. positions.

Whatever the new directions in Ottawa's European policy framework as it shifts its emphasis from the NATO and OSCE "pillars" to the EU, what is not in doubt is that Ottawa, despite its eventual success with the TAD, is today more than ever a demandeur in transatlantic relations.

12.3 Future Research Agenda

The reflections and conclusions in this study may spark a number of future research agendas. First, they challenge other researchers to test further the four determinants of Canada-EC relations that were posited in Chapter One. Second, following from the analysis in Chapters Eight and Nine, there is as yet no sector-by-sector analysis of trade diversion and trade creation resulting from the SEM. Such a research project would answer more definitively the question of the degree of threat to Canada posed by the most recent phase of European economic

integration.

And third, the call for a NAFTA-EU - as opposed to a strict Canada-EU - trade agreement by the Liberal Prime Minister Jean Chrétien and his International Trade Minister in the fall of 1994 creates a profound *déjà vu*. As this dissertation highlights, the Chrétien Liberals have fallen into an old and established Liberal pattern with regard to Europe. Following from the discussion in Chapter Ten, the future research question here concerns whether transatlantic free trade will simply end up : . . . reviving all the old EU-U.S. transatlantic quarrels over agriculture, government procurement, and European film and television rights and thereby see Canada sideswiped, or, whether given recent musings by London on the need to prevent an isolated United States there is sufficient incentive today for the Europeans to give serious consideration to such an initiative. All these questions and other ruminations on Canada-EU relations await careful analysis on another day.

12.4 CONCLUSION

By the end of 1993 the observer searching for a "grand design" in transatlantic relations would be disappointed. As with all such designs, perceptions lag behind reality, especially in Canada which is so preoccupied with internal matters (Quebec independence, spiraling national debt, and slower growth rates). The vast majority of Canadians still see a Europe made up of nation-states. This traditional Europe with national

parliaments, flags and anthems, is still the most visible Europe. Meanwhile the Europe beneath the surface - that of an integrating giant - is being transformed. It is to this Europe that Canada must now adjust - to a European Union that is becoming the "first pillar" in Canada's European policy approach.

ENDNOTES

1. What is striking is the number of non-governmental fora in Canada's diplomacy with Asia Pacific compared to its relations with Europe and the European Community. As examples of business-oriented organizations whose aim it is to be concerned with the "creation and maintenance of a climate of opinion and public policy favourable to the orderly conduct of commercial transactions" and to which Canada was founding member are: the Pacific Basin Economic Council (established in 1967-68 by business leaders from Japan, New Zealand, Australia, Canada, and the United States), and, the subsequent creation in 1980, to ensure the ongoing process of institutional development, of the Pacific Economic Cooperation Conference (renamed in 1992 to Pacific Economic Cooperation Council). No comparable West European business organizations of which Canada is a member exist.
2. Confidential interview, Michel Duval, Director, West European Relations Division, EAITC, 17 July 1993.
3. Allen and Smith, p. 112.

APPENDICES**APPENDIX ONE:****INTERVIEWS:**

De Montigny Marchand, Under Secretary of State at the Department of External Affairs and International Trade (EAITC), (1986-1990).

John Weekes, Chief Negotiator of the North American Free Trade Agreement, Government of Canada, (1989-1992).

William Dymond, Minister Counsellor, Canadian Embassy in Washington (1988-1992)

Gilles Landry, Director, West European Relations Division (RWR) at EAITC, (1991-1993). He was a drafter of the EC-Canada Transatlantic Declaration when he was a desk officer in RWR.

Michel Duval, Director, West European Relations Division at EAITC, (Jan. 1993-present).

Charles Court, Deputy Director, West European Relations Division (RWR) at EAITC, (1990-1993).

Gordon Venner, Deputy Director, European Community Relations Division (RWM), EAITC, (1990-present).

John Klassen, Director, European Community Relations Division (RWM), EAITC, (1991-present).

Margaret Huber, Director, European Communities Relations Division (REM), EAITC, (1987-1991).

Sean Boyd, Desk Officer, European Community Relations Division (RWM), EAITC, (1991-1993).

Daniel Molgat, Canadian Ambassador to the European Communities (1988-1992).

Diane Thompson, Executive Director, Canadian Standards Association.

Steve Brereton, Desk Officer, Canadian Delegation to the European Communities (Brussels), (1992-present).

Keith Aird, Desk Officer (forestry specialist), Canadian Delegation to the European Communities (Brussels), (1989-1993).

Jeremy Kinsman, Assistant Deputy Minister, Security and Political Affairs at EAITC, (1988-1992).

Howard Balloch, Director General, Policy Planning Staff at EAITC, 1990-1992.

Gail Tyerman, Counsellor, Canadian Embassy in Washington, D.C., 1988-1992.

Michael Hart, Director, Economic Planning, Policy Planning Staff at EAITC, (1990-1992).

Sandy Bryce, Director, Economic Planning, Policy Planning Staff at EAITC, (1988-1990)

Stuart Carre, Desk Officer, Policy Planning Staff at EAITC.

Bob Mercer, Counsellor Commercial, Canadian High Commission in London, UK.

Cecil Latour, Counsellor (Economic), Canadian High Commission in London, UK.

James Hyndman, retired, formerly senior official at EAITC.

Jock Finlayson, Vice President, Policy and Research, Business Council on National Issues, Ottawa, (1984-1993).

Timothy I. Page, Senior Vice President (International), Canadian Chamber of Commerce.

Jim More, Vice President (Policy), Canadian Exporter's Association,

Frank Deeg, Economic Counsellor, Delegation of the European Communities (Ottawa). He was the EC official in Canada responsible for monitoring and negotiating all bilateral agreements (Science and Technology, Fisheries, Competition, Customs).

Jacques Lecomte, Ambassador of the EC to Canada (1988-1994).

Mave Doran, Deputy Director (Canada/US), Directorate General for External Relations (DGI), European Commission.

Jérôme Vignon, Chief Advisor, Forward Studies Unit, European Commission

APPENDIX TWO:

Table 5

**CANADIAN EXPORTS
TO EUROPEAN COMMUNITY 1958-1993
(Cdn. \$ million)**

Country	1958	1960	1965	1970	1972
France	45	73	87	157	160
Germany	202	166	189	388	319
Netherlands	75	63	128	281	260
Belg./Lux.	70	69	128	192	201
Italy	30	68	93	187	204
U.K.*	-	-	-	-	-
Spain*	-	-	-	-	-
Portugal*	-	-	-	-	-
Greece*	-	-	-	-	-
Denmark*	-	-	-	-	-
Ireland*	-	-	-	-	-
Total Can. exports to EC	422	439	625	1,205	1,144
Total Can. exports	4,823	5,256	8,525	16,820	20,140
Exports to EC as % of total	8.7	8.4	7.3	7.2	5.7
Exports to U.S.	2,827	2,932	4,840	10,900	13,963
Exports to U.S. as % of total	58.6	55.8	56.8	64.8	69.3
Exports to Japan	105	179	316	813	965
Exports to Japan as % of total	2.8	3.4	3.7	4.8	4.8

Table 5

**CANADIAN EXPORTS
TO EUROPEAN COMMUNITY 1958-1993
(Cdn. \$ million)**

Country	1975	1978	1980	1982	1984
France	350	479	1,017	754	736
Germany	609	792	1,668	1,284	1,225
Netherlands	481	574	1,442	1,058	1,088
Belg./Lux.	381	486	1,002	791	701
Italy	479	486	1,004	702	600
U.K.	1,789	1,898	3,245	2,725	2,535
Spain*	-	-	-	-	-
Portugal*	-	-	-	-	-
Greece*	-	-	-	77	50
Denmark	28	64	89	87	98
Ireland	18	31	116	99	99
Total Can. exports to EC	4,135	4,810	9,583	7,577	7,132
Total Can. exports	33,103	52,842	76,159	84,535	112,383
Exports to EC as % of total	12.5	9.1	12.6	9.0	6.3
Exports to U.S.	21,652	37,175	48,172	57,679	84,928
Exports to U.S. as % of total	65.4	70.4	63.3	68.2	75.6
Exports to Japan	2,122	3,062	4,374	4,594	5,666
Exports to Japan as % of total	6.4	5.8	5.8	5.4	5.0

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Table 5

**CANADIAN EXPORTS
TO EUROPEAN COMMUNITY 1958-1993
(Cdn. \$ million)**

Country	1986	1988	1990	1991	1992	1993
France	1,012	1,227	1,304	1,424	1,422	1,284
Germany	1,309	1,775	2,323	2,434	2,308	2,489
Netherlands	1,009	1,437	1,649	1,725	1,500	1,354
Belg./Lux.	845	1,335	1,252	1,106	1,094	919
Italy	711	1,034	1,188	1,074	1,175	952
U.K.	2,731	3,607	3,541	3,038	3,127	2,925
Spain	140	245	387	509	452	335
Portugal	154	169	180	153	166	105
Greece	66	61	97	70	74	91
Denmark	111	136	138	129	150	118
Ireland	91	217	139	136	92	93
Total Can. exports to EC	8,179	11,243	12,198	11,798	11,560	10,665
Total Can. exports	120,669	138,498	148,979	145,924	162,596	186,682
Exports to EC as % of total	6.8	8.1	8.2	8.1	7.1	5.7
Exports to U.S.	93,237	100,886	111,599	109,653	125,725	150,636
Exports to U.S. as % of total	77.3	72.8	74.9	75.1	77.3	80.7
Exports to Japan	5,967	8,813	8,230	7,159	7,485	8,459
Exports to Japan as % of total	4.9	6.4	5.5	4.9	4.6	4.5
Exports to EFTA						1,906
Exports to EFTA as % of total						1.0

Source: Exports: Merchandise Trade, Statistics Canada, cat. 65-202, 1992, annual 1984-92, and cat. 65-006, Dec. 1993, monthly, and other cat. prior to 1984.

Note: Figures may not be strictly comparable.

* Figures are not provided for years prior to a country's membership in the EC.

Table 6

**CANADIAN IMPORTS
FROM EUROPEAN COMMUNITY 1958-1993
(Cdn. \$ million)**

Country	1975	1978	1980	1982	1984
France	487	684	773	877	1,256
Germany	795	1,244	1,455	1,384	2,249
Netherlands	159	227	264	267	509
Belg./Lux.	143	202	251	264	444
Italy	380	525	611	725	1,172
U.K.	1,222	1,600	1,974	1,904	2,474
Spain*	-	-	-	-	-
Portugal*	-	-	-	-	-
Greece*	-	-	-	30	42
Denmark	78	97	120	129	206
Ireland	32	57	101	129	157
Total Can. imports from EC	3,296	4,636	5,549	5,709	8,509
Total Can. imports	34,636	49,938	69,274	67,926	95,459
Imports from EC as % of total	9.5	9.3	8.0	8.4	8.9
Imports from U.S.	23,559	35,246	48,614	47,917	66,466
Imports from U.S. as % of total	68.0	70.6	70.2	70.5	69.7
Imports from Japan	1,205	2,268	2,796	3,536	6,171
Imports from Japan as % of total	3.8	4.5	4.0	5.2	6.5

Table 6

**CANADIAN IMPORTS
FROM EUROPEAN COMMUNITY 1958-1993
(Cdn. \$ million)**

Country	1986	1988	1990	1991	1992	1993
France	1,664	2,884	2,448	2,672	2,689	2,260
Germany	3,572	3,841	3,835	3,740	3,532	3,504
Netherlands	664	762	719	598	599	666
Belg./Lux.	569	608	566	447	448	530
Italy	1,750	1,954	1,954	1,793	1,747	1,934
U.K.	3,573	4,629	4,898	4,158	4,095	4,429
Spain	495	713	496	461	436	501
Portugal	82	119	171	170	185	179
Greece	73	68	71	68	64	58
Denmark	244	258	248	240	243	233
Ireland	173	216	257	352	393	431
Total Can. imports from EC	12,859	16,052	15,663	14,699	14,431	14,725
Total Can. imports	112,511	131,171	136,245	135,334	147,994	169,460
Imports from EC as % of total	11.4	12.2	11.5	10.9	9.8	8.7
Imports from U.S.	75,227	86,020	87,875	86,288	96,514	113,602
Imports from U.S. as % of total	66.9	65.6	64.5	63.8	65.2	67.0
Imports from Japan	8,367	9,267	9,525	10,262	10,762	10,690
Imports from Japan as % of total	7.4	7.1	7.0	7.6	7.3	6.3
Imports from EFTA						3,180
Imports from EFTA, % of total						1.9

Source: Imports: Merchandise Trade, Statistics Canada, cat. 65-203, 1992, annual 1984-92, and cat. 65-007, Dec. 1993, monthly, and other cat. prior to 1984.

Note: Figures may not be strictly comparable.

* Figures are not provided for years prior to a country's membership in the EC.

Table 7: Trade Flows in Canada-EC Business Services, 1986-1992 (in C\$ millions)

Area	Receipts						
	1986	1987	1988	1989	1990	1991	1992
EC	977	1,218	1,295	1,374	1,487	1,514	1,608
UK	324	448	518	518	560	582	643
Belgium	39	45	67	42	54	73	n.a.
France	179	193	200	202	227	236	n.a.
Germany	149	221	205	239	243	242	n.a.
Italy	71	90	92	89	93	72	n.a.
Holland	96	100	118	160	169	159	n.a.
U.S.	3,362	3,680	4,420	4,582	4,895	5,238	5,568
All	5,882	6,585	7,559	8,023	8,322	8,827	9,376
EC as % of All							
Payments							
EC	1,612	1,645	1,823	1,960	1,849	2,111	2,150
UK	1,067	996	1,027	1,120	978	1,259	1,240
Belgium	41	45	43	39	40	52	n.a.
France	172	212	294	320	284	264	n.a.
Germany*	148	149	167	172	208	211	n.a.
Italy	72	79	92	101	126	115	n.a.
Holland	90	122	160	154	154	151	n.a.
U.S.	6,687	6,914	7,591	8,426	8,812	8,882	9,637
All	9,484	9,954	11,036	11,952	12,370	12,957	13,839
EC as % of All							
Balance							

Note: *Figures were not available for Luxembourg, Spain, Portugal, and Greece.

*Prior to 1991, refers only to West Germany.

Source: Statistics Canada, *Canada's International Transactions in Services*, 1988-89, cat. no. 67-203 (Ottawa, 1990); Statistics Canada, *Canada's International Transactions in Services*, 1989-90, cat. no. 67-203, (Ottawa, 1991); Statistics Canada, *Canada's International Transactions in Services*, 1991-92, cat. no. 67-203, (Ottawa, 1992).

TABLE 16: Investments of Northern Telecom			1983 to 1993				
Date	Type of Investment	Name of Company	Host Country	Financial Detail	Description	Industrial	Activity
May 1993	Acquisition (Greenfield)	NETAS-Northern Electric Teledommunikasyon A.S.	Turkey	51%	increased participation from 31% to 51%		
1993	Acquisition	Lagardère Groupe S.C.A.	France	Cdn.\$45M			
Jan. 1993	Partnership	Bell Atlantic Meridian Systems	U.S.A.		Association with Bell	marketing, sales and services for communications equipment	
July 1992	Acquisition of minority stake	Matra S.A.	France	20 % Cdn\$140M			
April 1992	Acquisition	Novatel	Alberta				
March 1992	Joint Venture	Northern Telecom de Espana	Spain	50%	Joint venture with Agroman Inversiones S.A. (37.5%) and Radiotronica S.A. (12.5%)		
Feb. 1992	Joint Venture	MOTOROLA-NORTEL	U.S.A.		Joint Venture with Motorola	sales of telephone service in Canada, the Antilles, Central and South America; and the U.S.	
Feb. 1992	Joint Venture	Northern Telecom Elwro	Poland		Joint Venture with Elwro of Poland	manufacturing of communications equipment	
1991	Divestiture	Subsidiary of STC	UK	\$335 M			

Date	Type of Investment	Name of Company	Host Country	Financial Detail	Description	Industrial	Activity
Feb. 1991	New Investment	Northern Telecom Asia/Pacific	Asia				sales and services
Feb. 1991	New Investment	Northern Telecom Europe	Europe				
Nov. 1990	Acquisition	STC PLC	UK	2560 M \$U.S.	Purchase of all shares		
1989	Joint Venture	Microtel (branch of BC Tel)	Canada	51 %	joint venture with BC Tel		
1989	Acquisition	AWA-Nortel PTY		40%			
1988	Divestiture	Northern Telecom PLC	UK	70 M \$ Cdn.	Sold to STC PLC		
1987	New Investment	NT Meridien S.A.	France				installation and manufacturing and R&D
Oct. 1987	Acquisition	STC PLC	UK	24% \$728 M \$U.S.	Interest accruing at 27.5%		
1986	New Investment	Northern Telecom Europe Ltd.	Europe		Management services in Europe, Middle East and Africa		
July 1985	New Investment	Northern Telecom Pacific	Asia				
1983	New Investment	Subsidiary of Bell-Northern Research	UK				Laboratory
1983	Joint Investment	Research in UK/Northern Telecom Plc	UK				

Source: F. Amesse, L. Seguin-Dufude & G. Stanley, "Northern Telecom: A Case Study in the Management of Technology," in Steven Globerman, ed., *Canadian-Based Multinationals: An Analysis of Activities and Performance* (Calgary: Univ. of Calgary and Industry Canada, 1994), Table 3, pp. 432-34.

TABLE 17: TOP 30 CANADIAN FIRMS' INVESTMENT IN THE EUROPEAN COMMUNITY (as at 1993)					
Company Name	Industry	Sales (U.S.\$ Millions)	Country	Pre-1986 Investments	Post-1986 Investments: Description
BCE Inc (see also Northern Telecom)	Communications	17,200	UK		BCE took 30% interest in London-based Videotron Corp. In 1992 BCE created BCE Telecom International to manage all its international interests.
Royal Bank of Canada	Depository Institution	12,414	UK, Netherlands, Greece, Germany, France, Belgium, Spain,	Subsidiaries in UK, Netherlands, Greece, Germany, France and Belgium; branches in UK and Spain; and representative office in Italy.	In 1992, Royal Bank closed its branch network in continental Europe.
George Weston Ltd.	Wholesale Trade	9,316	UK subsidiary		
Canadian Imperial Bank of Commerce	Depository Institution	9,176	UK, Italy, Holland, Germany, France	subsidiaries	
Bank of Montreal	Depository Institution	8,816	UK, Germany, Netherlands	2 branches and a subsidiary called First Canadian Financial Corp. BV (Neth)	
Canadian Pacific (see Laidlaw Inc.)	Conglomerate: Transportation, resources, real estate, waste management, hotels	8,711	UK, Germany, France, Netherlands	subsidiaries include CP Hotels (Nederland) BV; CP Steamships Ltd. (UK); as well as affiliates in other EC countries	CP Forest Products Ltd, as a subsidiary, sells a wide range of forest products in EC
The Bank of Nova Scotia	Depository Institution	8,287	Ireland, UK, Germany	subsidiary in UK, Scotiabank (UK) Ltd.	In 1989, the bank established a subsidiary, NDS International (Ireland) Ltd to handle off-shore lending. It also has an interest in First Southern Bank Ltd. (Ireland). As of 1992, it planned to expand its branch network in Greece.
Northern Telecom (see Table 14)	Commun. Equip.	8,182			
Brascan Ltd. (see also Noranda and Macmillan Bloedel)	Mining	7,979	Holland	Brascan Intl BV	

Company Name	Industry	Sales (U.S.\$ Millions)	Country	Pre-1986 Investments	Post-1986 Investments: Description
Alcan Aluminum	Primary Metals	7,748	UK, Belgium, France, Germany	Alumaiier, Technal SA, and Alumines de Provence (France); PALCO (Spain)	In 1988 Alcan made significant investment in Ireland at Aughinish Alumina Ltd. In June '90 it signed JV with then Eastern German producers. In June '91 it formed strategic alliance between its UK subsidiary and Japan's largest aluminum producer, Nippon Light Metal Co. (in which Alcan holds 44.3% interest).
Noranda Inc. (as unit of Brascan, see also MacMillan Bloedel)	Lumber & Wood	7,118	UK, Germany, Netherlands	Sales subsidiary in London; commodity broker, Rudolf Wolff & Co in UK and Germany; Highland Waferboard Mill (Scotland).	
Sun Life Assurance Co. of Canada	Insurance	6,856	UK-Ireland	Subsidiaries: Sun Life Assurance Col of Britain with branches in 60 UK towns; subsidiary in Dublin, Ireland.	
Seagram Co. Ltd.	Food & Products	6,242			
Abitibi-Price	Newsprint	n.a.	UK	subsidiary/Abitibi-Price Sales	In 1990, Abitibi acquired 50% stake in North British Newsprint Ltd. valued at Cdn\$400 million.
Banque Nationale du Canada	Depository Institution	n.a.	UK, France	branches	In 1989, BNC made a JV with Banque Régionale d'Escompte et Dépôts (France) to serve French-speaking Belgium, Lux., Switz, and N. Africa. In 1991, it announced similar agreement with Caixa Galicia in Spain.
Bombardier Inc.	Transportation	3,400	Belgium, Ireland, France, UK		In 1986, first acquired Belgian subsidiary BN. In 1989, it acquired Short Bros. PLC, and also purchased ANF Industrie SA of France for Cdn\$22 million. In '90 it purchased Procor Engineering Ltd. of UK. In 1991, it announced the consolidation of its European subsidiaries into Bombardier Eurorail SA (Belgium). This made Bombardier the fourth largest firm in the European mass-transit sector. In 1992, Bombardier formed a strategic links with Transmanche consortium and

CAE Industries Ltd.	aerospace	n.a.	Germany	CAE Electronics GmbH	In 1991, it announced that its German subsidiary was joining Lufthansa Commercial Holding GmbH.
Inco Ltd.	Primary Metals	2,100	UK, France, Germany, Italy, Belgium	Subsidiaries: Inco Europe Ltd., Inco Engineering Products, Greengrove Welding Wires, Doncasters, Incoform Bramah, Turbo Products, Renston Engineering, Inco Alloys Int'l (UK); Wiggin Steel and Alloys, SETTAS SA (Belgium).	
Lawson Mardon Group	Packaging	n.a.	UK, France, Germany, Ireland, Italy	Lawson Mardon Group (Europe) Ltd, Trentesaux-Toulemon and Manelco (France); LMG Rotopac and Hammans Packaging (Germany); Superior Packaging (Ireland); Fibrenyle, Iridon, Thermoplastics, Smith Bros., Cellogals, Lloyds, Mardon, Pazo, and william Thyne (UK).	In 1988, LMG entered a JV with MB Group (UK) to manufacture plastic beverage containers. In 1989, they acquired the packaging division of UK candy maker, Rowntree-MacIntosh. In 1990, their London-based subsidiary purchased two German manufacturers in a move to position the firm for opportunities in E. Europe. Lawson Mardon further expanded in 1990 with the purchase of two UK firms, Jeyes Ltd. and Kooters (Liverpool) Ltd.
MacMillan Bloedel Ltd. (See Brascan)	Forest Products	n.a.	UK, Netherlands, Belgium, Germany	MacMillan Smurfit SCA Ltd. (UK), 50% interest in UK Corrugated PLC. Its European subsidiaries are MacMillan Bloedel Europe BV and MacMillan Bloedel (Limburg) BV (Neth.); MacMillan Bloedel Holdings (UK) Ltd, and Mercator Chartering Ltd. (UK)	In 1989, it invested an additional \$50 million in Dutch coated paper manufacturer, KNP BV, and through it gained an interest in operations in Netherlands, Belgium and Germany.
McCain Foods Ltd.	Food Processing	n.a.	UK, Netherlands, France, Belgium	Subsidiaries: Scarborough (UK); McCain Foods Europe NV (Neth.); McCain Alimentaire SARL (France); Frima (Belgium).	In 1986, McCain acquired Beau Marais (France). In 1990, McCain purchased Dutch potato producer H.A. van Tuyl BV. Europe is fastest growing market, representing 45% of annual sales.
Molson Companies	Brewer & Retailer	n.a.	UK, Netherlands, Ireland	Molson Breweries (UK) Ltd. and Molson Financial Ltd. (UK); brewery in Cork (Ireland); Panlice BV and TMCL Int'l Holdings BV (Neth.).	

Moore Corporation	Business Forms	n.a.	UK, Netherlands, France, Italy, Germany. Licensing only in Greece.	Subsidiaries are Moore, Decoflex Ltd. and Delphan Ltd. (UK); Carbonia BV (Neth.); Lampar SARL (France).	In 1989 Moore acquired (\$40 million) Belgium business forms firm, Lithorex. Moore has new continental head office in Switzerland, opened in 1989, to give it a continent-wide market. In 1991, it entered into JV with Atel (Italy), opened sales office in Germany, engaged in licensing agreement with Greek firm. It is also targetting Spain.
Power Corporation of Canada	Conglomerate	n.a.	France, Belgium,	Group Bruxelles Lambert SA (Belgium)	In 1991, Power opened an office in Paris to coordinate its European operations.
Seagram Company Ltd.	Distiller	6,242	France, UK [?]		In 1988, Seagram purchased French Cognac-maker, Martell for U.S.\$925 million, and Champagne giant, Mumm & Cle.
Stelco	Steel	n.a.	Netherlands	Stow Int'l (Neth.)	
Toronto-Dominion Bank	Depository Institution	n.a.	UK	UK subsidiary	In 1991, TD Securities announced a cooperation arrangement with Hambros Bank of London in the field of corporate finance, and global M&A.
John Labatt's Ltd.	Food & Beverage	n.a.	UK, Italy, Ireland	BCL Finance (Ireland)	Between 1985-87 a UK subsidiary was set up, Labatt Breweries of Europe. In 1989, Labatt's purchased Italy's Birra Moretti Spa and Prinz Brau.
Royal Trust Co.	Depository Institution	n.a.	UK, Germany	Royal Trust Bank	Royal Trust began its European expansion in 1985, with European assets in 1991 totalling \$8 billion. In 1989 it bought 25% of Gries & Heissel, a German bank. In 1993, due to significant non-performing loans outside of Canada, Royal Trust was sold to the Royal Bank.
Laidlaw Inc. (see Canadian Pacific)	Transportation & Waste Management	n.a.	UK		In 1989, Laidlaw acquired 29% interest in Atwoods PLC. It also has 28.8% stake in British auction and security services firm, ADT PLC.
Hollinger Inc.	Newspaper Publishing	5,800	UK	Controlling shareholder (82%) of Daily Telegraph PLC and 9 % of United Newspapers PLC.	In 1990, Hollinger acquired a 10% interest in Trinity Int'l PLC in Liverpool.

Source: Data compiled from author's survey of top 253 Canadian active in Europe; from J. Knubley, M. Legault & S. Rao, "Multinationals and FDI in North America," in L. Eden, ed., *Multinationals in North America* (Calgary: University of Calgary Press and Industry Canada, 1994), p. 166; Company Annual Reports; and *Business Week*, July 11, 1994, p. 62.

CAE Industries Ltd.	aerospace	n.a.	Germany	CAE Electronics GmbH	In 1991, it announced that its German subsidiary was joining Lufthansa Commercial Holding GmbH.
Inco Ltd.	Primary Metals	2,100	UK, France, Germany, Italy, Belgium	Subsidiaries: Inco Europe Ltd., Inco Engineering Products, Greengrove Welding Wires, Doncasters, Incoform Bramah, Turbo Products, Renston Engineering, Inco Alloys Int'l (UK); Wiggin Steel and Alloys, SETTAS SA (Belgium).	
Lawson Mardon Group	Packaging	n.a.	UK, France, Germany, Ireland, Italy	Lawson Mardon Group (Europe) Ltd, Trentesaux-Toulemonde and Manelco (France); LMG Rotopac and Hammans Packaging (Germany); Superior Packaging (Ireland); Fibrenyle, Iridon, Thermoplastics, Smith Bros., Cellogals, Lloyds, Mardon, Pazo, and william Thyne (UK).	In 1988, LMG entered a JV with MB Group (UK) to manufacture plastic beverage containers. In 1989, they acquired the packaging division of UK candy maker, Rowntree-MacIntosh. In 1990, their London-based subsidiary purchased two German manufacturers in a move to position the firm for opportunities in E. Europe. Lawson Mardon further expanded in 1990 with the purchase of two UK firms, Jeyes Ltd. and Kooters (Liverpool) Ltd.
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Molson Companies	Brewer & Retailer	n.a.	UK, Netherlands, Ireland	Molson Breweries (UK) Ltd. and Molson Financial Ltd. (UK); brewery in Cork (Ireland); Panlice BV and TMCL Int'l Holdings BV (Neth.).	

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The research consisted of the following 'horizontal' papers: 'National Treatment', 'Reciprocity', 'Quantitative Restrictions', 'Anti-dumping Regulations', 'Rules of Origin', 'Public Procurement', 'Standards and Certification', 'Intellectual Property Rights', 'Company Law', 'Common Agricultural Policy', 'European Economic Space', 'EC-Eastern Europe Trading Agreements'.

'Vertical' papers were prepared simultaneously and consisted of: 'Forest Products', 'Telecommunications', 'Agriculture and food products', 'Industrial Machinery', 'Metals and Mining', 'Aerospace and defence,' and 'Environmental products and services'.

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Database of Canadian Firms with Economic Interest in the EC

This database of the 253 Canadian firms with economic interests in Europe was developed by the author with information supplied by the Department of External Affairs. The information received from EAITC (July 1991) was updated by the author through the use of telephone interviews in July 1992. Details of the investments of the top 30 Canadian firms are listed in Table 17 in Appendix Three. See index of all surveyed companies on next page.

Index of 253 Canadian Companies with Investment Interests in the EC

ABITIBI-PRICE INC. (1)
ADI DIAGNOSTICS INC. (1)
AG WEST BIOTECH INC. (1)
AIR CANADA (1)
ALCAN ALUMINIUM LTD. (2)
ALSASK PROCESSORS CO. LTD. (2)
ASBESTOS CORPORATION LTD. (SOCIÉTÉ ASBESTOS LIMITÉE) (2)
ASTRAL INC. (formerly ASTRAL BELLEVUE PATHÉ) (3)
AULT FOODS LTD. (3)
AYLESWORTH THOMPSON PHELAN & O'BRIAN (3)
B.C. MEDICAL MANUFACTURING LTD. (5)
B.C. PACKERS (5)
BABCOCK & WILCOX INDUSTRIES LTD. (3)
BANISTER CONTINENTAL LTD. (4)
BANK OF MONTREAL (4)
BANK OF NOVA SCOTIA (4)
BANQUE NATIONALE DU CANADA (4)
BATA INDUSTRIES LTD. (5)
BCE INC. (3)
BEL-TRONICS LTD. (5)
BELL-NORTHERN RESEARCH LTD. (6)
BIOMIRA INC. (6)
BIONAIRE INC. (formerly BIOTECH ELECTRONICS) (6)
BLAKE, CASSELS & GRAYDON (6)
BOMBARDIER INC. (6)
BOMEM INC. (7)
BOW VALLEY INDUSTRIES LTD. (7)
BRASCAN LTD. (8)
BUREAU DU PROMOTION DES INDUSTRIES DU BOIS (BPIB) (63)
BURNET, DUCKWORTH & PALMER (8)
BURNS FRY LTD. (8)
CAE INDUSTRIES LTD. (8)
CAMBRIAN ENGINEERING GROUP LTD. (9)
CANAC INTERNATIONAL INC. (10)
CANADA MALTING CO. LTD. (10)
CANADA WIRE AND CABLE LTD. (10)
CANADA-FINLAND CHAMBER OF COMMERCE (63)
CANADA-NETHERLANDS CHAMBER OF COMMERCE (63)
CANADA-USSR BUSINESS COUNCIL (63)
CANADAIR LTD. (10)
CANADIAN ASTRONAUTICS LTD. (11)
CANADIAN FOREMOST LTD. (11)
CANADIAN FOREST PRODUCTS LTD. (11)
CANADIAN FRACMASTER LTD. (11)
CANADIAN IMPERIAL BANK OF COMMERCE (CIBC) (12)
CANADIAN MARCONI CO. (12)
CANADIAN OCCIDENTAL PETROLEUM LTD. (12)
CANADIAN PACIFIC LTD. (12)
CANADIAN POLAND BUSINESS COUNCIL (63)
CANADIAN SATELLITE COMMUNICATIONS INC. (13)
CANADIAN STANDARDS ASSOCIATION (64)
CANADIAN STRATEGIC HOLDINGS (13)

FISHERIES PRODUCTS INT'L LTD. (24)
FLECK MANUFACTURING INC. (24)
FULCRUM TECHNOLOGIES INC. (24)
GANDALF TECHNOLOGIES INC. (24)
GEAC COMPUTERS CORP. LTD. (25)
GENTEC INC. (25)
GLENAYRE ELECTRONICS LTD. (25)
GOLDER ASSOCIATES LTD. (25)
GORDON CAPITAL CORP. (25)
GOWLING STRATHY & HENDERSON (26)
GREEN FOREST LUMBER CORP. (26)
GROUPE VIDÉOTRON LTÉE. (LE) (26)
GULF CANADA RESOURCES LTD. (26)
HAMMOND MANUFACTURING CO. LTD. (27)
HARLEQUIN ENTERPRISES INC. (27)
HAWKER SIDDLEY CANADA LTD. (27)
HAYS FARMS INT'L LTD. (27)
HEWLETT-PACKARD (CANADA) LTD. (28)
HILL & KNOWLTON (CANADA) LTD. (formerly PUBLIC AFFAIRS RESOUR (28)
HIRAM WALKER & SONS LTD. (28)
HOLLINGER INC. (28)
HOMESTEAD COMPUTER SERVICES LTD. (28)
IAF BIOCHEM INTERNATIONAL INC. (29)
IDACOM ELECTRONICS LTD. (30)
IKO INDUSTRIES LTD. (29)
IMAX SYSTEMS CORP. (30)
IMP GROUP LTD. (29)
IMPERIAL METALS CORP. (30)
INCO LTD. (31)
INDUSTRIAL ALLOYS LTD. (31)
INTERA TYDAC TECHNOLOGIES INC. (31)
INTERNATIONAL SEMI-TECH MICRO ELECTRONICS LTD. (31)
IPSCO INC. (32)
IRD MECHANALYSIS LTD. (29)
ISG TECHNOLOGIES LTD. (30)
ITALIAN CHAMBER OF COMMERCE OF CANADA (64)
ITT CANADA LTD. (30)
J.H. LOCK AND SONS LTD. (35)
JOHN LABATTS LTD. (32)
KOCKUMS CANCAR DIVISION - HAWKER SIDDLEY CANADA (32)
LADNER DOWNS (33)
LAFLEUR BROWN DE GRANPRÉ (33)
LAIDLAW INC. (33)
LAURENTIAN GROUP CORP. (33)
LAVALIN INC. (33)
LAWSON MARDON GROUP LTD. (34)
LETTÉ & ASSOCIÉS (35)
LGS GROUP INC. (32)
LIBBY-ST. CLAIR INC. (35)
LOEWEN, ONDAATJE, MCCUTCHEON & CO. LTD. (35)
LUMONICS INC. (35)
LUNDRIGANS-COMSTOCK LTD. (35)
MACDONALD DETTWILER & ASSOCIATES LTD. (36)
MACLEOD DIXON (36)
MACMILLAN BINCH (36)
MACMILLAN BLOEDEL LTD. (37)

SHAVER POULTRY BREEDING FARMS LTD. (52)
SHERRITT-GORDON LTD. (52)
SHL SYSTEMHOUSE INC. (50)
SMITH, LYONS, TORRANCE, STEVENSON & MAYER (52)
SNC GROUP INC. (50)
SOLARCHEM ENTERPRISES INC. (53)
SPAR AEROSPACE LTD. (53)
SR TELECOM INC. (51)
STANLEY ASSOCIATES ENGINEERING LTD. (53)
STELCO INC. (53)
STELCO TECHNICAL SERVICES LTD. (54)
STIKEMAN ELLIOTT & ASSOCIATES (54)
STONE-CONSOLIDATED INC. (formerly CONSOLIDATED-BATHURST) (54)
SUN LIFE ASSURANCE CO. OF CANADA (54)
SUPERBURN SYSTEMS LTD. (55)
SYSTEMS INTERFACE INC. (55)
T.I.L. SYSTEMS LTD. (55)
TELESAT CANADA (55)
TERRA NOVA FISHERIES LTD. (55)
THOMSON RESEARCH ASSOCIATES (56)
TORONTO-DOMINION BANK (56)
TORY, TORY, DESLAURIERS & BINNINGTON (56)
TOTEC GROUP INC. (56)
TRI-STAR INDUSTRIES LTD. (57)
TRIDON LTD. (56)
TROJAN TECHNOLOGIES INC. (57)
UFL FOODS INC. (57)
UNITED DOMINION INDUSTRIES LTD. (formerly AMCA INT'L LTD.) (58)
UNITED GRAIN GROWERS LTD. (58)
UNITRON INDUSTRIES LTD. (58)
UNIVERSAL SYSTEMS LTD. (58)
UTDC INC. (57)
VELAN INC. (58)
W. & H. VOORTMAN LTD. (59)
WALBAR CANADA INC. (59)
WALL COLMONOY (CANADA) LTD. (59)
WARRIOR INDUSTRIES LTD. (59)
WESTERN BREEDERS SERVICE LTD. (59)
WESTINGHOUSE CANADA INC. (60)
WESTON LTD. (GEORGE) (60)
WOOD GUNDY INC. (60)
WOODBRIDGE GROUP (60)
X-L FOOD SYSTEMS LTD. (61)
XCAN GRAIN LTD. (60)
XIOS SYSTEMS CORP. (formerly AES DATA) (61)
ZANIMOB HOLDING (61)
ZENON ENVIRONMENTAL INC. (61)
ZEPF TECHNOLOGIES INC. (61)