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# Notes on Some Implications of Enlargement of the EEC for Canada

A. R. A. Gherson\*

The Treaty of Rome and its phased, step-by-step process of Community policy-making in agriculture and trade over a period of 12 years has transformed six individual states of modest size into a single market of 180 million.<sup>1</sup> Even before its enlargement the Community of Six was the largest single importing area in the world.<sup>2</sup> The enlargement of the Community in 1972 was as important as its establishment, adding a dimension to the Community as far-reaching for the world economic environment as its creation. Enlargement of the Community and the accompanying free trade area arrangements with the remaining countries of Western Europe almost converts Western Europe into one market. In graphic terms, when one also takes into account the associated countries of the Community, 18 under the Yaounde Treaty, three under the Arusha Treaty, plus what we called the British Commonwealth Associates, the enlarged Community and its free trade arrangements represents 50% or more of world trade in terms of its constituent parties.<sup>3</sup> One might call it a combination of the Roman and British Empires.

Let me now point to some of the implications enlargement has had for Canada. First, Canada, of all of the enlarged Community's trading partners, stands to sustain the greatest burden of adjustment. For example, about 80% of Canada's exports to the

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<sup>1</sup> The populations of Belgium, France, Germany, Italy, Luxembourg and the Netherlands total 186,367,043. UNITED NATIONS STATISTICAL YEARBOOK 1972, Table 19, at 71 (1973).

<sup>2</sup> In 1971, the EEC imported goods worth \$95.10 million; the United States imported goods worth \$45.08 million; and Canada imported goods worth \$14.68 million [in U.S. dollars]. *Id.*, Table 147, at 406.

<sup>3</sup> The following countries are signatories of the Yaounde Treaty: Madagascar, Burundi, Cameroon, Central African Republic, Chad, Congo, Dahomey, Gabon, Ivory Coast, Malagasy Republic, Mali, Mauritania, Niger, Rwanda, Senegal, Somalia, Togo, Upper Volta and Zaire. Kenya, Tanzania and Uganda compose the signatories of the Arusha Treaty.

The British Commonwealth Associates and countries connected to the EEC by free trade arrangements are as follows: England, Wales, Scotland, Northern Ireland, Ireland, Greece, Turkey, Malta and Cyprus.

Thus, the enlargement of the EEC and the accompanying free trade arrangements results in the association, to some extent, of 38 nations.

United Kingdom used to enter duty-free. With British entry, about one half of these exports are now subject to a higher, external Community tariff; whereas, the United States and Japan, by and large, get a "windfall" benefit. This arises from the fact that in the industrial sector the MFN level of tariff in the United Kingdom is generally higher than the common external tariff; thus, the United States and Japan will have better access to the British market. In contrast, Canada will have worse access to the British market and face a reverse preference against its exports from the original six members of the Community.

Prior to the creation of the enlarged Community, Canada was in a position to compete with each of the member countries in the world market for industrial products. On the basis of a market of 20 million people, Canada could develop economies of scale which enabled it to compete against countries whose markets were of the same order of magnitude or up to twice Canada's size; but, as the industrial revolution and mass production methods have shown in the United States, a large domestic market generates economies of scale which enable you to compete far more successfully against producers with a smaller domestic market. Now Canada faces a large market in Europe of 253 million people [the population of the enlarged EEC countries] and it is debatable whether Canada can in fact develop the economies of scale required to compete effectively against the Community in its own market and in world markets. Hence, Canada attaches great importance to a successful round of multilateral trade negotiations to ease the process of adjustment and, by improving Canadian access to world markets, to develop the economies of scale necessary for successful competition at home and abroad.

Another implication of enlargement is its impact on the institutional arrangements for cooperation. Let us consider the GATT. The GATT is premised on the principle of MFN and non-discrimination. With enlargement and related arrangements, about one half of world trade will be linked by a preference. It is almost an irony that the preference which is diametrically opposed to the MFN principle enshrined in the GATT may be a more effective instrument for the liberalization of trade. Secondly, with enlargement of the Community and the emergence of Japan as the second industrial nation in the western world, American relations with these two major trading entities have taken on a new dimension. They now form three super-economic power groupings. They are in a

class by themselves, if only because of three criteria: size of market, GNP and industrial capacity. In terms of population, USA has 207 million; EEC 255 million; and Japan, 105 million. In terms of GNP, USA has \$1.2 or \$1.3 trillion; EEC \$693 billion; Japan \$220 billion. Canada, with a population of only 21 million and a GNP of about \$105 billion, is not in that league. This disparity, therefore, raises the question of whether the collective security system built since the war for orderly trade relations will continue to function with the existence of a triumvirate of super-economic powers. It may well be argued that when these three super powers are able to act in concert to liberalize trade, the benefits are immeasurable; but, conversely, if they are not in concert, the losses can be equally immeasurable and immediate. This reveals Canada's vulnerability. Take for example, August 15, 1971: the United States faced an awesome balance of payments deficit and instituted a series of corrective measures directed, in the main, at the Community and Japan; but, by virtue of the fact that 70% of Canada's exports are with the United States,<sup>4</sup> Canada was affected the most.

As I mentioned earlier, Canada has a fundamental stake in international cooperation and that is why it has pledged its support to the new round of multilateral negotiations in Geneva and to the discussions for the reform of monetary rules, which will provide the necessary elements for liberalization of trade to generate higher levels of economic growth, employment and prosperity. The last thing Canada wants to see is a repetition of August 15, 1971. Canada may now be moving from economic growth to quality growth, from unlimited exploitation of resources to resource and supply management and from increasingly higher standards of living to improving the quality of life and environment.

Canada is blessed with abundant natural resources. In this present conjuncture of events, Canadians attach great importance to repairing and strengthening the fabric of international economic institutions for cooperation. I am sure you have often heard that Canadians no longer wish to be hewers of wood and drawers of water. Canada has the highest growth rate in the labour force of any industrialized society of the West,<sup>5</sup> and is therefore committed to developing a diversified, sophisticated and viable industrial economy

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<sup>4</sup> See statement by James A. Coutts, *supra* note 5.

<sup>5</sup> See INTERNATIONAL LABOUR OFFICE, 1972 YEARBOOK OF LABOUR STATISTICS (32 ed. 1972).

to absorb this labour force and sustain the cost of an expanding service sector.

Canadians are also committed to trade. Exports represent between a quarter and a third of Canadian GNP; over 50% of what Canada produces is exported.<sup>6</sup> There is also a political need for increasing Canadian participation in Canada's economic development. Canadian trade policy, foreign investment policy, industrial sector policies, regional economic development policy, competition policy and even immigration policy are all being oriented towards the objective of Canadian participation. But, Canada wants to do this within the framework of international cooperation involving particularly the United States, the EEC and Japan — the major industrialized powers and Canada's major trading partners.

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<sup>6</sup> See statement by James A. Coutts, *supra* note 3.

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