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## From Dreams to Reality: The Evolution of Anglo-Canadian Trade During the Diefenbaker Era

Bruce Muirhead

The equivalent of a small earthquake shook the Canadian political scene on 11 June 1957; the Liberals, under the calm and steady premiership of Louis St. Laurent, lost to John Diefenbaker's Progressive Conservatives in the federal election held on that day. For the first time in almost a generation, it was thought, a new philosophy would animate decision making in Canada. Nowhere would that be more true than in the area of foreign economic policy formation; the Conservatives had been concerned for years that the Liberals had actively promoted economic continentalism at the expense of the British tie.

Historian (and Conservative) Donald Creighton had articulated that anxiety in a public lecture given at Ottawa's Carleton College on 17 February 1957. There, in the words of Wesley Kriebel, Second Secretary of the US embassy, Creighton had "adopted a markedly unfriendly attitude towards the United States."<sup>1</sup> "The dangers of continentalism," the historian had remarked in the speech, "economic, political and military, [are] now . . . pressing in upon us steadily and from every side." That was the result of the Liberal's renunciation of Canada's birthright through "a series of discreet, informal bargains with the United States which, since 1940, has been one of the most distinctive features of Canadian foreign policy." In the area of trade flows, Creighton and the Conservatives seemed to have a point; by 1957, approximately 65 percent of Canada's exports and imports went to, or came from, the United States. The new Conservative government would, so many believed, begin the process of reversing that tide.

Did it? Clearly, no. An old aphorism has it that the road to hell is paved with good intentions, which could describe Conservative policy in this area. Indeed, Diefenbaker's government soon came to the realisation that the development of Canadian foreign economic policy was an extremely difficult process. Certainly Canada under the Liberals had worked to improve and enhance the machinery governing the flow of international trade through such organisations as the General Agreement on Tariffs and Trade (GATT), but the

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<sup>1</sup> United States National Archives, Washington, DC, Department of State Records (RG59), Box 76, File 742.00/3-1357, Embassy Ottawa to State Department, 13 March 1957.

accrued benefits were not commensurate with the effort. In a direct way, the United States had been the only country willing and able to absorb the billions of dollars worth of Canadian exports on which the country's prosperity depended. It has been argued elsewhere that Liberal governments in the post World War II period had simply made the best of a bad situation; that "continentalism" was, in a sense, unavoidable given the openness of the Canadian market and the country's economic and political heritage.<sup>2</sup> The Conservatives soon learned to live with that reality as well. This paper investigates the evolution of Canada's economic relationship with Britain during the late 1950s and 1960s.

Diefenbaker had not been prime minister very long when, without consulting any of his advisers, he made a startling pronouncement on the tarmac at Ottawa's Uplands Airport. On his return from a London Commonwealth conference, he declared it to be the policy of his government to divert 15 percent of Canada's trade away from the United States and toward Britain. Almost certainly, he had been carried away by notions of imperial solidarity and a vision of the Empire/Commonwealth that had faded for most many years ago. It reflected Diefenbaker's "almost religious devotion to the Crown and to the relationship with the United Kingdom."<sup>3</sup> The British prime minister, Harold Macmillan, perceptively captured that sense of Diefenbaker in his memoirs. After meeting the Canadian for the first time in July 1957, he recorded that "He is a fine man – sincere and determined; but I fear that he has formed a picture of what can and cannot be done with the Commonwealth today which is rather misleading."<sup>4</sup>

If the prime minister had been aware of the judgement of the Royal Commission on Canada's Economic Prospects on that subject, perhaps he would have been more cautious. It was impossible to significantly increase exports to the United Kingdom, the Commission's final report had offered, because that country experienced "recurring shortages of United States and Canadian dollars." And while Canadian importers could buy more from Britain "there [were] definite limits to the amount of purchasing which [could] be diverted to British sources. By and large, Canada is not only established on the North American model, but of equal importance, we are accustomed to North American standards of service, deliveries and salesmanship . . . It follows that a switch of even a small fraction of our imports from the United States to the United Kingdom would not be easy of accomplishment."<sup>5</sup>

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2 B.W. Muirhead, *The Development of Postwar Canadian Trade Policy: The Failure of the Anglo-European Option*, (Montreal, 1992).

3 Basil Robinson, *Diefenbaker's World: A Populist in Foreign Affairs*, (Toronto, 1989), 4.

4 Harold Macmillan, *Riding the Storm, 1956-1959* (London, 1971), 377.

5 Bank of Canada Archives (BCA), Ottawa, Bank of Canada Records (BCR), 3B-305, Douglas Le Pan to Louis Rasminsky, 12 October 1956.

By September 1957, officials had produced the numbers needed to demonstrate the point made by the Royal Commission and quickly the 15 percent diversion evolved from a firm number into “a very general target towards what the Canadian and United Kingdom Governments could work over a long period of time,” at least according to Canada’s new minister of finance, Donald Fleming.<sup>6</sup> However, to reach that elusive number, the government would do what it could, including shifting, wherever possible, its purchases in the US to the United Kingdom.<sup>7</sup>

The British did not disagree with the Canadian analysis concerning the difficulty with the precise figure. In commenting on Diefenbaker’s proposal, the UK minister of agriculture, Lord Amory, told Fleming that “no normal adjustment could bring about a diversion of 15 percent or anything like it.”<sup>8</sup> But it was also true that the British seemed uninterested in normal adjustment; they were keen on a more spectacular way to change the Canada-United Kingdom economic relationship. In September, approximately coincident with the Commonwealth economic conference held at Mont Tremblant in Quebec, the *Financial Times* carried a leaked story about a British proposal for an Anglo-Canadian free trade area (FTA), complete with an arrangement under which Canada might hold a part of its external reserves in sterling. While the FTA had been secretly explored in early September between the two, the reserves issue had not been raised at all and came as a complete surprise to the Canadians.

Ottawa had no intention of accepting the British offer, with or without reserves; it simply did not meet Canada’s economic reality. Even the anglophilic Conservatives recognised that and also that there were too many other considerations to bear in mind, like, for example, the reaction of the United States.<sup>9</sup>

6 Public Record Office (PRO), London, T236 Vol. 5235, HCUK to CRO, 10 September 1957.

7 For a fuller account of this, see House of Commons *Debates*, 23 October 1957 308. In order to increase trade with Britain, the Conservative government also sent a 50-person trade mission, led by Gordon Churchill, to the UK to explore opportunities. It went overseas on 21 November and stayed in Britain for one month.

8 PRO, T236 Vol. 5235, HCUK to CRO, 10 September 1957.

9 See PRO DO35 Vol. 8731, Minute Sheet, H.J.B. Lintott to Sir G. Laithewaite, 31 October 1957. Perhaps more to the point, at a January 1960 dinner party, Jake Warren of Canada’s department of trade and commerce told the president of the board of trade, Sir David Eccles, who was then visiting Canada, that “the Canadians turned down [Britain’s] Free Trade Area offer in 1957 because they enjoyed nearly all its advantages in the United Kingdom market already, and were therefore not willing to give something for nothing.” See DO35 Vol. 8381, Visit by the President of the Board of Trade to Canada, 25–27 January 1960. The British thought that Fleming led the opposition to the FTA proposal. They also believed that he said one thing in public and another in private. As a result, relations between the finance minister and Whitehall soon deteriorated to the point where an internal British document called him a liar, noting that “Mr. Fleming is unalterably hostile to the Free Trade Area proposal and has only been restrained by the Prime Minister and other colleagues from turning it down publicly.” Clearly, Fleming had a better grasp of economic reality than had the prime minister and some cabinet colleagues.

As well, the prime minister was scared off; as he noted years later in his memoirs, "As to the free-trade proposal, or more properly, the free-trade suggestion, that received so much publicity at the time of the Mont Tremblant conference, this was something that could only be taken seriously, if at all, in the long term."<sup>10</sup> Still, how could the government reject the offer without alienating some voters or appearing to be ungracious, especially given the prime minister's recent call for the 15 percent diversion, and also meet a ferocious Liberal attack in the House of Commons over its handling of the offer?<sup>11</sup>

A meeting between Diefenbaker and Fleming and two senior United Kingdom ministers, Peter Thorneycroft, the Chancellor of the Exchequer, and Sir David Eccles, the president of the Board of Trade, who, it was speculated, was the source of the leak to the *Financial Times*, would sort things out. The British found this exercise "so remarkable – . . . and so revealing."<sup>12</sup> In their patronising account of what transpired, Thorneycroft and Eccles believed the Canadians were "very jaded, dispirited and worried." Following a few hour's discussion, and much hand-wringing, it was decided that the communiqué would indicate that, while the free trade proposal had been raised, the UK had not asked the Canadians to express any definitive view. That would allow the Conservatives to deflect any questions as to whether or not they had accepted or rejected the proposal. The British recorded:

Mr Diefenbaker chewed over this for some time, perhaps anxious to make sure that he was exposing no surface unconsciously. But he could see no snag and said so. A new light then seemed to dawn on the haggard Canadian Ministers; they had toiled in vain for so long, that they were almost ready to give up the struggle. Now, as if by magic, a formula appeared which at once made clear that they had given nothing away and had not exposed themselves but at the same time preserved friendly relations with Britain. The [Canadian] Conservative Party could still continue to stand for the Empire and for Protection!

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10 John Diefenbaker, *One Canada: The Memoirs of the Right Honourable John G. Diefenbaker: The Years of Achievement, 1957-1962* (Toronto, 1976), 74.

11 See Canada, House of Commons *Debates*, 15 November 1957, 1198-99. In the House, for example, the Liberal member for Windsor-Essex, Paul Martin, castigated the government over the trade proposal: "Now, surely, it was open to, and it is the duty of a government that speaks so feverishly of its over for the Commonwealth ... to see that that proposal ... is certainly a proposal that would have been accepted by Sir John A. Macdonald. It is a proposal that would give free entry to the British market for all Canadian products, including automobiles ... [I]t is a proposal put forward by a friendly government, and it should have received the kind of treatment which it deserved."

12 PRO, T236 Vol. 5235, "Discussion between United Kingdom and Canadian Ministers, 3rd October 1957," 7 October 1957.

Clearly, once in government, the Conservatives were discovering the economic and commercial reality that had been developing in North America for the past century. It was much easier to talk about changing patterns than to accomplish it.

The British found the Canadian approach “depressing”; they emphasised that their proposal should be looked at not so much from the point of view of immediate advantage or disadvantage, but as a far-reaching step that should usher in a new and significant Canada-UK relationship. However, “no recognition of this came from the Canadian side and it is impossible to avoid the impression that the Canadians have been doing their best to forget Diefenbaker’s statement or to believe that somehow or other the switch can be achieved painlessly and without any new and striking initiative on the part of the Canadian Government.”<sup>13</sup> In a very real sense, the Conservatives had been hoisted on their own petard.

However, while free trade and 15 percent might be too difficult to achieve, perhaps some smaller number was more realistic. Certainly it remained Conservative policy to increase two-way trade with the UK, and especially Canada’s exports to Britain. A memorandum produced in the Department of Finance on the order of the government discussed the problems associated with that. As well, it suggested a Commonwealth finance ministers meeting be held in the near future to discuss “a number of questions relating to trade and economic relations” among members.<sup>14</sup> It went on: “Canada believes that there are opportunities for the expansion of Commonwealth trade in the next few years, to take advantage of increased productive power and resources and to meet demands in expanding markets in countries of the Commonwealth.”

Of course, what the Canadians had in mind was adding to their current account surplus with the United Kingdom and the Rest of the Sterling Area (RSA), comprising the Commonwealth/Empire minus Canada. On that count, there was some room for unease. By 1957, Canada’s current account balance with the UK was a mere C\$148 million, down from the C\$388 million of five years earlier, and the C\$633 million obtained in 1947.<sup>15</sup> This 1957 decline was the result of a less favourable merchandise trade balance, with a fall in exports predominating. Indeed, although Canadian exports to all countries rose by 2 percent in 1957, they had fallen to the UK by 9 percent over 1956. On the other hand, even given a downturn in Canadian business activity in 1957, imports from Britain were up by 8 percent, while those from the United States and all other countries fell. That trend continued into 1960, and UK exports to

13 PRO, T236 Vol. 5235 HCUK to CRO, No. 835, 10 September 1957.

14 National Archives of Canada, (NA), Department of Finance Records (DFR) Vol. 4226, File 8800-04-2, Memorandum for Discussion by Commonwealth Finance Ministers, 9 August 1957.

15 For an analysis of this trend, see BCA, LR76-665-8, Louis Rasminsky, Canada’s Trade and Payments with the Sterling Area, 5 June 1958.

Canada showed substantial increases, even despite a number of factors, like stronger competition from Canadian manufacturers, an increase in the range of goods being produced in Canada, a Canadian recession in the later 1950s which bit into economic activity, and a point of view made clear by Ottawa, that increased imports from the United Kingdom were not desired at the expense of Canadian industry.

Given all those forces, the British had every reason to be pleased with their export performance; during the decade following 1948, UK exports to Canada increased from C\$300 million to over C\$525 million. Even allowing for inflation over the decade, it represented an increase of 75 percent in the value of British exports to Canada which was, Louis Rasminsky, a deputy governor of the Bank of Canada, pointed out, “a noteworthy achievement which has played an important part in helping Britain close the dollar gap which so bedevilled economic policy in the first post-war years.”<sup>16</sup> However, average Canadian exports to the United Kingdom were up over the same period by only 12.5 percent – C\$90 million higher in 1958 than they had been in 1948. That number did not recommend itself to Canadian policy makers, but it reflected the operation of British import restrictions against dollar goods as well as an inconvertible currency.

The RSA showed similar trends. By 1957, Canada’s current account balance was a mere C\$10 million, down from C\$50 million the year previous, C\$114 million in 1952, and C\$242 million in 1947. Between 1956 and 1957, Canada’s exports fell by 4 percent, the result of intensified import restrictions imposed by RSA countries, a tightening of credit in Australia and New Zealand, and some substitution of domestic for imported products whenever possible, the result of government exhortation. On the other side, Canada’s imports from the RSA were up by 9 percent in 1957.

Reflecting their poor export performance to sterling-area markets, Canadians constantly put their case for greater access to the UK market in such forums as the United Kingdom-Canada Continuing Committee (UKCCC), established in 1949 to allow high-level exchanges between officials of the two countries, or in the Commonwealth committee on trade policy. Representative of that approach were the comments of Claude Isbister of trade and commerce at a UKCCC meeting: Canadian manufacturers were, he said, “complaining with increasing frequency of the unfairness of a situation in which British goods could enter the Canadian market freely while Canadian goods were denied such access to the United Kingdom market.”<sup>17</sup> For example, the case of chemicals was “frustrating and even infuriating to Canadians who were not permitted to compete with

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16 BCA, LR76-667, Louis Rasminsky, Highlights of UK Trade and Payments with Canada, 8 July 1959.

17 DFR, Vol. 4181, File 8522/U575-1 (58), UKCCC (58) 2nd Meeting, 20 June 1958.

Germans in the United Kingdom market.” As well, he stressed the importance to Canadian producers of a market in Britain for honey, apples, blueberries, and other fruits, all of which were subject to British import restrictions which had been imposed in the aftermath of the Second World War.

But in 1957, with a new government in office, those pressures were challenges to be met and conquered. Part of that battle would be waged at the September Mont Tremblant meeting of Commonwealth finance ministers. As well, the Conservatives were interested in projecting a certain image, despite the fiasco surrounding the 15 percent diversion announcement and their response to the British FTA proposal. They would focus on a closer Commonwealth as an antidote to American economic and political domination in Canada. At meetings to determine strategy and illuminate issues, officials produced a number of memoranda for consideration, like “Canadian Commonwealth Investments Outside the United Kingdom,” “Canadian Investment in the UK,” and “UK Investment in Canada.”

In opening the conference, Fleming raised the bogeyman of Canada’s relationship with the US, noting that “We Canadian Conservatives are proud that it was our first Prime Minister, Sir John A. Macdonald, who laboured so long, and with so many disappointments, but in the end with such crowning success, to find a way in which this land of ours could become free, independent and united yet still closely associated with our mother country overseas.”<sup>18</sup> The minister also declaimed more directly on the evils of continentalism; the danger existed “of having too many eggs in one basket. Seventy-three percent of our imports came from the United States and 60 percent of our exports were directed to that country. Two-thirds of all our external trade were with this one nation. Such concentration in this non-Commonwealth channel was of concern to the Canadian Government.”

For the present, however, the British, with their inconvertible currency and myriad of import restrictions against dollar goods in place, chose to emphasise the serious economic difficulties that they were experiencing. Short of an Anglo-Canadian free trade agreement, it appeared that the time was not propitious for an enhanced economic relationship between the two countries. The British were still working their way through the Suez disaster of late 1956, which had resulted in the loss of almost US\$280 million in November 1956, 15 percent of their total gold and dollar reserves. Also, Suez had claimed Prime Minister Anthony Eden as a prominent casualty, which had contributed to the overall sense of unease.

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18 BCR, 5D-400, Proposed Opening Statement on Agenda Item III of Mont Tremblant Conference, 20 September 1957. In Fleming’s address, Macdonald and his example of a united Canada was apparently at least partly responsible for helping India find harmony out of “bewildering variety,” for Pakistani unity, and for Ghana, “in the heart of what we used to call ‘the dark continent’ to move towards the bright light of independence[!]”



In his reply to Fleming, Thorneycroft held out slight promise that conditions would change, largely because of economic and financial uncertainty in Britain. There was downward pressure on sterling, caused in part by the devaluation of the French franc which “had started a crop of rumours in Europe as to whether all European currencies would not have to re-align their parities with the dollar and with the mark. In addition, foreign investors were sceptical that the United Kingdom would tackle its internal problem of inflation, and there were doubts about the ability of the sterling area as a whole to pay its way.”<sup>19</sup>

The Mont Tremblant conference turned out to be little more than a dress rehearsal for a much more ambitious and important meeting of Commonwealth finance ministers dealing with trade and economic affairs and scheduled for September 1958, on Fleming’s invitation, in Montreal. While the present might not be promising, the minister held out hope that the future would be more so. The minister’s proposal was eerily reminiscent of an earlier Conservative invitation to the Empire/Commonwealth to come to Canada. In late August 1932, Prime Minister R.B. Bennett had gathered with fellow prime ministers and others in Canada’s capital to discuss trade, a meeting which had resulted in the Ottawa Agreements. However, Diefenbaker and Fleming hoped to improve upon the results of that conference; with little of substance by way of enhanced Commonwealth trade resulting, Bennett had approached the Americans in 1933, prepared to negotiate a deal with them. Unlike its predecessor, however, this government recognised the importance of keeping Washington informed of its initiative, going to great lengths to convince Americans that the upcoming conference “was not directed against anyone and that no exclusive associations against other countries were foreshadowed.”<sup>20</sup> Continuing United States cooperation was, it was generally realised, essential.

Agenda and other discussions were held by officials over the course of the next year. Directed by ministers to suggest methods of “foster[ing] economic expansion throughout the Commonwealth,” they held a series of important meetings in London in February and again between 2-21 June 1958. They considered over 50 papers on topics ranging from the role of creditor countries to the function of the price of gold in international trade to problems relating to agricultural products.<sup>21</sup> Despite the effort, however, the results could be (and probably would be) disappointing; as Donald Fleming remarked to Peter Thorneycroft, “it appear[ed] . . . that [while] the economic side of the Agenda will be quite full and promising, [t]he prospects for development of the trade

19 BCR, 5D-450, File UK-Canada Trade Talks, “Meeting of Commonwealth Finance Ministers, F.M. 57 First Meeting, 28 September 1957.

20 See PRO, T236 Vol. 4062, Record of an Informal Meeting with Canadian Officials, 30 July 1958.

21 BCA, LR76-428, Commonwealth Trade and Economic Conference, 1958: Report by Officials, 21 June 1958.

theme and actual expansion of Commonwealth trade are not nearly so promising.”<sup>22</sup> For the British, “the Conference offered little scope for major innovations in Commonwealth economic relations. [Its] value would therefore be mainly political and psychological and the United Kingdom delegation would endeavour to ensure that the final communiqué emphasized the importance of continuing co-operation between the members of the Commonwealth in fostering economic expansion.”<sup>23</sup> Given the Canadian government’s pre-election propaganda and its apparent commitment to strengthen trade relations with the United Kingdom, that was a sobering analysis.

The September 1958 Commonwealth meeting was opened with much fanfare by Fleming. If interested bystanders expected that delegations would put aside their national agendas in favour of the betterment of the Commonwealth, they would have been disappointed, and rightly so. Similar to what had happened in August and September of 1932, each group talked about the benefits of Commonwealth membership and the “brotherhood” that that entailed, then wondered how that would translate into increased exports for their country. Certainly the Canadians were no different, having an agenda which included, among other items, a topic which would become very controversial in the years immediately ahead; the developing trade arrangements in Europe between the European Free Trade Area (EFTA) comprised of “the Seven,” Austria, Britain, Denmark, Norway, Portugal, Sweden, and Switzerland (and which focussed on the liberalisation of industrial goods), and the European Economic Community (EEC) “the Six,” made up of the Benelux group, France, Italy and West Germany. As a brief prepared for the conference noted, the Canadian government regarded “the trading arrangements of the [EEC] and the proposed European Free Trade Area [to be] of fundamental importance to Canada as a major trading nation whose economic well-being so heavily depends on a healthy and expanding multilateral trading system.”<sup>24</sup>

Ottawa was very concerned that Europe’s developing regional trade arrangements would do so along restrictive lines and, while it had given conditional support to the EFTA based on British assurances that Canadian raw material and agricultural exports to the UK would not be affected by the new free trade area, it had opposed the formation of the EEC from the beginning because of its restrictionist thrust. For example, the Liberal government of Louis St. Laurent had sent an *aide-memoire* to the Community capitals in February 1957 which had pointed out its concerns over some of the provisions of the proposed

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22 NA, Department of External Affairs Records (DEA-R), Vol. 3445, File 1-1958-2, Brief for Montreal Conference, Progress Towards the Common Objective of Freer Trade and Payments, June 1958. See also Fleming’s comments in House of Commons *Debates*, 17 February 1958, 1239.

23 PRO, CAB 128, Vol. 32, C.C. 70 (58).

24 DEA-R, Vol. 3444, File 1-1957-3, Canadian Views on the Trading Arrangements, 26 May 1958.

treaty.<sup>25</sup> Among these were the establishment of a protected agricultural system, higher tariffs, import restrictions, and long-term preferential marketing arrangements. This would translate, so the note suggested, into high-cost and inefficient economies (much like that of the UK). More to the point, however, it would raise serious problems for Canadian exports of agricultural products as under the new regime, West Germany and the Benelux group would have to purchase subsidised and expensive French wheat instead of the Canadian crop, which had long provided for the needs of EEC bakers and pastry makers. In short, for Ottawa there were “special problems” relating to agricultural trade.<sup>26</sup>

That was worrying enough but, as noted above, any move to link the two trading blocs was anathema for the Canadians; a linkage, however, was the objective of British policy and Canadians could only assume that it would not help them. A UK memorandum pointed up the disadvantages, as Canadians saw them. Ottawa worried that “new artificial trade barriers will shut [Canadian] goods out of European markets . . . [T]he Canadians dislike the idea of a ‘bridge’ linking EFTA with the Six. Like the Americans, they fear that it can be built only at the expense of North America. Canadians have all the United States’ fears of being shut out of Europe as a result of a preferential system, but they superimpose on them a suspicion that their own . . . preferential arrangements in the United Kingdom will be impaired as the price of getting a special arrangement.”<sup>27</sup>

Indeed, the Canadians raised with the British the issue of the possible extension of inverse preferences within the EFTA, which could further impair Anglo-Canadian trade. Norman Robertson, Canada’s undersecretary of state for external affairs, went so far as to mention to Sir Edgar Cohen the legal argument about the British most-favoured-nation commitment to Canada under the Exchange of Letters of 1947.<sup>28</sup> This caused some scrambling in Whitehall to

25 DFR, Vol. 4178, File 8522/U575-1 (57), Memorandum for Prime Minister on Common Market, 26 February 1957. See also Muirhead, 162-177.

26 BCA, LR76-429, C.T.E.C. (58) 3rd Meeting, 16 September 1958. See also, *ibid.*, 13th Meeting, 23 September 1958. About 80 percent of Canada’s exports to the Six were made up of agricultural products, as well as some industrial raw materials. Among its important customers were the Benelux group and West Germany. Ottawa believed that any move towards tariff harmonisation on raw materials or special arrangements on agriculture were therefore likely to be damaging to Canada’s trade.

27 PRO, DO35 Vol. 8381, Kenneth McGregor to H.A.F. Rumbold, 31 December 1959.

28 See, for example, PRO BT11 Vol. 5603, E.W. Donahoe, 22 October 1959. See also BT11 Vol. 5603, R.W. Gray, Most Favoured Nation Treatment in the 1947 Exchange of Letters with Canada, 9 July 1959. The Exchange of Letters was to free Canada and the UK from bound margins of preference, which was a reflection of the new prevailing attitude that the International Trade Organization and, pending its approval by legislatures, the General Agreement on Tariffs and Trade would free up global commerce. British legal opinion tended to interpret the Exchange of Letters as being supplementary to the GATT, “which leaves countries free, within the [GATT’s] no new preference rule, to discriminate in the application of preferential duties as

determine exactly what that was. Still, as C.W. Sanders of the board of trade told H.A.F. Rumbold, the permanent secretary at the Commonwealth relations office, when he had been speaking with James Grandy from Canada's finance department about this issue, "I might have remarked that if the Canadians wanted these [potential] duties removed against them they had our offer to form a free trade area with them."<sup>29</sup>

As the British told the Commonwealth at Montreal, however, they were on guard for Commonwealth interests in the negotiations between the EEC and the EFTA, a reassurance which provided scant comfort to Canada. After all, London was negotiating a *regional* trading bloc. It became the mantra in Ottawa to intone that regional developments in Europe were, by their nature, bad. Generally, Canadians took the line that "all outward looking countries should unite their efforts to resist regionalist and divisive pressures."<sup>30</sup> And while Ottawa appreciated Britain's professed commitment to liberalism, as opposed to the French penchant for protectionism, it was also agreed that, given the French attitude, some compromise would be necessary if a Six-Seven link were to be negotiated.<sup>31</sup> That, it was feared, could only harm Commonwealth efforts to increase trade. As events transpired, however, concern was premature; negotiations between the two blocs broke down in November 1958. The French conception of the EEC prevailed, leaving Britain to continue the attempt to establish the Seven as a separate free trade group, which they did, signing the EFTA treaty in November 1959.<sup>32</sup>

The British were bitter about the breakdown. In the Commonwealth economic consultative committee, the board of trade's Sir Frank Lee said that

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between one preferred source of supply and another, and not as negating the GATT insofar as the GATT recognises special exceptions for customs unions and free trade areas." In short, via the Exchange of Notes, the UK undertook generally to maintain existing preferential rates of duty and also undertook to give Canadian goods treatment not less favourable than goods from any other country. In 1956, at the annual meetings of the International Monetary Fund and the International Bank for Reconstruction and Development, the Commonwealth had agreed that the Ottawa Agreements, which had established the modern system of imperial preference, would have to be renegotiated as necessary, for free trade in Europe.

- 29 PRO, BT11 Vol. 5730, Sanders to Rumbold, 26 June 1959. See also DO35 Vol. 8381, UKCCC (60) 4 23 June 1960. A form of inverse preferences was established. For example, Britain eliminated duties on bacon and certain other products from its EFTA partners without extending those concessions to imports from other GATT countries. Canada was also critical of the British attitude in claiming that a member of a free trade area has the right to remove restrictions on imports from fellow members on balance of payments grounds faster than it removes such restrictions from imports from other GATT contracting parties and to exempt imports from fellow members from fresh restrictions that might be imposed in a balance-of-payments crisis.
- 30 BCA, LR76-431, M. Sakellaropoulo, UK/Canada Continuing Committee Meetings, 7 July 1959.
- 31 BCA, LR76-429, C.T.E.C. (58) 3rd Meeting, 16 September 1958.
- 32 See BCA, LR76-434, C.E. (O) (59) 3rd Meeting, 6 May 1959.

“There was no specific issue upon which this occurred. [There were problems but] in none of these cases . . . did it seem to the United Kingdom that the gap – if one existed in all cases – would have been unbridgeable if all participants in the negotiations had wanted a Free Trade Area . . . Fundamentally, the reason for the breakdown in the negotiations was to be found elsewhere. It lay in the unwillingness of France to see a Free Trade Area come into being.”<sup>33</sup> The British also proved to be bitter about Canada’s lack of support. Later, they claimed that the Canadian government had “no positive policy [with respect to the EFTA and EEC] at all and [did] not seem to take seriously enough the need to evolve one.”<sup>34</sup> Ultimately, the UK would seek entry into the Community, in spite of its Commonwealth commitments.

There were other issues which the Canadians raised at Montreal. For example, as had every finance minister since J.L. Ilsley, Fleming spent some time speaking on the evils of trade discrimination and inconvertibility, especially as practised by the UK and the RSA. He offered that “an absolutely perfect time for such a step might never arise in this imperfect world. But certain factors had led Canadians . . . to hope that decisive progress might come sooner

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33 See also PRO, DO35 Vol. 8381, Frank Lee, Discussions with Mr. Norman Robertson, 2 November 1959. Following a Canadian meeting with the French minister in charge of EEC-EFTA negotiations, Olivier Wormser, the British considered the Canadians to be incredibly gullible in “swallow[ing] the Wormser approach hook, line and sinker.” Apparently, he “had persuaded the Canadians that there had been a dramatic change in the situation in that the French Government would henceforward be in the lead in pressing for substantial tariff reductions on a world wide basis.” Sir Frank Lee went on, “Sir Roger Makins and I said that anxious thought was being given in London to the question of what our policy should be after the establishment of the Seven. If the French really intended to act as Mr. Robertson felt that they did, that would be a factor of great significance. But what had happened hitherto, we were bound to be sceptical – and there was the risk – which we pointed out frankly to Mr. Robertson – that the French might be playing for time and in effect seeking to nullify the effect on the Six of discriminatory action on the part of the Seven, which was, ex hypothesi, one of the reasons why the Seven had been established.”

34 PRO, DO35 Vol. 8381, Visit by the President of the Board of Trade to Canada, January 1960. The British clearly did not appreciate the talents of many Canadian ministers and officials. As the British high commissioner in Ottawa wrote, “If Mr. [Gordon] Churchill [trade and commerce] were a more forceful character, his broad approach and instinctive good sense might prevail over the parochial protectionism of Mr. [James] Roberts [deputy minister of trade and commerce] and the doctrinaire ideology of Mr. [Jake] Warren [trade and commerce] (and Mr. [Louis] Rasminsky [deputy governor of the Bank of Canada]). As it is, we have to make the best we can of the rather vague goodwill of Mr. [Norman] Robertson [external affairs] and the hard-headed and unimaginative . . . Mr. Fleming, advised respectively by the cautious . . . Mr. [A.E.] Ritchie [external affairs] and . . . [A.F.W.] Plumtre [finance]. These are the men who have to be worked on here, in London and in Paris, if we are to have the best chance of getting support from the Canadians for our own policies. Of any positive contribution of practical significance from their side, there is unfortunately no sign at present and, it is feared, a poor prospect in the future.”

rather than later . . . Discrimination was divisive within the Commonwealth and between the Commonwealth and their best outside friends.” Clearly, at least from the Canadian perspective, 13 years after the end of the war and six following the 1952 British announcement of the collective approach to freer trade and currencies, Britain should take the leap to non-resident convertibility.

It was finally introduced in December 1958, with Diefenbaker erroneously giving a part of the credit for this to the September finance minister’s conference. In theory, non-resident convertibility meant that the case for restricting imports from the dollar area had vanished, but that proved not to be the case. By 1959, despite steps taken by the UK to remove discriminatory restrictions, a considerable number of items of interest to Canada were still subject to control. Those which were of special concern were, among others, meats, processed milk, fresh and frozen fish, synthetic rubber, textiles, automobiles and larger types of aircraft.<sup>35</sup> Most disturbing for potential Canadian exporters was that all the goods in question could be imported freely from sterling area sources. The majority had also been liberalised from Western Europe and about one-half of them from Japan. As well, the Soviet bloc in Eastern Europe fared better than did Canada. With barely concealed irritation, a Canadian memorandum noted that “One item under control from dollar countries – fresh and frozen salmon – may be imported without license from [Communist] Poland.”

Despite their complaints, British officials indicated that discrimination would lead a longer half-life than the Canadians had anticipated; at GATT consultations in 1959 on the UK’s import restrictions, Canada’s delegation was dismayed to learn that discrimination might be continued for some considerable time and for other than balance-of-payments reasons. A UK official said that his government “would not regard itself as precluded from beneficial arrangements in Europe which would not have to be matched quota for quota with the dollar area.” The Canadian observation on that point was that “he declined to discuss details of bilateral agreements on quotas and said the UK would expect toleration for very small moves apparently away from the expressed principle of removal of discrimination.”<sup>36</sup>

35 BCA, LR76-431, Canadian Interest in the UK Market, July 1959.

36 Ibid. At the Fund and Bank meetings, held in Tokyo in September 1959, the Canadians agreed with an American analysis that there was no longer any reason for discrimination based on balance-of-payments reasons. See PRO, T236 Vol. 5573, Sir Roger Makins, “Liberalisation of Imports,” 29 July 1959. At a UKCCC meeting in June 1959, a British summary noted that “On non-discrimination, the Canadians . . . put forward their accustomed and indeed (in economic logic) well-founded logic. But they did not seriously seek to dispute our contention that while our objectives remained unchanged, we could not commit ourselves to a timetable in advance and that they must, in effect, trust our good faith and give us credit for what we had already done.” See PRO, DO35 Vol. 8679, Sir Frank Lee, The UKCCC Meetings on the 2nd/3rd July, 8 July 1959.

However, that was not to say that complaints about British trade policy were not being heard. Some Whitehall officials were concerned with the snail's pace of dollar liberalisation and encouraged ministers, whenever possible, to expedite its consideration. Ministers, always acutely aware of the necessity of re-election, were more hesitant than officials. For the latter, it was as good a time as any to take the plunge into greater dollar liberalisation, especially as Britain's current account surplus was forecast to be about £400 million in the year ending 30 June 1960. With a strong balance of payments condition, the chancellor of the exchequer, convinced by his officials, told his cabinet colleagues that "we cannot plead balance of payments difficulties as a reason for import restrictions and our international obligations do not allow us to continue them for any other reason. Even more important, however, is that with the pound convertible there is neither good sense nor justification in buying goods from Germany which we are not prepared to buy from the United States, or from France which we will not buy from a member of the Commonwealth – Canada. I have, therefore, reached the conclusion that we must dismantle our import restrictions as rapidly as possible."<sup>37</sup> That began to happen.

That was good news, but there were other areas of Canadian concern. For example, the British excluded Canada from its consultations with the Commonwealth on dollar liberalisation, which was not supposed to happen. At the UKCCC meeting in January 1958, the United Kingdom delegation had given assurances that Canada would most assuredly be consulted about liberalisation measures on the same basis as other members of the Commonwealth. Certainly the practice of discussing those proposals only with sterling-area members of the Commonwealth was not in keeping with the spirit of the Montreal conference and worked against the agreed upon objective of fostering intra-Commonwealth trade and was one more indication that, while Canada remained in the Commonwealth, she was not really seen to be of it.

What were the tangible results of the Montreal Commonwealth conference on trade and economic affairs? In terms relating to development assistance, it could be construed a success. Three major initiatives resulted, although the dollars committed to the programmes were not large. First, Ottawa agreed to increase its annual contribution from C\$35 million to C\$50 million to the Colombo Plan, inaugurated in 1950 to assist the less-developed Commonwealth. As well, Canada provided C\$500,000 in technical assistance to Commonwealth territories in Africa, and it would provide help to the West Indies to the tune of C\$10 million over five years. In addition, along with the United Kingdom, Canada launched a scheme of Commonwealth scholarships and fellowships.

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37 PRO, T236 Vol. 5573, Chancellor of the Exchequer, United States and Canada: Our International Commitments, July 1959.

However, in terms of increased trade, really the central concern of the conference, the short answer is, not much. As R.B. Bennett had learned in the years following 1932 and the Ottawa Agreements, Canadian economic salvation lay in the United States. And unlike 1932, when the Empire had extended imperial preferences to its various members, by 1958 Fleming “could detect no desire for an extension of Commonwealth preference.”<sup>38</sup> Indeed, the world had changed enormously in the intervening 26 years. And following a brief upward blip in Anglo-Canadian trade, by the early 1960s Japan had overtaken the UK as Canada’s second largest trading partner. Moreover, the British had been mulling over the usefulness of the United Kingdom-Canada Continuing Committee, which had been a very important mainstay of the Anglo-Canadian relationship since 1949. Its passing would truly mark the end of an era. In the end, it remained in place until the later 1960s, but was greatly reduced in significance. (It did not meet at all between July 1960 and October 1963). Still, despite the clear lessons evident in Canada’s recent trade history,<sup>39</sup> in which, by 1960, only 11 percent of Canada’s imports came from Britain, down from 14 percent as recently as 1950, and the more obvious lines of British diplomatic and political policy that were developing by the late 1950s, hope sprung eternal in Conservative chests, and the Canadian government was loath to renounce what it saw, through rose-tinted glasses, as the country’s proud imperial past. As a result, when the British, “gravely concerned by the long-term impact of the EEC on [their] trade prospects for economic growth,” made official application to join the EEC in late July 1961, Ottawa was first off the mark with its reservations.<sup>40</sup>

The UK campaign to join the Community was begun by some among the London press in mid-1960. It was picked up in late June by UK officials in UKCCC meetings with Canadians. As the former noted, “Sixes and Sevens was by far the most important topic.”<sup>41</sup> That led into a discussion, with the UK delegation pointing out that business interests, the Conservative backbench, and some elements of Labour wanted to begin negotiations for British membership in the EEC. In the meetings, Sir Richard Powell said later, his delegation had “deliberately put forward the argument that the future of the United Kingdom lay with Europe,” and had awaited the Canadian reaction. It was not long in coming.

They took pains to point out to the British at every opportunity that the UK’s trade with the Community accounted for only 14 percent of her total, and that the latter should have some regard for the 40 percent that was absorbed by

38 BCA, LR76-429, C.T.E.C. (58) 3rd Meeting, 16 September 1958.

39 See Muirhead, *Development*.

40 DFR Vol. 4207, File 8718-03-15, Geneva to External, 16 October 1959.

41 PRO, DO35 Vol. 8680, Commonwealth Relations Office to Ottawa, 30 June 1960.



Commonwealth markets, and the remaining 46 percent that went to neither the EEC nor the Commonwealth. As well, the Canadians often remarked on Britain's seeming obsession with Europe, and its apparent need for reconciliation with the Six. At the Commonwealth economic consultative council meetings of 20-21 September 1960, Gordon Churchill, the minister of trade and commerce, told the chancellor of the exchequer, now Sir Reginald Maudling, and Edward Heath, the Lord Privy Seal and the government's point man on negotiations with Europe, that any move by Britain to join a restrictive trade bloc "would damage important Canadian interests."<sup>42</sup> The minister went on to say:

Exports to the United Kingdom were important for Commonwealth producers because of the size of her market and the terms on which Commonwealth countries had access to it. In return, most Commonwealth countries gave reciprocal advantages to United Kingdom exporters. The advantages enjoyed by Commonwealth producers in the United Kingdom market were threatened in three ways by the proposal mentioned: there was the effect on free entry; the effect on preferences not only for foodstuffs but also for materials and manufactures; and, finally, over a range of goods of importance to Canada and affected by special contractual commitments, there was the threat of reverse preferences in favour of Europe against the Commonwealth. . . . Free entry into the United Kingdom was the foundation of Canada's agricultural exports, and for some of them the tariff preferences were essential . . . It seemed out of the question to expect any accord to be reached between the United Kingdom and the EEC which did not deal with agriculture.

The British later described Churchill's statement as "hostile."<sup>43</sup>

Obviously, they were not dissuaded by the negative Canadian or Commonwealth reaction to their plan, weighing their own interests, as they should, they applied for full membership in the EEC on 31 July 1961. In attempting to fit the rather uncomfortable Commonwealth peg into its new European hole, British Prime Minister Harold Macmillan sent the secretary of state for Commonwealth relations, Duncan Sandys, to visit the three "old" Commonwealth countries in part, as he explained, because he believed that the issues at stake for the three were the most vital in a Commonwealth context. Sandys arrived in Australia in mid-June, in New Zealand later in the month, and in Ottawa in July 1961. He told the three governments the same thing, that Britain had no choice: the EEC would become a powerful global political and economic influence, whether or not the UK joined; if the country stayed out, its political and economic influence would be reduced "with a consequent reduction in the strength of the

42 BCA, LR76-438, Commonwealth Economic Consultative Council, 20-21 September 1960, 31.

43 PRO, T236, Vol. 6549, "The Problem of the Six and Seven," 6 February 1961.

Commonwealth;” and if Britain were to join, its influence in Europe would increase, making “it a more valuable partner in the Commonwealth.”<sup>44</sup>

Those arguments did not have much appeal. Following Sandys’ presentation, Donald Fleming responded for the Canadian side. Britain, he offered, had overestimated the strength of its bargaining position in the EFTA-EEC link, and it could well be overestimating its influence now. It was probably not possible, if the UK were to join, to make any guarantees for Commonwealth trade. “The position of [French president Charles] de Gaulle would suggest that there would be little inclination on the part of the French to consider special arrangements which could offer genuine guarantees for Commonwealth trading interests. Recent statements by other leaders in the Six . . . emphasized the unwillingness of the Six to deviate from the course on which they were now embarked.”<sup>45</sup>

If the United Kingdom joined, Canada would be left in an untenable situation, or so the government believed. But would it? The answer to that was, not really. Only 10 percent of Canada’s already small and declining trade volume with Britain would be affected by British entry, a tiny proportion of the country’s total imports and exports. In large numbers, Canadians themselves did not agree with the Conservative’s approach, while many officials and business people also demonstrated unconcern over the possibility of Britain joining the Six.<sup>46</sup> Still, Canadian ministers believed that there was no substitute for the existing terms of access to the UK market, which was probably true. They also

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44 BCA, LR76-440, Meeting of Canadian Ministers with the Right Honourable Duncan Sandys, 13 July 1961. See PRO, T236 Vol. 6549, Political Aspects of United Kingdom Membership of the EEC, June 1961. This document noted that “The long-term political advantages of membership of the EEC are so strong that they outweigh . . . the disadvantages involved.” As well, London was worried that the Community “could develop into a bloc comparable in political and economic power with the United States and the Soviet Union” which could result, or so the British believed, in insufficient regard being paid to “the views and interests of the United Kingdom.” See also PRO PREM 11 Vol. 3558, Sandys to Macmillan, 15 July 1961.

45 BCA, LR76-440, Meeting of Canadian Ministers . . . See also PRO, PREM 11 Vol. 3559, Paris to London, 28 April 1961. The French minister in charge of the negotiations, Olivier Wormser, told “a reliable [British] source” just that – “it was not really in the interests of the UK to try and enter at this stage, unless they were willing to forsake the Commonwealth. Anyhow, the Six were getting on quite happily without [the British].”

46 For an account of business attitudes following the French rejection of Britain’s application, see *Toronto Globe and Mail*, 30 January 1963, p.17. In an article entitled, “Some Sad, Some Glad that European Common Market Snubs UK,” the reporter suggested that “Canadian business leaders appear to be disappointed by the failure of Britain to gain membership in the European Common Market.” For example, Victor Oland, the president of the Canadian Chamber of Commerce, was quoted as saying “Britain’s exclusion from the European Common Market is most unfortunate. . . . Canadian trade might have been hurt a little in the short term. . . . In the long run, her entry would have been of benefit to Canada.” H.H. Hannam, the president of the Canadian Federation of Agriculture, held similar views, as did others. The Canadian Manufacturers Association was split down the middle.

believed that if Canadians lost economic advantages that had been “paid” for through reciprocal concessions in their market, then it was doubtful that Canada could continue to maintain advantages offered to the UK in Canada. Moreover, Fleming pointed out, a widening gap between Canada and the United Kingdom could lead Canadians to look “on an increasing scale” to the US market; “any weakening of the Commonwealth would . . . reinforce the strong economic and political pulls to the South which already existed.” For a government that had pledged to reverse the Canadian fixation with the United States and restore some semblance of balance in its external trade relationships, that was a huge admission by one of its chief ministers. But the British discounted that: “the Diefenbaker Government came in with a great flourish of diverting purchases to Britain. They have done singularly little to help and a lot to hinder [trade].”<sup>47</sup> That was very true. Sandys’ remark in concluding his meeting was to the point; it was clear that Canadian ministers “had rejected in large part [his] thesis.”<sup>48</sup>

The British put the hard Canadian line down to several factors. Among these were tougher economic times in Canada, a Canadian unhappiness with their position in world trade, and an inability to see where they fitted, (especially as they viewed any UK-EEC discussions not as an isolated event, but as a first stage in a series of global trade negotiations which would exclude them). As well, they disliked the idea of a British association with Western Europe combined with an obsession of short-term disadvantages to Canada.

Things went from bad to worse over the next months. At the Commonwealth economic consultative council meeting, held in Accra, Ghana in September 1961, Fleming and the Minister of Trade and Commerce, George Hees, represented Canada and blasted the British for wanting to join the EEC.<sup>49</sup> Indeed, the Canadian attack was so vicious that Harold Holt, the Australian treasurer, told Macmillan that Ottawa was “out to smash [the] United Kingdom Government by foul means or fair.”<sup>50</sup> Then there was a reported Canadian “snub” of the UK government in November 1961, when Canada’s high commissioner, George Drew, did not attend an information session on UK-EEC progress to date. (The Canadians denied it was a snub). As well, there were prime minister to prime

47 PRO, T236 Vol. 6549, Ottawa to CRO, 5 June 1961.

48 See also DFR Vol. 4227, File 8800-04-4 pt. 1, Washington to External, 26 September 1961.

49 For Fleming’s account of this, see Donald Fleming, *So Very Near: The Political Memoirs of the Honourable Donald M. Fleming* Vol. II *The Summit Years*, (Toronto, 1985) 389-96. Fleming offers a different version of reality. Rather than hindering Britain’s application, he claims that “it is possible that the stand I took at Accra assisted Britain to obtain better terms from the Six and these made it politically possible for her to enter the Common Market without disrupting the Commonwealth,” (p.396). He also suggested that the newspaper accounts of him having “led” the ganging up on Britain at Accra were nothing more than a Liberal-orchestrated distortion of the truth.

50 Harold Macmillan, *At the End of the Day, 1961-1963*, (London, 1973) 29.

minister telegrams which, from the Canadian side, focussed on the exposure of their interests, including agriculture, industrial raw materials, preferences, and “new” products.<sup>51</sup> In addition, as Diefenbaker often said, there was no evidence of substantive consultation between London and Ottawa over the terms of British entry; he “had been promised consultation and . . . there had been no consultation.”<sup>52</sup> Clearly, the British thought he did not “regard any discussions between officials as consultation.”<sup>53</sup> In a display of petulance, the prime minister believed that the UK was “hustling” Canada.

Nor would the Canadians give up; following some particularly difficult UK-EEC exchanges over agriculture, the Secretary of State for External Affairs, Howard Green, fired off a telegram to Britain insisting that “British Government demand proposals which would safeguard Canadian interests.” It was an amazing display. Similarly, when the UK’s high commissioner gave Diefenbaker a message from Macmillan outlining British progress, the Canadian prime minister remained “in a grim mood” and “not very constructive.” What sort of alternative plan, he wanted to know, did Macmillan have? None, was the answer, but then Diefenbaker could not offer anything either. Moreover, the high commissioner related that the prime minister “then returned to his old theme . . . that the end of the preference system might destroy the Commonwealth. When I reminded him that most of the new Commonwealth countries . . . did not regard preferences as the main basis of the Commonwealth, he said that while that may be so, if the old Commonwealth countries lost interest the Commonwealth would break up. He still regards United States attitude [which was supportive of UK entry] as a deep plot to destroy preference system.”<sup>54</sup> However, Diefenbaker would reserve his final judgement until the prime minister’s conference, to be held in London in September 1962. This followed by several months the Conservative’s loss of 92 seats in Parliament, from 208 to 116, in the general election of 18 June 1962. The Liberals took 98, Social Credit, 30, and the NDP, 19. There, the British hoped that he would demonstrate some caution, the result of “his precarious political situation [a minority government] and his misjudgement of the Canadian public opinion . . . may make him strongly averse to facing a quarrel with Britain or to chancing his arm in any dramatic move.”<sup>55</sup>

But if, from the British point of view, things were not bad enough with some Commonwealth countries, they were terrible with the EEC. On important

51 See, for example, DEA-R Vol. 3448, File 1-1962-1, Diefenbaker to Macmillan, 20 March 1962. See also DEA-R Vol. 3448, File 1-1962-1, Diefenbaker to Macmillan, 21 May 1962.

52 NA, Basil Robinson Papers, Vol. 5, File March 1962-5-19, Prime Minister’s Conversations with Lord Amory on March 15 and 17 – Common Market Problems, 21 March 1962.

53 PRO T299 Vol. 183, Ottawa to CRO, 15 March 1962.

54 PRO, T299 Vol. 184, Ottawa to CRO, 14 August 1962.

55 PRO, T299 Vol. 184, Ottawa to CRO, 21 August 1962.

issues, the Six were proving to be “unconstructive over even transitional arrangements.”<sup>56</sup> As events transpired, Canadians believed that the British were prepared to accept as their price for entry “(1) a common tariff with the Six; (2) a common agricultural policy and; (3) the disappearance of UK tariff preferences by the end of the transitional period.”<sup>57</sup>

The Canadian analysis was correct. Clearly, the British had very limited power to influence the negotiations and, by mid-August 1962, the interdepartmental committee on external trade policy, a high-level forum comprised of very senior officials, had agreed upon a memorandum for ministers suggesting possible courses of Canadian action given the obvious turn of events. First and foremost, the United Kingdom would, they believed, enter the Community. Equally important, they did not think that Canada should lead any open opposition to British entry so as not to be blamed should London fail to gain admission. Finally, all tariff preferences for Canada’s exports in the British market would be eliminated over the next eight years, and Canada could do likewise for British preferences in its market.<sup>58</sup> UK entry, or so the Canadian government seemed to believe, would bring to an end a 300-year period in world history and truly mark the end of an era.

At the prime ministers’ conference, events did not work out the way the British had hoped. Of the Commonwealth members, Diefenbaker spoke first, following Macmillan with what the British called “a very hostile speech.”<sup>59</sup> The rest of the Commonwealth followed suit. As the London Sunday *Observer* noted on that occasion, “Macmillan had hoisted the flag of Europe” but the Canadian prime minister and his colleagues were pulling it down.<sup>60</sup> At conference end on 17 September, the UK prime minister agreed with those from the Commonwealth on four points that would guide British negotiators in Brussels: “the expansion of world trade; improvement of the market for primary foodstuffs; recognition by the developed countries that trade was important to the less developed; and the need for measures to regulate the disposal of agricultural surpluses to meet the requirements of those in want.” Given some nod in that direction by the EEC, perhaps the Commonwealth could see its way clear to approve British entry.

That proved to be unnecessary as the negotiations collapsed with a French veto on 29 January 1963. For his part, Diefenbaker was, at least according to

56 DEA-R Vol. 3448, File 1-1962-1, London to External, 12 July 1962.

57 DEA-R Vol. 3448, File 1-1962-1, British/EEC Negotiations: Specific Trade Objectives, 31 August 1962.

58 DEA-R Vol. 3448, File 1-1962-1, R.B. Bryce, “Memorandum for Ministers on UK-EEC Problem, 13 August 1962.

59 PRO, T299 Vol. 186, Commonwealth Conference, 11 September 1962.

60 J.L. Granatstein, *Canada 1957-1967: The Years of Uncertainty and Innovation* (Toronto, 1986), 54.

the British, “anxious to mend Commonwealth fences as quickly as possible.”<sup>61</sup> In what must have been a series of particularly galling public statements for the British, on 29 and 30 January the prime minister went on record as implying that the UK had refused to join the EEC because it could not secure terms that would protect essential Commonwealth interests. The Lord Privy Seal, Edward Heath, challenged him, emphasising that de Gaulle’s motives for terminating negotiations were political and strategic and had nothing to do with the discussion of terms of entry.<sup>62</sup> Indeed, the discussions had clearly been leading towards British entry, with UK-EEC terms agreed to for more than 2,500 products, with less than 30 still outstanding.<sup>63</sup>

In what could only be described as a stunningly self-obsessed act, given what had gone on before, Diefenbaker had “shown some hurt feelings over this, his line being that he was only trying to be a good Commonwealth man and to rally the Commonwealth to our support[!]” As well, only as a result of very strong pressure exerted by Prime Minister Macmillan and Lord Amory was he dissuaded from proposing a “dramatic” Commonwealth conference when the Brussels negotiations ended. However, had Diefenbaker remained prime minister following the 1963 election, he says in his memoirs that he would have “launched a major initiative on Commonwealth and international economic questions.”<sup>64</sup> Surely the British must have heaved a sigh of relief with his defeat; in the federal election held on 8 April 1963, his party fell to 95 seats, while the Liberals took 129, Social Credit won 24, while the NDP stayed at 19. In short, the British, as well as Canadians, had had enough of John Diefenbaker.

And what of Anglo-Canadian trade? Following the encouraging statistics of the late 1950s, the next decade opened on a different note. By 1963, the numbers were simply bad. Indeed, in 1962 as compared with the year previous, British exports to Canada were down by 14 percent, from C\$618 million to C\$563 million. In 1963, they fell further to C\$528 million. British exporters were, according to senior officials at the Commonwealth Relations Office, “disillusioned” because of increasing difficulties being experienced in the Canadian market.<sup>65</sup> At the best of times, Canada had not been an easy market. There was

61 PREM 11 Vol. 4121, Brief for Mr. Diefenbaker’s Visit, February 1963.

62 See *Globe and Mail*, 30 January 1963 p.1. In support of Heath’s position, ministers from EEC countries were quoted denouncing the French: “Comments from national leaders were bitter ... Dutch Foreign Minister Joseph Luns called this a black day for Europe. Belgian Foreign Minister Paul-Henri Spaak said it was a great defeat and declared that Britain had been cast aside for no valid reason.”

63 John Campbell, *Edward Heath: A Biography* (London, 1993) 125.

64 John Diefenbaker, *One Canada*, 206. However, Sir Reginald Maudling, then chancellor of the exchequer, poured cold water over that sort of proposal in a letter to the prime minister. See PRO, BT11, Vol. 6103, Maudling to Macmillan, 9 October 1963.

65 PRO, BT11 Vol. 6056, Brief for Minister of State’s Visit to Canada – June 1963, 29 May 1963. See also LR76-443-5, Canada’s Trade with Britain, 1964.

always strong competition from the US, and this was now complicated by the aftermath of Canada's financial crisis, experienced in May and June of 1962.<sup>66</sup> A part of the solution to that crisis had been the imposition of temporary surcharges on certain classes of imports, ranging from 15 percent for less essential imports through 10 percent on items like imported automobiles, to a 5 percent surcharge on about \$2.5 billion worth of imports. Generally, the British thought, the Canadians were acting "in a rather protectionist way."

They also believed that they had suffered more than their competitors from these measures. Their exports had fallen and they had taken a smaller share of the Canadian import market, 9 percent in 1962, as compared with 11 percent in 1960 and 1961. By 1963, it was down to 8 percent. Canada, which had consistently been Britain's third or fourth largest export market in the world, had dropped to seventh place by mid-1963. At the same time, US exports to Canada had increased from C\$3.864 million in 1961, to C\$4.309 million in 1962, an increase in market share from 67 to 69 percent.<sup>67</sup> The situation had gotten so bad that by January 1963, the president of the Board of Trade wrote to Howard Green, drawing attention to the serious lack of balance in Anglo-Canadian trade. The problems he listed were: "devaluation; the temporary import surcharges; . . . Canadian duty valuation practice and automatic anti-dumping duty; the inflexibility of labelling regulations under the Food and Drug regulations; the shipbuilding subsidies; discrimination against Scotch whisky both in the Federal tariff and by Provincial liquor boards; the Ontario Trade Crusade; and the Ontario Special Place of Business Tax."

The president's letter brought out the UK's unhappiness with developments in Canada. There was a rapidly growing feeling among the British business community that the fall in their exports had been aggravated by Canadian government barriers to trade, (contrary to Diefenbaker's declared policy), with the biggest single obstacle to the freer flow of Anglo-Canadian trade, at least from the UK side, the Canadian system of valuation for duty, coupled to an anti-dumping duty that was automatically imposed. How did that system work? The Canadian formula for valuation was normally based on the "fair market value" of like goods sold in the exporter's home market. In addition, Canadian law provided that when goods of a class or kind made in Canada were sold in Canada below the fair market value, an anti-dumping duty *must* be imposed equal to the difference between the selling price and the fair market value.<sup>68</sup>

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66 For an account of this, see Bruce Muirhead, *Against the Odds: The Public Life and Times of Louis Rasminsky*, (Toronto, 1999).

67 PRO, BT11 Vol. 6056, Brief for Minister of State's Visit to Canada"

68 Much of this discussion comes from PRO, BT11 Vol. 6056, The Canadian Method of Valuation for Duty and Their Automatic Anti-Dumping Duty, 25 June 1963.

The valuation system meant that goods from Britain, when dutiable, were often liable to higher duties than similar products from other countries, such as the United States, where a lower fair market value has been established because there was an advantageous home-trade pattern. The disadvantage to Britain stemmed from differences in the distribution systems of Britain and Canada. In a compact, densely populated market like Britain, there were relatively few links in the distributive train. When exporting to Canada, the manufacturer sold to an agent who in turn sold to regional distributors. Therein lay the problem; exporters were prevented by the automatic dumping duty from reducing the price of their goods to take account of the overheads, which would have to be borne by the Canadian agent. This gave an advantage to American manufacturers who usually had a similar distribution system in their home market to that in Canada and were therefore much less troubled by this problem.

British exporters and the UK government desperately wanted the abolition of the automatic anti-dumping duty, which was simply not a possibility. It had attained almost sacred status in Ottawa, according to James Grandy of the department of finance, the British "would be making a grave mistake and could do [themselves] considerable harm if [they] tried to make a frontal attack on the automatic Canadian anti-dumping duty . . . [It] was essential as a protection against . . . US [dumping] . . . and he could not conceive of any administration being prepared to abandon it."<sup>69</sup> The Canadian fear of American dumping was well-founded, at least according to many Canadian officials and politicians. For example, Simon Reisman, the assistant deputy minister of finance, thought Americans were "ruthless price cutters, particularly where marginal production was involved [and] could quickly swamp the Canadian market with dumped goods."<sup>70</sup> In short, there would be no immediate resolution to this issue, which the British regarded as the most important one plaguing Anglo-Canadian trade relations. Nor were developments much better in the future. New schemes and ideas were concocted by Ottawa in the years following the Conservative's defeat in the May 1963 federal election, most of which proved harmful to commercial relations between the two. Even though the new Liberal government was "tremendously well disposed to Britain," it was not about to make any "startling changes in trade policy."<sup>71</sup> It would be more (or less) of the same. In effect, Anglo-Canadian trade continued to decline, while the volume of Canadian-American business continued upward.

What was the result six years after the election of a Conservative government that was on record as wanting to redirect Canadian trade away from the

69 PRO, BT11 Vol. 6056, Lionel Lightman, Confidential Minute, 19 April 1963. See also PREM 11 Vol. 5152, Memorandum to the Prime Minister, 13 July 1963.

70 PRO, BT11 Vol. 6056, Lionel Lightman to Mervyn Trenaman, 29 April 1963.

71 PRO, BT11 Vol. 6056, Lightman to Trenaman, 29 April 1963.



US and towards Britain? That was clear – the British were rapidly becoming peripheral producers for the Canadian market. If anything, Canada's dependence on the United States had grown since 1957, in every way, politically, militarily, and economically. Diefenbaker could huff and puff as much as he liked about his intentions to build up the Commonwealth and Canada's place in it – the continental forces at work paid him little attention..