

1041  
THE ISSUE OF QUEBEC'S SOVEREIGNTY AND ITS  
POTENTIAL IMPACT ON THE UNITED STATES

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Y 4. IN 8/16: Q 3

The Issue of Quebec's Sovereignty a... **HEARING**

BEFORE THE

SUBCOMMITTEE ON  
THE WESTERN HEMISPHERE

OF THE

COMMITTEE ON  
INTERNATIONAL RELATIONS  
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

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SEPTEMBER 25, 1996

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Printed for the use of the Committee on International Relations



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# THE ISSUE OF QUEBEC'S SOVEREIGNTY AND ITS POTENTIAL IMPACT ON THE UNITED STATES

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WEDNESDAY, SEPTEMBER 25, 1996

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON WESTERN HEMISPHERE,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
*Washington, DC*

The subcommittee met, pursuant to notice, at 3:39 p.m., in room 2200, Rayburn House Office Building, Washington, DC, Hon. Dan Burton (chairman of the subcommittee) presiding.

Mr. BURTON. This meeting will come to order. We are here today to consider the issue of Quebec's future and Canada's future, and its effects on the United States of America.

Let me say at the very outset that the determination of Quebec's status and the entire Canadian issue is a matter totally and completely up to the people of Canada and Quebec itself to decide. We are not in any way trying to impose our will or our views on that decision. We are only here today to hear testimony about implications for U.S. interests.

It is very important for us as Americans to stay out of the internal affairs of Canada, and as author of the Burton-Helms bill, I want to state very unequivocally that this hearing has nothing to do with that. We are here to find out what the ramifications for a possible move by Quebec for independence would have on a lot of issues here in the United States: trade, defense, and all kinds of issues. So we are not, and I want to emphasize one more time, in any way trying to interfere in the internal affairs of Canada.

Our bonds with Canada are tremendously intense and historic. Perhaps no two countries share such strong links. The U.S.-Canadian border is used as a symbol worldwide of fraternal relations between countries and peoples. I appreciate the intense interest that this hearing has generated in Canada. I am sorry that we are holding it in the waning days of this Congress, in what is a very hectic week for all of us.

Let me commend my colleague, the gentleman from California, Mr. Campbell, for suggesting this hearing, and for providing the impetus and inspiration for it. It is truly an important hearing, and I look forward first and foremost to his testimony, and also to the testimony of our other witnesses.

Do any members of the subcommittee have any opening statements? Mr. Wynn? Ms. Ros-Lehtinen?

If not, we will now receive the testimony of our distinguished colleague from California, Representative Campbell.

**STATEMENT OF THE HON. TOM CAMPBELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. CAMPBELL. Thank you, Mr. Chairman. I ask unanimous consent that my full statement and attachments be made part of the record.

Mr. BURTON. Without objection.

Mr. CAMPBELL. Mr. Chairman, thank you.

I repeat your words. The business of the sovereignty of Quebec and of Canada and the constitutional aspects of their system are not the concern of the United States. They are the concern of the people of Canada. And I believe that it is imperative that we simply explore the implications of what might occur upon the United States. To that end, we hold our hearings today, and I am grateful for you having had the courage to go ahead with these hearings.

What is remarkable to me is that we have not explored this earlier or in greater detail. We are speaking about the largest trading partner we have. The dimensions of our relationships with Canada are staggering. We trade over \$300 billion a year with Canada. We export more to Ontario Province alone than we do to all of Japan. And yet I suspect most U.S. citizens express more concern over Japan than Canada.

Quebec itself constitutes a huge component of our export trade. \$34 billion, as I understand, would place them as No. 9 in all countries with which we trade if Quebec were an independent nation.

The key to our understanding is also, I think, a key to what a friend should tell to another friend. The Canadians, the Quebecers who vote on this issue, should vote knowing what the United States believes our international treaty and trade agreements mean and what separation of Canada would mean to them. And then, of course, it is their judgment. It is their sovereign right to decide their future.

But good friends tell each other what their prospective actions might mean to them so that they might take that into account in taking that action, and that is what I think our hearings are to do today.

I will simply touch on NAFTA and NATO and let us get onto the other witnesses. But let us start with NAFTA. We had an agreement, the United States, with a country called Canada, and the best way of illustrating the importance of that agreement is take a hypothetical situation of an automobile shipped from Detroit to Windsor, Ontario, and from there to a dealership in Montreal. We had an understanding that that automobile would travel without tariff.

Now, it is our business, the U.S. business to know if that will continue or not if Quebec separates from Canada. And in order to know that we must know the terms of the separation, whether Quebec and the rest of Canada have any internal tariff delay or other details that might affect the nature of such trade between our countries. It is not just relevant to Canadians. It is very, very relevant to us.



There is also the matter of international law. I used to teach, as the chairman knows, and I still am a professor in Stanford Law School's faculty. And one of the subjects I used to teach was international law. Under international law, a treaty is perceived to continue with the successor state so long as the large amounts of the benefits and burdens remain the same. Where, however, the benefits and burdens substantially shift, it is under international law appropriate to consider whether the treaty continues or not, and that is what I think our next panel of experts will speak to; not merely whether we want to voluntarily open up NAFTA on our own.

Last, on the point of NAFTA, critical to understand, and I am not sure Americans understand it, let alone Canadians, trade agreements are the business of the Congress. Treaties are negotiated by the President and ratified by the Senate. Trade agreements are statutory, legislative, and they must pass both Houses of Congress and receive the President's signature.

Therefore, the expressions of concern by the House of Representative as to a trade agreement are exceptionally relevant. They are exactly our business. And the give and take that went into NAFTA, including all of the minutiae, subsidies to hydro Quebec, bilateral panels with no right of appeal, those things we negotiated getting something in return, because we were negotiating with an entity called Canada. It is tautological that we may not have negotiated exactly the same result if we were negotiating with two separate countries. And I think it is important that that be understood on both sides of the border.

Regarding NATO, we have had a very close relationship with Canada as members of NATO, and also in participation in NORAD, the defense system across the polar area. Thank God the threat from the Soviet Union is gone. The threat from Russia is still there, but it is less. Still, we had an understanding with Canada.

What is critical here is to ask what happens, if Quebec separates from the rest of Canada, to NATO obligations and NORAD obligations, and are we making any contingency plans; or might we have a rather sudden departure from what we believe to be the situation of our mutual defense?

And as to the question of suddenness, I was struck by the statement made by the opposition in the Federal Parliament in Canada, one of the leaders of the Bloc Québécois, who, on the eve of the last referendum said, and I quote: (these are words of Monsieur Jean-Marc Jacob, the Membre du Parlement for Charlsbourg) "The day after a yes win—"

Mrs. ROS-LEHTINEN. We are very impressed.

Mr. CAMPBELL. Muchas gracias.

Mr. BURTON. That was not French.

[Laughter.]

Mr. CAMPBELL. No, but it was to Ileana.

Mrs. ROS-LEHTINEN. I understand.

Mr. CAMPBELL. "The day after a yes win," he says, "Quebec should immediately create a Department of Defense, the embryo of a major state, and offer all Quebecers serving in the Canadian Forces the chance to integrate into the Quebec Forces while keeping their rank, seniority and retirement funds as a means to en-

sure a better transition." That entire sentence is a quote from the press release.

Mr. Chairman, I just have one additional quote from this statement because it is remarkable. This spokesperson for the Bloc Québécois says in the press release, "It is unrealistic to think of maintaining or creating a costly military (army, navy and air force) similar to the Canadian structure, given the current economic situation, especially in light of the Quebec population's marked tendency to favor a more peaceful option than the rest of Canada in defense matters."

I would love to have a more peaceful world, but if we are relying upon Canada to provide X, and the sum of the parts after separation is less than X, it is the business of the United States, it seems to me.

Last, there are many other issues which could arise during a period of possible uncertainty. And that, to me, poses a scenario where our government ought to begin to have contingency plans. It is possible that separation, if it occurs, would be exceptionally quick, peaceful and complete. I do not think anyone maintains that as very likely, however.

Uncertainty may also arise during a period possibly of constitutional crisis as an issue goes up to the Supreme Court of Canada. Perhaps there is debate as to whether under the Canadian Constitution a single province may separate. American cannot preach on this; we had a bloody civil war to solve it in our country. But if there is a period of uncertainty, with whom do we deal over issues like dispute panels under NAFTA? Who appoints them if the good in question is going into Quebec? Does Ottawa appoint the members of the panel? Does Quebec City appoint the members of the panel?

Or for goods that are traveling on the St. Lawrence Seaway and are subject to a question under the St. Lawrence Seaway Commission, who appoints the members? The Maritimes, then Quebec, then the rest of Canada, then the United States?

These are issues which I think it will be well for our government to anticipate, and on which, I suspect, we ought to have paid more attention.

I conclude. Governments are very good at responding to crises. I think our government is. What governments are not very good at is planning ahead, and anticipating possible contingencies before they become crises.

Suppose we held this hearing only the day after a vote happened and there was separation, or perhaps worse, the week before a vote. Do you not know we would be criticized, and probably fairly so, for meddling in the affairs of our best friend and largest trading partner?

That is why it is critical that we hold these hearings now, when there is no immediate referendum on the table. The witnesses following me will speak to when that might be, and it may be sooner than we are thinking, but it is not tomorrow.

And, Mr. Chairman, but for you this hearing would not have happened. I want to conclude my testimony by word of personal thanks. You and I have had occasions to agree, a rare occasion or two to disagree. You have always been very patient with me. But

for you, our country would not be taking the steps that we should in our own interest manifest by the hearings today, and I express my sincere gratitude to you for that.

[The prepared statement of Mr. Campbell appears in the appendix.]

Mr. BURTON. I thank the gentleman from California for his very kind remarks, but the fact of the matter is it was at your persistence during a very difficult period here in the Congress that generated this committee hearing. And so you are to be more congratulated than anyone else. So let the gratitude flow to the one that it really should.

Let me just say that I had not thought about this issue a great deal. We have so many things on our plate right now that, outside the territorial boundaries of the United States, unless we are talking about Cuba, I have not really focused all that much.

But you have raised some very salient points, very relevant issues that we all ought to think about: the defense of the United States, our trade issues. So I really appreciate your being so persistent. You are right. We have not agreed on some issues in the past, but here is one where I think we will agree. And I will say to you that if we can work together, I as chairman of this subcommittee, and you as a member of the full committee, toward coming up with some legislative proposals that will take a long-term view of this problem, and maybe come up with some solutions to problems that may occur should there be a bifurcation of Canada, then I will be happy to work with you to co-sponsor that. So this is not the end of my participation. It is just the beginning, and I really appreciate your persistence.

And with that, Ileana, do you have any comments you would like to make?

Mrs. ROS-LEHTINEN. Just to echo your sentiments as well. I think we have all been blessed with the addition of Congressman Campbell once again in our full committee.

And this issue is of real concern to those of us in Florida. There are a lot of divisions related to these referendum issues, about language, et cetera, and they have an effect in our community, and we depend a lot on tourism from our neighbors to the north, and there is a lot of ill will right now because of Helms-Burton that we passed, but I hope that as we try to resolve these issues of the new referendum, the renegotiation of NAFTA and other trade agreements, that I have no doubt that the Helms-Burton legislation will indeed be one of the items that will be discussed in that mix.

And to our Canadian neighbors, I would say that I would hope that they would reconsider some of their decisions they have made to boycott our beautiful State of Florida because of retaliation about Helms-Burton. We welcome them back. We want them. We depend on them. And as Floridians, we enjoy traveling up north as well. So we hope to resolve all those issues dealing with trade with Castro in a friendlier environment, and these kinds of issues that Tom has brought up will no doubt be part of that larger debate.

Mr. BURTON. Before I yield to my colleague, Mr. Wynn, real briefly let me just give everyone a history lesson.

When the House of Burgesses was in control of the Commonwealth of Virginia, when Great Britain still had control of this part

of the world, the House of Burgesses decided there should be a bicameral legislature, and they decided that they would have a Senate. And the House of Burgesses could not find a place for the Senate, so they put them on the second floor. That is why the Senate is called today the Upper House.

Now, the reason why I bring that up is we keep, in the House of Representatives, calling the bill that we passed the Helms-Burton bill. I want you to know it is the Burton-Helms bill.

[Laughter.]

Mr. BURTON. With that, I yield to my colleague, Mr. Wynn.

Mr. WYNN. Thank you, Mr. Chairman. It seems abundantly clear you want to take credit for that.

[Laughter.]

Mr. WYNN. No further comments.

Mr. BURTON. All right.

Mr. WYNN. I want to thank our colleague, Congressman Campbell, for your insightful remarks. I, like the chairman, have not really given a lot of thought to the implications of this question, but clearly now I will have to.

Since we are engaging in speculation, because you raise possibilities, but we really do not know, could you comment about the economic sectors in Quebec that could impact on the U.S. economy, and what you foresee, again recognizing we are engaging in speculation, what you see as possible impacts, both adverse or positive in nature?

Mr. CAMPBELL. I shall, and I also, in humility and in the interest of effectiveness, note that the panelists who follow me will be able to speak to these in a little bit more detail.

Perhaps first and foremost, the debt held by the U.S. citizens, which is issued by the government of Canada, cuts across all financial sectors. Take this example: you are holding a Canadian government bond. If separation happens, there will be an allocation between Quebec and the rest of Canada as to who pays what percentage that is owed on those bonds. You know as sure as the sun rises tomorrow, I know with the same certainty, that there will not be an agreement that is 100 percent perfect. I suspect one side will say, well, you pay 80 percent, and they'll say, no, I only owe 60.

The first point, then, is that any holder of Canadian debt runs the risk of having what yesterday was a guarantee to have it paid off, is now a guarantee between two countries as to which percentage each owes; it is uncertain.

Second, hydroelectric—

Mr. WYNN. Can I just jump in and ask?

Mr. CAMPBELL. Sure.

Mr. WYNN. That would not be the responsibility of "Canada" as it—

Mr. CAMPBELL. In international law, bonds flow to the separate entities succeeding a breakup according to the benefits of infrastructure that those bonds financed. That is traditional international law.

So applying that tradition, let us say a bond is used to build a railroad from Montreal to Toronto. You tell me how you allocate that trackage.

Mr. WYNN. I would rather not. But I get your point.

Mr. CAMPBELL. Quick other points. The hydroelectric issue: I understand about 10 percent of hydroelectric power consumed in New England and New York is provided by Hydroelectric Quebec. A lot of the source of that hydroelectric power is on lands deeded to Cree and Inuit native Americans, aboriginal American populations in the northern part of the province of Quebec.

If the Quebec province separates from Canada, there has been discussion—we will hear more of it—that the Cree nation and the Inuit peoples may wish then to separate from Quebec and stay with the rest of Canada, during which time I hypothesize a brown out, I hypothesize a dispute on rates as to how much money or renegotiation of a contract. With whom do you negotiate over power generated in Cree and Inuit territory, transmitted across Quebec, and delivered to the United States?

Third, every sector of the United States that exports would be affected by a separation of Quebec from Canada, and that was my hypothetical situation about the automobile so I will not repeat it.

And fourth and last, just off the top of my head, the sectors of the U.S. economy that are dependent upon the St. Lawrence Seaway, and you can talk to our colleagues from the Middle West about that, would like to know with some degree of certainty how those—how potential disputes are resolved during a period of uncertainty.

Mr. WYNN. Thank you. I have nothing further.

Mr. BURTON. Thank you, Mr. Wynn.

Representative Campbell, As a member of the full committee, if you would like to join us up here for the next panel, we would love to have you. Since I have an interview with "60 Minutes" shortly and I am going to have to leave, so we may even ask you, if the subcommittee members are not in attendance, to chair the rest of the meeting because I want to get the full impact of everybody's comments, and I would like to be able to read those myself. So I would like to have somebody here who is really interested to conduct the hearing.

Mr. CAMPBELL. With pleasure.

Mr. BURTON. So will you join us up here?

Because of this late hour, I would like to combine panels two and three and have all of you here. We will hear all of your testimony, and we will have questions. But I would like to have Charles F. Doran, director of Canadian Studies at the Johns Hopkins University; Mr. Christopher Sands, director of the Canada Project at the Center for Strategic and International Studies; Dr. Joseph T. Jockel, professor of Canadian Studies for St. Lawrence University; and Dr. Earl H. Fry, the endowed professor for Canadian Studies at Brigham Young University, join us at the table here.

Mr. CAMPBELL [Presiding]. I thank the Chair, and let us proceed with the first witness. I am going to take them in the order that was put out in the notice. So beginning with Dr. Charles Doran, the director of Canadian Studies at John Hopkins University. Your full statement will be made part of the record, Dr. Doran. Accordingly, my request would be that you summarize, that you hit the high points in your testimony, and we will commence with the 5-minute statement from Dr. Doran.

**STATEMENT OF DR. CHARLES F. DORAN, DIRECTOR,  
CANADIAN STUDIES, JOHNS HOPKINS UNIVERSITY**

Dr. DORAN. Mr. Chairman, it is a pleasure to participate before this distinguished subcommittee of the U.S. Congress. I concur with what has been said earlier, that this is a constitutional responsibility of you all to the American people to be informed of matters of this sort that affect U.S. foreign policy. It is really an obligation and a right. And at the same time it is important to emphasize again, as you have, that Americans recognize that whatever happens in Canada, the outcome will be one in which Canadians will decide, including, of course, foremost those who live in Quebec, and this will be done by democratic means, and we, in fact, will abide by this.

Now, I would just summarize very quickly four questions that I asked myself in this presentation. The first is will Quebec secede from Canada? Second, if Quebec secedes, will English Canada unravel? Third, what would be the impact on U.S. interests of Canadian fragmentation? And fourth, how should the United States respond?

I have about 1 minute on each one of these.

Mr. CAMPBELL. Sure. Please.

Dr. DORAN. I would say, first of all, nobody knows, certainly I do not know, whether secession is going to proceed or not. But the fall referendum came very close to a majority in favor of this, within some 50,000 votes, and I would note that opinion in Quebec at this point, according to polls, seems to favor separation. But many things can happen between now and any given point in time. Certainly Mr. Bouchard, the Premier, has indicated that the referendum is not—another one is not going to be called soon, not in the next couple of years, but that he guarantees that the Quebec people will have an opportunity again to revisit this.

So it seems to me that this is a serious issue, and one well worth Americans giving attention to.

Now, what about the impact on English Canada? My argument is this: If Quebec seceded, English Canada would have to reconstitute itself politically, and the task of doing this would be a great challenge. The maritimes would be cut off physically from the rest of the country. It is the case that the issue of transfer payments, which are very important to Canadians, would come up and perhaps there would be less willingness to provide those, and that would have an effect on the country.

Something which analysts describe as Western alienation is a factor, and indeed how that would play and what that relationship would lead to is something that would have to be considered.

And, finally, Ontario itself, the most populous, the richest part of Canada, would tower over everybody else and so it would have to yield sovereignty.

All of these things, as you know as someone who practices politics, would be difficult. And so my concern, my worry is that if Quebec seceded, English Canada would unravel. Into how many parts, we do not know. But it could indeed so unravel. And if it did, it seems to me this would create a different kind of situation for the United States than otherwise would be there. So that is the concern that I would bring to you with regard to the followup.

Next, as far as interests are concerned, you have done a very good job, it seems to me, of highlighting very quickly and succinctly some of the impacts. It seems to me that NAFTA is certainly something that would be affected. So also would be a host of agreements. Virtually every agreement that we have looked at would have to be assessed.

And, in particular, it seems to me, the issue of the defense arrangements and foreign policy orientation is something that people would want to look at.

If fragmentation took place of the sort that I have mentioned here, the question is would each entity have its own foreign policy, would it have its own militia or army. These are issues which at least raise some questions, legitimate questions.

So I would say then, in terms of the fourth question, how to respond, one possibility might be this. If each of these entities would wish to have its own domestic policy, that is understood. But perhaps in the foreign policy area there could be some coordination. I have suggested a term "affiliation," regional affiliation: Some kind of arrangement where foreign policies do not go off in many directions, and where in fact there is really a single outlook in terms of defense policy.

This, I think, might be workable. If people wanted not to participate, that would be understood too. But it seems to me that kind of affiliation in some form is something which the United States will be concerned about, and would like to be enlightened on as events go forward.

I emphasize again the mantra of desiring a united and strong Canada is not just that. I think it is a much larger preference. But, again, it will be Canadians who decide what they want to do and we have to respond accordingly.

Thank you, Mr. Chairman.

[The prepared statement of Dr. Doran appears in the appendix.]

Mr. CAMPBELL. Thank you, Dr. Doran.

I want to say to my colleagues, and for the record, that at my request the chairman of the subcommittee invited witnesses who are Americans rather than Canadians, the purpose being to emphasize that the intent of our hearing is to focus on the possible impacts of the Quebec secession on the United States, and not to afford a platform for one side or another in the debate regarding the sovereignty of Quebec and Canada.

Our next witness is Mr. Sands, Mr. Christopher Sands, who is director of the Canada Project at the Center for Strategic and International Studies.

And, Mr. Sands, once again, your statement will be made part of the record without objection, and you have 5 minutes to tell us the high points. We will do questions then afterwards.

**STATEMENT OF CHRISTOPHER SANDS, COORDINATOR, CANADA PROJECT, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES**

Mr. SANDS. Thank you, Mr. Chairman.

I want to echo the sentiments that everyone has expressed so far. This is an outstanding opportunity to raise questions which have not been raised publicly in the U.S. policymaking process; ques-

tions about where the U.S. interest lies, and also questions about where we need to prepare ourselves better.

It is a particularly appropriate time to raise these questions in the public forum, first of all, because there are some things that we can do now before another referendum comes on the scene, before there is another emergence of the Canada unity crisis in some form or another, which will be perceived as less political than things that we do in the middle of a campaign. It is hard with a cynical North American public, whether they are Quebecers or Americans, to do anything in the middle of a political campaign and be taken as anything but making political statements.

Second, I do not think that it is wise for us to be complacent about the situation in Quebec. Certainly it has been mentioned before, Dr. Doran mentioned it as well, that we may have 3 years, as Mr. Bouchard says, until we see another referendum. But the sovereignty issue can come to the fore as a result of a Federal action as well, and this issue can become politicized by a Canadian Federal election, which may come as soon as this spring.

So for us, we need to look at the window in which we can be most heard, and that is a window in which there is no campaign going on, there is no election going on, and now is an appropriate time to prepare. The likelihood that this issue will come to the fore during the 105th Congress is very strong, and so this is an appropriate time to pick this issue up.

The U.S. policy, as I am sure you are aware, did change during the last referendum. It changed on the hoof. As the issue became closer and closer and it looked more and more like Quebec might vote for independence, the United States toughened a position which previously had been more detached. We talked about NAFTA. We talked about other agreements. We talked about successor state status. This was not talk in the back rooms. It was talk by the Secretary of State, Mr. Christopher. It was talked about by the President of the United States on his state visit to Ottawa.

Because we came out of the shadows, we raised a lot of questions in Canadians' minds, and in Quebecers' minds. But what we talked about was done in such a sort of subtle diplomatic way that the ordinary voters in Canada still debate whether NAFTA continues if Quebec leaves. They still debate whether the United States would grant an independent Quebec complete status as a partner as Canada has now.

It is important in this interim period for us to take the opportunity of a nonpolitical forum to make clear our position where we have no flexibility at all. As you pointed out in your remarks, Mr. Chairman, trade policy is the purview of the Congress, and it is up to the President at the time that Quebec chooses to become independent, if it ever does, it is up to the Congress to authorize new trade negotiations. It is up to Congress to get involved into a debate about NAFTA continuation or not.

This is not something that anybody can wave a magic wand and fix. So, as a result, it is very important for us to make that civics lesson in U.S. politics clear. A lot of Americans may not be clear on that point. We have an obligation to tell our friends these are the constraints on our ability to respond to your needs, not a political response, but one which because of the U.S. Constitution is



even harder to change sometimes than the Canadian Constitution, which we are bound by.

The NAFTA and successor state status has to be the cornerstone of that. We have to make clear what we can continue and what we cannot continue so that it is very clear. Quebecers will make a decision on independence. Canadians will make a decision on their national units not based on the U.S. position, but they need to know from us honestly what we can and cannot do, and we have to be honest with them about our limitations.

My final point, sir, is I really think that we need to be prepared should Quebec become independent. Not because it is like, not because it is necessarily even inevitable, but because we should never be caught as off guard as we have been in the past. We do not need the CIA to tell us what is going on in Canada. It is on the news. All we have to do is read the papers. You yourself have kept admirably informed on Canadian affairs.

We have an obligation when we speak the same language as our neighbors so close to us, and with so many of us having family and friends north of the border, to understand this country better, to follow its affairs better, and to be prepared to respond to its needs better. And this opportunity, which hopefully will spark a useful policy debate within this administration, and within future administrations, is an important first step because if we are caught as unprepared as we almost were in the last referendum, we will have nobody to blame but ourselves.

Thank you very much.

[The prepared statement of Mr. Sands appears in the appendix.]

Mr. CAMPBELL. Thank you, Mr. Sands, for your fine testimony.

Our next witness is Professor Joseph Jockel. Dr. Jockel holds an endowed professorship in Canadian Studies at St. Lawrence University.

Professor Jockel.

#### STATEMENT OF DR. JOSEPH T. JOCKEL, PROFESSOR, CANADIAN STUDIES, ST. LAWRENCE UNIVERSITY

Dr. JOCKEL. Thank you, Mr. Chairman.

As you know from your other job, academics find it difficult to keep to time limits. Given the precedent set by my colleagues, I will do it.

I have six points to make.

First, at the moment, events do point in the direction of within a few years Quebec leaving Canada and becoming an independent country. The polls indicate that a majority of Quebecers want to stay within Canada, but English Canada is either unable or unwilling to make the constitutional adjustments that are desired by the majority of Quebecers. So the country has reached a constitutional impasse.

Second, most Americans would no doubt very deeply regret or even be shocked at Canada's breaking up. As your colleagues have indicated, they were even surprised at that possibility.

Nonetheless, the Quebec independent movement deserves our respect, but certainly not our support, because of its commitment to nonviolent change, to be achieved only at the ballot box. However, Quebec's independent movement is not committed though to

change only within the Constitution of Canada, and that could be problematic for us, a point I will return to in a moment.

Third, if Quebec becomes independent, we can expect what remains of Canada to hold together in the short run, and that is the situation that would face us after Quebec's referendum, the possibility of two, if not more, countries.

There is very good reason to believe as well that Canada will hold together in the long run, but nobody knows. After all, English Canadians do have certain values that distinguish them from Americans, that they hold dear and which they would want to preserve, and we can expect them to try to keep an independent state for as long as possible.

Fourth, the official approach of the United States, which has been based on staying out of the Canadian debate, has been a success of administrations since President Carter. The Clinton administration's recent and not so noticed, in the United States at least, "no assurances" on NAFTA modification also makes sense.

The Clinton administration obliquely signaled last year that Quebec would not automatically be admitted to several accords with the United States, above all NAFTA, and I hope these hearings also send that message to Quebec, that while it would be strongly in our interest for Quebec to negotiate NAFTA admission for Quebec, there is nothing automatic about it. The U.S. Congress would play a role, a critical role.

Fifth, there is inherent tension between the interests of the United States now before Quebec independence, should that ever occur, and thereafter. U.S. interests today are clear. They are with Canada remaining united. But after Quebec independence, it surely then would be in the interest of the United States to pursue warm and close relations with Quebec, while retaining them for Canada.

And again problematically it would also be in the interest of the United States for Canada to pursue close ties to Quebec.

My final point is a grab bag. A vote for independence by the Quebec electorate would necessitate numerous new decisions to be reached in Washington. I would like to underline the following though.

The Administration could very well face the immediate decision of how to respond to a Quebec declaration of independence that was issued in violation of the Constitution of Canada over the objections of the government of Canada.

The terms under which Quebec was to be admitted to NAFTA and to other economic accords would have to be negotiated by the Administration and approved by Congress. NORAD and bilateral defense arrangements would have to be adjusted and Quebec's admission to NATO considered.

Since you raised the defense issue, let me briefly say that it seems to me that in North America there are a few difficulties given that Canadian territory and the Canadian armed forces play no direct role whatsoever and no role envisaged in the detection of missile attack on North America. Nor would they be needed in any future missile defense systems. So Canada has become much less important to the physical security of the United States, even if Quebec were uninterested in cooperating with the United States.

The problem is beyond North America. A Canada that lost one-third of its GDP and population, roughly, would not be the kind of country that could make the contributions to international peace-keeping and peace enforcement operations that it has in the past. And, of course, we would be faced, as I said, with the question of Quebec's admission into NATO.

Finally, perhaps the most difficult decision of all for Washington in the event of Quebec independence would be to consider how much the U.S. Government would want to encourage Canada to pursue a close economic relationship with Quebec.

Thank you, Mr. Chairman.

[The prepared statement of Dr. Jockel appears in the appendix.]

Mr. CAMPBELL. Thank you, Professor Jockel.

Our last witness is Professor Earl Fry, also an endowed professor in Canadian Studies. Professor Fry is a tenured faculty member at the Brigham Young University.

Professor Fry, your complete statement is in the record.

**STATEMENT OF DR. EARL H. FRY, ENDOWED PROFESSOR,  
CANADIAN STUDIES, BRIGHAM YOUNG UNIVERSITY**

Dr. FRY. Thank you, Mr. Chairman.

Even though its population base of 30 million people, and its annual GDP of \$570 billion are smaller than California's, Canada is clearly the leading international economic partner of the United States. Two-way merchandise trade between the two North American nations is the largest in the world, reaching a record \$275 billion in 1995, up 73 percent since the Canada-U.S. Free Trade Agreement went into effect in 1989.

In 1995, the United States exported more than twice as much to Canada as to Japan, with its 125 million people, and more to Canada than the entire European Union comprised of 15 nations and 370 million people.

Canadian companies in the United States also provide close to 700,000 jobs for U.S. workers, third only to affiliates from the United Kingdom and Japan. Canadians are also the No. 1 source of foreign tourists for the United States, with approximately 14 million trips made by Canadians to the United States in 1995 alone.

In total, I estimate that more than 3 million American jobs are now dependent on trade, investment and tourism linkages with Canada.

Since it first assumed office in Quebec City in 1976 under the leadership of René Lévesque, the Parti Québécois has been dedicated to creating a politically sovereign Quebec nation through democratic means. In October 1995, a referendum on sovereignty partnership failed to pass by about 1 percentage point, or 53,000 ballots out of 4.8 million cast.

It is possible, perhaps one chance in four, that another referendum will be held before the year 2001, and that the sovereignty issue will be approved.

What are the implications for the U.S. economy? I believe that the United States has already lost, during the 1990's, billions of dollars in revenues and tens of thousands of jobs in part because of uncertainty in Canada related to the Quebec issue.

Absent the Quebec issue, Canada's current economic and fiscal situation would warrant that the Canadian dollar be valued at at least 85 cents on the U.S. dollar and perhaps more. If this had been the case from 1992 until the present, instead of the low 70 cent range, where it has traded over the past few years, billions of dollars in additional U.S. exports would have entered Canada.

Moreover, because of the low value of the Canadian dollar, and the lack of strong consumer confidence in Canada, Canadians are making millions of fewer trips to border cities such as Burlington, Vermont; Plattsburgh and Buffalo, New York; Detroit, Michigan; and Bellingham, Washington, to shop at U.S. retail establishments.

In addition, tourism numbers are also down by several million, and Canadians on average are spending a shorter period of time in the United States on their vacations. That has a dramatic impact upon Florida, California, and other Sun Belt States in particular.

Without any doubt, the economic and political uncertainty in Canada associated with the Quebec sovereignty issue has spilled over across the 49th parallel, and adversely affected the U.S. economy.

If there is an affirmative vote on the sovereignty issue and Quebec eventually separates from Canada with its current borders intact, in the short- and medium-term the U.S. economy would lose additional billions in revenues and tens of thousands of additional jobs.

If all goes well with Quebec's separation, and the rest of Canada maintains its political and economic unity, then the United States might return to the level of pre-referendum commercial linkages with Canada and Quebec within 10 years.

Furthermore, in the immediate aftermath of a "yes" vote on sovereignty, the United States might be asked to put together a multi-billion dollar rescue package for the Canadian dollar, replicating what was done with Mexico in early 1995. This would occur if the Canadian dollar fell below its historic low of 69 cents vis-a-vis the U.S. dollar, and if the Bank of Canada exhausted its reserves in a vain attempt to stabilize the Canadian currency.

What actions, if any, can be taken by the United States in the so-called pre-referendum period? Quite frankly, the United States is very limited in what it can do in this period. Washington should continue to stress that the United States is quite content to have a united Canada north of its borders, prefers to see Canada remain united in the future, but fully recognizes that this is a domestic issue to be decided exclusively and democratically by the Canadian people.

Washington can, however, clarify what it would expect of any new nation, whether it be Quebec or Venezuela or Chile, in negotiations for entry into NAFTA or the creation of a bilateral free trade area with the United States.

The PQ government, which has always been an ardent supporter of free trade with the United States, has informed the Quebec people that a sovereign Quebec would face little difficulty in joining NAFTA, and then using the vast U.S. market as a counterbalance for any losses in commercial trade with the rest of Canada.

The Office of the U.S. Trade Representative should proceed to establish parameters for discussions on such contentious issues as government procurement, agricultural restrictions and subsidies, clothing and textile restrictions, the role of state-owned enterprises, restrictions on construction industries and financial services, etc, issues which happen to be of prime concern to Quebec, and would indicate that negotiations, although perhaps successful in the end, would be arduous and time-consuming.

In conclusion, the economic interests of the United States are best served by Canada remaining united as a nation-state, and maintaining its national economic union. Hopefully, Canadian and Quebec residents will find an equitable solution to their problems, and that a solution will be found to this major challenge short of separation, on the one hand, and short of the creation of a far too decentralized Federal system on the other. If this can be achieved, then this would bolster the Canadian, U.S., and North American economies in general.

Thank you.

[The prepared statement of Dr. Fry appears in the appendix.]

Mr. CAMPBELL. Thank you, Professor Fry.

We are joined by our colleague from the Hudson River Valley of New York, Congressman Houghton, a distinguished member of the International Relations Committee, and also a member of the Inter-Parliamentary Commission between the United States and Canada.

Congressman Houghton, if you would wish to commence the questions or to make a statement, otherwise I will do so. But I yield to you if you would wish.

Mr. HOUGHTON. Why do you not start and I will follow.

Mr. CAMPBELL. Very well.

This may or may not be observed, but it is at least a timer of 5 minutes to remind me if I am going too long.

I would like to address one question to all four of the witnesses. First of all, thank you. Your testimony is very valuable, it is succinct and you made your case without reading.

I want to give our best friend good advice as to our beliefs upon a contingency. I do not wish to tell our best friend how to come out in deciding that contingency.

Now, from that point of view, I wish the panel, all four of you, to speak to this issue—some of you did in your testimony, but I would like it to be absolutely clear—does NAFTA continue for a separate Quebec in the event of separation?

I would like to go down the row and just answer that question as succinctly as you can.

Mr. Sands.

Mr. SANDS. No.

Mr. CAMPBELL. Dr. Doran.

Dr. DORAN. That was pretty succinct.

[Laughter.]

Dr. DORAN. I would just point out that Quebec is very interested in being part of NAFTA. It was a very strong supporter of free trade. However, there are many factors that have to enter into this discussion, so I think it is something that would be looked at carefully, and the outcome is not certain at this point.

Mr. CAMPBELL. Dr. Fry.

Dr. FRY. If the separation were relatively amicable, and if they worked out their differences with the rest of Canada, then I would say in the medium term that Quebec would either become a member of NAFTA or would sign a free trade agreement with the United States. But, again, that is a lot of ifs.

Mr. CAMPBELL. And, Dr. Jockel?

Dr. JOCKEL. No, but it would be in our interest to include it after negotiations pursued on the basis, as well, of our own specific interest.

Mr. CAMPBELL. Just to go back to Dr. Fry and Dr. Doran whose answers were a little bit less than the simple word no, if I did not state the question clearly, let me state it again.

I do not dispute for a moment the period of uncertainty, negotiations, or the desirability. I am simply asking from your study of NAFTA, your knowledge of international relations and international law, does NAFTA automatically continue to the benefit of Quebec if separation occurs?

That technical question is all I am asking.

Dr. DORAN. May I respond to that, Mr. Chairman?

Mr. CAMPBELL. Dr. Doran.

Dr. DORAN. The answer is no.

Mr. CAMPBELL. And Dr. Fry.

Dr. FRY. I agree. No.

Mr. CAMPBELL. Thank you.

Let me deal now with the questions of if and when. There are a number of contingencies referred to in the testimony. For example, the possibility of a Federal election next year. One not mentioned in the testimony that I have seen written in some of the journals is the prosecution of the Bertrand case. That is, if it is going up to the Supreme Court of Canada, the possibility of a unilateral declaration of independence prior to such a case being taken up by the Supreme Court lest there be a determination alternative to the wish of separation.

I would now like to address the question to each of you to give our committee and our colleagues in the Congress some sense of likelihood and timing, and so I am going to ask two questions to which I would like your answers.

One, do you believe there will be another referendum on Quebec independence on or before the year 2002, which is the outer year that I have heard discussed? And if so, give us your best estimate as to when it may be. And I understand that you will have to be speculative in giving that answer.

Let me start his time with Dr. Jockel.

Dr. JOCKEL. Yes. I really do not know the answer.

Mr. CAMPBELL. Dr. Fry.

Dr. FRY. It would depend on whether or not the Parti Québécois wins the next election. And because of the economic and fiscal difficulties in Quebec today, one cannot take for granted that the PQ will win. If the PQ does not win, then there will not be a referendum before the year 2002. If they do win, then I anticipate there will be one.

Mr. CAMPBELL. Thank you.

Dr. Doran.

Dr. DORAN. Well, I would begin by responding to the statements that Premier Bouchard himself has made on this issue. He has said that his focus has to be on deficit reduction, on governing at this point; and that he does not want to get into this question of a referendum again for 2 or 3 years perhaps. But he has also said that he is committed to separation, and that the Quebec people will have another opportunity. He promises then another opportunity either in terms of the election itself or if the PQ were reelected, perhaps after that in terms of a referendum.

Mr. CAMPBELL. And in terms of years, if you want to speculate, the second part of my question?

Dr. DORAN. Well, presumably it would not be sooner than what he says, and it would not be later than the term that they would be allowed. So it is in this ballpark that we are talking about.

Mr. CAMPBELL. Thank you.

Mr. Sands.

Mr. SANDS. Well, I would agree. I think that we will see another referendum. We also may see another forum by which this issue is raised to the fore. There has been talk about amending the Constitution to provide a sort of secession clause. If the Federal Government takes an initiative like that after a Federal election, that would raise the issue again, and it might be a national referendum similar to the Meech Lake/Charlottown Accord. It is a different kind of referendum, but it is essentially a referendum on the issues, so it would meet your criterion. But 2002, I think, is likely.

My only caveat is I think it is even likely that it will happen faster than Mr. Bouchard says. It is sometimes a mistake to think that individuals can control events like this, movements like this. And Mr. Bouchard certainly is an outstanding leader, but he does not have complete control of this. He has a caucus, a democratic caucus that has its own desires, people who want to express themselves. So this issue could come to the fore as a result of events right now unforeseen relatively quickly.

So I just want to add the caveat that by 2002, probably we will see it by then. It could happen much sooner than that. That is why we need to be prepared.

Mr. CAMPBELL. Thank you. The first 5-minute round of questioning that I have has expired, and so my colleague from New York, Mr. Houghton.

Mr. HOUGHTON. Thank you very much.

Well, I just have two questions, maybe two points. I would think from an economic standpoint, I do not know whether you gentlemen agree with this, that if it were to happen, Quebec would separate itself from the rest of Canada, and ask for the same type of reciprocal trade arrangements that the whole country had had, and the rest of Canada stuck together and said that if you do this, we would consider it a very unfriendly act. I would think it would be very difficult for the United States to buck that because of our traditional relationships there.

I do not know how you feel about this, maybe you would like to make a comment, but I guess the thing that I would like to ask, and, Mr. Chairman, maybe this has already gone on. If so, forget the question. But, you know, we are sort of talking about a doomsday scenario.

What do we do to prevent this?

I mean, obviously we do not involve ourselves in internal operations with another country, but the relationship has been so helpful, so warm, so friendly. There is not anything like it, I do not think, in the world.

What do we do? What signals do we give, if any, to try to prevent this thing from happening?

Now, what happens if it does happen?

I mean, if this is redundant.

Mr. SANDS. No, I think it is an excellent question.

One thing that is important to remember is that after separation/ before separation Canadians, whether they live in Quebec or whether they live in Canada, are friends of ours, and they will be friends of ours afterwards.

The analogy that comes up sometimes is that of a divorce. Sometimes you are friends with both sides of a divorce, and afterwards you still are. You just want to conduct yourself during that stressful period in a way that allows you to retain the friendship.

There are some difficult issues. I think the best thing we can do is to send clear signals about those areas that we absolutely have no flexibility on, and I think NAFTA is one of them. It is possible to build a trade relationship with Quebec, and I expect that we would if Quebec became independent. I mean, they are neighbors. We would trade with just about anybody.

But I think that what we can do now is send clear signals so that if there is a transition into independence Quebecers know what to expect, the Canadians know what to expect, and if they make a decision, which I do not think is in their economic best interest, if they choose to make that decision, they know full well where the United States will stand. Honesty, I think, on our part, to be an honest broker with both friends, and to tell everyone in Canada this is where we stand, and we hope for the best. But if the worst happens, we are prepared for that too.

But I do not think it is necessarily a doomsday scenario. That is the last point I would make. I think that Canada does not have a long tradition of violence. Canada has not got a tradition of civil unrest. Canadians will one way or the other figure out how to deal with this democratically. We will have the time, I hope, to deal with this in a calm and sober manner. And your preparation of the U.S. policy community by having these hearings will help to make sure that we can handle this, I think, as grownups. So I hope we do.

Mr. CAMPBELL. Are there other members of the panel who are prepared to respond to Mr. Houghton's questions?

Dr. JOCKEL. Well, I think that there is a danger in trying to do too much, and that is why I think I disagree with some of the sentiments expressed here both in—

Mr. HOUGHTON. I am not suggesting that we do too much. What do we do?

Dr. JOCKEL. Well, what we do not do is create a contingency plan now because that would be—first of all, it would be interference in Canadian domestic affairs, and it would also be very hard to prepare.



Rather, we can, as we are doing right now, state the kind of approaches that we would take toward negotiating with Quebec in the event it decided to become independent. And I think, again, as I said before, the Clinton administration and now this committee has sent an important message to Quebec that there is nothing automatic about Quebec's admission to NAFTA. That in itself is an important step.

But it really is the case, and I know this is just being a little repetitious, that Quebecers and other Canadians have the right to decide their future. We automatically identify with Canadians and national unity. I think we also have to have a little bit of sympathy for a minority in North America that is trying to decide whether or not it wants to remain part of a greater country or to strike out on its own. We have been through that in our own history.

For my part, and for the interest of the United States, I hope they make that decision to remain as a larger part, but it is not a doomsday scenario in that regard. It is people on our border that are on the eve of making once again a very, very serious decision about its future.

Dr. DORAN. I would say that there is nothing that the United States could or should do to stop any decision that Canadians decided for themselves. I would underline that quite clearly and firmly.

But at the same time it is probably very important for the United States to make sure that there are no surprises and there is no misunderstanding about what our interests and our concerns are to any of the participants. That we have a responsibility, I think, to emphasize and in fact we have the capacity to do that, and it seems to me that is what you are embarking on right now.

Mr. HOUGHTON. Could I just ask, I mean, just break that down a little bit. So what are the signals? The signals are that if Quebec were to separate, it would not be automatically accepted as a member of the world powers, so we would not automatically have the same relationships. We would not automatically have an open border. We would not automatically.

But when you start doing that, do you not start creating frictions?

I do not know what we do. I have been searching on this a long time, but I do not know what we would do to give a signal without really sort of infuriating the people up there to say, wait a minute, nothing has happened, and all of a sudden you are telling us what you are going to do. Very difficult.

Dr. JOCKEL. I think it is even more difficult because if they do decide to go ahead, it would be in our interest.

Mr. HOUGHTON. To do what?

Dr. JOCKEL. To create as close a relationship with Quebec as possible, and to retain that relationship with Canada.

Mr. HOUGHTON. If the rest of Canada decided that it would be an extremely unfriendly act if we did that because it would undermine their relationship?

Dr. JOCKEL. We would want to enter into some very polite, friendly discussions with the government of Canada to encourage them to see everyone's interests. It is in all our interest for Canada to continue to participate in the full flow of goods and services

throughout North America. It is in Canada's interest, it is in Quebec's interest and it is in our interest. If the government of Canada ever came and said we do not want you to do this, we would have to understand because they would have been through the most difficult moment of their history. They would be angry and upset.

But our job then would be, if necessary, to quietly say to the Canadians, think about all our interests, and our interest is not to punish Quebec because that would be to punish all the rest of us as well.

Mr. HOUGHTON. And they would say think about all our interests. And if you do this, then you jeopardize this relationship which we have had. From an economic standpoint, you add up, you know, all the rest of the provinces and Quebec, and it is sort of a no brainer.

Dr. JOCKEL. Well, if you assume Canadians do not have that kind of good sense. And I think Canadians would have good sense under those circumstances.

Mr. HOUGHTON. Well, I have taken up too much of your time, Mr. Chairman.

Mr. CAMPBELL. Not at all.

Mr. HOUGHTON. Thank you very much, gentlemen, for bearing with me.

Mr. CAMPBELL. Congressman Houghton, thank you. We will have a chance for a second round. I just have a few followups and it should not be long, so if you are interested to stay.

I think a way of putting the question of the last line of inquiry is not that we know for sure what the terms of the separation are, but rather, that there is a period of time during which the status between Quebec and the rest of Canada is uncertain.

Now, I think my colleague from New York's question understood in that context might evoke a different answer. I would be interested in the panel's view. That is to say once a decision is made, once it is understood, I cannot disagree in the slightest that all of our interests as to trade be as friendly and as close as possible. We are neighbors. There is every reason that it should be.

But is it not likely that there would be a period of uncertainty? And second, if so, would my colleague's comment not be valid as to how our statement might affect our relations with the parties should there be a period of uncertainty? Posit that separation is announced by a unilateral declaration, and the Supreme Court of Canada says that a single province may not unilaterally secede, deciding in favor of Monsieur Bertrand. Now, in that period of uncertainty, I would ask our witnesses, when Canada has not yet agreed to a unilateral secession but Quebec has declared it separate—where there is a constitutional crisis—I wonder what advice you might give to what role the United States ought to play, if any.

And if the answer is nothing, that we should just sit and watch it happen, that is an understandable answer. I am here to listen and to learn.

Mr. Sands.

Mr. SANDS. Let me make a comment on this. It is sort of a sidebar, but it is important when we talk about uncertainty, that we think also uncertainty for whom. And one of the key groups that

we have not discussed a lot here is the American people and the American people who have investments in markets.

I mean, the reaction is more than a confidence of Canadians and Quebecers; it is Americans who are going to be concerned about this as well.

Not only that, I think if you canvassed our allies outside North America, also Mexico, and you ask them what they expected from the United States, I think they would tell you that they look to the United States to take the lead in the international community on this.

So our reaction is more than the reaction of one country trying to help out Canadians and Quebecers. Our reaction is going to set off a reaction among our allies. It will really, I think, set the lead among the world community.

With that responsibility on our shoulders, I do not think that we can respond to anything but the national interest of the United States. And as upset as people are following a referendum, as upset as people may be in a period of constitutional uncertainty, we have got to keep the trade flowing, we have got to keep talking, we have got to encourage both sides to talk, and I think that we should do everything we can to keep that relationship going. I think that has got to be the first, the first point.

Mr. CAMPBELL. Professor Jockel, in Mr. Sands' prepared testimony, which I read last night, he advises, I quote, "The United States should, in concert with its NAFTA partners, issue a clear statement on the process by which a country will be considered for accession to NAFTA. Many Quebec voters are under the mistaken impression that NAFTA is a kind of safety net that would preserve the preferential access they now enjoy to the U.S., Canadian and Mexican markets."

Would you agree with that approach: during the time between now, this moment, and the next referendum it would be well for the United States to follow Mrs. Sands' advice, or do you disagree?

Dr. JOCKEL. It all depends on who you mean by the United States. By USTR, the Administration in general, no. But private citizens, by Members of Congress, by other Americans, yes.

It does not serve the interest of the United States to have the Administration now in such a way be seen as interfering with the debate within Canada. For all the rest of us to do so, it is perfectly fine.

Mr. CAMPBELL. I would simply put on the record, you heard my opening statement, that I have a constitutional role, which is slightly different from just any other citizen, because I was elected to represent my district and the House of Representatives, and it is the House with the Senate that has the opportunity and the obligation to approve trade agreements. So I would view my role as constitutional as well as, I think, in the interest that any citizen might have of a full and public discussion.

One last question to Professor Jockel. You mentioned in your opening testimony that missile detection was not a problem; that it is, rather, the contribution of forces to NATO that would be. And I am asking to be informed, not to be disputatious in the slightest, but the location of NORAD sites is of interest to me.

In the event that there is a separation, and in the event that there is then further dispute over sovereignty in the north because of Cree and Inuit territories, I do see an open question as to the NORAD sites. If you disagree, I would like to know, or if you agree.

Dr. JOCKEL. Yes, I do.

Mr. CAMPBELL. Which, please?

Dr. JOCKEL. And just briefly, it was not just Canada's NATO contribution that would be in jeopardy, but also its peace enforcement contributions such as in the Gulf War and its contributions to international peacekeeping, which are really useful for us given our own reluctance often to participate in those operations, a reluctance the Canadians do not share.

No missile detection systems are located on Canadian territory. The only importance of Canada physically to the defense of the United States is for the defense against the manned bomber. And even there, to be sure there is some long, long range consideration, but even there, NORAD is moving its air defense operations into reserve status, to the point where there really is not concern about air defense matters.

Mr. CAMPBELL. OK, I appreciate your thoughts on that. And if there are other members of the panel that wish to speak on that? I have one other area of inquiry, but I will pause if there is. Thank you, Dr. Jockel, I appreciate the instruction.

The other area I would like to explore until my time runs and then my colleagues will perhaps finish it up on a final round, is further separation. This has been alluded to briefly, but I would like to flush it out a little bit more.

In any discussion of possibility of a separation of Quebec from Canada, should we consider the likelihood of further division of Quebec? I am thinking of the possibility of Montreal or Cree and Inuit lands, separating from an independent Quebec, should that occur. If you might speak to the likelihood of that.

Any member of the panel is invited. Dr. Doran. Or Mr. Sands, go ahead.

Mr. SANDS. We will probably just roll east to west.

I do not think that the United States is indifferent to those scenarios, and I think the United States is part of the answer to this question, and that we should indicate the least change from the status quo was probably the best for everybody. It is certainly best for us.

That said, I think that the north is an open question, whether the north would stay in Canada, because the people there, the Cree who live there, have expressed that desire time and time again in a vote. As far as Montreal goes, on the other hand, separating out neighborhood by neighborhood, how much Montreal would split is extremely difficult. So I think that is unlikely.

Mr. CAMPBELL. And western Quebec?

Mr. SANDS. Well, western Quebec, Montreal, that whole region, I do not think is likely to break away from Quebec. It is easier for the population who are unhappy to move to Canada where their passports are still good, or try to move to the United States.

Mr. CAMPBELL. And I must just pursue this for 1 second longer if I took your testimony accurately. As to the Cree nation, that is a realistic possibility; is that your testimony?

Mr. SANDS. There is a possibility, yes, sir.

Mr. CAMPBELL. Thank you. Dr. Doran.

Dr. DORAN. Mr. Chairman, are you specifically asking us to comment just on Quebec, or are you looking at this in a larger context?

Mr. CAMPBELL. I have read your article in Foreign Affairs, so I know the larger context, but I am just for the moment focusing on Quebec.

Dr. DORAN. OK. Well, then, I would say that it seems to me that there is less possibility of fragmentation of Quebec than some other scenarios because it seems to me that the territorial integrity as Quebecers see this question is very, very important to the Quebec government. And it seems to me that if it would act, it would act in such a fashion that it was confident that it had that unity.

Mr. CAMPBELL. Thank you.

Dr. Fry.

Dr. FRY. There are about 70,000 natives in a population of 7.3 million in Quebec. I would expect the Quebec Government, after a pro-sovereignty vote, to put together a very enticing package for the natives, especially the Cree, leading to some form of autonomy and other concessions in an effort to make sure that the native groups remain a part of an independent Quebec.

Mr. CAMPBELL. Thank you.

And Dr. Jockel.

Dr. JOCKEL. An unfortunate element of the discussions sometimes today between English Canada and Quebec has an element of bluff, and it is hard sometimes to tell when people are serious on one side and bluffing on the other side.

There may be an element of bluff in the partition arguments, that if you go, you cannot take this. That would be backed away from. I think I agree with Mr. Sands that ultimately, while on the island of Montreal there is the understandable sentiment to not lose your country from underneath you, putting a boundary down the middle of a city is just going to damage everyone. And the solution there would probably be a different kind of one involving citizenship and retention of certain kinds of right.

Mr. CAMPBELL. Thank you.

Congressman Houghton.

Mr. HOUGHTON. Thank you.

Well, I think, just sort of listening to everybody and picking up on your comments, Dr. Jockel, that maybe the thing that we should be doing is being very careful for any sort of official relationship, any statement, anything that freezes in an animosity, and maybe private citizens, in terms of how they feel, business people, in terms of investment, sort of getting that worked out that, you know, they are stronger together than they are separately, and therefore it is important from our standpoint—

Dr. JOCKEL. Yes, sir.

Mr. HOUGHTON [continuing]. that they do not do something crazy which they will regret later on.

Dr. JOCKEL. And if I may, having changed my mind on the subject, I would like to say a kind word for the Administration decision not to show up. My immediate reaction was, gee, they should come and say what they have been saying all along, we will not interfere, this is a Canadian decision.

But on second thought they should not get into these hypotheticals—

Mr. HOUGHTON. Right.

Dr. JOCKEL [continuing]. and into this kind of discussion.

Mr. HOUGHTON. Right.

Dr. JOCKEL. So on second thought I have reluctantly come to the conclusion that they were right to stay away.

Mr. HOUGHTON. Yes, that is the better part of diplomacy. Many times it is what you do not say, is it not?

One other thing that I remember being in Canada, and I forget the year, I think it was the Olympics, in the sixties or early seventies, and DeGaulle was still alive. And he took a cruiser and went down the river—

Dr. JOCKEL. It was Expo 1967.

Mr. HOUGHTON. Expo 1967, that is right.

Is there any outside influence? I think naturally of France, but is there any consideration or anything that could change feelings or relationships if something dramatically took place in terms of separatist movement?

Dr. JOCKEL. Well, Quebecers, because they speak French, are no more French than we are English because we can speak English. I think that is important for Americans to understand. These are not French people we are talking about, these are French-speaking people.

On the other hand, there is a historical special tie, a warm one. I believe someone here alluded to it. One of the difficulties we would face if there is a Quebec unilateral declaration of independence, and maybe you did, Mr. Chairman, would be that of a French Government immediately recognizing Quebec UDI. And under the precedent of Germany in the former Yugoslavia leading the rest of the European Union into an early recognition of UDI.

Now, the most important State to recognize Quebec would be us. And all of this then, starting in Paris, would be an attempt to push the United States into recognizing the unilateral declaration, and that is a possible scenario.

Clearly, the—

Mr. HOUGHTON. Is it a probable scenario?

Dr. JOCKEL. If there is UDI, yes.

Dr. FRY. The premier of Quebec and the premier of France generally exchange visits on a yearly basis, and that has been going on for quite a number of years. And France is important for the boost in morale it can provide the Québécois.

That having been said, well over 80 percent of all Quebec's exports go to the United States. France is second, but it is way, way behind the United States. Therefore, in economic terms, the United States is the most important partner by far.

But in some of these other issue areas, as was mentioned earlier, there could be a few problems in terms of France providing some boost in morale even beyond that in a period of uncertainty leading up to a unilateral declaration of independence or even after a declaration of independence.

Mr. HOUGHTON. Well, see, what I was searching for is something like this, heaven forbid it happens, but if it did, then, you know,

you would think of the relationship between the rest of Canada, Quebec and the United States as sort of a trilateral thing.

However, if France or somebody else got into the act and put pressure on the United States and the European Economic Community, for example, it would be a different, an entirely different scenario.

Dr. FRY. I think we might see some difficulties with France, although I think the French would be circumspect. I do not anticipate any major difficulties with the European Union as a whole.

Mr. SANDS. Let me just underscore that. I think the difference between the Germany/Yugoslavia scenario is the weight of a country recognizing another country in its role as a stakeholder, and Germany is an important stakeholder in the European Union, and has an important stake in the Balkans, historic as well as economics. So Germany, you might follow.

I do not think the United States should pay any attention to France if it chooses to recognize Quebec. That may happen for culture reasons. We make our own decisions here, and I think we should ignore any pressure they send our way. And if they push obnoxiously enough, we push back.

Mr. HOUGHTON. Unless you have somebody who is French to send from your own family, which I do—

Mr. CAMPBELL. Perhaps that could be the subject for further hearings.

[Laughter.]

Mr. CAMPBELL. The Houghton family.

What I would like to do now, with my colleagues' permission, is invite all four panelists to add anything that you wanted to say but did not get the chance to. And while you are summarizing your thoughts, I just wanted to make a statement that I hope will bring our hearing to a conclusion for now.

My hope would be then to ask each of you to make any additional points, and invite you to make suggestions during that time.

What I derive from our hearing, both the submitted testimony, which I was privileged to read last night, and the actual debates—testimony today—it was not a debate—is the importance of making clear what the U.S. interests are. I heard unanimous declaration from the experts regarding NAFTA, that NAFTA does not automatically apply, that it is well for us to let that be known; that all parties of the United States who are engaged in NAFTA—which is House, Senate and President, not simply one branch, and one branch cannot bind the other in regard to an interpretation of extending NAFTA—that we proceed with respect and caution so as not to partake of one side potentially arguing that we are trying to tip the balance of what is a sovereign issue; but, and here I would at least summarize my interpretations, but the testimony of several of you, if not all of you, was, as I heard it, that it is in the interest of the United States that Canada not separate.

And I see heads nodding, but I would like you specifically to address that, if you might, in your concluding remarks, and I would invite each of you now to offer those concluding remarks. I will begin with Mr. Sands.

Mr. SANDS. I think Canada staying together, to pick up on your last point, is in the United States' best interest. This is a relation-

ship that has been so prosperous, so tremendously beneficial to Canadians, Americans, people living in Quebec and so forth. This is not just the inertia of a status quo power looking for stability in its own neighborhood. This is a relationship that is more than just stable. It is really prosperous. And a lot of people do very well from trade, from the friendship, from the cultural exchange that we have with the Canadians. So our preference for this status quo should be clear.

But maybe if there is a point I can close on is this. We have talked a little bit about planning, and Dr. Jockel talked also about who should do the planning, the role of planning in public for an independent Quebec and so on. I think the one thing that is clear, and, Mr. Houghton, I know you have a background in business, as they say in business, if you do not plan, plan to fail.

We have to have a plan. There are too many people counting on us, including our own citizens and your constituents, to have a clear idea of what to do, and part of that planning is public, we will do some of that here, but part of that planning takes place behind closed doors in rooms all over this town. But that planning needs to take place. We have to take this issue seriously.

We have talked about possibilities. We have talked about probabilities. This is a serious enough probability that we do need to take it seriously, and we need to have plans on all of these questions. Maybe all of the answers were not here today, but the answers are out there, and we have to have that in place so that the next time it comes up we do not get caught off guard.

Mr. CAMPBELL. And I might ask you just one quick followup. If I read you correctly, it is your statement to us that we presently do not have in place the plans that we ought?

Mr. SANDS. I would say so; yes, sir.

Mr. CAMPBELL. Dr. Doran.

Dr. DORAN. Certainly it is in the U.S. interest to have a strong and united Canada. That is not just a mantra. That is not empty. And I would emphasize that, in agreement with my colleagues, that there are many substantive interests at stake here, but there is also a psychology that is deep and hard to understand on the part of others, but it does affect the way we think.

On the other hand, we will accept whatever is democratically arrived at, and we have to emphasize that equally.

I would conclude on this: I know it is the task of this hearing to particularly look at the issue of Quebec and its impact on the United States in the event of some kind of separation. And I would also agree that prediction with regard to the future is impossible in these matters. However, we ought to be prepared, it seems to me, to look at scenarios that are more complex, and that would, if they took place, have a much more consequential impact upon the United States, I think, than the more obvious one.

And it is not so much that we need to prepare a plan with regard to these as it is to look at these scenarios and consider how they would affect us, and recognize what our interests are, and then in a quiet kind of way respond if the event ever occurs when we would have to respond in some fashion.

Mr. CAMPBELL. Thank you.

Dr. Fry.



Dr. FRY. As I mentioned earlier, we have 3 million jobs linked to the Canadian economy, and certainly a strong Canadian political and economic union with a prosperous Canadian people will work to the advantage of our business community and of our workers, and it is very clear that this represents the best scenario.

But as Dr. Doran emphasized, we will abide by the democratic decisions made by the people of Canada, and will live with whatever happens.

Mr. CAMPBELL. Thank you, Dr. Fry.

Dr. Jockel.

Dr. JOCKEL. Well, I hope, Mr. Chairman, that the hearings have made clear that what we really need is more money spent on Canadian studies in the United States.

[Laughter.]

Dr. JOCKEL. American universities and colleges, and I am sure the Congress will take a lead in that.

Now, I certainly echo my colleagues' sentiment. It is undoubtedly in the interest of the United States that Canada remain united. But if it does not, we can work out those new relationships.

Finally, I do not think we need to plan. I think we need thinking about all kinds of different things and how to approach all different kinds of situations based on our own interest, and we need that kind of thinking by all kinds of different people.

Mr. CAMPBELL. I want to conclude the hearing today with this observation. I have discussed with the subcommittee chairman the possibility of continuing this line of inquiry in the next Congress. We may be in a position to put forward a specific agenda for such discussions. And speaking for myself, but I am quite sure for my colleague from New York as well, we could not be better served than the expertise and comment and intelligent discussion offered by all four witnesses today if we do so.

Regarding the planning by our country, I do believe it is appropriate to send messages that are clear to our trading partners, including the one that we discussed today, and that the United States be in a position to execute a plan of thinking or the plans that we have made.

My greatest fear is that should a constitutional crisis occur quickly, it would be almost impossible for the United States to do what is in the U.S. interest to do, namely, to discuss the consequences, would then be almost impossible because it would be seen as our taking part in the internal debate of another country. And so what we have done today, and hopefully will continue, is act in the nature of serving our own country's interest, which is particularly important should things develop quickly. And I heard none of the panelists suggest that that was impossible, and some suggesting that it was indeed quite possible.

With that, I call the hearings of the Subcommittee on the Western Hemisphere of the International Relations Committee to adjournment.

[Whereupon, at 5 p.m., the subcommittee was adjourned to reconvene at the call of the Chair.]



## A P P E N D I X

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### STATEMENT OF CONGRESSMAN TOM CAMPBELL BEFORE THE SUBCOMMITTEE ON THE WESTERN HEMISPHERE HOUSE INTERNATIONAL RELATIONS COMMITTEE

#### THE ISSUE OF QUEBEC SOVEREIGNTY AND ITS POTENTIAL IMPACT ON THE UNITED STATES

September 25, 1996

Thank you, Mr. Chairman, for holding this most important hearing.

My interest in Canada is long-held and ongoing. As a White House Fellow, I and my colleagues chose Canada as the country we wished to visit and to study for that year. As a professor at Stanford, teaching international commercial law and economics, where I still teach, I have been able to study the most profound changes in international trade laws affecting the United States in the last decade -- first the 1988 US-Canada Free Trade Agreement, then, in 1993, NAFTA.

My reason for raising the question of US interests in a possible division of Canada stems both from my longtime interest in Canada, and also from my concern that these questions are not adequately being considered by our government. In answer to the question, "Why now?" I would say this: "Why hasn't a committee of Congress held hearings on this subject sooner?"

On October 30, 1995, the citizens of Quebec held a referendum on whether they wished to remain united with Canada or form their own independent state. This referendum was defeated by the narrowest of margins; 50.6% voted No to sovereignty, and 49.4% voted Yes. The turnout at the polls was extremely high, with 93.5 percent of eligible Quebecers voting. When I traveled to Canada earlier this year, I had the opportunity to speak with many Canadians of good will representing the full range of opinions on the national unity debate vis-a-vis Quebec. Each person with whom I spoke had a different perspective on the issue of separation itself, but all were unanimous in advising me that the recent referendum in Quebec was an event of critical importance in Canadian history -- despite the fact that it had gone relatively unnoticed in the United States.

In addition, almost all were convinced that another referendum on Quebec secession would be held within the next two or three years. Most believe that such a referendum will occur immediately following the next Quebec provincial elections in 1998. It could, however, occur sooner if national elections do. Of course, that there likely will be another referendum on this issue does not mean that the referendum will succeed. There is also the possibility that an accommodation can be reached between Quebec and Canada that will allow this issue to be resolved without the need for another referendum but, based on all I have learned, that contingency is quite remote. On the contrary, I have been advised by all of the parties with whom I have met that it is likely there will be another referendum on Quebec separatism. The only question is when it will occur.

Thus, given the closeness of the vote in the last referendum, is there a real question that this issue will come up again and that this time Quebec will vote to secede? Absolutely.

Therefore, on my return to the US, I resolved to learn more about how a potential independent Quebec might affect the interests of the United States. After further thought and discussion with various experts on Canada, I concluded that US interests in this matter were real and possibly far reaching. Yet, despite the fact that Canada is our greatest trading partner and one of our closest allies, there has been little attention paid by the US Congress or the Administration to the specific consequences to the US should a change occur in the status of the Canadian federation. For this reason, I asked the Chairman to schedule this hearing for the purpose of clarifying the stakes for the United States should partition occur, hoping as I did so to generate concrete recommendations for US policy to safeguard our national interests. My hope also is that this hearing will raise the awareness of the American people and the Congress to this compelling event in the history of our friends north of the border. I am deeply grateful to the Chairman for scheduling these hearings. Where others have been content to look away and pray for the best, he has been willing to become involved.

I hope that our panel of US experts on Canada will be able today to assist the Congress in answering the following questions:

**First, if there is agreement among our panel of experts that there is a strong likelihood that there will be another referendum in Quebec? What factors might affect the timing of such a vote? Is there any way for the United States to predict the imminence of such a referendum, if not the outcome?**

It has been widely speculated that, if another referendum is to occur, it would be held within the next three years. Factors that may affect the timing of such a referendum could include the anticipation of parliamentary elections in 1998. The outcome of a legal dispute that has arisen over how the Canadian Constitution plays into this equation could bring the date of another referendum forward. The legal dispute to which I refer was filed by Mr. Guy Bertrand, a Quebec City attorney, who is challenging Quebec's unilateral right to secede under the Canadian Constitution. Mr. Bertrand's suit requests a permanent injunction against the holding of any future referenda that could lead to unilateral secession of Quebec from Canada. Quebec opposes the injunction, and the Canadian government has intervened arguing that a Quebec referendum to secede would merely be expressive and would still require Quebec to negotiate with Canada. Alternatively, it argues, a constitutional amendment would be required with the approval of the rest of Canada.

This case recently survived a significant litigation hurdle when the Quebec Superior Court rejected the Quebec government's motion to dismiss the suit on jurisdictional grounds. The case is now expected to proceed through the courts up to the Canadian Supreme Court, if necessary. The outcome of this case could very well be a ruling that Quebec is not constitutionally permitted to secede from Canada without a constitutional amendment. Is it possible that the Quebec separatists will not want to wait for such a decision, which would tie their hands, and instead move to hold another referendum before 1998? A statement that appeared recently in a prominent Canadian newspaper illuminates this point:

“... the government of Premier Lucien Bouchard is left with only two choices: fight in court and hope for a ‘Solomon-like judgment’ that leaves the question undecided, or call a snap election and get the blessing of the electorate for another referendum. Come to think of it, ... the arguments in favour of a spring election are more valid than ever.” (*Globe and Mail*, September 5, 1996). For its part, the Quebec government has decided that, rather than take an appeal, it will refuse to participate in the case. Quebec Justice Minister Paul Begin was quoted as saying, “[t]he only judge that should decide Quebecers’ future is Quebecers themselves. We’ve decided not to go ahead with the appeal and not to be there when the case continues before the courts.” (*The Ottawa Citizen*, September 5, 1996).

Thus, the questions that arise in my mind are: Is there doubt that there will be another referendum and, if not, is there any expectation that it would fail? What of the Bertrand case and its potential effect on the timing of another Quebec referendum? Is it possible that Quebec could be facing another referendum as early as next spring? What, if any, are other factors that could affect the timing of a referendum? I hope today to hear our panel of experts explore these questions insofar as the US should be alert to whether and/or when another referendum may occur.

**The second question is really in two parts: (1) What are the potential political, economic, and security concerns for the United States should a division of Canada occur? (2) How can the United States anticipate, manage, and protect those interests?**

At the time of the 1995 referendum, President Clinton articulated the official US position that America enjoys excellent relations with a strong and united Canada. Some believe this statement by the President of the United States, made just prior to the last referendum vote, had an impact on the ultimate decision of the electorate not to secede. The US has also steadfastly maintained that the issue of secession is an internal matter for the people of Canada to resolve, and I could not agree more. What has not been discussed publicly by our government, however, is to what extent US interests may be affected by Quebec’s secession from Canada, should that occur.

Indeed, the State Department has chosen today not to send any representative to testify at this hearing, even though it has had exclusive control over our policy from well before the last Quebec referendum. The Administration was asked to provide a witness for this hearing on Canada so that our principal Canada policy officials could assist the Congress in outlining where US interests lie in the event Quebec secedes from Canada. One week ago, the State Department’s representative told the Canadian Broadcasting Corporation (CBC) that it would be unable to provide a witness for this hearing because they “simply don’t have a person available due to the press of business, the very important business that we have to do here.” I wonder -- what else is more importantly occupying the State Department’s Canada desk?

The US and Canada enjoy the largest bi-lateral trade relationship in the world. According to the most recent Survey of Current Business published by the Commerce Department, total US-Canadian trade in 1995 reached US\$306.4 billion, or approximately US\$840 million *per day*. A recent CRS publication reports that a Canadian Member of Parliament recently announced that the United States exported more to the Canadian province of

Ontario in 1994 than it did to Japan. In 1994, US trade with Quebec alone was approximately US\$34 billion, which would have made Quebec our ninth largest trading partner. Canada, even without Quebec, would remain our largest trading partner by far. I think it is fair to say, Mr. Chairman, that the issue of Quebec independence is an issue of the utmost importance to the United States. Should the next referendum succeed, its impact will be felt by thousands of US businesses and millions of ordinary Americans. Those living and working in the border states will be particularly affected. It is astonishing to me that, in light of the many Americans who would be *directly* affected by a partition of Canada, the Administration declined to accept an invitation from the United States Congress to come before the people and participate in enlightening us all on US interests in this issue. Perhaps it would be convenient if the Congress did not ask such questions, but it is our duty to do so. So, let us proceed to pose these questions: Does the US have interests in this issue? Absolutely. What might some of those interests be?

(1) NAFTA: We signed an agreement with a united Canada in 1993. When an American automobile shipped from Detroit to Windsor, Ontario, ends up at a dealership in Montreal, we expect it to be duty-free. Quebec insists it will apply NAFTA to the U.S. -- but the terms of its separation from Canada are not clear. If it imposes tariffs on goods from the rest-of-Canada, the good in my example would be subject to a tariff. The U.S. would thus lose the benefit of what it bargained for in NAFTA. The Canadian Finance Minister, just prior to the last referendum, warned Quebec that a new economic union with a separate Quebec may not be in Canada's interests, which reflect a balance among all of the regional interests of the country, and that a new economic arrangement between Canada and an independent Quebec may not be achievable because it would "jeopardize hard-won, major trade advantages negotiated with other countries," as, for example, under NAFTA. (*Attachment A*).

(2) Debt/Economy: The public debt of Canada will be apportioned between Quebec and the rest-of-Canada. Perhaps they will not agree on the precise percentage, and perhaps the percentage assumed by Quebec will overload its already struggling economy. The result will be a devaluation for any holder of Canadian government bonds. Americans hold a large number of such debt instruments, and it is likely such holders will suffer a loss in value. In addition to debt instruments, other US investments could also suffer if Quebec nationalizes certain industries or if Quebec is weakened economically. Prior to the last referendum, Indian nations (Mohawk, Cree and Inuit) in Quebec held their own referenda that determined they would prefer to remain part of Canada and determine their own future in the case of Quebec sovereignty. I have been advised that New England and New York receive roughly 10% of their energy from Hydro Quebec. Thus, if separation of Quebec from Canada leads to further separation within Quebec, especially of Cree lands in the north where much hydroelectric power originates, with whom do American cities and states negotiate over electric power supply?

(3) Defense/Security: Canadian troops assist in NATO operations; will Quebec troops as well? If not, the value of Canada's current contribution to NATO will be much less. In addition, NORAD may be implicated depending on the location of radar and other US security interests in Quebec. Of great concern to the US would be a division of the Canadian armed forces, diluting the strength and effectiveness of our ally to the north. Four days prior to the last referendum, a Member of Parliament of Canada's Official Opposition party, the Bloc Québécois, who was also then the Vice-Chairman of the Standing Committee on National

Defence, faxed a Communique to Canadian bases in effect commanding Quebecois troops in the Canadian armed forces in the event of a Yes vote to “respect the people’s accession to sovereignty” and “transfer their loyalty to the new country whose security they will ensure.” He also stated unequivocally that “Quebec will be part of NATO.” A copy of this communique, in French and its English translation, is attached to this statement. (*Attachment B*). An independent Quebec might also receive support from other nations that may wish to increase their connection to North America, posing other security concerns for the US.

(4) Atlantic Canada/St. Lawrence Seaway: If Quebec secedes, the provinces of Nova Scotia, New Brunswick, Newfoundland, and Prince Edward Island – collectively known as Atlantic Canada – will be geographically isolated from the rest of Canada. These provinces are net welfare recipients and form the poorest region in the Canadian federation. If Ontario and Western Canada decide not to continue to support these provinces, America may be presented with a new territory along its Northeastern border that includes seriously depressed economies and under-funded welfare agencies. Under this scenario, emigration to the US would likely increase. Perhaps of necessity, strategic alliances detrimental to the United States might also seem alluring to Atlantic Canada in return for foreign aid from countries not necessarily friendly to the United States. The status of these provinces might threaten control of the St. Lawrence Seaway – jointly operated by the US and Canada – and what that means for commerce to the Midwest United States.

(5) A Period of Unrest: Suppose Canada takes the view that separation can only be the decision of all of Canada, not by Quebecers voting alone (as the US did in 1861). Suppose Quebec disagrees and a referendum approves separation. A period of hostility on our border with our largest trading partner, with possible trade impediments and political demonstrations, could ensue. If a period of uncertainty obtains for some time, with whom does the US negotiate regarding St. Lawrence Seaway matters? Who would form NAFTA dispute panels? Who would attend NATO meetings regarding radar defenses in the arctic?

This list of potential US interests in the Quebec separatism question is not meant to be exhaustive. It is my hope that thoughtful commentary from this panel of distinguished members of the US academic community and experts on US/Canada relations will shed light on the potential impact of Quebec separatism on the United States and provide Congress with a recipe for action should Canada, our greatest trading partner and one of our most trusted and valued allies, determine for itself a course that results in separate governments.

Charles F. Doran  
 Andrew W. Mellon Professor of International Relations  
 Nitze School of Advanced International Studies, Johns Hopkins University  
 September 25, 1996  
 House Committee on International Relations  
 Subcommittee on Western Hemisphere

**Will Quebec secede from Canada?  
 If Quebec secedes, will English Canada unravel?  
 What would be the impact on U.S. interests of Canadian fragmentation?  
 How should the United States respond?**

#### WILL QUEBEC SECEDE FROM CANADA?

In the Fall 1995 referendum on Quebec separation, the ruling Parti Quebecois government came within about 50,000 votes of a majority in favor of secession. Quebec separatists claim that independence is necessary to preserve Quebec language and culture. This claim has created political tension within the province of Quebec between federalists and separatists and within Canada as a whole.

Premier Bouchard has indicated that the top priority for the PQ government is, for the present, fighting the large financial deficit and governing effectively. He argues that Quebec will not call another referendum before the next Quebec election scheduled for 1999 or earlier. But he has also insisted that separation remains on his government's agenda, and he promises that Quebec voters will get another opportunity to decide this issue.

Prediction of future political events with any degree of confidence is impossible. There are many reasons, however, for believing that the threat of Quebec separation ought to be taken seriously. According to *The Globe and Mail*, Canada's leading English newspaper, 52.5 percent of Quebec voters currently support separation. Each generation of Quebec voters has become more supportive of secession, especially in the aftermath of the unsuccessful attempts at country-wide constitutional reform during the so-called Meech Lake and Charlottetown accords. Younger voters are more independence-minded than older voters, and as each generation ages, it tends to retain this profile of preference for independence.

Ottawa has made bold efforts to meet the demands of Quebec interests, while at the same time trying to satisfy the concerns of mostly English-speaking voters living elsewhere in Canada. Prime Minister Chretien's government has introduced legislation to address some of Quebec's concerns regarding the acknowledgment of Quebec as a "distinct society," regarding the creation of a veto for Quebec and other provinces over constitutional change, and regarding worker retraining. The problem is that as large a majority is against these provisions elsewhere in Canada as is supportive of them in Quebec. Hence, Ottawa has an extremely difficult time getting the changes entrenched in the constitution and unless they are so entrenched, Quebec rejects them as ephemeral.

Canada is thus faced with a dilemma of how to meet Quebec demands without antagonizing the rest of the country and without undermining the capacity to govern effectively. Language issues, educational policy, immigration rules, and joint Federal-Provincial funding of public programs all have inflamed opinion inside Quebec between the anglophone minority and the francophone majority.



Many things can happen to affect future outcomes in Quebec, including a return of the pro-federalist (but nationalist) Liberal Party to power, a down-turn of the business cycle that temporarily could shock voters, and new policy initiatives on all sides. But the seriousness of Quebec separation remains a priority issue for Canada and indeed for all of North America.

#### IF QUEBEC SECEDES, WILL ENGLISH CANADA UNRAVEL?

Quebec secession is normally regarded as the only conceivable event that could lead to an unravelling of Canada. Canada enjoys nearly a century and one-half of formal integration as a confederation. Its political institutions are sophisticated and deeply committed to democracy. Consistently, Canada is ranked by opinion surveys as the number one polity in which to live. Despite all of these advantages, Canada would receive a sharp political jolt if Quebec decided to opt out.

English Canada undoubtedly would attempt to reconstitute itself politically after Quebec separation. The central question is whether such reconstitution would satisfy both the voters in Ontario, Canada's largest, most populous, and richest province, and the voters in the other remaining English-speaking provinces. Quite a few hurdles exist to easy accommodation.

First, the eastern Maritime Provinces would be physically cut off from the rest of Canada by an independent Quebec. Despite the best of intention by Quebec, the United States, and the remainder of Canada a sense of being alone and distant in geographic and psychological terms could not be avoided. The Maritimes themselves might regroup politically, but loss of geographic propinquity with the rest of English Canada would not be easy to adjust to or to accept.

Second, large financial transfer payments currently pass from the rich industrial and oil-abundant provinces to the poorer, less industrialized provinces like Newfoundland and Nova Scotia. Once federation collapses, the voters in the rich provinces may have second thoughts about continuing to support the less prosperous provinces. If transfer payments disappear, the "glue" that has traditionally held the country together in public policy terms might dissolve.

Third, the Canadian West has historically suffered from what analysts call "Western alienation." Some 12 percent of voters in British Columbia, for example, say they should become a separate country. This sense of alienation from the Canadian heartland has many causes, some of which like tariff inequities are either fanciful or have disappeared. Yet the sense of disenchantment with the industrial and political center of Canada lives on. A difference in electoral and party preference, combined with problems of political representation in the major governing parties, all have contributed to the feelings many Westerners have of being "left out."

Fourth, in a Canada bereft of Quebec, Ontario would tower over its neighboring provinces in terms of virtually every measure including political clout. Surely, Alberta, for instance, would demand a new Senate in which every province has equal representation. Smaller provinces would probably need to regroup on a larger regional basis. The constitution would require re-drafting. Ontario, of course, would be expected to yield substantial sovereignty and political leverage so that all of these far-reaching constitutional changes would be allowed to go forward.

The problem is that, in the end, some provinces might decide to go their own way politically. Ultimately Canada could fragment into three, four, five, or more entities, each independent, but also relatively weak and isolated. No one would consciously seek the unravelling of Canada, but Canada could unravel just the same, as the unintended result of a failure to overcome the fissiparousness of government action and the monumental challenge of political reconstitution.

#### WHAT WOULD BE THE IMPACT ON U.S. INTERESTS OF CANADIAN FRAGMENTATION?

Accustomed to "peace, order, and good government" above the 49th parallel, Americans have a difficult time imagining a situation in which a number of small, disparate states would occupy the space that once was a united Canada. Should such an event occur, the interests of the United States would be at stake. Political, economic, diplomatic, administrative, and defense concerns would emerge. What once was a coherent, friendly, and well-governed polity would become in the parlance of international politics something of a political vacuum.

Administrative interactions would become more numerous, complex, and burdensome. Coalitional arrangements might arise with non-hemispheric powers. Defense arrangements would require multiple participation by independent actors theoretically capable of vetoing policies adopted by the majority representation. How all of these innovations and changes would evolve is beyond the ability of the analyst to systematically explore and delineate.

While all of the actors undoubtedly would prefer membership in NAFTA, keeping NAFTA whole and vigorous might prove demanding. Once individual political borders arise, trade, commercial, and financial obstacles often follow. Continuation of effective trade liberalization on a regional basis is the challenge.

In short, the goal of many to see North America evolve into a broad, open liberal trade order might stumble in the face of an unravelling of Quebec and English Canada.

#### HOW SHOULD THE UNITED STATES RESPOND?

Canada must be allowed to decide for itself, without interference, according to democratic principles, what political fate it prefers. Farsighted leadership in Ottawa, and in Quebec City, as well as in the other provincial capitals, may well head-off imminent break-up and create a new foundation for a united Canada in the twenty-first century. Yet enough indicators presently exist to suggest that this set of initiatives will not come easily or with large guarantees of success.

It is time for the United States to take Canada's problems seriously and to begin to consider how its own interests will be affected by an unravelling of Canada. At a minimum, the United States ought to consider various contingencies, and, without precipitating the outcome that it seeks to avoid, work out the responses that will be in the best interest of each of the polities of North America.

(1) The United States might, in the event of Canadian unravelling, offer the isolated political fragments a kind of regional affiliation with the United States. They would pursue their independent domestic policies. But they would forgo building their own militia and attempting to establish unique foreign policies. Terms could be established to promote mutual security for all of North America.

(2) Difficult though the path to statehood would be both for the United States and for a Canadian fragment attempting such a venture, the United States should be prepared to consider such requests if regional affiliation proves insufficiently attractive. Proud of Canada, most Canadians rightly reject any thought of alternatives to Canadian citizenship. But if English Canada fragments, all of the political cards will have been shuffled. It is very difficult to see what preferences might then eventuate. Better that the United States keep an open mind regarding its options than to rigidly foreclose some of them now based on presently inadequate information and an imperfect understanding of what a very different kind of North American could require.

## PREPARED STATEMENT

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September 25, 1996

before the  
United States House of Representatives  
Committee on International Relations  
Subcommittee on the Western Hemisphere

It is an honor to be asked to testify before you today on U.S. interests in the future of Canada and Quebec, and the efficacy of current policy to safeguard those interests.

**The Timing of this Hearing**

This hearing is a useful opportunity to evaluate the subtle repositioning of U.S. policy on the issue of Canadian unity, and Mr. Campbell and the subcommittee should be commended for undertaking this first step in exercising congressional oversight over U.S. policy in this area.

Now is an appropriate time to review this aspect of U.S. policy regarding Canada. Why?

- First, because there are actions which can be taken now that can improve the U.S. policy position before this issue returns to the fore in Canada.
- Second, we cannot become complacent because there is reason to believe that the next Canadian unity crisis could come more quickly than in three years, as many now expect.

Today, nearly a year after the 1995 Quebec referendum as this year's congressional calendar will permit, it is prudent that the United States take stock of its current position.

**U.S. Policy Changed During the 1995 Quebec Referendum**

U.S. foreign policy regarding Canadian unity, and specifically the possibility of Quebec independence, has traditionally been summarized by a phrase that has become known as the Mantra: "The United States enjoys excellent relations with a strong and united Canada. The future of Canada, however, is for Canadians to decide."

This position of mildly pro-unity public detachment was sharpened during the referendum by several statements by senior U.S. officials. President William Clinton praised Canada's tradition of respect and tolerance for cultural diversity and toasted a united Canada during his February 1995 state visit to Ottawa. Secretary of State Warren Christopher remarked in the heat of the referendum campaign that the complex architecture of U.S.-Canada relations, based on numerous treaties and agreements, would be very difficult to reconstruct in a bilateral relationship between the United States and an independent Quebec. In so doing, Mr. Christopher acknowledged the position of most U.S. experts on international law and U.S. diplomatic practice, that Quebec is not likely to be treated as a successor state to Canada if it became independent, and would therefore be required to negotiate access to existing treaties if it wished to retain the benefits it enjoyed as part of Canada. Ambassador James Blanchard stressed publicly that the United States had offered and would offer no assurances regarding membership in the North American Free Trade Agreement (NAFTA) for an independent Quebec.

However, debate in Canada and Quebec over the possible U.S. response to Quebec's independence continued, despite the changes made to the U.S. public line. Voters in Quebec have become as cynical as those elsewhere in North America, and many dismissed the statements of our policymakers as threats or "politics-as-usual" attempts to affect the outcome of the referendum. This is not the case -- these statements by U.S. officials simply acknowledged the limitations on our ability to respond should Quebec become independent. Therefore, while the subtle but real shift in U.S. policy is a step forward, it is necessary to go further, to be explicit, on those issues where U.S. flexibility is non-existent.

#### The National Interest and U.S. Policy Objectives

The United States must begin by defining clear political and economic objectives for our Canada policy, or the substantial U.S. interests in Canada will fall prey to the negative effects of drift. The U.S. will not be the victim of decisions made in Canada unless we abdicate responsibility for the protection of U.S. interests to decision makers in Canada.

The U.S. national interest in Canada's unity is fundamentally economic, as Canada is by far our largest trading partner, responsible not only for purchasing more U.S. goods and services than any other country in the world, but also for the co-production of many of the goods we ourselves are making. Canadians are not just our best customers, but in strategic sectors like the auto industry, they are our co-workers. A domestic crisis that interferes with Canadians' full participation in the North American economy will affect U.S. gross domestic product (GDP) directly, and seriously damage the immediate prospects for the U.S. economy. Secure, free and prosperous Canadians are the best neighbors we could have ever hoped for. Keeping Canadians secure, free and prosperous is, and will always be, in the U.S. national interest.

It follows from this that the U.S. also has a political interest in how the debate over Canada's future proceeds.

First, the U.S. interest lies in a democratic decision process because nothing less can bring about a final resolution to this dispute that will be acceptable to all sides.

Second, U.S. policy must seek to assure to Canadians that the United States is informed about the situation in Canada and that it is prepared to react responsibly.

Third, U.S. officials must explain to Canadians the limitations on our ability to respond if Quebec should become independent. We cannot expect that ordinary Canadians understand our system of government any better than we understand theirs, and so it is worthwhile to draw attention to the roles that Congress and the administration must play in U.S. policy. For example, as any member of Congress knows, the President of the United States cannot unilaterally extend trade benefits to even our best trading partners. We must make clear that we cannot automatically continue to grant NAFTA treatment to Quebec if it leaves Canada, and that this is not negotiable in advance of congressional authorization. When all Canadians understand the fixed aspects of the U.S. position, they will be better able to make informed decisions about their future, be it together or apart.

The status quo of U.S.-Canada relations has been enormously beneficial for the citizens of both countries. If there is to be change, the primary objective of U.S. policy must be to promote a smooth transition process involving the minimum amount of deviation from the status quo acceptable to Canadians on all sides. Some of the possible, but not yet probable, scenarios discussed today should be taken primarily as warnings, to reinforce the importance of fostering the quickest possible return to stability. The United States should do everything in its power to reassure Canadians outside Quebec and to dissuade them from abandoning Canada in the potentially traumatic aftermath of Quebec's departure.

With these policy objectives in mind, I will now address some specific steps that can be taken soon to improve the U.S. policy position in advance of the next crisis for Canadian unity. These include making our current position more clear to Canadians, and planning to respond in support of a stable, smooth transition in the event of change.

#### Before Another Crisis

To strengthen our current policy position in the event of another Canadian unity crisis, whether prompted by a referendum or other measure, the United States should consider taking the following specific steps:

- The United States should clarify its position on whether Quebec would be considered a successor state to Canada, inheriting Canada's rights and obligations under treaties and agreements with the United States. Secretary of State Christopher's statement during the 1995 referendum campaign that the complex architecture of the U.S.-Canada relationship would be difficult to reconstruct suggested that the United States might not grant an independent Quebec successor state status, consistent with U.S. diplomatic practice elsewhere. This is not a small consideration for Canadians living in Quebec, and unless the State Department considers this point negotiable, it should

send a stronger signal that an independent Quebec would not be considered a successor state to Canada.

- The United States should, in concert with its NAFTA partners, issue a clear statement on the process by which a country will be considered for accession to NAFTA. Many Quebec voters are under the mistaken impression that NAFTA is a kind of "safety net" that would preserve the preferential access they now enjoy to the U.S., Canadian and Mexican markets.
- U.S. influence should be employed privately to discourage unilateral moves by responsible parties on all sides which might attempt to impose a solution. The U.S. will benefit from the end of the instability and tension generated by the debate of Quebec's status and Canada's future, whether it comes as a result of a successful negotiation or popular resignation. However, we must not simply adopt a "peace at any price" position that could lead us to place pressure on the parties to come to terms that would later prove unacceptable to the wider publics in Canada and Quebec.

All of these steps are best taken before another referendum is called or some other measure is taken to bring this issue to the fore in Canada. Otherwise, such moves will not be credible in the eyes of Quebec nationalists, who may suspect that they are being taken in support of the federalist cause. The objective of U.S. policy in this case is not to scare Quebecers, but to level with them, so that they can make any future decisions about their place in the world fully aware of the potential consequences.

#### Should Quebec Establish Independence

It is not yet certain that the majority of Quebecers will find it impossible to reconcile their differences with the rest of Canada. However markets and ordinary citizens often react to rumor when faced with a frightening degree of uncertainty. Should Quebec resort to independence, however, the United States must be prepared to repair the breach in its trade relations with Quebec, and to provide any assistance necessary to aid Canadians during the transition, including supporting the unity of the rest of Canada. Several concrete steps should be considered by U.S. policymakers in preparation for this potential crisis, for example:

- The president should request authority from Congress to negotiate a limited, bilateral trade agreement with Quebec covering only those sectors where U.S. investment and commercial interests have been seriously hurt by the break. This would be a provisional arrangement to protect U.S. interests only, not an attempt to extend broad new benefits to Quebec, nor an attempt to restore NAFTA-equivalent access for Quebec to the U.S. market. As a second step, the U.S. should consider sponsoring Quebec admission to the WTO to allow for a broader framework for bilateral trade and investment. NAFTA membership, while not inevitable, could be considered at some point in the future if it would be of benefit to U.S. interests, and

the support of other NAFTA members was likely.

- The United States should signal that the remaining Canadian provinces should continue to deal with the United States through the federal government in Ottawa, and discourage any province that might seek its own independence. In this respect, U.S. officials should caution Canadians outside Quebec that by seeking a bilateral trade agreement with Quebec, the United States does not commit itself to the same for all provinces that seek recognition as independent countries. Each such negotiation will require separate authorization from Congress.
- The United States should signal that it does not favor changes in the present boundaries of Quebec that might severely damage its economic viability as an independent country. Some in Canada have suggested that northern Quebec remain part of Canada, which poses little risk to U.S. interests. The status of all or part of Montreal, however, would directly affect the economic prospects of an independent Quebec, and set up a region of political and economic instability close to the borders of New York state that could pose serious issues for the United States.
- The United States, working with international financial institutions and other major allies, should be prepared to refinance Canada's international debt, to allow it to continue debt service while Quebec's contribution is uncertain and/or under negotiation. This will reassure bond markets that the United States will not permit the collapse of the Canadian economy in the aftermath of Quebec independence, and further discourage other provinces from abandoning Ottawa.
- The United States should be prepared to lead an international effort to support the Canadian dollar, which is important in the short run to Canadians and Quebecers, who will continue to hold Canadian dollars in the days after independence.

#### Why change now

The traditional U.S. position kept U.S. policy in the shadows. Some will argue that it was better for the U.S. to operate in this way, as we have in the past. The Clinton administration took U.S. policy on Canada partially into the daylight, by strengthening its statements in support of a united Canada and hinting at some of the consequences of Quebec separation. Unfortunately, this shift has left U.S. policy exposed to misinterpretation by Canadians on all sides of the unity debate. Today, the United States faces a strategic choice between a retreat to the shadows and taking a step further into the light of day by clarifying the core of the U.S. position should Quebec separate.

Retreat to the shadows of our former position is probably impossible. U.S. statements during the referendum clearly reflected U.S. interests and constraints on our policy options. To suggest now that we are truly indifferent, or to attempt to withdraw our concerns over trade agreements the rest of the infrastructure of the U.S.-Canada relationship would not be credible in Canada.

Of course, it is also possible to attempt to continue the current balancing act in the hope that we can escape paying a price when Canadians misunderstand our intentions. The problem with this option is that its weakness will not become widely apparent until we are once again faced with a crisis of Canadian unity, and then our policy options will be limited. Our current position leaves U.S. interests vulnerable to misunderstanding.

The fact is that something profound happened during the 1995 Quebec referendum. The United States for the first time became publicly engaged in the Canadian unity debate. Canadians, especially Quebecers, began to debate the U.S. role in resolving this crucial question. If we fail to articulate our interests and the goals of our policy on this matter, Canadians and Americans will be forced to guess, and may assume the worst -- that the United States cannot be relied upon in this crisis -- and they, and the international financial markets, will act accordingly.

When that happens, every American who works for a company that does business in Canada, and every American with family and friends there, will share in the suffering, all of it unnecessary.

We have nothing to fear if we will be forthright. Canadians are our friends, whether they live in Quebec or elsewhere, whether they vote for the independence of Quebec or not. The future of Canada is for Canadians to decide. Our obligation to them, and to the American people, is honesty about both our intentions and our limitations.



PREPARED STATEMENT

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For hearings on Quebec separatism and the U.S., 25 Sept. 1996

House Committee on International Relations  
Subcommittee on the Western Hemisphere

## SUMMARY

1. At the moment, events point in the direction of, within a few years, Quebec's leaving Canada and becoming a sovereign state.
2. Most Americans would no doubt deeply regret or even be shocked at Canada's breaking up. Nonetheless, the Quebec independence movement deserves our respect (although not our support) because of its commitment to nonviolent change to be achieved only at the ballot box.
3. If Quebec becomes independent, we can expect what remains of Canada to hold together in the short run. There is very good reason to believe, as well, that it will hold together in the long run.
4. The official approach of the U.S., which has been based on staying out of the Canadian debate while gingerly signalling the hope that Canada remains united, has been a foreign policy success shared by all administrations since that of President Carter. The Clinton administration's "no assurances" modification makes sense. It has obliquely signalled that Quebec would not "automatically" be admitted to several accords with the U.S., above all NAFTA.
5. There is inherent tension between the interests of the U.S. before Quebec independence (should that ever occur) and thereafter. U.S. interests today are clear: they lie with Canada's remaining united. But after Quebec independence it surely then would be in the interest of the U.S. to pursue warm and close relations with Quebec (which would pursue a reciprocal policy towards the U.S.) while retaining them with Canada. It would also be in the interest of the U.S. for Canada to pursue close ties with Quebec.
6. A vote for independence by the Quebec electorate would necessitate numerous new decisions being reached in Washington. The administration could very well face the immediate decision of how to respond to a Quebec declaration of independence that was issued in violation of the Constitution of Canada, over the objections of the Government of Canada. The terms under which Quebec were to be admitted to NAFTA and other economic accords would have to be negotiated by the administration and approved by Congress. NORAD and other bilateral defense arrangements would have to be adjusted and Quebec's admission to NATO considered. Perhaps the most difficult decision for Washington would be how much it would want to encourage Canada to pursue a close economic relationship with Quebec.

## 1. THE OUTLOOK, CANADA/QUEBEC

Right now, the outlook is not good for Quebec's remaining in Canada after the next Quebec independence referendum, expected within a few years. To be sure, a majority of Quebecers seems prepared to vote to stay in Canada if there are significant constitutional changes; but the rest of the country ("English Canada") has not yet been able to bring itself to agree to such changes. Underlining these constitutional differences between Quebec and English Canada is an even deeper one about the very nature of the Canada itself.

Most Quebecers now see Canada as a country with two major cultures, societies, peoples, or nations, their own and English Canada's. Many Quebecers, of course, have also already drawn the conclusion that their society now merits its own sovereign state. Still, most would be content to remain in Canada if it were constitutionally adjusted to reflect what they see as its fundamentally binary character. This would entail such steps as constitutional recognition of the distinctiveness of Quebec society, limitation of Ottawa's powers, and transfer of powers to the Quebec government.

English Canadians shy away from this binary conception of the country, preferring to see it as inhabited by one Canadian people, some of whom speak English, some of whom speak French, who come from many cultures, and all of whom have the same rights. In this context Quebec seems to them to be asking for special, undeserved

rights.

There are additional obstacles to English Canada's agreeing to Quebec's constitutional demands. Over the past decade there have been two spectacular, failed attempts at constitutional revision that have left English Canada "constitutionally exhausted." During the last attempt, the constitutional agenda grew beyond just Quebec's demands to include those of other groups, especially aboriginals, while the precedent was firmly established that any proposed changes would be referred to popular referendum. Many Canadians have thus concluded that their Constitution is, for all attempts and purposes, unamendable.

There is, as well, another critical reason for many English Canadians to resist constitutional change that would involve transferring power from Ottawa: it might make Canada unworkable. Canada already is one of the most decentralized federations in the world. In short, in a point that will be returned to below, many English Canadians are, in effect, saying to Quebecers that they are not prepared to turn the country constitutionally inside out to meet Quebec's demands.

Nonetheless, someone just might find the magic formula that could satisfy both English Canadians and Quebecers. The federal government of Prime Minister Jean Chrétien has thus far avoided formal federal-provincial negotiations on the constitution, although recently two provincial premiers, and the leader of the federalist forces in the Quebec legislature have called for such talks. In selling any potential constitutional solution to

Quebecers, though, the federal government and other federalists will face a handicap: the separatist government Parti Québécois government will brand just about any potential constitutional solution as insufficient.

## 2. THE QUEBEC INDEPENDENCE MOVEMENT

The sympathies of most Americans (if they think of Canada at all) go, no doubt, with the Canadian federalist side. Perhaps at the deepest level we automatically apply to the Canadian case the lesson of our own Civil War: national unity is precious. (This is not to suggest in any way that Canada faces its own civil war.) As well, many Americans, just like many Canadians, find it very hard to believe that the future of Canada, a country with the second-highest level of material welfare in the world and perhaps the highest standard of living in the world, is very much in doubt.

Many Americans are also troubled at the thought that the Canadian lesson in tolerance may fail. President Clinton reflected this sentiment last year when, during his visit to Ottawa, he quoted President Truman. "Canada's eminent position today," Truman said, "is a tribute to the patience, tolerance, and strength of character of her people. Canada's notable achievements of national unity and progress through accommodation, moderation and forbearance can be studied with profit by sister nations."

It may also be the case that many Americans are suspicious of the Quebec independence movement because they identify with English Canadians who speak the same language and, trying to draw parallels

with the American domestic situation they see Quebecers as an upstart linguistic minority. In reality, Quebecers are, to use somewhat older Canadian parlance, not recent immigrants at all but one of the country's "founding peoples"; while French-speaking Quebecers constitute, far from a minority, about 80% of the province's population

But whatever our sentiments (and, as will be discussed below, our interests) we can respect the Quebec independence movement. It is committed to nonviolent change to be achieved only at the ballot box, in the form of elections and referenda. Not only is the independentist Parti Québécois (PQ) in power at the provincial level but its sister party, the Bloc Québécois holds most of the seats from Quebec in the federal House of Commons.

It cannot be said, though, that the independence movement is committed solely to change in accordance with the Canadian Constitution. The PQ envisaged issuing a unilateral declaration of independence, in apparent violation of the Canadian Constitution had there been a "yes" vote in the 1995. This could very well again be the party's strategy for the next referendum. As will be discussed below, this would pose a problem for the U.S. government. Quebec independentists assert that whatever such a declaration's status under the Canadian Constitution, it would be legal under the relevant provisions of international law.

The PQ is, of course, the author or defender of Quebec's language legislation favoring French, which has drawn some attention in the U.S., intensifying an impression of Quebec

"intolerance." This is not the place to go extensively into such a complex issue. It can be briefly said, though, that as regrettable as Quebec's current legislation regulating public signage is, English-speaking Quebecers are very far from an oppressed minority. There is, for example, in Quebec a complete English-speaking school system, extending through the university level, supported by public funds. There is a similar network of publicly funded English-speaking social services. It is hard to imagine any U.S. state financially supporting similar services for a linguistic minority group.

### 3. CANADA: FURTHER FRAGMENTATION VS. UNITY

If Quebec becomes independent, Canada undoubtedly would be a geographically awkward country. So the idea cannot be dismissed out of hand that, in the long run, Canada-without-Quebec would divide into further fragments.

Yet it is equally likely that what would then just be English Canada would hold together as one country. At the very least, the large majority of English Canadians simply do not want to become Americans and holding Canada together would remain the best way to accomplish this. In fact, the history of Canada is a history of not wanting to become American.

Beyond this, it simply is not the case that the only thing that distinguishes Canada from the United States is Quebec. There are values, which constitute the basis of a national culture, that English Canadians want to protect. Perhaps Americans can be

forgiven for overlooking this, for even two Canadian prime ministers, Jean Chétien and Brian Mulroney, both notably from Quebec, have implied that Canada does not exist without Quebec, and English Canadians tend to spend a good deal of time agonizing over their national identity.

Yet any American who travels across the Canadian border notices not only the similarities with his own country, but the sometimes striking differences as well. Briefly put, English Canada, across its geographically far-flung parts, is a more organized, calmer, less individualistic and less violent place than the United States, although at the same time it is less economically and culturally dynamic and secure.

In one sense, holding Canada together will become easier if Quebec goes, for it has been the province most consistently pushing for the decentralization of federal authority and resisting Canada-wide standards and programs. As pointed out above, many English Canadians have been saying, in effect, to Quebec that they like the country the way it is. In other words, Quebec nationalism has been encountering English Canadian nationalism. This latter nationalism could very well be the glue that holds Canada together in the long run, despite the trauma of Quebec's leaving and the geographic awkwardness of what would remain.

Regardless of Canada's long-term future, there is very little reason to believe that English Canada would divide into several pieces in the short run, i.e., shortly Quebec's departure. (Indeed, far from splitting up, many Canadians are determined to hold on to



as much territory as possible and are insisting that Quebec could take into sovereignty less territory than it now possesses as a province of Canada.) So the foreign policy challenges facing the U.S. across its northern border on the eve of Quebec independence, and for years thereafter, would be determining and pursuing the kind of relationship it will want to have with Canada and Quebec, and the kind of relationship the U.S. will want to encourage Canada and Quebec to have with one another. In the longer run, should any tendencies toward further fragmentation begin to appear in Canada, it would be in the interest of the United States to discourage them, in favor of stable, well-known North American partnerships.

#### 4. RECENT U.S. POLICY

Official U.S. policy concerning the possibility of Canada's breaking up has largely remained constant since the Carter Administration, although it was significantly altered, in part, by the Clinton Administration during the lead-up to the 1995 Quebec independence referendum.

The policy has consisted, in essence, of a firm determination to stay out of the debate in Quebec and the rest of Canada over the country's future. In form, it has consisted of two elements. The first has been a carefully phrased, formulaic public statement, often called the "mantra", the exact wording of which has changed over time. A recent version of the mantra has run, "The United States enjoys excellent relations with a strong and united Canada.

Canada's political future is naturally for Canadians to decide." The second element has been a refusal on the part of U.S. officialdom to enter into hypothetical discussions of how the U.S. would react if Quebec moved decisively toward independence or actually became sovereign.

Clinton administration officials altered the U.S. government's public pronouncements in reaction to assertions made in 1994 and 1995 by Parti Québécois leaders to the effect that Quebec "automatically" would enter into several important international arrangements, NAFTA among them. For example, the original draft Sovereignty Act introduced by the PQ government in 1994 and mailed to every household in the province included the assertion that "in accordance with the rules of international law, Quebec shall assume the obligations and enjoy the rights set forth in the relevant treaties and international conventions and agreements to which Canada or Quebec is a party on the date on which Quebec becomes a sovereign country, in particular, [NAFTA]".

Such an interpretation, of course, is not at all shared in Washington, especially not in Congress. Serving U.S. officials, constrained by the mantra, could not at first openly respond to the assertions of "automaticity." Nonetheless, they soon hit upon the formulation, used by then-Ambassador James Blanchard and Secretary of State Warren Christopher that "no assurances" had been given the Quebec government about the nature of future ties with the U.S.

This longstanding U.S. policy, as modified by the Clinton Administration, continues to make sense. Above all, Canada is a

democratic country that has the right to decide its own future without the interference of the U.S. government. The "no assurances" modification has severely limited the opportunity of some in Quebec to, in effect, take advantage of the official U.S. silence.

There is another important reason to continue with the current official policy of staying out of the debate in Quebec and the rest of Canada. As will be discussed in the next section, there is inherent tension between the interests of the U.S. before Quebec becomes independent (should that ever occur) and thereafter. As a result, the more the U.S. government were openly to discuss the exact nature of the relationship which it would be in its interest to pursue with a sovereign Quebec, the more likely Quebec independence would become.

#### 5. U.S. INTERESTS BEFORE AND AFTER QUEBEC INDEPENDENCE

There is inherent tension between U.S. interests before Quebec becomes independent (should that ever occur) and after independence.

It is clearly in the interest of the United States that Canada remain united. Canada purchases more U.S. exports than any other country and is the most important location of U.S. foreign investment. It is (more or less) a single economy and market, under the authority (again more or less) of one federal government. The division of that Canadian market between several sovereign states can only create new uncertainties and risks for Americans. Since

Americans also hold a significant amount of the debt incurred by the Canadian federal and provincial governments here, too, the country's breakup could only lead to unhappy uncertainties.

During the first few decades of the Cold War, Canadian territory and airspace played an essential role in the defense of North America against nuclear attack. This has become far less important with the shift in the threat away from manned bombers towards ballistic missiles, since Canadians operate none of the missile detection systems, none of which is located in Canada. More recently, the demise of the Soviet Union has led to a further relaxation of concerns. So Québec independence would pose no fundamental security threat to the U.S. Still, if Québec became independent there would be issues concerning the vestigial North American defense tasks that are still necessary which the U.S. would much rather not have to renegotiate. Moreover, a Canada that had lost with Quebec independence a substantial portion of its population and GDP would have trouble playing a major, constructive role in world affairs.

In addition to economic and military concerns, Canada and the U.S. share responsibility for the protection of the North American environment. Several environmental agreements between them would have to be renegotiated. So would a host of other functional arrangements between the two countries. According to the Canadian government's count, there are 220 treaties and other agreements between our two countries.

Nonetheless, it would be in the interest of the U.S., if

Canada did in fact break up, to pursue close relations with both Canada and Québec, as well as for Canada and Québec themselves to establish as close a relationship as possible.

Faced with an irrevocable Canadian breakup, the U.S. would have every incentive to continue to pursue the free flow of goods, capital, and services in North America and to put in place the international arrangements necessary between it and the countries to its north, including Québec membership in NAFTA. To the extent that the Canadian economic "space" could be retained by Canadians and Quebecers, the U.S. would also benefit. The U.S. would also have every incentive to foster Québec's membership and active, constructive participation in North American security and world affairs and to enter in discussions with Canada and Québec providing for the continuity of that host of other North American transborder arrangements, involving (to just name a few) environmental protection, taxation, telecommunications, transportation, law enforcement, agriculture, health, and pensions.

In other words, Americans, including officials of the U.S. government, have to hope fervently that the Canadian federalist forces will prevail. But if they do not, the arguments of the Québec separatists for the establishment of close Canada-Québec-U.S. relations should become convincing from the U.S. point of view. Quebec would be eager for close relations with the U.S. and Canada. As a result, the most problematic aspect of Quebec independence for the U.S. could very well be convincing English Canadians --who would be angry at the breakup of their country-- of

the benefits of close Canada-Quebec economic ties within a broader North American framework.

#### 6. IMMEDIATE POLICY CHOICES

If the Quebec electorate does vote "yes" in the next independence referendum that is expected in the next several years, the policy of non-involvement that has served the U.S. government so well for twenty-years obviously would have to be abandoned. Some major decision areas are outlined below:

-The administration might face the immediate and potentially very thorny decision of how to respond to a unilateral declaration of independence issued by Quebec, in violation of the Constitution of Canada, and over the formal objections of the Government of Canada. The ramifications could extend beyond North America if (as hoped for by Quebec sovereignists) swift recognition were granted by France and pressure exerted by the French government on other EU countries.

-The administration and Congress would have to determine the terms under which, from the U.S. point of view, Quebec would be admitted to NAFTA and other economic accords. Several matters would have to be negotiated with Quebec in such areas as agriculture, textiles, and cultural industries.

-Quebec's departure from Canada would probably precipitate an overhaul of the formal institutions of Canada-U.S. defense cooperation, probably leading to less formal arrangements. Quebec sovereignists have been eager to assure the U.S. of their interest

to cooperate in defense matters, including joining the North American Aerospace Defense Command (NORAD), now maintained as a joint Canada-U.S. entity.

But even before the end of the Cold War, Canada, quite simply, was becoming less and less important to the physical security of the United States. As pointed out above, not only had the manned bomber threat declined, but no system to detect ballistic missiles was located in Canada or operated by the Canadian Forces. Should the U.S. ever decide to construct a BMD system, Canadian territory would not be necessary for any of the technologies presently envisaged. NORAD, no longer necessary as a command for the protection of either country has been retained not only to provide for the bilateral coordination of vestigial defense and sovereignty protection efforts, but also as a channel for Canada-U.S. cooperation in space surveillance and other military space-based efforts. The Canadian Armed Forces, already hard-hit by recent budget cuts, would be financially devastated by the impact of Quebec independence. Under these circumstances it would be easiest for the U.S. to do away with NORAD altogether, and enter into more informal arrangements with the Canadian and Quebec Armed Forces for North American aerospace defense and sovereignty protection.

There probably would be Quebec Armed Forces, very limited in number and capability, and maintained for domestic roles, UN peacekeeping operations and for potential deployment as token contributions to multilateral peace enforcement operations. Quebec would in all probability want to join NATO. The U.S. would want to

lend its support, unless in the unlikely event the issue became heavily entangled with that of NATO membership for eastern European states.

-Finally, it bears repeating that the most difficult issue for the U.S., should Quebec become independent, could very well be deciding how much it should attempt to encourage Canada to enter into a close relationship with Quebec, especially an economic relationship within a broader framework of North Americans ties. Some English Canadians hope that if all else fails, the U.S. might prevent the establishment of an independent Quebec state. Yet it may well be that the U.S. will decide to exert the bulk of its persuasiveness not on Quebec, but on Canada.



QUEBEC'S SOVEREIGNTY MOVEMENT AND ITS  
IMPLICATIONS FOR THE U.S. ECONOMY

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QUEBEC'S SOVEREIGNTY MOVEMENT AND ITS  
IMPLICATIONS FOR THE U.S. ECONOMY

*SUMMARY STATEMENT*

The climate of uncertainty linked to Quebec's future status in the Canadian confederation has already cost the United States billions of dollars in revenues and tens of thousands of jobs during the 1990s. If the Quebec electorate votes in a future referendum to support the sovereignty option, leading to Quebec's eventual separation from Canada, tens of thousands of additional U.S. jobs will be lost in the short to medium term.

In addition, a vote favoring sovereignty might immediately put pressure on the U.S. Government to piece together a multi-billion dollar rescue package to prop up a faltering Canadian currency and restore investor confidence in the Canadian political and economic systems.

If Quebec were to become a sovereign nation, U.S. economic linkages with Canada and Quebec would not return to pre-independence levels for at least five to ten years. This scenario presupposes that a bifurcated Canada composed of nine provinces would remain united politically and maintain a viable economic union, both of which are tenuous assumptions. Trade relations within NAFTA would also suffer in the early post-independence era, and progress might be stalled on the establishment of a Free Trade Area of the Americas (FTAA).

Canada's Vital Importance to the United States

The economic well-being of the United States is increasingly intertwined with the ebbs and flows in the North American and global economies. The United States has the largest national economy in the world and also ranks as the leading exporter, importer, foreign investor, and host nation for foreign investment on the planet. Upwards of 19 million American jobs, or 1 in 6 in the private sector, are now linked to the international economy. Approximately 13 million of these jobs are tied to the record 786 billion dollars in exports and 891 billion dollars in imports of goods and services achieved in 1995. Export-related jobs alone have more than doubled since the early 1980s, and the expansion in exports has accounted for about one-third of total U.S. economic growth during the 1990s. Another five million Americans work for foreign-owned companies in the United States, an increase of over 100 percent since the early 1980s. At least another million jobs are attributable to the strong growth in international tourism, with the United States ranking as the third leading destination for international travelers after France and Spain. Overseas arrivals to America's shores almost doubled from 22.3 million in 1980 to approximately 43 million in 1995. Spending by these international visitors increased six-fold during the same period, up from 12.7 billion dollars in 1980 to over 76 billion dollars in 1995.

Without any doubt, Canada is America's most important international economic partner. Even though Canada has a smaller population base (30 million) and smaller gross domestic

product (570 billion dollars) than California's, its bilateral trade ties with the United States are the largest in the world. Two-way merchandise trade between the two North American neighbors was a record 275 billion dollars in 1995, up 73 percent since the Canada-U.S. Free Trade Agreement (FTA) began to be implemented in 1989. Imports and exports of services added another 31 billion dollars to this overall trade total in 1995. Over 80 percent of all Canadian merchandise goods are destined for the U.S. marketplace, with Canadian factories producing more for consumption in the United States than for domestic consumption within Canada. For its part, the United States exported in 1995 more than twice as much to Canada as to Japan (125 million people), and more to Canada than to the entire European Union (15 nations and 370 million people). Canadians were the recipients of 22 percent of total U.S. merchandise exports, with more exported to Ontario than to Japan, more to Quebec than to Italy, more to British Columbia than to Eastern Europe, and more to Alberta than to South Africa.

Bilateral foreign direct investment (FDI) flows have also attained record levels, with U.S. FDI in Canada exceeding 81 billion dollars by the end of 1995, and Canadian FDI in the United States surpassing 46 billion dollars. Affiliates of U.S.-based companies in Canada provided 873,000 jobs in 1992, and Canadian affiliates in the United States furnished 663,000 jobs for Americans in 1993, third only to British and Japanese affiliates. Canada is also the leading source of international visitors to the United States, with an estimated 13.7 million trips taken by Canadians across the 49th parallel during 1995. In total, more than three million jobs on each side of the border may now be dependent on trade, investment, and tourism linkages between the two neighboring countries, far more than are involved in the highly publicized U.S.-Japan relationship.

#### Quebec's Sovereignty Movement

Quebec's voters returned the Parti Québécois (PQ) to power in 1994. Since its first provincial victory in 1976 under the leadership of René Lévesque, the PQ has been dedicated to creating a politically sovereign Quebec through democratic means. Lévesque scheduled a referendum in 1980 which asked for a mandate to negotiate political sovereignty and economic association with the rest of Canada (ROC), which would then be followed by a second referendum to ratify whatever agreement resulted from the negotiations. The electorate was unwilling to take the risk, with 60 percent voting against sovereignty-association. In October 1995, Premier Jacques Parizeau scheduled a new referendum. The question was more precise than that posed in 1980, and there was no pledge to hold another referendum after negotiations had taken place with Ottawa and the other nine provinces. Nonetheless, almost 94 percent of eligible voters cast their ballots, with the "no" side winning 50.6 percent to 49.4 percent, a difference of only 53,000 out of 4.8 million ballots cast.

The charismatic Lucien Bouchard, the leader of the "yes" forces in the 1995 referendum campaign, has now assumed the premiership in Quebec City and has pledged that if his government is returned to power in the next provincial election, he will proceed to schedule a new referendum on sovereignty. The French-speaking community in Quebec represents 82

percent of the total population, and its support for the sovereignty option increased from fewer than 50 percent of the votes in 1980 to 60 percent in 1995. The supporters of sovereignty recognize that an increase of one to two percentage points in the French-speaking vote would carry them over the top in the next referendum.

Of course, a referendum would not be held if the PQ loses the next provincial election. The Quebec economy has been performing poorly, with only 3,000 new jobs created in the province between August of 1995 and August of 1996, compared with 26,000 created in British Columbia, 33,000 in Alberta, and 150,000 in neighboring Ontario. The provincial unemployment rate stood at 11.8 percent in August 1996, over two points higher than Canada's overall 9.4 percent jobless rate. The Montreal region, which is the engine of the provincial economy and accounts for 43 percent of Quebec's population and 53 percent of its manufacturing activity, has been in the economic doldrums. Montreal's unemployment rate currently stands at 12.4 percent, and five of the eight cities in Canada with the highest jobless rates are located within the province of Quebec.

Quebec is also one of the two most indebted subnational governments in the Western world, rivaling neighboring Ontario for that dubious honor. Quebec City's cumulative debt surpassed at 70 billion dollars (c) in 1995 (42 percent of the provincial gross product), and this figure excludes the debts incurred by the province's state-owned enterprises. Although Bouchard has pledged to move Quebec toward a balanced budget, interest payments on the debt remain very high and the annual budget deficit during the current fiscal year will easily exceed three billion dollars (c).

Thus, the voters may become disenchanted with Quebec's lackluster economic and fiscal performance and decide to boot out the incumbent government. Or, even if reelected, the PQ may face defeat once again in a referendum campaign, because polls have consistently shown that the vast majority of Quebecers would like to remain a part of Canada, albeit with greater autonomy for their provincial government.

Nevertheless, there is perhaps a 25 percent probability that a referendum will be held on or before the year 2000 and that the sovereignty option will capture a majority of the votes. If this were to occur, what would be the implications for the U.S. economy?

#### The Sovereignty Issue and the U.S. Economy

The uncertainty surrounding the sovereignty issue has already cost the United States billions of dollars in economic growth and tens of thousands of jobs. Over the past five years, the value of the Canadian dollar has decreased by 19 percent vis-à-vis the U.S. dollar. Part of this drop is attributable to the heavy indebtedness of the federal and provincial governments and their chronic budget deficits. Ottawa's total debt is now approaching 600 billion dollars (c) and a much higher percentage of its budget must be devoted to annual interest payments on this debt than Washington's interest payments on its five trillion dollars in cumulative debt. Moreover,

the fiscal position of the provincial governments is much worse than that of the U.S. states.

Nevertheless, over the past three years, Ottawa has made a concerted effort to pare its budget deficits and it is quite conceivable that Canada's national government will balance its budget before the U.S. national government does. Most of the provincial governments have also moved toward balanced budgets and the overall fiscal outlook at the federal and provincial levels has improved dramatically, with total deficits declining from 66 billion dollars (c) in fiscal year 1992-93 to 32 billion dollars (c) in the current fiscal year. Moreover, these deficits are expected to be cut in half again during the 1997-98 fiscal year.

With this in mind, why does the Canadian dollar continue to languish in the 72 to 74 cent range? The chief explanation is the political and economic uncertainty associated with Canada's unity crisis and the future status of Quebec within North America.

Absent the Quebec crisis, Canada's currency would probably be in the mid-80 cent range today and headed toward 90 cents or more. For the fifth year in a row, Canada will experience a lower inflation rate than the United States in 1996. Exports have skyrocketed, and during the second quarter of 1996, Canada experienced its first current account surplus since 1984. The Bank of Canada has also cut its bank rate 16 times over the past 16 months and Canada's short-term interest rates have now fallen below comparable U.S. rates. About 500,000 new jobs have been created since the beginning of 1994, a credible performance when one takes into account that tightened government budgets at the federal and provincial levels have decreased the number of personnel in the public sector.

On the other hand, a rapid rise in exports accounts for almost all of Canada's recent economic growth, exports directed primarily at one foreign market, the United States. Consumers have not been spending, in part because of employment concerns and in part because of Canada's unity crisis. Investors have also hesitated to put their money in Canada and businesses have hesitated to expand because of weak consumer spending and the prospects of yet another referendum in Quebec.

Why has this uncertainty already cost the United States thousand of jobs and may threaten to cost additional jobs in the future? This is easy to explain. If the Canadian dollar were above the 85 cent range and if Canadian consumers were spending their money, billions of dollars in additional U.S. exports would have poured into Canada during the 1990s. Even at 72 or 73 cents, U.S. exports to Canada are at record levels, but Canadian exports into the U.S. market have also become much more attractive, helping to account for Canada's 20.5 billion dollar merchandise trade surplus and 8.4 billion dollar current account surplus with the United States in 1995.

In addition, a stronger Canadian dollar would have dramatically increased cross-border shopping and tourism by Canadians in the United States. In the period since the Canadian dollar peaked at 89 cents in late 1991, cross-border shopping excursions by Canadians have dropped

literally by millions, leading to huge revenue losses for retail outlets in communities such as Burlington, Vermont, Plattsburgh and Buffalo, New York, Detroit, Michigan, and Bellingham, Washington. The drop in the Canadian currency has also severely dampened Canadian tourism in the United States. In 1991, 19.1 million visits were made by Canadians south of the 49th parallel, compared with an estimated 13.7 million in 1995, a drop of almost 30 percent. Furthermore, spending by these Canadian visitors in the United States decreased by more than two billion dollars from the end of 1991 through the end of 1995.

Undoubtedly, both Canada's and Quebec's economies have suffered significantly because of the possibility that Quebec's voters will eventually support the sovereignty option. However, within the highly integrated North American economy, U.S. businesses, workers, and those seeking work have also been adversely affected by Canada's political uncertainty, resulting during the 1990s in the loss of billions of dollars in potential revenues and tens of thousands of jobs. These losses more than offset any gains which might be attributable to the Quebec issue because of (a) a diversion of FDI from Canada to the United States, (b) an expansion by Canadian businesses into the United States instead of Canada, and (c) a transfer of assets by Canadian citizens into the United States.

#### The Economic Consequences of a Pro-Sovereignty Vote

The short-term and medium-term economic consequences for the United States of a pro-sovereignty vote in Quebec are overwhelmingly negative. If patterned after the 1995 referendum, a "yes" vote would result in up to one year of negotiations between Quebec City on the one hand, and Ottawa and the nine provincial capitals on the other. If the negotiations were fruitless, then the Quebec Government would issue a unilateral declaration of independence.

This period following the pro-sovereignty vote would be fraught with additional uncertainties and dangers. For example, would Ottawa accept a unilateral declaration on the part of Quebec, and if not, would it be prepared to send in military forces? Would Quebec be allowed to separate with its current boundaries intact? Would native groups remain a part of Canada or Quebec? What would happen to the anglophone and allophone (those who speak neither French nor English as a first language) communities in Quebec? How would the national government's debt and assets be divided between Quebec and the ROC? Would Quebec allow unimpaired access between ROC East (New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland) and ROC West (Ontario, Manitoba, Saskatchewan, Alberta, and British Columbia)? Would there be widespread civil strife?

Unless terms of separation had been worked out prior to the referendum, a highly unlikely possibility, both Canada and Quebec would be moving into uncharted territory. As soon as the referendum results were known, the Canadian dollar would fall precipitously on international exchange markets. If the Canadian currency were to fall below its historic low of 69 cents vis-à-vis the U.S. dollar, and if the Bank of Canada's reserves were exhausted in a vain effort to slow this devaluation, Washington might be asked to put together a rescue package

which could be much more expensive than the controversial package rescuing the Mexican peso in early 1995. U.S. exports to Canada would plummet as a result of the devalued Canadian dollar and the drying up of consumer spending. Ottawa might also be forced to raise interest rates in an effort to restore confidence in the Canadian dollar and to entice international investors to venture back into the domestic market. Higher interest rates, in turn, would be another impediment to a rebound in economic activity within Canada. U.S. banks and other financial institutions would begin to worry about the ability of the federal and provincial governments to repay their massive loans, with perhaps 50 billion dollars or more of these loans financed in the United States. The Canadian domestic market would shrink by one-quarter with the loss of Quebec, and the massive Canadian territory would be split into two distinct and geographically remote sections, conditions which are not conducive for sustained economic growth.

In the medium to long term, the nine remaining provinces would make a valiant effort to keep the ROC intact. Nonetheless, the new confederation would face massive challenges. Would the eight provinces, and especially Alberta and British Columbia, be willing to participate in a political system in which Ontario would have almost one-half of the population and over one-half of the gross domestic product? If a compromise were reached which would result in a highly decentralized federal political system, would the ROC be able to maintain its economic union at peak efficiency, or would provincial barriers to economic activity grow profusely? Would Ontario, Alberta, and British Columbia be willing to continue the billions of dollars in annual equalization payments to the four poorer provinces east of Quebec? With the drop in their standard of living which is certain to occur for at least a few years after Quebec's separation, would groups in the Atlantic and Far West regions begin to explore the possibilities of creating their own separate nations or even petitioning to join the United States?

Washington would face a situation unknown since Canada became a confederation in 1867. Its leading trading partner would suffer significant economic setbacks after the Quebec referendum, and Quebec would suffer an even greater downturn because it is poorly prepared economically and fiscally to assume the burdens of political independence. U.S. retail businesses along the border which cater to a Canadian and Quebec clientele would face a major drop in sales. U.S. exporters would face the same predicament, and tourism destinations, especially near the border and in sunbelt states such as Florida, South Carolina, Hawaii, California, and Arizona, would face major revenue losses far beyond what has already occurred during the 1990s. A small part of this revenue drain might be compensated for by a transfer of the assets of Canadian citizens to the United States prior to the referendum, in anticipation of a drop in the value of the Canadian dollar and major economic turmoil. Such a transfer, however, would do little to bolster confidence in Canada's political and economic systems and would place downward pressure on the Canadian currency even before the referendum were held. Moreover, Washington and other major G7 nations, along with the leading international financial institutions, would likely be forced to dig into their treasuries in an effort to refloat the Canadian economy, and the United States should expect a hefty rise in immigration applications from Canadian citizens. The economic underpinnings of NAFTA would also be shaken for a considerable period after the referendum, and North America as a region would be hesitant to proceed with the creation of the

FTAA and less prepared to compete effectively against the growing economies in Asia and other parts of the world. In addition, the United States, which has entered into hundreds of agreements and accords with Canada, might be required to reexamine the utility of the 1965 Auto Pact and other long-standing institutional arrangements with the revamped ROC and Quebec.

#### Options Available to the United States in the Pre-Referendum Period

In spite of the negative economic repercussions which the United States will face in the aftermath of a pro-sovereignty vote in Quebec, this is strictly a domestic affair for the citizens of Canada to resolve. U.S. leaders should continue to emphasize that the United States is quite content to have a united Canada north of its border and prefers to see Canada remain united in the future, but fully recognizes that this is a domestic issue to be decided exclusively and democratically by the Canadian people.

On the other hand, Washington could clarify its conditions for entry into NAFTA for new members. The PQ Government has told the Quebec people that the new sovereign nation would quickly join NAFTA and this would cushion any economic downturn resulting from Quebec's separation from Canada. In other words, Quebec would achieve political autonomy and could still rely on the huge U.S. marketplace to offset any losses in trade and investment flows with the ROC. Indeed, all recent Quebec Governments, and the Parti Québécois in particular, have historically been among the most ardent supporters in Canada of the FTA and NAFTA.

Quebec's citizenry must recognize, however, that entry into NAFTA could be a difficult and time-consuming process. As an original member of NAFTA, Ottawa would arguably have the right to veto Quebec's entry into the North American trade organization. Moreover, trade groups in Washington have worried from time to time about Quebec's policies linked to government procurement, agriculture, textiles and clothing, government subsidies, state-owned enterprises, construction industries, and other economic and business activities. In rather concrete terms, the U.S. Government should emphasize its position on each of these issues so that Quebec and any other applicants would be aware of what would be expected before they could join NAFTA or enter into bilateral free trade arrangements with the United States (an option which remains available to the U.S. even with its membership in NAFTA). If an independent Quebec nation, which would rank as the eighth or ninth largest trading partner of the United States, is willing to satisfy Washington's concerns, then it should eventually be permitted to join NAFTA or at least enter into a bilateral free trade accord with the U.S. Furthermore, if and when the troublesome issues surrounding separation have been resolved between Quebec and the ROC, Washington should be willing to support Quebec's membership in the World Trade Organization (WTO).

Finally, a few comments should be made about the oft-repeated assertion that the United States can benefit economically from the break-up of Canada and the eventual absorption of one or more provinces into the American union. Above all, Canadians are a proud and independent people and would strongly resist annexation to the United States. Many would never want to



join the United States, and others would join only if they perceived that their economic prospects would remain dismal within a fragmented and contentious ROC structure.

If Quebec were to separate, the most likely candidates to join the United States would be the three Maritime provinces of New Brunswick, Nova Scotia, and Prince Edward Island, and less likely, the most eastern Atlantic province, Newfoundland. These provinces are also home to a proud people, but unless the richer Western provinces in the ROC agree to some revenue transfers, parts of the Maritime area might explore annexation to the United States. However, such an endeavor would be expensive for Washington, because Eastern Canada would become the poorest region within the United States and would require a substantial transfer of revenues northward. In addition, the political priorities of most Canadians are appreciably to the left of most American citizens, with Canadians far more accepting of government interference in the private sector, extensive cradle-to-grave social welfare and health systems, and a very circumspect and limited role for their nation in world affairs. The "fit" between Canadian and U.S. residents would be strained at best, and, quite frankly, each side would be better off if current national boundaries were to remain intact.

In conclusion, the economic interests of the United States are best served by Canada remaining united as a nation-state and maintaining its national economic union. Some concessions can certainly be made by Ottawa and the nine other provinces to the citizens of Quebec, especially to the French-speaking majority which wants greater guarantees in terms of the preservation of its language, culture, and distinctive civil code. However, these concessions must not be so drastic that they result in a highly decentralized federal system which would jeopardize Canada's economic union and hamper Canada's competitiveness regionally and globally.

Hopefully, Canadians will find an equitable solution to their unity problems within the next few years, because the sooner this issue is resolved and national unity preserved, the brighter the economic prospects will be for U.S. businesses and workers.

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## Feature Article

## A Sensible Solution for Saving Canada

Gordon Gibson

**A**t the annual meeting of the Council for Canadian Unity on April 26, 1996, several of us were asked to speak to the topic, "Will we finally find a workable solution to the constitutional issue?" The answer to this is "Yes," as this article will demonstrate.

But I will then also point out that just because we *can* solve the problem doesn't mean that our political masters will in fact *choose to do so*.

#### The unavoidable opportunity

We are in what is easily the most exciting time for Canadian federalism since Confederation. Almost 130 years after the formation of Canada, we are at a crossroads. We may continue with significant changes to the federation, or we may end it. No one knows which. The Fraser Institute's "Canada Clock"—an indicator set on the basis of opinion from a jury of some of the most distinguished and informed observers across the country—says the chances of survival stand at 5 minutes to midnight.

The one option that we know will *not* work is the status quo. Yet the status quo has one formi-

dable strategic position: it is what exists until something else happens. "Something else" will happen only if those in favour of change gain a force superior to those with blocking power.

There are two forces in favour of change: the Quebec sovereigntists, and those of us who want to change status-quo federalism within our existing boundaries. The sovereigntists will certainly win, unless the rest of us get our act together. This is the simple challenge of Canadian unity today.

The people of Quebec want more power to run their own affairs, and in this dimension they are no different, merely more articulate and more motivated than, say, the people of B.C. Until very recently, this additional autonomy was seen by most Quebecers as an unnecessary and impossible dream. No longer.

The *necessity* is argued daily and powerfully by the government of Quebec. They are very good at this, and they have some arguments under the current federal arrangements.

The *possibility* of this dream—at least without a major decline in living standard—is still fragile,

because of the financial fragility of both Canada and Quebec, in currency and debt. And what is the main policy thrust of both governments today? The elimination of that financial weakness. Who can argue with such a proper goal as financial strength? And who can doubt that its achievement makes separation far more feasible?

Meanwhile, in what is still Canada, we continue to pay the price for turmoil and uncertainty. Without any doubt at all, our dollar is lower than it ought to be, and our interest rates are higher—perhaps by 1-1/2 percent at the long end—than they ought to be. (Short rates at this writing are a bit lower than the U.S. comparables. With our better inflation record, this is where all rates should be, absent the political risk premium.) In a capital intensive economy, this is devastating.

The net result is that we *all* pay for this in our standard of living. Moreover, the two most likely outcomes of our unity malaise—a "Yes" referendum, or the "neverendum" scenario—are second-rate solutions for everyone.

This is not sensible. Not if there is another way—and there is.

There is what I call the "unavoidable opportunity."

### Measuring the public mood

Just how far would the people of Canada be prepared to go in accommodating each other in order to preserve the federation? This is a matter on which we know remarkably little—and yet it is fundamental in determining whether there is a "deal" to be had.

We have some small snippets of polling data. Still, the main influences on the constitutional and restructuring dealings, by far, come from the views and the positions of leaders and elites. But are these elite positions representative of how the people feel? After all, leaders and their governments have huge conflicts of interest on the federalism file.

For example, devolution to the provinces of significant federal power will be opposed by Ottawa elites as a matter of simple self-interest. Devolution of responsibilities to the private sector is customarily resisted by governments at all levels. Provincial capitals jealously guard their untrammelled authority over their municipalities.

Ordinary citizens have no such entanglements. They just want their governments to work, as effectively and economically as possible. They have no turf to protect, except their own wallets. So we should not be surprised if the ordinary citizens are rather more relaxed about the possibility of change. How can we illustrate this?

### A thought experiment

Consider chart 1. Imagine that a variety of governmental systems, arranged by degree of centralization, are outlined along the horizontal axis. The arrangement would start with the most centralized form of government, the unitary state, at the left. (A unitary state has all power concentrated in one central authority.)

From there, the horizontal axis proceeds through progressively greater forms of decentralized government, with some illustrative "markers" en route. For example, the United States, while a federation like we are, is more centralized than Canada. On the other side of the Canadian marker (placed arbitrarily at the middle of the scale) is Switzerland.<sup>1</sup>

As the horizontal axis proceeds to the right, we move through the very decentralized model of

the European Union (which is rather like sovereignty-association for all provinces), ending up at the logical limit of fully independent states.

Now, the concept of decentralization cannot by any means capture all of the possible arrangements of a federation. For example, the system and style of governance is of great importance. Another variable is central institutions. The control of the German Bundesrat by the Lander (states), or of the Swiss federal political parties by the cantons, or of the Council of Ministers by the sovereign governments of the EU—all bring a degree of "ownership" of the centre by the regions that is not felt in Canada.

However, let us consider the horizontal scale to be a rough-and-ready measure of the control of local people over local lives. (Conversely, it is also a measure of the greater or lesser difficulty of providing for "national" action or programs, which many people value. Unitary states are best at this objective.)

Let us now turn our attention to the vertical scale, the "Y" axis. This scale ranges from zero to 100, and is intended to represent the percentage of a given population that can live with this or

1 Some apologists for Ottawa claim that Canada is more decentralized than Switzerland. This is incorrect, as shown by two main indicators. The fraction of governmental budgets spent by the centre is much higher in Canada, and one must ignore tax policy, interest payments, and shared cost programs to argue otherwise. Of equal importance, in Switzerland the federal parties are controlled by the cantonal parties. De facto power flows from below.

The confusion comes about because, as David Elton of the Canada West Foundation has pointed out, Canadian federalism on paper is very different from the actual practice, where the feds call many more shots than would be understood from a superficial reading of the Constitution Act.

that optional system of government.

Please note: the test is not what is the *favourite* system of government, but rather, what can one *live with*, compared to the alternative (which is the breakup of Canada as we know it.)

To illustrate, consider a simple example: what we might like as a breakfast juice. Suppose there are three choices: apple, orange, and grapefruit juice. The question the following charts will measure is not whether you like apple better than orange juice, but whether you like apple *better than no juice at all*.

This is in fact the nature of our choices in Canada today. I might like a Canada organized like a European Union, you might prefer a Canada run as a unitary state, but can we both live with a Switzerland, if the alternative is the breakup of the country? We are not talking about getting exactly what we want. We are talking about avoiding what we don't want (i.e. the breakup of Canada), by adopting something that is at least acceptable, even if it is apple juice. The following charts illustrate this mix of views.

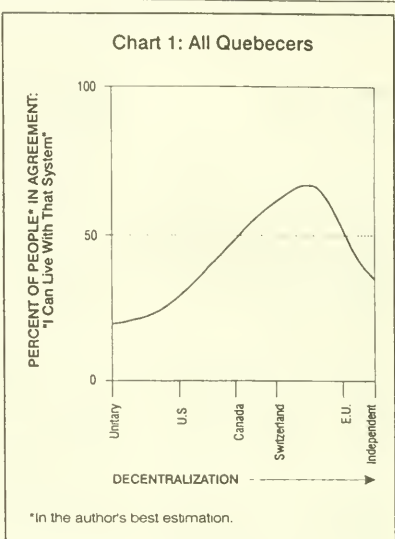
### The better-than-breakup views of Quebecers

On chart 1 you see this author's guess at how Quebecers (if they all voted on all of these options) would react to different arrangements for the federation.

Starting at the left, not many would favour a unitary state over the breakup of Canada, and almost all of these would be anglo/alloph ones. Presumably—and this is only a presumption—the approval factor would rise slowly with an increase in decentralization.

Fortunately, we have actual data for the point where we cross "Canada" on the horizontal axis. The results of the referendum tell us that almost exactly 50% of Quebecers would prefer Canada to no-Canada, and vice versa, of course.

Moving on, we have other scientific evidence. Poll after poll, year after year, tells us that what Quebecers *really* want is neither separation or the status quo. They want a restructured federation with more powers to Quebec, by numbers ranging from 65 percent to 70 percent. No surveys have been precise enough to locate this point on the decentralization scale. I have guessed that it is a bit to the decentralized side of Switzerland, but well short of the EU. Thereafter, support for further decentralization is guessed to taper off, crossing



the 50 percent level somewhat east of the EU.

Finally, we get to the full independence scenario, which, in common with most polls, I have guessed at around 30 percent. So there we have it: an estimated look at all Quebecers across the option spectrum.

### Views of the leadership

In a parliamentary democracy, the views of the people matter much less than the views of the leadership, except on the most unusual of issues, or the most extraordinary of times. One could hardly seek a better example than capital punishment, where the elite have ignored the views of the majority for years.

We should therefore examine the views of the various leaders on this unity issue.

Three charts follow. In each case, the rough definition of "leadership" in each area is assessed as the elected federal and provincial leaders from that part of the county. Thus in Quebec, it is the MPs and MNAs from Quebec. In ROC it is the MPs and MPPs or MLAs, MHAs, etc. from ROC. There is a third chart for Ottawa leaders. These worthies are simply the MPs from ROC, since they control Ottawa absolutely, even if the Bloc is Her Majesty's Loyal Opposition *pro tem*.

For the first two (Quebec and Ottawa leaders) a bar marks the approximate location of the cur-

rent "boss" on the scale, be that prime minister or premier. With the multiple power centres in ROC, no single governing point can be found.

The next chart superimposes the three leaderships. The Quebec and Ottawa profiles are indeed "solitudes," but note that the mid-group is the ROC leadership, which includes the premiers. This may turn out to be important, if the premiers can ever get their acts together. But there is very little in common between Quebec City and Ottawa.

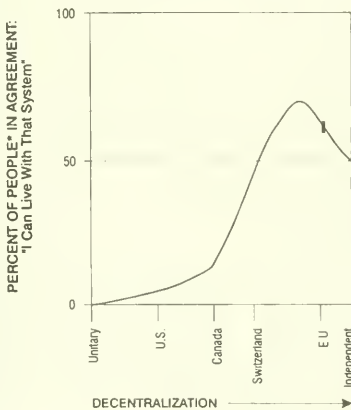
### Views of ROCers

And what of the great silent majority, the people outside of Quebec who have largely been

denied a voice or a vote in this matter? We don't know a lot about their views. The one vote we do have, that on the Charlottetown Accord, was so freighted down with the baggage of process and personality that it is subject to a Delphic array of interpretations.

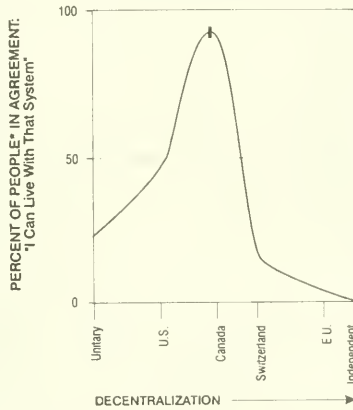
However, we do have a variety of opinion polls showing that Canadians are broadly in favour of decentralization, particularly if other provinces acquire the same new powers as Quebec. But we also know that Canadians feel very attached to the concept of "national standards," directly contrary to some ideas of decentralization. The ROC chart follows (chart 6).

Chart 2: Quebec Leaders (MNAs, MPs)



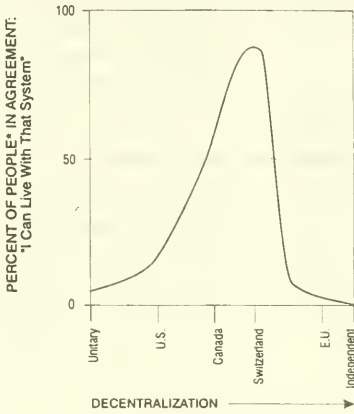
\*In the author's best estimation.

Chart 3: Ottawa Leaders (Federalist MPs)



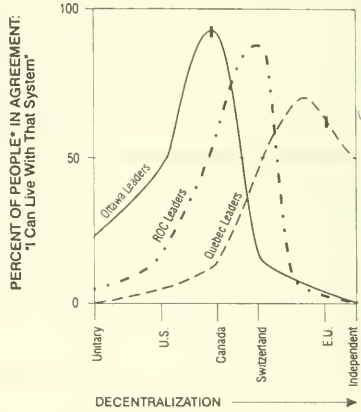
\*In the author's best estimation.

Chart 4: ROC Leaders  
(MPs, MPPs, MLAs, etc.)



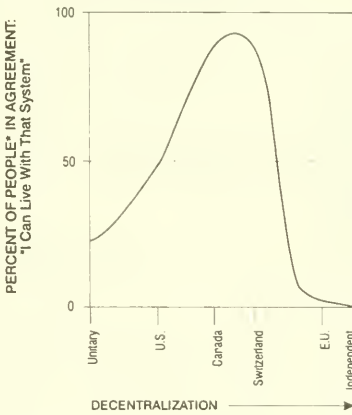
\*In the author's best estimation.

Chart 5: Overlapping  
Leadership Profiles



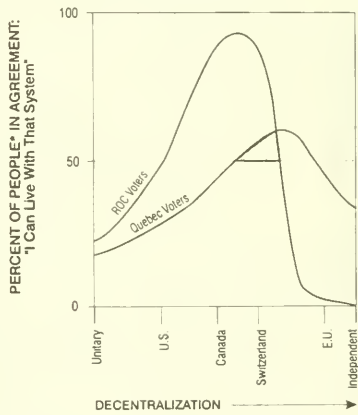
\*In the author's best estimation.

Chart 6: ROC Voters



\*In the author's best estimation.

Chart 7: Overlay of ROC  
and Quebec Voters



\*In the author's best estimation

In any event, looking at the ROC profile of "I can live with that arrangement rather than see Canada break up," again according to the guess of this author, we begin on the left with some unitary state folk. The curve slopes up with approval for the United States arrangements (we have a lot of Amerophiles in our midst), peaking at exactly where Canada is now. At least 90 percent of ROC surely considers the existing arrangements better than any breakup scenario.

Now comes the crucial part. Where does ROC go when, on the horizontal axis, we move "east" of Canada? If we are to believe polls published by *Maclean's* magazine and others, there is a remarkable tolerance towards moving as far as, say, Switzerland in decentralization, or maybe a bit beyond. The key condition is that all provinces must gain equal powers if they are to be devolved.

Beyond this, the ROC curve very rapidly falls off. There is nothing at all profound about this. It is simply *terra incognita* to most people, and therefore a territory to be avoided.

### Marrying the results

Chart 7 gives an overlay of the Quebec and ROC results. Consider that wherever on this chart Quebec people and ROC people agree at above the 50 percent support level is the area where we can find a solution.

And lo and behold! There is such a place!

There is an area on the chart around Switzerland or a little bit west of it where even today, people (as distinct from their leaders) can agree on a significant majority basis. This place is not everyone's first choice. But it is a place where most agree that it is better to preserve Canada in this arrangement, than to lose it entirely.

Remember, however, this is not the position of the leadership, the elites. There is no comfortable point of overlap there. Fortunately, the views of the leadership can be more easily changed than those of the public, even if it involves changing the leaders themselves, at convenient elections.

These are the positions today, in my rough guess. Where does this leave us? Well, the first observation is that the curves are not static.

### Shifting the curves

Has public opinion been moving? There is some evidence that since the referendum, public opinion in Quebec has gone a few points towards the "Yes" (which means that the reading for the "All Quebecers" chart would drop at the "Canada" point on the horizontal axis). One way of interpreting this, and the most logical interpretation in my view, is that the profile of Quebecers has therefore shifted to the right on the decentralization axis, or hardened, in terms of the minimal required

reform in order to maintain majority support for remaining in Canada. This starts to erode the area of "common ground."

What factors influence movement of the curves one way or the other? In general, for Quebecers, greater self-confidence, and confidence in the conditions of an independent future, will move the curve to the right. Thus, greater confidence in the Quebec leadership, or in the strength of the Quebec economy will harden positions.

On the other hand, worries about an independent future, whether caused by economic themes, partition arguments or other factors, will shift the curve to the left. It is an ongoing debate among federalist strategists as to whether this "fear factor" has a continuing positive impact. However, analysis by the COMPAS polling group for the *Financial Post* found that the partition debate seems to have exactly this impact.

Perhaps this is because the partition debate is relatively new in the public consciousness. Quebecers have lived with most of the arguments for so long that they have developed an immunity to all but the latest and most virulent strains of the "fear" virus, of which the partition issue is certainly an example.

The matter is somewhat different in ROC. Canadians outside of Quebec have only begun to contemplate the consequences of a breakup of the country. There are, therefore, good theoretical grounds to believe that

there is a great deal more room for movement in the ROC acceptability profile. This is very important.

We return to the general belief in ROC that the potential economic and political costs of a Quebec departure would not be high. Suppose that perception changed, that ROCers concluded that the costs to them would be very considerable? This would argue for showing much more flexibility, in order to avoid those costs. Presumably that would shift the ROC curve to the right—i.e. in an accommodating direction towards the Quebec curve, so as to increase the area of "common ground" seen on our overlap chart.

Those who believe that ROC has not yet correctly understood the consequences of breakup should therefore be at pains to discuss and elaborate the breakup scenarios. That is the logic of the "Plan B" or "Track 2" approach to the issue.

Plan B itself has two parts. The part that has received almost all of the attention focuses on relationships between ROC and an independent Quebec, usually in order to convince Quebecers that not all would be smooth or easy on the breakup trail, even with the best of intentions. In fact, the more important although less discussed part for ROC to understand is the consequences not for Quebec, but for the future of the rest of Canada. Would it hang together? Or would it fragment?

### Would ROC hang together?

I have written about this subject extensively in *Plan B: The Future of the Rest of Canada* (Fraser Institute, 1994). This book's conclusion was that there is, at best, a 50/50 chance that ROC would decide to stay together in the wake of a Quebec separation. More recently, this is also the general conclusion of the panel of experts across the country polled by The Fraser Institute for the Canada Clock.

The conclusion often comes as a surprise to people who have always assumed that life would go on, relatively unchanged. But of course, this would not be possible. Canada is a complex union formed by 125 years of compromise.

On the political side, we have a compromise as to the balance of power, between Ottawa and the provinces, and among the provinces themselves. With Quebec gone, Ontario would have 50 percent of the remaining population. Clearly the current rules as to the balance of power would have to change dramatically. Moreover, the change would have to be acceptable to B.C. and Alberta, which have the genuine and relatively comfortable option of their own independence.

Canada is a compromise between east and west, between rich and poor, between larger provinces and smaller, between liberal and conservative ideologies, and so on. Canada is defined by a number of very

sensitive policies on income transfers, aboriginal affairs, immigration, culture, language, regional development, trade policy, social standards, and a host of others.

There are very significant regional variations on all of these issues. And Quebec has been at the centre of every one of the compromises. With Quebec gone, they would all have to be renegotiated for Canada to continue. This might not be possible; ROC might very well break up too. At best, if it did hang together, the new arrangements would be very decentralized.

The point of the above is the following: most people in ROC have not yet seriously begun to consider the alternative to making a new deal that preserves Canada-without-Quebec. They tend to think that we can wait and all will be well. If, after some consideration, they conclude otherwise, we may find much more flexibility in ROCers' attitudes to decentralization, distinct society, and other such reforms.

### The elements of a solution

Since the referendum, there has been a surprising gathering of consensus (outside of Ottawa) on what is needed to maintain Canada and put the unity issue behind us. The main elements are *subsidiarity, coordination, and identity recognition*.



### **Subsidiarity**

Subsidiarity is really just common sense. It is the principle that decisions should be taken by the authorities closest to the action, who presumably know most about what is going on. This needs to be adjusted if some higher-level authority has greater knowledge, or is the only one that can afford to pay the bill, etc., but the burden of proof is always on the higher level. The presumption of competence goes to the lower level.

In practical terms, this is an argument for privatization, or for the individual or family or community or private sector being the first resort to deal with any of the million questions of life. Governments at any level at all should not be involved in human decisions except on a justifiable basis. The private marketplace clearly functions more efficiently than the public one. Any decision in favour of the latter therefore needs to be supported with fact and argument.

Still, in our society, we choose to deliver a great many services and some goods through public institutions: governments, agencies, crown corporations, and so on. Even at this level, however, and even though governments may finance and direct economic activity, private sector entities should often look after the actual operations. It is thus not correct to see subsidiarity as purely a principle applicable to governments. In fact, the

first test for any proposed government activity is whether government should be in the particular business at all.

For the purpose of re-inventing government in Canada, once we have decided that any given job is best done by government, we then need to determine which level of government. In principle, we again approach this from the viewpoint of the customer, and then get into the details.

So the first part to redesign is how the governmental delivery system can best be organized in any given field from the point of view of providing the most cost-effective service to the customer, in appropriate quantity and quality.

### **Inter-governmental coordination**

Governments do not act in watertight compartments, either geographically or functionally. The feds are everywhere, the provs are omnipresent in their areas, and only the humble municipalities really have a clear line drawn around them. (This is one reason why they are the best understood and trusted level of government.)

Not only are governments all over the place, so are people. Canadians are highly mobile. We travel for business or pleasure, we move from one area to another, and we will seek and accept money from any distance at all.

Everyone agrees that governments should minimize overlap and duplication,<sup>1</sup> but it is impossible to eliminate their impact on the proper responsibilities of other governments. Therefore, we need machinery for coordination.

Traditionally, coordination has been mostly a top-down affair, to the extent it exists at all. Through the use of its money and "spending power," the federal government has imposed "national standards" on many areas of provincial responsibility. These have really been Ottawa's standards, or federal standards, not properly national at all.

This process is eroding as the provinces become more concerned about delivering services in the way that best suits local needs, and as the feds run out of money to induce the provinces to follow their rules. But there is a counter current at work: Canadians feel quite strongly that there should be common minimum levels of service available to all Canadians, and that differences between the provinces should not seriously restrict mobility.

The obvious answer is for the provinces to work together to develop standards that work for them in their own jurisdictions, with or without the involvement of Ottawa. The true guarantor of social programs is not any level of government, but rather the common political will of Canadians.

1 It is not so clear that governments should try to eliminate competition. That has to be considered on a case-by-case basis.

The machinery to make all of this work is some sort of an interprovincial council, with or without a federal presence. The subject matter could be exclusively provincial, but it would be good to have this as an institution for coordination with the undoubted responsibilities of the federal government as well. I have named this a "Federal Council," following the famous *Beige Paper* of the Quebec Liberal party in 1980, which was itself a partial echo of the 1978 Pepin-Robarts report.

### Identities

The discussion so far only gives rise to emotion among political or bureaucratic practitioners who fear some loss of turf. It is only when we get on to the subject of identities and individual and collective rights that most citizens begin to get excited. This is where we find such vexing issues as "distinct society," "veto," "inherent right to self-government," and the like.

There is good news on this front. Once a rigorous application of subsidiarity has reshaped the duties of governments and communities in this country, if we can do that, the resulting pattern of authorities and responsibilities will leave communities with the powers to handle most of the things that concern them. At this point, the symbolic issues become much less threatening to everyone, and, therefore, easier to deal with.

To illustrate: no one would deny that the European Union is a collection of 15 exceedingly differ-

ent and vigorous "distinct societies." Yet these societies live together under a central union which is growing deeper and stronger with the passage of time. The lesson is clear: somewhere on the decentralization continuum between the Canada of today and the European Union lies a place where our own "distinct societies" can co-exist. My own guess is that that place lies in or near the solution territory shown in chart 7.

### Getting there

At the beginning, we must be realistic about two things.

First, initial efforts must be *non-constitutional*. We will get to the constitution in the end, but for now, there are too many forces that can frustrate any constitutional progress for their own reason: most of which have nothing at all to do with solving the unity problem.

Second, we cannot rely upon Ottawa. Indeed, Ottawa, or more particularly the Prime Minister's Office, is far more likely to attempt to delay the process of change than to facilitate it. This is based on a sincere view of Canada which is a part of the past. Any reform will have to work around this central force, at least until the next election. On the other hand, administrative Ottawa now knows full well that change has to come, and will work within the limits set by the PMO which, albeit grudgingly, may suffice for our needs.

With this in mind, the first step towards "getting there" relates to *subsidiarity*. The straightforward way to build up a reformed system based on customer service is to talk to the customer, as many a company has found. We need a thoroughgoing review, function by function, of every area of government activity.

We need to do this on a systematic, pan-Canadian basis, across every level of government, divided into bite-sized areas. The process must be practical, meaning it has to be informed and driven by practitioners, hands-on bureaucrats, consultants and private sector experts, flinty-eyed treasury people, and the service recipients. It must contain open discussion and open documents.

By the time the process is done, it will be clear that governments should do less directly, though the same functions may be done privately or by communities. It will be discovered that many more things can be handled by local control and decision, but that financial accountability when funding comes from the centre must be even tighter than it is now. And it will be seen that the need for cooperation among federal, provincial and local authorities will be much greater in a decentralized world.

This step can be started next week. A few lead provinces can do it on their own if needs be, but it would be much better to have the cooperation of Ottawa. Some exemplary local governments that have the resources

for such a huge task should be involved as well.

The second step is *machinery for cooperation*. This too can begin next week, and again a few provinces can do it alone if needs be. They simply need to delegate a few officials to start talking about a Federal Council.

The beauty of both steps above is that they represent a genuine advance, with huge potential. And yet, if kept voluntary, neither step represents a dangerous commitment for anyone. The process should simply be begun.

The third element, *identity*, and the constitutional change that is a part of that, is better postponed for a bit. But even here, governments can set up non-threatening, constructive ma-

chinery to review the situation. One of the best ideas comes from the Canada West Foundation. It has suggested that an interprovincial legislative committee talking and holding hearings on our unity future would be a good start. Not all provinces would need to be involved. Three or four could make a start, with an open invitation to others to join.

And finally, there is the energy of the people. There are now scores of functioning unity groups across this land. We are not a revolutionary society, so in the end all of these groups will have to work through govern-

ments. Nevertheless, they can become a powerful political force.

So there is a message, a graphic illustration of the existence of a Canadian solution in terms of popular support, a description of the elements of that solution, and a rough road map on how to get there. To quote the current advertising slogan of the Bank of Montreal, whose chairman has shown extraordinary leadership on this unity file, "It is possible!"

But it will not be easy. As Peter C. Newman said recently, "Canada will have to change a very great deal, if it is to stay the same." ☞

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 Former Vice President, Canadian Affairs, Americas Society  
 Author, Breakup: The Coming End of Canada and the Stakes for America

House Committee on International Relations  
 Subcommittee on Western Hemisphere

Hearings on Quebec Sovereignty Issue and Potential Impact on the U.S.  
 September 25, 1996

Additional Remarks

I thank the Committee for the opportunity to add these remarks to the excellent presentations at last month's hearings. They have come at a critical time in Canada's history. The fact that they were instigated by a Congressional subcommittee, no small feat given Washington's customary indifference to Canada, is both salutary and welcome.

I am a journalist, not an economist or trade expert. Many of the points so ably covered by my colleagues at the hearing were addressed in my book and require no further comment from me. I would like, however, to expand on the very important observation made by Christopher Sands in his statement, namely that Canadians, especially Quebecers, need to understand clearly America's position, its interests and intentions, with regard to the growing likelihood of Quebec's separation.

That position, I hope, will be based on an accurate understanding of what is happening in Canada, what motivates the forces driving that country toward breakup. The problem is that, as another insightful Canada watcher, James Reed, has noted, it may be unrealistic to hope for an enlightened policy toward Canada in the absence of a knowledgeable public opinion here to undergird and sustain it. Unfortunately American journalism and higher education, with rare exceptions, have not done a notably good job of educating our people about Canada and Quebec. These and subsequent hearings can be a valuable start in helping reverse that trend, in drawing more attention to Canada and its unity crisis as our policy makers re-examine the United States position.

Out of that re-examination should emerge policies that will protect U.S. and continental interests in the event that one of these scenarios unfolds in the near future: (1) Quebec unilaterally declares independence (UDI), severing all ties to Canada; (2) Quebec leaves, but only halfway, maintaining an economic 'sovereignty association' with Canada (a dubious solution in English Canada's eyes); (3) Quebec's departure impels other provinces to distance themselves from the resulting Ontario-weighted federation and to gravitate slowly into the U.S. orbit; (4) none of the preceding occurs, but Canada continues to slip as a middle power, becoming increasingly decentralized and divided.

We need to get the whole Canadian picture right so there's no confusion about the causes and implications of the Canada-Quebec crisis. In preparing policies to cope with each of these eventualities, we need to better comprehend not only the salient facts of the crisis, but the balance of tensions and fears that are driving the inexorable split. The very idea of a nation as affluent and progressive as Canada breaking up mystifies Americans. We might be less mystified if we understood better the psyches of English and French Canadians as they reluctantly prepare to transform themselves from one to two distinctly different nations along our northern border.

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Canada in Brief

Since its near-death experience in 1995, when Quebecers in a record turnout voted by the slenderest of margins not to leave Canada at this time, the nation has been trying to recover from the exhaustions of its constitutional wars. It appears to have retreated into a state of remission or political somnolence. It has struggled to put its financial house in order, knowing that its economic health will be a major determinant in the next sovereignty referendum. Its politics, reduced to one-party dominance since the last federal elections, has become a doubtful force for change. The federal government under Prime Minister Chretien has appeared faint-hearted in confronting the separatist issue. His critics often wish that Mr. Chretien was as sufficiently energetic in pursuing the federalist cause as Quebec's Premier Bouchard has been in promoting the separatist campaign. The government in Ottawa, however, has elected to play it cautious for now, to not rock the boat, and thus ensure another Liberal Party triumph at the polls later next year.

That tack may have turned out to be a shrewd one in advancing the recovery of Canada's economic health which has suffered in part from investors' uncertainty over Quebec's future. By temporarily shelving Quebec concerns to focus on reinvigorating Canada's sluggish economy, Ottawa has managed to chalk up some successes. Canada's sky-high unemployment figures have begun to dip thanks to a sustained surge in job creation. Its gross national product has improved to a point where the OECD has predicted that Canada will lead the G-7 nations in growth next year. More telling, the economy in the last 18 months has undergone one of the biggest peacetime fiscal retrenchments in Canada's history. From a time not long ago when its per-capita debt was only slightly less than Nigeria's, with the Wall Street Journal dismissing the nation as "an honorary member of the Third World", Canada has begun at last to undo its fiscal mess. Seven out of its ten provinces, once all in the red, now report budgets in either surplus or zero debt. Ottawa has shrunk its budget deficit by nearly half, a trend expected to continue. As for the bloated federal debt, which at one point was more than 90% of the GDP, it's dropped to 73% of GDP -- still horrendous, but an improvement.

Despite these glad tidings, the impressive effort to restore confidence in Canada's fiscal management, the question remains what impact, if any, a rebounding national economy will have on Quebec's decision to remain or leave.

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Quebec

English Canada finds it inconceivable that a province like Quebec -- saddled with the worst poverty rate in Canada and 11% unemployment that exceeds the nation as a whole -- would opt out of a more affluent economy. And English Canada's view, of course, permeates American newspapers and airwaves.

Quebec's separatist movement, however, beats to its own drum. Quebec sees Canada's economic trends pushing the province, if anything, closer towards independence. The interest burden on the federal government's debt and other fiscal pressures remain extraordinary, forcing Ottawa to reduce its transfer payments to poorer provinces, including Quebec. As Ottawa's contributions to costly provincial programs has declined, the provinces have had to shoulder more of the share, leading them to demand greater say in administering those programs.

The devolution of power from Ottawa to the provinces has reinforced the decentralizing trend in Canada, a trend long hailed by Quebec. In the eyes of Quebecers it's but a short, inevitable jump from decentralization to sovereignty for a province as culturally distinct as theirs. The only French-speaking society in North America, they prefer to invest solely in their own economic future. Since this is unacceptable to Ottawa and the rest of Canada, Quebec, say the separatists, must go it alone. Nothing short of a direct ability to control their own destiny will satisfy them.

Without compelling economic reasons there's little else to hold Quebecers in the federation. Emotionally they feel little connection to it. If language is the essence of a culture, Quebec's majority francophones still don't feel at home culturally in the rest of Canada. Recently I spent a frustrating week in southeastern Italy, a non-touristed region of small towns where no one -- not cops, waiters, hotel clerks, auto mechanics, no one -- apparently speaks a word of English. Imagine French-speaking Quebecers, until barely three decades ago, being unable to converse in their own province with the people who employed them, sold them their goods, ran their hotels, drove their taxis, manned their phone switchboards or delivered their government services -- because those people were largely and exclusively English-speaking. Imagine that sort of linguistic alienation, and you have some idea of the anger and humiliation that drove Quebec's separatists, once in power, to impose on the anglo community its notoriously vindictive French-language laws. Consider as well Quebecers' concerns for their survival as a race: with perhaps the lowest birth rate of any state in the Western world, Quebec sees its influence within Canada gradually waning to the point of eclipse. Better to face decline on their own terms, many Quebecers feel.

Finally, for a lot of French Quebecers independence is seen as the ultimate restoration of their self-esteem as a people, a collective affirmation of their cultural distinctiveness and worth. In nationhood they can feel liberated to enjoy the reality of that distinctiveness which English Canada has not been prepared to accept.

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#### English Canada

After years of trying constitutionally to accommodate Quebec's demands for more autonomy and recognition -- a process repeatedly ending in failure -- English Canada, once passionately determined to keep Quebec in the fold, has turned its back in vexation. Anglo exasperation with Quebec has thus tightly limited the concessions which Canada's federalists can offer the province. This in turn has evoked despair among the separatists and further fueled their campaign.

English Canada has turned a stone face to Quebec. If you inhabit one of Canada's other nine provinces, you stubbornly hew to the bedrock belief that all provinces are entitled to equal rights and powers, no exception. You reject any recognition of special status for Quebec, any one-sided concessions to a province that seems halfway out the door already. If you're a Western Canadian, you evince dismay at Ottawa's obsession with Quebec. In particular, if you're a British Columbian, far removed from the turmoil back east and prospering nicely within a booming regional economy, you may harbor a few thoughts of separation yourself.

English Canadians feel too often they've taken the extra accommodating step, only to have Quebecers testily insist on more. Anglo resentment has grown over the past two decades ever since Ottawa imposed a federal bilingualism policy on Canadians in the 1970s, only to see Quebec respond by enforcing its own unilingual mandate throughout the province, under which the commercial use of English has been restricted, in maddeningly petty ways, within Quebec's minority anglophone community.

Little that has happened in Quebec since the divisive results of the last sovereignty referendum has encouraged anglophones' hopes for the future there. In the last twelve months the division has worsened, with calls for Quebec to be partitioned into separatist and federalist enclaves in the event of a sovereigntist victory in the next referendum. The Financial Post of Toronto reported that anglophone businesses in Quebec had received threatening letters claiming to be from the supposedly moribund Front de liberation du Quebec (FLQ), the terrorist group that in the 1960s planted mail bombs around Montreal. Nor were anglos reassured when last July in Quebec City rioting broke out among celebrants

of Quebec's national holiday, St. Jean-Baptiste Day, resulting in fires, widespread looting and more than \$1 million in damages. By late summer, too, there was renewed talk in Quebec's National Assembly of tightening the language laws that have so inflamed anglo feelings.

If you are an anglo Canadian living in Quebec, therefore, you face basically two options: sitting out the unrest and hoping for the best if Quebec goes sovereign; or selling your house and leaving the province. Large numbers of anglos continue to opt for the latter.

It is not an optimistic picture seen from this side of the border. But at least we should be aware of, and take into account, the conflicting sensibilities of ordinary English and French Canadians as our officials re-examine the policies that will affect America's relations with the governments of both peoples in a post-separation era.

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#### The U.S. and a Sovereign Quebec

In the Quebec-U.S. equation, I believe a couple of concerns of broad significance merit attention along with those over such issues as a sovereign Quebec's role in NAFTA, NATO, NORAD, or the reformulating of bilateral treaties with Canada to accommodate a new situation.

One concern is how Americans and their leaders would accept a unilateral declaration of independence by Quebec.

From their earliest days Quebec's nationalists have been inspired by our Declaration of Independence and its statement of rights. Quebec's latterday separatists may see their cause as natural evolution very much in synch with the post-cold war trend in breakaway states and republics. But in fact Quebec's independentiste stirrings have never struck a wholly responsive chord with Americans. The legacy of our Civil War, combined with the Monroe Doctrine, prompts us to take a wary view of unilateral declarations of independence on our doorstep. This is particularly so when they emanate from areas like Quebec where the church and state have historically held individual liberties on a tight tether. Our ingrown fears of subversion and disunion has made us uneasy about talk of secession near our borders. Some of us may wonder whether Quebecers' elation at having achieved independence will be shortlived when they wake up to the huge economic and social costs of their divorce. That post-independence period in Quebec could entail a volatile mood of resentment and instability which the U.S. would not find welcome.

A second followup concern is how the U.S., with its market economy and free-enterprise ethic, could adjust to a sovereign Quebec in which statism plays so vital a role.

For all its entrepreneurial skills, Quebec remains in many ways more allied to European economies where the role of the interventionist state in protecting local sectors from outside market forces is a given and where any brake on government spending meets stiff resistance. Quebec's keiretsu-like alliance of government agencies, utilities and pension funds has bred a long tradition of provincial government subsidies to Quebec firms at the expense of outsiders. What a sovereign Quebec might deem necessary to provide a competitive edge to its undersize market and economy, the U.S. would likely view as inimicable to its trade interests. This is a reality with consequences that Quebec should have no illusions about.

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The U.S. and Rest of Canada

Any fracture of Canada politically, whether through Quebec's departure or drastic decentralization, means that Washington would find itself dealing with at least two or three strong provinces -- virtual mini-states -- with the legal potential to block treaties between the U.S. and Canada.

Washington would face costly and cumbersome adjustments by having to negotiate in a host of bilateral sectors with not one political entity, but several. A Canada fractured politically would be one fractured economically as well, with all the inefficiencies and protectionist shiftings that implies. With diminished federal authority in Ottawa, American businesses would encounter a maze of conflicting provincial rules and operating standards. A Canada without Quebec would be shorn of its bicultural peculiarity. Fearful of being overwhelmed by U.S. cultural and economic forces, it might conceivably adopt a vigorous anti-American posture as a means of redefining its new identity.

Any rupture of Canada would put at risk not only our commercial arrangements but also possibly our continental defense arrangements. These have traditionally relied on our uninhibited access to Canadian airspace and waters. Any revision of our continental security arrangements may anticipate, but should not necessarily assume, that an independent Quebec would not take territorially sensitive actions affecting these arrangements.

A Canada without Quebec would quite likely be a less cohesive and firm continental partner. A weakened Canada, with decreasing commitments to NATO and its own military security, would lead, in Washington's and the world's eyes, to a less credible North American alliance -- a worrisome development in a continuously turbulent world. With Quebec's departure the value of Canada as a strong and sustaining ally would be on the line.

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Conclusion

We are watching to our north quite likely the most powerful secessionist movement in the Western world, one with potentially more serious consequences than, say, the Flemish nationalist movement in Belgium. According to a Canadian news poll early this year, nearly one in three Canadians believes that by the end of the decade Canada, as we know it, will cease to exist.

The latest political timetable suggests that federal elections in Canada will take place in late 1997, with the probable re-election of the Liberals. Quebec's next provincial election would follow in the fall of 1998, in which the governing Parti Quebecois would be swept back to power under its popular separatist premier Lucien Bouchard.

A third Quebec referendum on sovereignty would follow in 1999. The indicators are that this time, barring the unforeseen collapse of Bouchard or Quebec's economy, the issue will win majority approval. Negotiations between Quebec and Canada would follow shortly. If some sort of economic association could be worked out, Quebec might remain partially attached to Canada. But the complexities of sovereignty association suggest this is unworkable. In that case, if the negotiations bog down, Quebec would likely resort to UDI and assume sovereignty status within a year.

The United States, therefore, has a relatively short time to resolve the right policies and contingency measures to meet the challenges ahead.

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## CANADA: WHERE'S THE GLUE?

Few Americans realize that Canada is coming unglued at the seams. Viewing Canadian politics each evening through the eyes of the Canadian Broadcasting Corporation's flagship news program "The National" makes it clear that Canada is facing a major constitutional crisis—much broader and much deeper than Québec separatism alone.

Most of the time most Americans are oblivious to Canada's existence. Rarely does it get our attention. However, the October 30, 1995, Québec sovereignty referendum was one of those times. When French separatists mustered 49.43 percent of the vote, every major American newspaper expressed editorial outrage against the Québec separatist movement. Our president, our Congress, and the American people all weighed in against the secession of Québec from Canada. A congressional subcommittee recently held hearings on the political and economic implications of the breakup of Canada on the U.S.

Even though the French separatists were defeated by the federalists, Québec separatism is not likely to go away under the charismatic leadership of prime minister Lucien Bouchard. Known as "St. Lucien" by many of the Québécois, Bouchard is an articulate, intelligent cross between former Polish leader Lech Walesa and President John F. Kennedy. Himself a victim of leg amputation, Bouchard understands on a very personal level the politics of powerlessness—the politics which freed Eastern Europe from Soviet domination in 1989 and led to the collapse of the Soviet Union two years later.

The inept response of the Ottawa government to French separatists has not only exacerbated the tension between Québec and the other nine provinces, but has engendered

separatist sentiments throughout Canada. Prime Minister Jean Chrétien's decision to ask the Supreme Court for an opinion on the legality of a unilateral declaration of independence by Québec has further enraged Francophones and hardened their anti-Canadian stance.

High unemployment, slow economic growth, large federal and provincial deficits, and a deflated Canadian dollar have plagued the Canadian economy in the 1990's. There is increased tension between the more affluent English-speaking provinces—British Columbia, Ontario, and Alberta—and poor provinces like Newfoundland, Nova Scotia, and Manitoba. Prince Edward Island and Newfoundland—hard hit by the demise of the Atlantic Coast fishing industry—are so heavily subsidized by Ottawa that they are like wards of the state.

Newfoundland has its own grievance with Québec. Premier Brian Tobin has threatened to cut Québec off from its supply of electricity generated by the Churchill Falls dam unless a new power-export contract is negotiated.

There are even secessionist pressures within Québec. If Québec splits with Canada, Anglophone Montreal might become an independent city-state. The same might be true of the Eastern Townships. The Cree, other Indian tribes, and the Inuits living in Québec all oppose Québec independence, which they believe would further delay eventual self-government for themselves.

Even though Canada enjoys the U.N.'s seal of approval as the best country in the world in which to live, its cradle-to-grave social welfare system also appears to be unraveling. Large government deficits, excess demand for services, and the effects of Reaganism and Thatcherism have taken their toll on the quality of health care and other social services.

The breakup of Canada is the price one pays for a weak central government with very powerful, independent member states. For years the Canadian National Railway, the Canadian Pacific Railway, Air Canada, and the Canadian National Broadcasting Corporation were part of the glue which held Canada together. Global privatization has rendered these Canadian icons impotent as integrating forces. Can professional ice hockey alone provide sufficient glue to hold Canada together—particularly after its humiliating World Cup defeat?

The U.S. government encouraged the secession of six Eastern European countries from the Soviet bloc in 1989 as well as the breakup of the Soviet Union. When Yugoslavia first began unraveling, America blinked. The split between the Czechs and the Slovaks was a nonevent. But when Québec tried to secede from Canada, that was a different matter! Why do we have such a visceral reaction to Québec separatism?

Any group of free individuals has a fundamental right to band together to form a voluntary association to promote the common good, whether it be a nation, a state, a town, or a district. Just as a group has a right to form, so too does it have a right to disband, to subdivide itself, or to secede from a larger unit.

Isn't the real reason why Québec separatism makes Americans so uncomfortable that it's too close to home? We encourage secession in far away places like Poland, Lithuania, and South Africa. But Québec reminds us of our own vulnerability—our size and our inflexibility. Just as Ottawa seems powerless to sort out Québec's demand for independence, Washington is impotent to deal with the combined problems of big government, big military, big business, big labor, and big cities.

If one examines the per capita incomes of the ten richest countries in the world, seven of them are tiny European states. Luxemburg, Switzerland, Denmark, Norway, and Iceland are all smaller than Québec. Each enjoys a very high quality of life.

Ultimately, whether Québec or any other province is allowed to go is neither a legal question nor a constitutional question, but a matter of *political will*. How strong is the will of the people of the seceding province to be free and independent? How far is Ottawa prepared to go in imposing its will on a breakaway province?

When the political and economic costs to English-speaking Canada of continued forced federation membership outweigh the benefits, Québec will eventually be set free—which may be sooner than many Americans think.

What can American decentralists learn from Canada? A lot!

—Thomas H. Naylor

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# THE CHRISTIAN SCIENCE MONITOR

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## OPINION/ESSAYS

After Quebec's near-secession, US businesses, intellectuals, and policymakers can't carry on the tradition of nonchalance

### Will Americans Finally Train Lenses on Canada?

By James Reed

American indifference to Canada and Quebec, and ignorance of its affairs, is remarkable in international circles because of the undeniable reality of the substantial interests at stake. The Oct. 30 referendum, in which a near-majority of Quebecers — including 60 percent of the French-speaking population and 80 of 125 electoral districts — supported secession from Canada, indicated that the time has come to take Canada seriously.

Unless Americans move quickly to give Canada priority attention, and to see clearly the details of what is happening, we may end up missing some important opportunities, or even inadvertently harming both American and Canadian interests.

In earlier centuries, when Canada formed part of the French Empire, and later the British Empire, Canada was considered to be of great material and strategic significance. In the American Declaration of Independence, the Canadian constitution of that day — the Quebec Act of 1774, guaranteeing the Quebecers their French linguistic and cultural heritage —

was specifically denounced as one of the "coercive acts" that justified the American break with Britain. The War of 1812 was a war over Canada. And in the 1840s the United States went to the brink of war over the issue of the annexation of British Columbia. "Fifty-four forty or fight!" went the memorable phrase.

Yet by the end of the 19th century, and continuing pretty much to the present, Canada has receded from the consciousness of the American public, the opinion-making elite, and the community of policymakers and private citizens concerned with foreign affairs. A century and a half

CHRISTOPHER BING

ago, Bostonian Francis Parkman, the greatest of American historians and a student of Quebec, wrote that "the French dominion is a memory of the past." More prosaically, in the 1920s the gangster Al Capone, accused of illegally bootlegging liquor from Canada during Prohibition, told a Chicago grand jury, "I don't even know what street Canada's on."

This pose of damnation, reflecting benign condescension toward "the other" in North America — the loyalist, the law-abiding, the deferential, the polite, the staid, the bilingual and bicultural — became a kind of harmless chauvinist indulgence during the cold-war years, when Canada could safely be neglected because of America's global preoccupations and dangerous foreign hot spots.

In recent times, the journalists, policymakers, and academics who mattered made their careers by focusing on countries other than Canada, and American public opinion followed suit. Though the US and Canada share the world's largest trading and investing relationship, American businesspeople have tended to assume that this is nothing but the product of pure market forces, and is largely on "automatic pilot."

"Canada is not an issue any more than Ohio is an issue. The level of concern is and remains very low," said Steven Blank, director of Canadian affairs at the Americas Society in New York, just a few months ago. And on the eve of the Oct. 30 referendum, a prominent Boston economics writer said privately, "Canada is about the farthest thing from my mind."

The future of Canada is now deeply problematic: A protracted constitutional crisis, a radically decentralized confederation, an independent French-speaking republic on the St. Lawrence, and an imploding nation-state are all possibilities. The US can no longer afford to take Canada for granted. We will need an informed public, and a coherent and consistent policy, to creatively deal with the challenges that lie ahead.

First, the business and professional community needs to appreciate that the future of American trade and investment in Canada is tied to and contingent upon political and constitutional developments. Canada is by far our largest trading partner, taking nearly 40 percent of US exports, and it is a major focus of American direct and portfolio investment, much of it managed by institutional investors in Boston.

Canada is critically dependent on these relationships, sending 80 percent of its exports to the US and financing 40 percent of its huge public debt from foreign bondholders. Any threatened disruption here — problems with NAFTA, new trade barriers, or a default on government bonds — would greatly aggravate the domestic crisis in Canada,

and Canadian-American relations. Though this may be news to most Americans, the recent Quebec referendum campaign featured extensive debate on American trade and investment, with both sides warning of possible future upheaval. The American business community needs to tune in to this discussion.

By the same token, Americans knowledgeable about the intricate interplay between politics and business in Canada may find many hidden opportunities. A prominent Canada watcher at Salomon Brothers in New York spent referendum night buying Quebec bonds. "Some people thought I was crazy," he says, "but it was a profitable evening if you knew what you were doing."

The case for a serious and responsible approach to Canada obviously applies to official policy as well. In view of our economic interests, Washington may find it difficult to resist taking advantage of Canada's trade vulnerabilities at a time of political weakness. Moreover, it may well be tempted to float the idea of statehood for British Columbia and Alberta, as the US seriously contemplated doing during the last separatist crisis, in the 1970s.

But the path of enlightened self-interest calls for strict noninterference in Canadian affairs, codified perhaps in a policy statement disclaiming interest in predatory trade policies and in territorial acquisition. The arts of government are highly developed in Canada, but the current situation is unprecedented and extremely fragile.

THERE is also an urgent need for the intellectual community to make Canada a priority. The worlds of journalism, publishing, and higher education have done a poor job, historically, of educating American opinion on Canada and Quebec. In an authoritative recent study of American relations with Canada, University of Toronto Professor Robert Bothwell pointedly notes that "little of the material that follows is American in origin." It is pointless to hope for an enlightened policy toward Canada absent knowledgeable and vigilant public opinion to undergird and sustain it.

John English, a leading member of the Canadian Parliament's Committee on Foreign Affairs and International Trade and a Harvard-trained historian, comments: "Despite the integration of Canadian-American economic relations, and the enormous flow of people across the border, Canada is not well understood in your country. So Americans are tempted to draw quick and erroneous conclusions which are not borne out in the longer term."

There is no longer any excuse for the traditional American indifference toward our northern neighbor.

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