THE UNIVERSITY OF ALBERTA

ARCTIC COMPETITORS AND COOPERATORS: A HISTORY OF CANADA'S ECONOMIC RELATIONS WITH THE SOVIET UNION, 1921-1987

by

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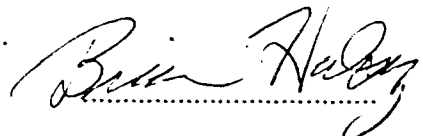

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The undersigned certify that they have read, and recommend to the Faculty of Graduate Studies and research, for acceptance, a thesis entitled "Arctic Competitors and Cooperators: A History of Canada's Economic Relations with the Soviet Union, 1921-1987" submitted by Brian Alexander Halsey in partial fulfillment of the requirements for the degree of Masters of Arts.

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Philip Lawson

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Date June 24, 1994

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This thesis is dedicated to my parents, Fred and Arlene Halsey. They were the first ones to spark my interest in history, among other things. I could not have asked for a better upbringing, and they have raised, nurtured, and supported me untiringly. I'm sure they will continue to do so, as much as they can, for the rest of their days.

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Brian Halsey

July 20th, 1994

I: Canadian-Soviet Economic Relations, 1921-1987: A Bibliographical Introduction

The purpose of this study is to analyze Canadian-Soviet economic relations from 1921 to 1987. These dates were chosen for specific reasons. The history of Canadian-Soviet trade began in 1921 with the signing of the Anglo-Soviet trade agreement, and it was towards the end of 1987 that the Soviet leadership began to alter its state trading institutions so that they were no longer recognizable as traditionally "Soviet."[1] The period from 1921 to 1987 will be further divided into three sub-periods, each of which will be dealt with in a following chapter - (1) the inter-war period (1921-1939); (2) the Second World War and the beginning of the Cold War (1939-1955); and (3) Khrushchev and beyond (1956-1987). Although each period is special and different for its own reasons, an attempt will be made to discern streams of historical continuity between them. This analysis will then be presented in a final chapter.

To the best of my knowledge, there is at present no study in English which analyzes Canadian-Soviet economic relations for the period presented.[2] Nevertheless, there is enough material on shorter periods and related issues to form a concrete interpretive framework on the topic. Furthermore, there is primary material in the form of newspapers, memoirs, Canadian government documents, and Soviet and Canadian statistics and trade

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[1] For an analysis of this legislation, and also for a selection of some pertinent extracts, see Hermann Clement, "Changes in the Soviet Foreign Trade System," *Soviet and Eastern European Foreign Trade*, Vol: XXIV, No.4 (Winter, 1988-89): 3-94.

[2] The only work in English that deals with the entire period is a brief unpublished statistical synopsis. See Ian M. Drummond, "Canadian-Soviet Trade and Competition from the Revolution to 1986" (Unpublished paper, 1987). There is only one study in Russian which covers the entire period. See B.I. Alekhin, I.B. Runov, *Sovietskovo-kanadskoe economicheskoe sotrudnichestva* (Moscow, 1983). This work has been neglected in Canadian academic circles. Surprisingly, it is not listed in J.L. Black, *Soviet-Canadian Relations, 1917-1985: A Bibliography* (Ottawa: Institute of Soviet and East European Studies, 1985); or in J.L. Black, *Soviet Perceptions of Canada, 1917-1987: An Annotated Bibliographical Guide* (Kingston: Ronald P. Frye & Co., 1989).

agreements.

The present chapter will introduce the secondary literature either directly on the topic, or on some of the topics related to it. It will discuss most of the major works specifically concerned with Canadian-Soviet economic relations, and handmaiden studies on political relations. This type of material is not overly voluminous, and can be encompassed adequately in a study of this size. In the case of secondary materials on topics which are only broadly related, such as East-West trade, the Soviet trading system, and Canadian foreign policy, the selection has been eclectic by necessity.

The topic of Canadian-Soviet economic relations is multifaceted. It intersects economic, political and historical concerns in an international forum. As a result, it is not always possible to limit the consideration of what is important to only bilateral relations. When studying this topic, it is especially necessary to include discussions on American and British policy so that the intense politicization of Canadian-Soviet economic matters can be more accurately understood.

For example, some of the first scholarly articles written about the famous Soviet-Canadian grain deals failed to mention that in 1963 the US began to engage in a similar trade with the USSR.[3] In fact, the Soviet grain purchases from the US were, at that time, the largest such exchanges in history.[4] Superficially, this omission may seem to be an innocuous one. After all, these articles were not a direct analysis of the US-Soviet grain deals. Rather, they were primarily concerned with providing Western Canadian farmers information about the potential for marketing their products to the Communist countries. Nevertheless, I believe that the exclusion of this point was an error on the part of these

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[3]See for example Ivo Moravcik, "Prospects for Soviet and East European Purchases of Canadian Wheat," in *East-West Trade: A Symposium* (Toronto: The Canadian Institute of International Affairs, 1966): 136-152; Ian M. Drummond, "Canada and East-West Trade," in *East-West Trade: A Symposium*, pp.153-167.

[4]David W. Hunter, *Western Trade Pressure on the Soviet Union: An Interdependence Perspective on Sanctions* (London: MacMillan, 1991).

authors, and had significant ramifications on their conclusions regarding the nature of the Canadian-Soviet grain deals.

Let us cite an illustrative example. In his essay on the topic, Ian M. Drummond concluded that the future of Canadian wheat sales to the USSR depended only upon their ability to pay for grain, the weather, and the ability of the Soviets and Eastern Europeans to improve their agricultural development.[5] It is true that these were, and have continued to be, important concerns for Canadian farmers who sell wheat to the East. But the exclusion of the American question, or for that matter, the international question, is questionable in light of later studies. Several of these works have more accurately portrayed Canadian-American competition for the Soviet grain market no less important a concern for Canadian producers as the developments in the Eastern bloc.[6] Perhaps the reason for this omission in earlier works is that the trilateral nature of the issue only became overtly apparent to scholars after 1980,[7] when the US government convinced Canada to join it in forming a grain embargo against the Soviets.

This embargo was formed by the US in reaction to the Soviet invasion of Afghanistan. For Canada, it became a fiasco. A poorly conceived US embargo strategy saw the under cutting of an important and growing Canadian market. At a conference on 12 January 1980, Canada and a group of allied nations agreed to limit their grain trade with the USSR. Furthermore, they consented not to take advantage of the embargo situation by selling additional wheat to the USSR, which could fill the vacuum created by the US absence from

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[5] Ian M. Drummond, "Canada and East-West Trade," in *East-West Trade: A Symposium*, p.156.

[6] See, for example Carl H. McMillan, "Canada's Economic Relations with the USSR in the 1980's" (Toronto: Center for Russian and East European Studies, 1989), p.12; Lenard Cohen, Paul Marantz, "Soviet-Canadian Trade: The Politics of Inter-Vulnerability," in *Canada and International Trade* (Vancouver: The Institute for Research on Public Policy, 1985): 90.

[7] While the scholarly community was apparently, at the time, oblivious to the problem of American competition in the Soviet market, it was noticed among Canadian business circles. See John R. Garson, "A Review of *East-West Trade: A Symposium*," *Canadian Forum* (February, 1968): 160.

the market. This agreement was entirely ineffective in achieving the desired results. The USSR still fulfilled its necessary import quotas by purchasing more grain from Argentina. In addition, US grain was supplied to the USSR through illegal trans-shipment channels.[8] Ironically, the US made money by selling to the USSR indirectly, and it even extended its market into the communist countries by signing a grain deal with China.

All of this had important effects upon the shipment of Canadian grain to the USSR. Yet as far as the case of the Canadian-Soviet grain trade goes, I have still only touched upon the tip of the proverbial iceberg. This historical problem has been further confused by both Canadian and Soviet scholars who have overrated these grain exchanges as a symbol of Canada's political independence from its southern neighbor. This intricate example of international political maneuvering, however, offers a glimpse of the multifaceted types of issues which Canadian-Soviet economic relations can encompass.

Nevertheless, bilateral relations are the major focus of this work. I have endeavored to show that in approaching questions of Canadian-Soviet economic relations some studies neglected altogether the broader international arena. This point is especially relevant for those periods where a lack of direct bilateral economic relations existed. Therefore, without getting bogged down in external considerations, this thesis will attempt to show how Canadian-Soviet relations fit into the broader framework of East-West relations. At present there are very few studies which have attempted to relate the two, even though they are inclusive by nature.

It is therefore appropriate to proceed with a discussion of the literature surrounding East-West economic relations *in toto* and the nature of the Soviet trading system itself. It is impossible to discuss any more than a sampling of the materials written on topics as diverse and complex as these.[9] Nevertheless, an elementary analytical framework will be provided

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[8]The process of the "trans-shipment" of commodities involves selling goods from one country to another through an intermediary firm based in a third party country. It will be discussed in more detail in chapter IV.

[9]The material is extensive. But see, for example Robert Starr ed., *East-West Business Transactions* (New

below.

Economic relations between the East and West have been inhibited at varying degrees throughout the Soviet period by mutual distrust and entirely different methods of conducting economic intercourse. From its inception, the USSR has followed foreign trade policies that differ considerably from those of the capitalist countries. While economic activity in the West was always regulated by government institutions to some degree, its range in the USSR was fully restricted by plans and directives initiated by the State Planning Commission, the Ministry of Foreign Trade, and the Ministry of Finance.

Before the Second World War, in the West, East-West trade was a seldom studied topic. Rather than focus upon economic relations, Western scholars chose to concentrate their efforts on understanding Soviet economic development. In this capacity they were always, albeit in varying degrees, critical of the Soviet production and distribution system. As a result, governments in the West were largely wary about entering into trade relations with the USSR. Nevertheless, they possessed, at best, only a peripheral understanding of the Soviet intentions in conducting trade.

In 1946, Alexander Baykov, a professor of economics at Princeton, wrote the first Western study on the Soviet international trading system.[10] A flood of material on this

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York: Praeger Publishers, 1974); Samuel Pisar, *Coexistence and Commerce: Guidelines for Transactions Between East and West* (New York: McGraw Hill Co., 1971); Paul Marer, John Michael Montias eds., *East European Integration and East-West Trade* (Bloomington: Indiana University Press, 1980); Gordon B. Smith ed., *The Politics of East-West Trade* (London: The Westview Press, 1984); Philip E. Uren ed., *East-West Trade: A Symposium* (The Canadian Institute of International Affairs, 1966); Alexander Gerschenkron, *Economic Relations with the USSR* (New York: The Committee on International Economic Policy, 1945); Zbigniew M. Fallenbuchl, Carl H. McMillan, *Partners in East-West Economic Relations: The Determinants of Choice* (New York: Pergamon Press, 1980); Alexander Bykov, *Soviet Foreign Trade* (New Jersey: Princeton University Press, 1946); Fredric L. Pryor, *The Communist Foreign Trade System* (Cambridge: The M.I.T. Press, 1963); Glen Alden Smith, *Soviet Foreign Trade* (New York: Praeger Publishers, 1971); Franklin D. Holzman, *Foreign Trade Under Central Planning* (Cambridge: Harvard University Press, 1974) and also by Franklin D. Holzman, *The Economics of Soviet Bloc Trade and Finance* (London: The Westview Press, 1987); Leonard E. Hubbard, *Soviet Trade and Distribution* (London: MacMillan and Co. Ltd., 1938); J.D. Yanson, *Foreign Trade in the USSR* (London: Victor Gollancz Ltd., 1934); V.P. Gruzinov, *The USSR's Management of Foreign Trade* (New York: M.E. Sharpe, Inc., 1979); James Henry Griffen, *The Legal and Practical Aspects of Trade with the Soviet Union* (New York: Praeger Publishers, 1969); William Nelson Turpin, *Soviet Foreign Trade: Purpose and Performance* (Lexington: D.C. Heath and Co., 1977).

[10]Alexander Baykov, *Soviet Foreign Trade*.

topic followed the publication of his work. But success in focusing on the important debates has eluded scholars. In 1977, in discussing the voluminous post-war Western scholarly writing on East-West trade, William Nelson Turpin put forth the erroneous view that a "consensus among American, British, German, and other scholars"[11] had developed. He proposed that this consensus argued that "the general outlines of Soviet foreign trading organization and operational methods, like those of the planned economy of which they are a part, have remained essentially the same since 1928."[12]

In using the term "consensus," Turpin meant to demonstrate that there was general agreement that the Soviets had developed a centrally planned economy entirely different from that of the West, and that they had consistently traded with the capitalist powers for the purpose of obtaining high technology goods which would allow them to upgrade their industrial superstructure. Turpin provided a survey of several of the works on the topic of East-West trade, and quoted a number of them to support his argument. Few scholars would debate the issues upon which Turpin's consensus depends. But Turpin's study is intended to be a statistical survey in which he proves the validity of speculations on the part of so-called "consensus" scholars. Since he is not focusing in on any controversial issues, and controversial issues did indeed exist, this seems to be a trivial exercise.

In what he treats as an unimportant side issue, Turpin states that some scholars have added a twist to the accepted interpretation. This "twist," as he calls it, first appeared in the works of Franklin D. Holzman, who used the term "autarky" to describe Soviet trading policy with the West.[13] By using this term, Holzman meant that the Soviets actively sought to limit their trade with the West to an absolute minimum, and eventually to achieve self-

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[11]William Nelson Turpin, *Soviet Foreign Trade: Purpose and Performance*, p.1.

[12]Ibid., p.4.

[13]Franklin D. Holzman, "Foreign Trade," in *Economic Trends in the Soviet Union* (Cambridge: Harvard University Press, 1963): 301-2.

sufficiency in production. Turpin mentioned that other scholars have adopted Holzman's argument.[14] In addition, Turpin correctly points out that before Holzman, few scholars stated specifically that the pursuit of autarky was one of the primary goals of the Soviet leadership in its trade practices.

More significantly, however, another group which Turpin does not mention has not been so willing to embrace the philosophy that the Soviet state always pursued autarky in trade. Furthermore, it seems that the "anti-autarky" argument has become dominant in most of the works published during the last twenty years. Before the validity of this argument is explored, however, we will examine the contradictions which exist within the argument of the "autarky" school.

Even Holzman admits that his model is inaccurate in describing earlier periods of Soviet history such as those of the Civil War and New Economic Policy (hereafter NEP). Nevertheless, he dismisses these periods as formative years, and states that they are not indicative of any sort of trend among the leadership's policies. Furthermore, while he admits that his model fits more precisely into the Stalinist period than into that which followed, he adamantly supports the idea that it is still adequate for the post-Stalinist era.[15]

Scholars have supported the "autarky" theory by quoting Soviet and Council for Mutual Economic Assistance (hereafter CMEA) government statements, and using economic data in a procrustean fashion. For example, in Frederick L. Pryor's classic, *The Communist Foreign Trade System* (1963), a speech given by the president of East Germany in 1951 is quoted which undoubtedly indicates the following of an autarkic policy:

> We will make ourselves very quickly independent from the arbitrary measures of the American imperialists; the industry of the DDR will produce out of its own means the important products which we now import from... the capitalist countries, or else we will import these goods from the

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[14]For example, see Fredrick L. Pryor, *The Communist Foreign Trade System* (Cambridge: The M.I.T. Press, 1963).

[15]Franklin D. Holzman, *Foreign Trade Under Central Planning*, pp.52-3.

.countries of the camp of peace.[16]

Such statements on the part of Soviet and CMEA officials were common during the Soviet period, and especially during the time of Stalin. Therefore, on this point the "autarky" interpretation may tentatively be seen as the correct one to take. These statements, however, were intended for propaganda purposes, and only reflected partially the actual behavior of the USSR and the CMEA in trade with the West.

In addition, when Pryor attempts to use statistics to show that the USSR and its Eastern European neighbors pursued autarky, his conclusions are fraught with ambiguity. Difficulties arise because he cannot reconcile the question of "what might have been" in relation to "what actually is." This problem, using Pryor's economic terminology, exists within the realm of "actual trade" versus "trade potential."[17] He claims that a pursuit of autarky on the part of the Soviets and the CMEA governments is clearly evident from statistics for the 1950's which show a per capita trade turnover with the West which is much lower than the amount of trade which could have taken place.[18]

In other words, Pryor is saying that during the 1950's, the USSR and the CMEA nations consumed their own industrial products, and in fact chose to reinvest in themselves, rather than searching externally for profits in trade with the West. Nevertheless, considerations such as Western embargoes and tariffs, or the inferior quality and thus negative marketability of Eastern goods, are not mentioned in Pryor's study. Largely because of these factors, Alec Nove, professor emeritus in economics at the University of Glasgow, has noted that the USSR and the nations of the CMEA "were compelled to trade to an increasing extent with each other."[19]

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[16]Cited in Frederick L. Pryor, *The Communist Foreign Trade System*, pp.23-4.

[17]Ibid., pp.26-7.

[18]Pryor's figures for trade potential were based upon total industrial production.

[19]Alec Nove, *An Economic History of the USSR* (London: The Penguin Press, 1982), p.316.

Therefore, the conclusions of the "autarky" school are questionable. Autarky was the stated goal of the USSR and CMEA governments at this time, and some statistical evidence superficially supports it. Owing to a number of other factors, however, it is impossible to prove empirically that this was the case. In fact, one could infer that the formation of the CMEA in January 1949 shows that the Soviet autarky policy pursued during the Stalin regime had failed, and that the Soviet government was practicing a form of imperialism in Eastern Europe.

Nevertheless, in absence of any other data one might tentatively agree with the "autarky" argument. It is not surprising that it was the dominant one for a number of years. In circumstances such as those that faced the USSR during the post war period, the pursuit of autarky is not an unusual policy. Many countries have professed to be seeking it as an eventual goal without actually practicing it. It follows that a nation would want to be self-sufficient in production, especially if it was reliant on antagonistic powers for raw materials or manufactured goods. The most important issue in this situation, however, is to what extent this goal is realized in practice. If a nation says it is seeking autarky, but is forced to import an array of diverse goods, it is then unrealistic in its outlook. A strong argument can be made that this was the case with the USSR for the majority of its existence.

There is evidence to suggest that official government statements did not form the basis of active policy. In addition, Soviet policy statements were not always based upon an adherence to Marxist-Leninist theory. Rather, when the Soviet elite preached autarky in trade, it was propagandizing against an antagonistic, anathematic, and anti-Soviet Western policy to legitimize its existence. While Western sanctions in response to Soviet aggression may have been understandable, aggression on the part of the USSR, in itself, does not constitute autarky.

In 1974, Samuel Pisar stated that "Soviet attitudes on trade with the capitalist world

have gone through several contradictory stages."[20] He argues that in the 1960's and 1970's, with the liberalization of Western trade policy towards the East, what was actually occurring was not a warping of the consensus model as Holzman was proposing, but rather, an all out change in the way which the Soviet economy interacted with the West. Pisar convincingly argues that this change encompassed a parallel growth between the communist and the capitalist worlds, in which both began to develop "common institutional structures" for trade.[21] Furthermore, Pisar speculates that few Soviet bureaucrats involved in international trade in the 1960's and 1970's actually believed in the dogma that their society professed.

But how could this be the case? As Holzman, Pryor, and others have pointed out, the governments of the USSR and CMEA nations officially professed to be eagerly seeking trade with the West only in essential goods. Nevertheless, Pisar explains that groups within the Soviet and CMEA bureaucracy began to seek out relations with the West for the purpose of exchange for profit and the fulfillment of the plan, irrespective of pontifications from above. In addition, the term "essential goods" was vague enough to mean different things to different people.

To put into perspective how such contradictory trends could exist simultaneously in the Soviet system, it might be helpful to bring up the old adage that "the right hand often does not know what the left hand is doing." One scholar has noted that the Comintern, at any given time, may not have been aware of what the Soviet Ministries of Foreign Trade or Finance were up to.[22] It also holds true that a provincial administrator may not have been aware of what a factory manager in his area was doing to fulfill the plan, or to rise up the

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[20]Samuel Pisar, *Coexistence and Commerce*, p.2.

[21]Ibid., p.8.

[22]Aloysious Balawyder, *Canadian-Soviet Relations Between the Wars* (Toronto: University of Toronto Press, 1972), p.82.

political nomenclatura. What is key to my argument, therefore, is that because Western trade policy towards the East liberalized in the 1960's and 1970's, it became possible for the Soviets to import a variety of Western goods which official policy did not sanction. The primary difficulties which arose for Eastern enterprises in these endeavors were how to legitimize themselves within the system, how to convert hard currency, and how to avoid amassing large trading debts.

In light of several recent studies,[23] it has become evident that it is inappropriate for Western scholars to use the term "autarky" in reference to the trade policies pursued by the Soviet state. In addition, during the early Cold War, an adherence to the policy of autarky by the USSR may have been an artificial situation. It has been normal practice for Western governments to intervene politically into the conduct of East-West trade, and upset the conduct of markets regardless of Soviet desires for their products. During the post-Stalinist era, in its relations with the USSR, the US in fact pursued more of a policy of autarky than did the Soviets. Export bans existed for products such as computers, nuclear weapons and microwave ovens. Even when the US began to sell the USSR as seemingly innocuous a product as grain, Congress went through lengthy discussions over the issue of whether or not this exchange was morally justifiable.[24]

Another aspect of the "autarky" argument which has recently come to be criticized is that its supporters have never been able to give it a theoretical basis. Rather, as noted above, they have quoted flat and dogmatic policy statements. It is true that traditional Marxist-Leninist dogma might have rejected trade with the capitalist countries altogether. Marx's somewhat ambiguous statements on the nature of trade indicate that he believed it to be one

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[23]For an overview of Western sanctions against the Soviet Union see David W. Hunter, *Western Trade Pressure against the Soviet Union: An Interdependence Perspective on Sanctions* (London: Macmillan Press, 1991); for an overview of western goods which have not been suitable for trade with the East, see Gary K. Bertsch ed., *Controlling East-West Trade and Technology Transfer: Power, Politics and Policies* (Durham: Duke University Press, 1988).

[24]David W. Hunter, *Western Trade Pressure on the Soviet Union*, pp. 97-8.

of the means through which a capitalist country could solve an economic crisis. On the other hand, Marxist scholars might have tried to justify the existence of trade with the West using a dialectical approach. Whatever the case, the argument that policy never followed theory is sound.

During the inter-war period, Soviet product dumping was indicative of an economy desperate for trade with Western powers that had placed embargoes on the importation of Soviet made goods.[25] The Second World War was an exception because the political situation had been turned on its head. Nevertheless, during the post-Stalinist era, when Western Europe and Canada were less embroiled in the moral dilemma of trade with the East than was the US, the USSR welcomed Western trade negotiators and the credits of their financial institutions.

It has been argued convincingly that the autarky practiced by the USSR during the latter Stalinist period was a reaction to hostile encirclement and international trade restrictions, to a greater extent than it was the conscious pursuit of economic isolation from the beginning.[26] My own research on the Canadian aspect of this issue supports this interpretation.[27] Just as any capitalist power would have done, the Soviets began to embrace the profit motive in trade, and to pursue aggressive trading policies with a "separate regime for international commerce."[28] From such a perspective, the only remaining vestige of what Turpin has misleadingly called the "consensus" model, would be that of central state planning.[29]

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[25]The term "dumping" signifies a one shot sale of a large quantity of a particular commodity into a market at well below the established world price for that commodity. Usually, dumping is considered illegal, and is conducive to great profits for those involved, but a disrupter of consistency in trade.

[26]Agota Gueullette, "Soviet Concepts of Foreign Trade, 1917-1945," *Soviet and East European Trade* (Fall, 1991): 3-23.

[27]A more detailed discussion of this issue is contained in chapters II, III, and IV.

[28]Samuel Pisar, *Commerce and Coexistence*, p.250.

[29]Ibid., p.9.

In conducting trade with the Eastern bloc, the Western business man made his approach with caution. While he may have feared the closed nature of the Soviet system, and the rigid structure of its bureaucracy, he was also subject to the will of Western policy makers who, especially during the 1930's, 1950's, and 1980's, whimsically told him what he could or could not trade. The resulting conclusions have been that the Soviets were more open to ideas of trade than scholars who have supported the "autarky" argument would admit. As has been shown above, for the most part, trade between the East and West was not held back by a Soviet policy of autarky, but by Western reactions to real and perceived Soviet aggression and international espionage.

The Western method of trade has been traditionally based upon the free market. This system has stressed the importance of open competition, the privatization of capital, the profit motive, and a regulation of supply and demand based upon price-quantity adjustments.[30] These methods of economic intercourse were inadequate for interaction with communist states where only the top one percent of the government bureaucracy had control over the legal exchange of international goods. What needed to emerge was cooperation between East and West at the highest levels; and again, such joint-venture projects are especially relevant to the forum of Canadian-Soviet economic relations.

The first scholarly assessment of Canada's relations with the USSR written by Canadian academics appeared in a study published by the Canadian Institute of International Affairs entitled *Canada Looks Abroad* (1938). This work was also the first account which provided Canada with a perspective on its own foreign policy.[31] The view put forward was that Canada's relations with the USSR were of little importance. Therefore, it was believed to be appropriate that they were governed through British

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[30]Frederick L.Pryor, *The Communist Foreign Trade System*, p.19.

[31]J.B. Brebner, "A Review of R.A. MacKay, and E.B. Roger's *Canada Looks Abroad*," Vol. LIV, No. 1, *Political Science Quarterly*, (Spring 1939): 109-110.

foreign office channels.[32] The failure to criticize Canadian government policy towards the USSR is the major shortcoming of this chapter. Its value, however, is that it provides a discussion of what had been hitherto a topic that had been ignored completely. It was the only work to appear for several years to mention the Soviet trade delegation to Montreal from 1924 to 1927, and it provided a scholarly explanation for Canada's general unwillingness to establish lasting trade relations with the USSR during the inter-war period.

A few years later, Arthur Davies published *Canada and Russia, Neighbors and Friends* (1944). It was the first monograph to provide an assessment Soviet-Canadian cooperation during the Second World War. Nevertheless, this brief book was an inadequate journalistic endeavor which mirrored the optimism of the war-time period, but did not portray accurately the reality of the state of relations which had begun to deteriorate even in 1944.

In 1961, a short chapter on Canadian-Soviet relations appeared in James Eayrs's *Northern Approaches*. This piece was more scholarly in perspective than that of Davies. It was limited, however, in that it dealt only with the years 1919 to 1927. Nevertheless, this chapter of Eayrs's work was useful on several counts. It provided a necessary analysis of Canadian aid to Russia during the famine of the early 1920's. In addition, it discussed in a balanced manner topics such as Canada's *de jure* recognition of the USSR in 1924, and the Soviet-Canadian counterfeiting scandal of 1925.[33] Furthermore, in contrast to the study by MacKay and Rogers, Canadian government policies were criticized on the grounds of their over reaction to the threat of Russian Bolshevism in labor disturbances. Nevertheless, there is still a reluctance in this work to admit that Canadian foreign policy makers were harming the Canadian economy when they unquestioningly adhered to decisions made in

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[32]R.A. MacKay and E.B. Roger, *Canada Looks Abroad* (London: Oxford University Press, 1938), pp.170-180.

[33]James Eayrs, *Northern Approaches* (Toronto: T.H. Best Printing Co. Ltd., 1961), pp.117-143.

Britain.

It was not until the mid-1960's that scholarly studies appeared which were written specifically on Canadian-Soviet relations. The first of these was *East-West Trade: A Symposium* (1966), in which four out of the ten contributors discussed aspects of Canadian-Soviet trade relations.[34] Unfortunately, these essays were limited in their coverage. In particular, there is a failure to confront some of the important political issues which were being discussed in regards to East-West trade at the time, as they related specifically to the forum of Canadian-Soviet relations. For example, nowhere in this volume is there a suggestion that Canada needed to develop separate policies or institutions for trade with the East, although there were general proposals by Pisar, and Pryor, who wrote on the broader forum of East-West trade in this symposium.[35] There is also no attempt by any of the contributors to place economics into an historical perspective, and the period before 1954 is not discussed.

In 1970, Ronald Adams penned an important and highly original master's thesis on the Soviet Trade mission to Canada, 1924-1927.[36] It is still the most insightful treatment of this topic today. Adams wrote the first scholarly discussion of the 1924-1926 Canadian government seizure of the personal library of A. Yazikov, the head of the Soviet trade delegation. In addition, he provides the most thorough analysis to date of the Soviet counterfeiting scandal of 1925, and the termination of the Soviet trade mission to Canada by William Lyon MacKenzie King in 1927.

While Eayrs passively criticized the Canadian government for blindly following Britain in its actions regarding the anathemization of the USSR, Adams more correctly is

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[34]This symposium was held at the Canadian Institute of International Affairs in Toronto.

[35]Frederick L. Pryor, "The Organization of Trade in the European Communist Nations and the Implication for East-West Trade," in *East-West Trade: A Symposium*, pp.54-55.

[36]Ronald Adams, "MacKenzie King and the Soviet Trade Mission to Canada," (Unpublished M.A. Thesis, University of Ottawa, 1970).

aggressive in his criticism. As both authors point out, O.D. Skelton and MacKenzie King ignored what they knew to be accurate prognosticators among the British Liberal and Labour parties who saw "the 'Arcos' raid as something of a 'stunt' designed for electoral purposes"[37] by Winston Churchill and other British Conservatives. Furthermore, Skelton and MacKenzie King knew of no evidence to indicate that the Soviet delegation was conducting espionage in Canada.[38]

The only study which exists on Canadian-Soviet relations between the wars was written by Aloysious Balawyder of the University of British Columbia in 1972.[39] Balawyder's work is a thorough and balanced scholarly investigation into the period, which copiously references Soviet Communist party Congresses and Canadian and British government archives. He gives adequate coverage of topics already dealt with in earlier works, and he provides necessary coverage of issues previously ignored up to that point. For example, Balawyder gives the first analysis of Canadian intervention into Russia during the Civil War, 1918-1921. In addition, he elucidates some of the connections and divisions between the Comintern, Canadian communists, and the CCF, in the 1930's. Furthermore, he discusses the extent to which Soviet dumping practices undermined Canada's international markets, the resulting Canadian embargo of the USSR in 1931, and Canada's reextension of trade feelers in 1936.

Balawyder is less successful in clarifying other problems. For example, he is unable to elucidate the extent of Canadian contributions to the Russian Relief fund after the First World War.[40] He also presents a mildly distorted picture of the extent to which R.B.

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[37]James Eayrs, *Northern Approaches*, p.140.

[38]Ronald A. Adams, "MacKenzie King and the Soviet Trade Mission to Canada", pp. 128-135.

[39]Aloysious Balawyder, *Canadian-Soviet Relations between the World Wars* (Toronto: The University of Toronto Press, 1972).

[40]Ibid., p.54.

Bennett's government understood the USSR as an economic competitor.[41] In addition, Balawyder's study does not cover the period from 1936 to 1939, even though the title of the work says that it does. These inadequacies, however, are less the result of poor scholarship than the inability to access sources and to cover everything adequately in a study of its size.

In 1977, Donald Page and Donald Munton published an article which discussed Canadian perceptions of the USSR at the beginning of the Cold War.[42] Their conclusions, based largely upon a memorandum by Escott Reid, then assistant undersecretary for External Affairs, was that the Canadian government thought that the USSR sought only political and not military expansion. As a result, David J. Bercuson states that Munton and Page proposed that Canadian policy makers thought that the USSR should be treated "firmly but also fairly."[43] I fail to understand what exactly this means, but Page and Munton propose that overall, Canadians tended to be much more liberal minded towards the USSR than their US counterparts.

Using different source materials, Bercuson has argued successfully that Munton and Page's perception of this period is inaccurate.[44] Bercuson claims that Reid's views were only representative of one group in the Department of External Affairs, and that another group, composed of Maurice Pope and Dana Wilgress, was more cautious in its view of the Soviets. Furthermore, at this time, Lester B. Pearson, like Senator McCarthy, believed that an East-West military confrontation was inevitable.

Since the 1970's, the Institute of Soviet and East European studies at Carleton has been

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[41]This "distortion" will be discussed in chapter II.

[42]Donald Page, Donald Munton, "Canadian Images of the Cold War, 1946-7," *International Journal*, Vol.VI, No.3 (Summer 1977): 577-604.

[43]David J. Bercuson, "A People so Ruthless as the Soviets: Canadian Images of the Cold War and the Soviet Union, 1946-1950" (Unpublished Conference Paper, 1986), p.1.

[44]Ibid., pp.1-27.

publishing short essays on Canadian-Soviet economic and political relations. These studies, as a group, have fallen under the name of the *East-West Project*. One of the most useful studies produced for this project is Jozef Wilczynski's work on Canada's and Australia's involvement in East-West bank financing.[45] This article is one of the few to place Canadian-Soviet economic relations into the broader perspective of East-West exchanges.

Wilczynski delineates a picture of antagonistic East-West financial relations during the beginning of the Cold War period. He explains that at this time Western banks had erected a "'Financial Curtain,' paralleling the Iron Curtain." In addition, he notes that the Soviets categorized capitalist banks as members of "finance capital;" labelling them in Marxist phraseology as ultimate social parasites.[46] Nevertheless, he proposes that the Soviets did not view Western banks in this way, and that Soviet critisisms of them can be viewed as rhetoric intended to mask anger at being excluded from capitalist markets. However the early Cold War period is perceived, for the 1960's and 1970's, Wilczynski's argument that Western and Eastern economies had shed some of their extreme capitalist and socialist ideological features to discover that they had more in common than in the past, is justifiable.

While this article regards the potential for East-West and Canadian-Soviet cooperation in a positive light, it also points out some of the potential pitfalls for Canada in engaging in too close an economic involvement with the USSR. For example, several Canadian banks had lent funds to the Soviets for projects which were not directly related to financing the purchase of Canadian products. One example is the Toronto Dominion Bank's extension of $400 million dollars in credits to the Soviet Union in 1975. Wilczynski points out that

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[45]Jozef Wilczynski, "East-West Banking and Finance and their Relevance to Australian and Canadian Interests," (Ottawa: Institute of Soviet and East European Studies, 1978).

[46]Ibid., p.3.

while such ventures might be profitable in the short term, if these loans were used to upgrade industries competitive with Canadian metallurgy, oil, gas, or grain production, they may not have been so prudent in the long run.

For several years the *East-West Project*, in which Wilczynski's article appeared, was under the guidance of Carl McMillan, former chairman of the institute. The majority of these articles were either written or co-written by McMillan himself.[47] His essay "Canada's Post-war Economic Relations with the USSR: An Appraisal" represents an adequate synopsis of his work. This essay is complex, however, and filled with important insights and data. Nevertheless, it contains several basic concepts, which shall be outlined below.

McMillan believed that there was great potential for Canadian-Soviet cooperation, but that only a little of this potential was being realized in practice. He provides two reasons why this was the case. First, there were historical and political factors which caused mutual antagonism. Second, he cites Canadian-Soviet competitiveness as an additional inhibiting factor to the development of bilateral economic relations. In this respect, he preaches a cautionary approach to trade with the Soviets. For example, if a Canadian oil-developer were to aid a Soviet oil venture in Siberia by providing it with improved technology and a staff which trained the Soviet workers in the use of this technology, it might be "shooting itself in the foot." This would especially be the case if the result for the Canadian firm was payment in crude, and an improved competitor in foreign markets.[48]

McMillan notes that the most significant developments in Canadian-Soviet trade occurred during the decade of the 1970's. This period witnessed not only the growth, but

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[47]See Carl McMillan, "Export Diversification: The Case of Canadian Trade with the USSR and Eastern Europe" (Ottawa: Institute of Soviet and East European Studies, 1981); Carl McMillan, "The Political Economy of Tripartite (East-West-South) Industrial Cooperation" (Ottawa: The Institute of Soviet and East European Studies, 1980); John Hennigan, Carl McMillan, "The Participation of Canadian Firms in East-West Trade: A Statistical Profile" (Ottawa: The Institute of Soviet and East European Studies, 1979); Carl McMillan, "Canada's Postwar Economic relations with the USSR: An Appraisal" (Ottawa: The Institute of Soviet and East European Studies, 1979).

[48]Carl McMillan, "Canada's Post-War Economic Relations with the USSR," p.30.

also the diversification of trade into fields such as crown corporations, private firms and chartered banks. McMillan proposes that during this decade, the USSR witnessed a shift in its external economic policy, and was more receptive to trade relations with Canada than ever before. In addition, he suggests that in the 1970's, Canada's external policy towards the USSR diverged from that of the US, and that this constituted a symbol of Canada's political autonomy from its southern neighbor.[49]

This latter point is highly questionable. While it is true that Canada's foreign affairs planners largely formulated their policies irrespective of US demands during this period, McMillan overstates the case that political independence was paramount in the initiatives taken by the Canadian government. As I will argue below, this development was more a result of Canada's seeking out the most economically profitable path. At any rate, it is evident that the post-war policies which Canada followed in its trilateral relations with the US and USSR were very different from her trilateral relations with the USSR and Britain during the inter-war period.

The Canadian government followed British orders for exclusively political reasons. We know this because policy often was carried out to Canada's own economic detriment. For example, after the "acros" scandal of 1927, the Soviet trade missions in both London and Montreal were terminated. Nevertheless, the British continued to trade some goods and maintain minimal diplomatic ties with the Soviets. Paradoxically, at the behest of the British government, Canada cut her trade and political ties with the USSR all together. This was rarely the case in Canada's relations the US during the Cold War. But this does not indicate that Canada's policy *vis-a-vis* the USSR during the post-war period was determined by initiatives for political independence from the US as McMillan has claimed.

McMillan's essay on post-war Canadian-Soviet economic relations was included as the keynote article in an important compilation edited by Aloysious Balawyder, *Canadian-*

[49]This issue will dealt with in more detail in chapter IV.

Soviet Relations, 1939-1980 (1981). One of the strengths of this compilation is that it avoids discussing the grain trade, a subject already covered adequately elsewhere. Instead, articles are dedicated to several neglected topics, such as Canada's war time relations with the Soviets, the concerns of ethnic Ukrainian Canadians in Soviet-Canadian relations, the career of Dana Wilgress as Canada's ambassador to the USSR from 1943 to 1948, and a discussion of Soviet perspectives of Canada.

In 1985, Lenard Cohen and Paul Marantz published another study on Canada's post-war relations with the USSR.[50] This work attempted to put into perspective the improvement of Canadian-Soviet relations in the 1970's, with the deterioration of these relations in the early 1980's. These authors viewed the 1970's, characterized as they were by the Soviet economy's unprecedented reliance upon Western imports, as a largely artificial period in both its political and economic dimensions.

While it is true that the 1970's were without parallel in the economic sphere of Canadian-Soviet relations, politically they had historical precedants.[51] During the 1970's, the USSR was temporarily in a position where it could afford to buy expensive Western goods. The prices of oil, gold, and other metals, their major exports, rose dramatically in value on the world market.[52] This situation changed in the early 1980's, when the price of these resources returned to normal levels. In relation to this fact, however, Cohen and Marantz have failed to recognize one of Wylczynski's points that I have noted above. The change in international prices contributed to the deterioration in East-West trade in the 1980's, as fewer Western financial institutions were willing to extend credit to the Soviets

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[50]Lenard Cohen and Paul Marantz, "Soviet-Canadian Trade: The Politics of Inter-Vulnerability," in *Canada and International Trade*, pp. 63-118.

[51]It is true that all historical periods are different, and that historians should be cautious in comparing any two periods to one another. Nevertheless, it is also the case that many historical eras possess an amount of continuity and discontinuity in relation to each other. I believe that while Cohen and Marantz are correct in stressing the uniqueness of the USSR's economic position during the 1970's in relation to all of the other periods of its existence, they are incorrect to do so for the USSR's political situation during that decade.

[52]Ibid., pp.68-9.

in the 1980's than in the 1970's.

Cohen and Marantz point out that at this time the Soviets again began to seek self-sufficiency (or autarky by another name) in production, as the Eleventh Five-Year Plan for 1981-1985 indicates.[53] These authors attribute the change in attitude of the Soviet leadership at this time to a lack of long term trust toward Western trading partners, who, in the early 1980's, had backed out of trade agreements, expressed overtly anti-Communistic sentiments, and put in place trade embargoes, in response to Soviet aggression.

Politically speaking, the developments of the 1980's are similar to those of the 1930's, and early Cold War, in that Soviet aggression caused a lowering in the aggregate volume of trade. Nevertheless, the 1970's, a period in which few international crises occurred between East and West, are similar to the mid-1920's, as well as the late 1950's and early 1960's. Therefore, Cohen and Marantz's article lacks historical perspective, and their conclusion that the period of the 1970's was unique in its political dimensions, at least in terms of Canadian-Soviet relations, is largely incorrect. Just as the early 1980's has been seen as a return to the anti-Soviet conservatism of the early post-war era, the 1970's may be seen as a return to Western experimentation and exchanges with the USSR, which occurred during earlier decades.

In 1989 another important study on Canadian-Soviet relations appeared. This work was a compilation of essays edited by Larry Black and Norman Hillmer.[54] Several of these articles are personal reminiscences about the origins of the Cold War. Their authors include John W. Holmes, a well known Canadian scholar on international affairs, and Ilya Ehrenburg, a Soviet visitor to Canada in 1946. In addition, Leigh E. Sarty discusses Canadian reactions to the Soviet Blockade of Berlin in 1948-49. Sarty, like McMillan,

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[53]Ibid., pp.72-3.

[54]J.L. Black and Norman Hillmer eds., *Nearly Neighbors: Canada and the Soviet Union: From Cold War to Detente and Beyond* (Kingston: Ronald P. Frye and Co., 1989).

argues that Canada's unwillingness to respond to US and British demands for aid during the Berlin crisis indicates a trend towards political independence from her great power allies. Sarty has done a convincing job of supporting her thesis strictly with regards to the Berlin crisis, but she has not shown that Canadian foreign policy makers sought to meet these imperatives during the entire post-war period.

Several of the articles in this compilation examine Soviet perceptions of Canada during the Cold War period, and an assessment of current Soviet perceptions of Canada is provided by Dennis Sowtis.[55] Sowtis argues that the Marxist-Leninist intellectual framework, by the 1970's, was flexible enough to allow for substantial debate. Furthermore, he proposes that Soviet researchers believed genuinely in what they were writing, even though their conclusions have been heavily criticized by Canadian historians. Sowtis defends adequately the former proposition, but he is not successful in supporting the latter argument.

In this compilation, William McGrath provides an informed scholarly assessment of Soviet writers on Canada during the period from 1964 to 1974. McGrath is well placed to do so, as he wrote a more general assessment of Soviet perspectives on Canada for the post Second World War period in the compilation edited by Balawyder. In these articles, McGrath delineates the changes that took place over time in Soviet attitudes towards Canada.

He notes that in the late 1940's and early 1950's, Soviet writers saw Canada exclusively as an economic and cultural extension of the US. This view was altered slowly, to the point where, in the 1980's, Soviet works on Canada emphasized Canadian-Soviet cooperation, and discussed contentious issues between Canada and the US. Despite the changes in Soviet attitudes towards Canada which he mentions, however, McGrath also points out

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[55]Denis Sowtis, "Recent Soviet Academic Writing on the Political Economy of Canada," in *Nearly Neighbors*, pp.119-133.

aspects of continuity in Soviet writing on Canada. He argues, for example, that "as might be expected of Marxist-Leninists" all Soviet authors focus attention upon "the economic base of Canadian social formation," and the so-called "deep fundamental antagonistic contradictions" which will one day cause its destruction.[56] The major flaw of McGrath's approach is that he is not critical of Soviet sources for their tendency to ignore historical events. He might be excused, however, as his articles were not intended as a direct criticism of the Soviet perspective on Canada, but rather as an analysis of its contents.

In 1986 Janice Gross Stein published an essay about perspectives on Canadian-Soviet relations. Her work was primarily intended to provide political models with which to analyze Canadian-Soviet interaction, and it is eloquent and cogently argued in this capacity. In addition, Stein is correct in stating that more Canadian studies need to be written which discuss Soviet perceptions of Canada.[57] Nevertheless, she overstates her case. She also fails to cite McGrath's earlier article, even though she brings up some important political concerns which have been neglected.

Soviet sources about Canada, not to mention Canadian-Soviet relations, or Canadian-Soviet trade, were non-existent before the Second World War. On the other hand, during the inter-war period, the Soviet perspective on foreign trade with the West was clearly stated. It was marked by tendentious justification of policy, and the use of incomplete and exaggerated statistics. While such tendencies were typical of the Soviets at this time, they were not always suspected by contemporaries in the West. An example of a Soviet study from this period is *Foreign Trade in the USSR* (1934) by J.D. Yanson, the director of the Foreign Trade Research Institute in Moscow during the 1930's.[58] In Yanson's work all

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[56]William McGrath, "Recent Soviet Images of Canada and International Politics," in *Canadian-Soviet Relations, 1939-1980*, p.198.

[57]Janice Gross Stein, "The Odd Couple: Analytical Perspectives on Canada's Relationship with the Soviet Union," (Toronto: Institute for International Relations, 1986), pp. 17-18.

[58]J.D. Yanson, *Foreign Trade in the USSR*, (London: Victor Gollancz Ltd., 1934).

discussions of trade are subjugated to the achievements of the Socialist revolution in Russia and the First Five-Year plan.

In this work, trade with the West is viewed strictly as a positive influence towards increased production. No statement is given about the negative effects which capitalist embargoes had upon the USSR. In addition, the negative repercussions of these anti-Soviet embargoes upon the capitalist economies are exaggerated. Likewise, it is not mentioned that the decline in the world price of grain and in the prices of some of the other exportable goods which the Soviets produced was harmful to their economy. Furthermore, Yanson reported, superciliously on both counts, that the USSR always promptly paid its debts, and that it was never guilty of Western charges that it regularly dumped large supplies of production in foreign markets for the purpose of disrupting trade.

Another drawback of the work is that Soviet production figures are listed haphazardly, and are provided to convince the reader of the merits of planned socialism. Yanson stated for example that because of Soviet trade, in relation to the pre-war period, by 1932 production in engineering had increased by ten times, and the entire output of industry had increased three and a half times.[59] These figures sound impressive, and in fact they may be accurate. Nevertheless, they are incomplete.

In this work there is no mention of production or distribution in a number of other fields. Of these, consumer goods is the most conspicuously absent. Regardless of a lack of figures for this category, however, Yanson states that "in the USSR poverty and hunger... have been abolished... (and that) the principle (of the Five-Year plan) is to re-build and raise the whole standard of life of every worker; to satisfy all of his material, cultural and daily needs."[60] In light of these considerations, it is apparent that Yanson's work was written primarily to advertise Soviet trade in the capitalist countries. His study may thus be

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[59]Ibid., p.15.

[60]Ibid., p.17.

taken as a missive to the West on the part of the Stalin regime that the First Five-Year Plan had been fulfilled and was a remarkable success.

Despite the biases in Yanson's study, it also has some merits. He correctly portrayed some of the essential goals of the Soviet trading system during the 1920's and 1930's. These aims were to subjugate trade to the monopoly of the centrally planned state, and to trade with the West for the purpose of obtaining necessary imports for the construction of industry.[61] The value of Yanson's work lies in these statements, because there was no Western study published at that time which discussed or mentioned them in any detail.

The Soviet view of East-West trade for the post-war period can be obtained from a number of monographs, and from the journal *Vneshniaia Torgovlia* (Foreign Trade) which has been in circulation since 1962. The trends present in Yanson's study represent the basic Soviet interpretation of East-West economic relations. Yanson's view, however, is something of a caricature in relation to later Soviet studies. For example, specific production comparisons for the years 1913 and 1932 are provided for various consumer goods in studies from the post-war period. In one account, the output for cotton, woolen, flaxen, and silken goods for 1932 is given as roughly identical with that of 1913,[62] while statistics for grain, vegetable, sugar and potato production show only slight increases.[63]

Unlike Yanson's study, this work noted the unbalanced production of the First Five-Year Plan. Nevertheless, it did not investigate the social calamities caused by Stalin's war on the kulak, the failure of transport facilities, and a host of other issues that Western scholars have since investigated thoroughly for the period. Therefore, overall, the distortion in the post-war works is similar in type to that of Yanson's study.

There are an ample number of Soviet sources on Canada, and on Canadian-Soviet

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[61]Ibid., pp.170-1.

[62]G.A., Dikhjar, *Sovietskaia torgovlia v period postroeniia sotsializma* (Moscow: USSR Academy of Sciences, 1961), p.367.

[63]Ibid., p.370.

relations, which have been written in the post-war period. With the onset of the Cold War it became crucial for the Soviets to form an opinion of Canada owing to its close proximity to the US, and because of its increased international role. Initial Soviet commentaries were journalistic polemics such as this 1949 condemnation of Canadian policy *vis-a-vis* the USSR:

> Canada at the present time is considered as a self-governing dominion of Britain. But it is no secret that because of the servility of the Canadian government to Wall Street, this country is nothing but a land of American reaction following docilely the line of the dollar policy.[64]

After Stalin's death, more scholarly studies began to appear, such as A. Mileikovskii's *Kanada i anglo-amerikanskie protivorechiia* (1958), and V.V. Sushenko's *Monopolisticheskii kapital kanady* (1964). These works, while limited by narrow Marxist-Leninist analysis, were not entirely polemical in orientation. Nevertheless, in Sushenko's study, Canada is stereotyped into a role "dependent upon American capital" with a "neo-colonial position" in relation to Latin America.[65] No consideration is given in either of these works to Canada's differences or divergence from the US.

In the 1970's, Soviet works on Canada became more specialized in focus, and the level of scholarly analysis more diverse. O.S Tsiupa's *Rabochee dvizhenie v kanada, 1929-1939* (1977), and a compilation edited by Leon Bagramov entitled *Kanada na poroge 80-kh godov: ekonomika i politika* (1979) are examples of such studies. Tsiupa's work was one of the first to be based largely on Canadian statistics. The goals of this study were to explain the causes and effects of the economic crisis in Canada during the 1930's, the role of the Canadian working class in politics at that time, and most important for Marxist scholars, to understand how Canadian capitalism survived this crisis.

The compilation edited by Bagramov covers a diversity of subjects which had not been

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[64]Cited in William MacGrath, "Recent Soviet Images of Canada and International Politics" in *Canadian-Soviet Relations, 1939-1980*, p. 195.

[65]V.V. Sushenko, *Monopolisticheskii kapital kanady* (Moscow: USSR Academy of Sciences, 1964), p.96.

dealt with previously by Soviet authors. For example, issues such as the forms of federal-provincial relations are covered by B.E. Shilo, Canada's role in international politics is assessed by S.F. Molochkov, and the question of Quebec separatism is dealt with by N.B. Bantsekin and B.A. Tlikov. This volume is unique in that it was the first book produced by the Canadian section of the Institute of the USA and Canada which was created in 1975.

In addition to covering aspects of Canada's individual development, the Institute of USA and Canada investigated Canadian-Soviet bilateral relations. An influential article on this topic was penned by L. Bagramov, and V.B. Povolotskii in 1977.[66] The argument put forward was that relations between Canada and the USSR held vast potential, and that Canada could be useful economically to the USSR, especially as an importer of manufactured goods. Nevertheless, these authors emphasized that relations have been inhibited historically because of Canada's involvement in NATO, the dearth of mechanisms to facilitate business contacts, and US control over Canadian corporations.[67] The major flaws in this argument are that no blame is placed on the USSR for the inability to engender more positive bilateral relations, and that the ability of the Soviets to produce marketable goods is exaggerated.

Addressing a similar topic, Bagramov and V.V Popov co-wrote an article in 1979 which appeared in the compilation *Kanada na Poroge 80-kh* mentioned above.[68] In this article, the optimism expressed two years earlier for the potential of Soviet-Canadian cooperation had disappeared. While this outlook may have been influenced by a deteriorating political climate, the research presented suggested that the links between Canadian and US business were stronger than was previously thought. Bagramov and Popov note that US "monopoly

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[66]L. Bagramov, V.P. Povolotskii, "Sotrudnichestvo s Kanadoi: vozmozhnosti i perspectivy," SShA, No.12 (December, 1977): 30-42.

[67]Ibid., pp.33-4.

[68]L. Bagramov, V.V. Popov, "Osobennosti ekonomicheskevo razvitiia," in *Kanada na poroge 80 kh*, (Moscow: Institute of USA and Canada, 1979): 10-41.

capital" controlled the majority of industry, and that large Canadian companies were "not typical." In addition, they proposed that Canadian "financial houses" were content with the role of junior partners to larger US associates. Furthermore, Canada was seen as possessing a weak bourgeois central government which had jettisoned the nationalization program of Trudeau's "Third Option" when confronted with Quebec nationalism.[69]

In the 1980's, when younger Soviet scholars began to write about the potential for Canadian-Soviet cooperation, their conclusions were much more positive than those of Bagramov and Popov. B.I Aliokin and I.V. Runov co-authored the first full length study to deal with the historical and political aspects of Canadian-Soviet economic relations.[70] They put forth the idea that Canada, even after 1979, developed independently from the US in a number of areas. Nevertheless, in this work, Canada's divergent path from the US is over-emphasized, while Canadian-Soviet cooperation is exaggerated.[71] The term "normalization" is repeatedly used to describe the growth of relations and cooperation between Canada and the USSR, when in fact there may not be anything "normal" about them.

Canada is portrayed by Aliokin and Runov as a nation torn between two alternative historical paths - the realistic (liberal), and the reactionary (conservative). The realistic aspect of Canadian politics is seen as exclusively in favor of Soviet-Canadian cooperation, while the reactionary aspect is viewed as consistently opposed to it. While this breakdown is simplistic, it is a useful framework through which to analyze the history of Canadian-Soviet relations. After all, in the 1920's and 1930's, MacKenzie King's Liberal government was more open to trade with the USSR than was R.B. Bennett's Conservative

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[69]This program was initiated by the Trudeau government to limit US influence in Canada. It shall be discussed in greater detail in chapter IV.

[70]B.I. Aliokin, I.V. Runov, *Sovietsko-Kanadskoe ekonomicheskoe sotrudnichestvo* (Moscow: Institute of USA and Canada, 1983).

[71]Ibid., pp.4-25.

government. In addition, Trudeau, a Liberal prime minister, put in place nationalization programs and sought to enhance Canada's markets abroad. The policies undertaken by Joe Clarke and Brian Mulroney, two Conservative prime ministers, on the other hand, mirrored those of the US. The notable exception was the Conservative governments of John Diefenbaker in the 1960's, a period when the quantity of Canadian-Soviet trade increased significantly.

In 1986, Aliokin and Elena Komkova penned a study on Canada as an international trading nation.[72] A chapter of this study is dedicated to Canadian-Soviet economic relations, while other chapters focus on Canadian exports, protectionism through tariffs, and Canada's trade with the US. Canadian government sources are cited throughout, as are the works of Carl McMillan who has received a great deal of attention and respect from Soviet Canadianists. In this study, the potential for Canadian-Soviet trade is strongly emphasized, even more so than in the work mentioned above by Aliokin and Runov. The Trudeau years are seen as a watershed period for the growth of mutual relations. In addition, in the same fashion that McMillan has argued, Canada's willingness to enter into trade relations with the USSR in the 1970's is seen as a symbol of political independence from the US.

As in Aliokin's earlier work with Runov, there is a tendency to describe Canadian-Soviet economic cooperation as the inevitable consequence of the historical process. The reality that the two nations did not enter into such relations is explained to be the result of vague historical factors such as the influence of "imperialistic capital" and American "finance capital." Nevertheless, unlike earlier Soviet sources, this study does not indicate that the West was always solely to blame for break downs in relations when they occurred. Still, there is a tendency to gloss over significant events, or exclude others altogether.

For example, in 1936 Canada extended feelers to the USSR with the purpose of

[72]B.I. Aliokin, E.G. Komkova, *Kanada v mirovoi torgovle* (Moscow: Institute of USA and Canada, 1986).

establishing trade relations. Aliokin and Komkova explain how this led to the lifting of the existing trade embargo, and the preparation of a treaty which would have granted the USSR most favored nation status and ten million dollars per year in Canadian credits. This treaty was never ratified, and the volume of Soviet-Canadian trade did not exceed one million dollars Canadian per year throughout the late 1930's, as a result of the strong mutual distrust between the USSR and Canada. In addition, when the Second World War commenced, the USSR was neutral but believed to be on good terms with the enemy.[73] Aliokin and Komkova propose that it was only because of the interruption of the Second World War that the treaty was never ratified. But they do not mention the Nazi-Soviet Pact as a factor, nor do they explain the overall difficulties of engendering trade between the two countries, which existed at this time.

The most serious omission on the part of Aliokin and Komkova is their failure to mention the Gouzenko affair of 1946 as a factor in the break down of post-war Canadian-Soviet relations. Instead, the origins of the Cold War between Canada and the USSR are placed solely within the context of general East-West relations and attributed to Canada's involvement in NATO, and the strategic Western embargo against the USSR.

As mentioned above, Dennis Sowtis has argued that Soviet Canadianists adamantly believed what they had written. In light of the above considerations, it is evident that they have presented an historical picture that has been distorted severely. In the post-Soviet era, little has been written by Russian scholars on the topic of Canadian-Soviet economic relations in historical perspective. Therefore, it is too early to know whether Sowtis's assessment is accurate. It is the case, however, that Western scholars have generally tended to view the Soviet period as one in which there was a limited amount of freedom of academic expression.[74]

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[73]Aloysious Balawyder, *Canadian-Soviet Relations, 1919-1939*, p.219.

[74]Jerry Hough, "The Evolution in the Soviet World View," *World Politics*, Vol. XXXII, No.4 (July, 1980): 509-530.

This chapter has presented a summary of the works on Canadian-Soviet relations in the historical, political and economic spheres in order to indigenous reveal scholarly trends. In addition, an explanation of how this writing fits into the more general literature on East-West relations has been provided. A consideration of East-West relations is important to this study, if for no other reason than to provide a framework in which to analyze what has been overlooked in the forum of Canadian-Soviet economic relations, and also, when necessary, to isolate influences that occur outside of the scope of bilateral Canadian-Soviet relations.

While authors have covered various periods and topics of Canadian-Soviet economic relations, much has been ignored. For example, discussions for the inter-war period, except for the years 1924 to 1927, have specifically focused upon political concerns rather than economic ones. In addition, there is no adequate assessment of Canadian-Soviet economic intercourse for the Second World War, and trade between these two nations was significant at that time. Furthermore, nothing has been written about Canadian-Soviet relations during the periods of 1936 to 1939, or 1954 to 1965. In the chapters which follow, some of the topics which have already received coverage will be put into historical perspective, and other issues and time periods which have not been dealt with previously will be analyzed.

II) Testing the Waters: Canadian-Soviet Economic Relations During the Inter-War Period, 1921-1939

This chapter will analyze Canadian-Soviet economic relations from the signing of the Anglo-Soviet trade agreement in 1921 to the outbreak of the Second World War in 1939. This period will be divided into two parts. The first section will cover the 1920's, which saw short-lived successes in Canada's diplomatic relations with the USSR. A Soviet Trade mission was established in Montreal from 1924 to 1927, and the volume of Canada's trade with the Soviets increased as a result. Nevertheless, this decade was characterized by misunderstanding, suspicion, and the use of covert intelligence on both sides.

The 1930's, which will be covered in the second part, began with a complete breakdown in relations between Canada and the USSR. The USSR and Canada produced many of the same commodities, and economic competition between the two countries was acute throughout this decade of world depression. A trade embargo was put in place in the winter of 1930-1931 by the Conservative government of R.B. Bennett. This embargo was rescinded mid-way through 1936. Nevertheless, trade between Canada and the USSR remained meagre until 22 June 1941, when the two countries became wartime allies.

Throughout the period, Canada remained close to Britain. The 1920's, however, were a period of transition and inner tensions. Both of Canada's traditional political parties elected new leaders. The Conservatives chose Arthur Meighen, while the Liberals selected William Lyon MacKenzie King. In addition, tensions arose between the center and other areas of Canada, as regionalism expressed itself in the Maritimes, and the West.

This was significant in the realm of international trade, particularly near the end of the decade. In some cases, regionalization in politics reflected the difference of interests between central Canadian import-exporters, and local industrialists and workers.

Canada's economy continued to be resource based, with pulp, paper and mining comprising its major industries. Industry in the USSR was based on many of the same products. Largely owing to the above circumstances, Canadian-Soviet trade was an important political issue in the 1920's. In the 1930's, it became even more so as Canada's economy strove to survive despite Soviet dumping and competition in an environment of declining world prices in grain, metals, lumber, and paper products.

To gain perspective on Canadian-Soviet trade during the 1920's, and how it relates to the period of Stalinist socialization of the USSR, it is necessary to begin in 1917. In November of that year, Lenin and the Bolsheviks took power in the political vacuum of war-ravaged Russia. Intoxicated with their revolutionary successes, they believed that Marx's linear view of history had been correct. It appeared that the world proletariat was indeed engaging in its final conflict with the forces of capitalism. The Bolsheviks thought that the linchpin upon which this colossal struggle hinged would be their success or failure in exporting the Russian revolution abroad.

For these reasons, Lenin believed that the West would not allow the Bolsheviks to keep power in Russia. He and his colleagues fought to consolidate their position in the face of vigorous opposition from various foreign supported counter-revolutionary and nationalist White forces. To combat their international enemies, the Bolsheviks attempted to foment revolutions among the working class of the belligerent Western powers.[33]

Domestic opposition and the Allied intervention in Russia of 1918-1919 were seen by the Bolsheviks, and by later Soviet historians, as part of a massive capitalist conspiracy to

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[33] "A revolutionary organization had been created with its headquarters in Moscow and its outposts in every European country." Although they had no lasting successes, the Bolshevik endeavors were extensive. Two revolutions were attempted during in Germany during the Russian Civil War, 1918-1921. The first occurred late in 1918, and was a largely spontaneous workers revolution. The second took place in March 1921, and was a failed communist revolution. In addition, from March to August 1919, a Soviet republic had existed in Hungary.

overthrow the nascent Soviet regime. Canada has traditionally been viewed by the Soviets as a bastion of imperialism, ruled as an extension of US and British capital. Therefore, the Soviet view of Canada's role in the intervention is that of a co-conspirator, controlled by a monolithic capitalist force. Evidence does not support this interpretation, and several Western historians have disagreed with the Soviet version of events.

For example, Michael G. Fry has cogently argued that Western intervention was characterized by disorganization, confusion of purpose, and lack of interest, rather than by "unreserved hostility or conspiratorial intent."[34] Nevertheless, Fry and others have pointed out that Canada's intervention into the USSR was motivated by Prime Minister Robert Borden's exaggerated belief in the possibility of trade in Siberia.[35] In addition, Borden believed that Canadian "troops would not be called upon to engage in active warfare," and that they would only "aid in training the recently organized formations of Russian troops."[36]

Despite the overtly passive role which Canada played, it can be concluded that the intervention was not a trivial occurence. Four thousand six hundred Canadian troops were sent to Siberia with the clear intent of halting Soviet advances, and furthering Canadian commercial interests. Canada's leaders quickly became aware of the limited trade prospects which Russia would offer in the post-war period. Disillusioned with economic prospects in the USSR, and unwilling to devote serious amounts of resources to the problems which existed there at the behest of Borden and British Prime Minister Lloyd George the Allies (including Canada) withdrew their forces in the summer of 1919.

In the meantime, the Bolsheviks had managed to consolidate their power over most

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[34]Michael G. Fry, "Britain, the Allies and the Problem of Russia, 1918-1919," *Canadian Journal of History*, Vol.II, No.2 (September 1967) 3.

[35]Aloysious Balawyder, *Canadian-Soviet Relation Between the Wars*, p.11; Michael G. Fry, "Britain, the Allies and the Problem of Russia, 1918-1919," p.65.

[36]Borden to White, 22 November 1918, *Documents on Canadian Foreign Policy, 1917-1939* (Toronto: Oxford University Press, 1962), p.741.

of the former Tsarist empire. But they were confronted with a number of problems. The nationalization of all private enterprises had proved a dismal failure. By the end of 1920, progress in transport, industry and agriculture was at a standstill. Furthermore, while Bolshevik appeals to receive Western aid and credits were not unanimously rejected, the Western response to their requests was delayed by cautionary anti-Bolshevism, and bureaucratic red tape.

The Bolsheviks desperately needed help. The harvests of 1919 and 1920 had been reduced by drought, and as a result, the Ukraine and the Volga regions experienced famine conditions from 1921 until 1923. The exact amount of aid that the West provided to the USSR at this time is unknown. It is certain, however, that despite Soviet pleas, the American Relief Administration, the British Famine Relief Fund, the Canadian Save the Children and Famine Relief Funds, the League of Nations, the Red Cross, and other organizations, did not collectively alleviate the famine. The amount of grain sent to the USSR, either through donations or by the extension of credits, did not approach Soviet requests for tens of millions of dollars.[37] But this is not surprising. Most people in the West did not trust the Soviet regime, even if they could easily sympathize with starving Soviet citizens.

Until 1921, Arthur Meighen, who had replaced Borden as Prime Minister in July 1919, refused to accept Soviet trade delegates, or Canadian proposals for trade with the USSR. He abstained from appointing an official to deal with $4 million worth of railway equipment which the USSR allegedly offered to purchase from the Canadian Allis-Chamber company in the latter part of 1920.[38] While such actions may seem damaging to the Canadian economy in retrospect, the Prime Minister believed he was protecting

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[37]Balawyder estimates that during the period of the famine the total came to $1.6 million for the American fund, $1 million for the Canadian Famine Relief fund, and £250,000 for the British Famine Relief fund. See Aloysious Balawyder, *Canadian-Soviet Relations Between the Wars*, pp.46-49.

[38]Arthur Meighen to General Hepburn, 1 September 1920, PAC, *Meighen Papers*, no. 026754.

Canadian business from potentially high risk investments. One could not fault him in this respect. Soviet currency was essentially valueless. The Bolsheviks had repudiated all their foreign debts in 1918, and there was no guarantee that they would pay them back in the future.[39]

Meighen referred all such applications to Lord Milner, the Colonial Secretary. The British, for their part, saw the establishment of trade relations with the Soviets as being potentially beneficial to their economy. Burdensome post-war unemployment and the loss of many of their markets to US competitors were important factors in the British willingness to cooperate with the "Red Menace." Nevertheless they insisted that, before trade relations could begin, the Soviets were required to stop distributing Bolshevik propaganda within the empire. In addition, they demanded that the USSR pay back all British securities and investments seized in 1917. It was largely owing to these problems that the signing of the Anglo-Soviet Trade Agreement was delayed until 16 March 1921.[40]

Unable to improve the Soviet economy through domestic measures, or through attracting foreign credits, Lenin's government changed course. The NEP was introduced in March 1921, with the purpose of putting in motion a mixed economy. Over the next few years, a private sector emerged in both town and country. In the city the NEP was characterized by entrepreneurs called "NEPMEN." In the village, richer peasants employed labour to improve production and increase personal wealth. Social mobility for the working class was of keynote importance in industry. The children of workers and

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[39]Immediately following the revolution, the Bolsheviks nationalized all banks, foreign and Tsarist, in Russia. Holdings, including foreign assets, were deposited directly into their coffers. All industry, including some which was foreign owned, was subject to the "workers control" decree of 14 November 1917. Most of the losers in this seizure of property have never been fully compensated. Given the above information, it is understandable that in 1919 to 1921, many would believe business with the Bolsheviks to be a risky endeavor.

[40]For a detailed analysis of the agreement, and a listing of its clauses, see W.P. and Z.K. Coates, *A History of Anglo-Soviet Relations* (London: Cambridge University Press, 1945).

peasants, by the thousands, were encouraged to enter into higher education. Furthermore, they were favored in the selection for administrative promotions, and slowly replaced the old Tsarist officials who had been reinstated for expediency's sake during the Russian Civil War.[41]

In the public sector, taxation was reduced from confiscation to payments in kind. As the ruble stabilized, tax payments were made in money. The Supreme Council of National Economy (hereafter VSNKh), responsible for carrying out the nationalization of industry during the Civil War, was decentralized into hundreds of more loosely controlled trusts.[42] Political power was still concentrated in the upper echelons of the Communist party. But it did not wholly lie in the hands of any given individual. Therefore, while power rested with senior and state party bureaucrats, it also was held by economic managers who exercised autonomy over small industrial empires.

Throughout the 1920's, heated discussion prevailed among the Soviet elite about which economic path to take - a reversion to nationalization, or the continuance of the NEP. Some viewed the NEP as an insecure policy that would never allow for the growth of socialism. Worst of all, they feared it might lead to a reversion to capitalism, or a Napoleonic "Thermidorian Reaction." Theoretical discussion at the highest levels was politically charged, and reflected factional power struggles within the party. It is doubtful that Canadians were aware of these debates and factional struggles. Nevertheless, bearing in mind the massive changes that had occurred in Russia during the Civil War, 1918-1921, and the Marxist orientation of the Bolshevik regime, it is not surprising that Canadians remained cautious in trade with the Soviets throughout the 1920's, even though opportunities in the USSR looked more promising after the NEP was put into place.

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[41]Maureen Perrie and R.W. Davies, *From Tsarism to the New Economic Policy* (New York: Cornell University Press, 1991), pp.36-7.

[42]Alec Nove, *An Economic History of the USSR* (London: Penguin Publishers, 1988), pp. 96-102.

As was the case in the West generally, the issue of Soviet trade and recognition was a delicate one in Canadian politics. Since 1914, Russian, Ukrainian, Finn, and other emigre ethnic minorities in Canada, had been organizing fringe revolutionary groups such as the Social Democratic Party of Canada, and the Ukrainian and the Russian Revolutionary Parties of Canada.[43] In addition, general strikes, largely organized by radical groups, had paralyzed Winnipeg and Vancouver in 1919. In 1920, the RCMP had arrested 50 agitators for possession of prohibited Bolshevik literature.[44] Motivated by reactionary circles such as the Catholic church and other organizations, a wave of anti-Bolshevik hysteria swept Canada in the early 1920's, which saw all of the above as closely related occurrences.

Although Meighen repeatedly dodged the issue, he could not ignore Soviet trade after the British had signed their agreement, as Canadian foreign policy was largely dictated by British imperatives. In addition, increasingly Canadian business circles were eager to enter into trade relations with the Soviet government. Upon the signing of the Anglo-Soviet treaty, dozens of Canadian entrepreneurs supporting Soviet trade addressed the Prime Minister in letters sent through the Trades and Labour Council of Fort William, the Canadian Manufacturer's Association, and the Independent Labour party of Ontario.[45] Furthermore, H.J Daly, president of the Toronto Home Bank, and a close personal friend of Meighen's, pushed for trade with the Soviets, and held several meetings with Leonid Krassin, the Soviet foreign trade minister.

Like many other Canadian businessmen, Daly firmly believed that the Soviet stick had a very large carrot at its end. He told Meighen that the USSR was eager to buy large

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[43]Aloysious Balawyder, *Canadian-Soviet Relations Between the Wars*, p.24.

[44]Ronald Adams, "The Soviet Trade Mission to Canada, 1924-1927," p.19.

[45]The Trade and Labour Council of Fort William to Meighen, 26 March 1921, PAC, *Meighen Papers*, no.026808; Canadian Manufacturers Association to Meighen, March 28 1921, Ibid.; Independent Labour Party of Ontario to Meighen, 31 March 1921, Ibid..

amounts of Canadian agricultural machinery, railway materials, and metallic goods, to be paid for in gold bullion. The Soviets were willing, apparently, to offer $4 million in exchange for the extension of $30 million in credit.[46] Thirteen percent does not appear like a great deal of money to put down on a purchase, especially given the Soviet government's record for paying debts at the time. It seems, however, to have been adequate for Daly. In addition, Krassin emphasized that diplomatic immunity for Soviet officials was essential before any trade between the Dominion and the USSR could occur. After serious deliberation, Meighen rejected the proposal owing to the ramifications of Krassin's latter request.

It is always difficult to gauge the winds of popular opinion, but they seem to have been in favor of Meighen's decision, as were some sectors of Canadian business. Sir Henry Drayton, for example, the Canadian minister of Finance, was critical of Daly's communications with Krassin. He was suspicious of the fact that Soviet officials were showing individual Canadian businessmen the proverbial "carrot," rather than consulting official Canadian government agents first. In addition, he was convinced that Krassin was not sincere in his claim that he wanted to establish trade relations with Canada at the level discussed with Daly. Rather, Drayton believed that the Soviets wanted to use Canada as a base for negotiations with the US.[47] In the face of domestic opposition spearheaded by its Conservative prime minister and cabinet, Canada was slow to adopt the terms of the Anglo-Soviet Agreement, and did not do so until the summer of 1922.

Drayton, however, was not entirely accurate in his beliefs. The Soviets had initially contacted Sir George Perley, the Canadian high commissioner, before speaking with any independent business circles in Canada.[48] Nevertheless, it is likely that his assessment of

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[46]Leonid Krassin to H.J. Daly, 11 March 1921, PAC, *Meighen Papers*, no. 026972.

[47]Aloysious Balawyder, *Canadian-Soviet Relations Between the Wars*, pp.38-9.

[48]Leonid Krassin to Sir George Perley, 28 November 1920, PAC, *Meighen Papers*, no.026756.

Soviet motives was not far off the mark. The reasons why the Soviets established a trade mission in Canada is a controversial topic among scholars.[49] But it is highly likely that conducting trade with Canada was only a secondary factor in their plans. It is probable that the Soviets established official diplomatic links with Canada so that they could communicate with its Communist movement, and the movement in the US.

Hard evidence to support the above statement is difficult to find. There were no government raids of the Soviet trade agency in Montreal, nor were there any arrests of Communists in Canada for associations with its members. In addition, there is no documentary evidence which suggests that it was promoting communism in Canada, or the US. In fact, the Communist Party of Canada (hereafter CPC) was much more vocal in its expression of communism than was anyone from the agency.[50] In addition, there is a consensus among scholars who have written on these issues, that the Soviet government was not responsible for the counterfeiting scandal of 1925, as was commonly thought at the time. Furthermore, several scholars have concluded that the agency was not terminated in 1927 for the behavior of its agents. Rather, it was told to leave Canadian soil largely because of the election of an anti-Soviet Conservative government in Britain.

Contrary to what the statements above might indicate, however, evidence suggests that the Soviet representatives in Montreal were closely connected to Communist circles in Canada. As Adams has noted, it is ironic that the organ of the Canadian communist press, *The Worker*, completely ignored the agency in its publications. This is especially unusual since members of the CPC's inner "Z" cadre, such as Tim Buck, and John J. MacDonald,

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[49]There are three major works which discuss this topic - James Eayrs, *Northern Approaches*, (1961); Aloysious Balawyder, *Canadian-Soviet Relations Between the Wars*, (1972); and Ronald Adams, "The Soviet Trade Mission to Canada, 1924-1927," (1970). Eayrs and Balawyder are of the opinion that since no subversive activities on the part of the Agency are recorded, the topic is not worth a lengthy discussion. Adams, on the other hand, provides evidence to suggest that connections between Canadian Communists and the Agency were stronger than Balawyder or Eayrs has supposed. I support Adams' argument, and his points are synopsized below, along with a few others of my own which strengthen the argument.

[50]James Eayrs, *Northern Approaches*, pp.118-119.

travelled to Montreal to greet the delegates when they arrived in the spring of 1924. In addition, *The Worker* significantly changed its format around the middle of 1924. It began to print more stories of international significance, and started to publish articles by Russian Communists such as Zinoviev, Trotsky, Bukharin, Radek and others. In addition, it was no accident that the number of communist pamphlets advertised in the *Worker* multiplied by ten times over the course of 1924.[51]

Several scholars have noted that when the initial list of Soviet representatives which comprised the mission was given to the Canadian government, it was greeted with consternation.[52] The proposed Soviet delegates were not members of the Ministry of Trade and Finance as might have been expected, nor were they experienced in official trade matters. Rather, they were long time revolutionary figures such as Alexandra Kollontai, G. Weinstein and Peter Voikov, a member of Lenin's original cadre in Switzerland. As might be expected, the Canadian government forced the Soviets to compile another group more familiar with international trade problems.

Most scholars do not attach any significance to these facts. In light of the above considerations, however, I believe that it is probable that the initial selection of trade delegates reflected the Soviet regime's real intentions in Canada. After all, such practices were normal for the Soviets. Scholars have pointed out that it was regular for Soviet foreign diplomatic missions to include at least one or two figures whose purpose was to foment the growth of a socialist underground in the countries which they visited.[53] There is concrete evidence that this was the case of the Soviet delegations which were sent to Germany, France, and Britain.

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[51]Ronald Adams, "The Soviet Trade Mission to Canada, 1924-1927," pp.103-105.

[52]Ronald Adams, "The Soviet Trade Mission to Canada, 1924-1927," pp.32-35; James Eayrs, *Northern Approaches*, p.125; Aloysious Balawyder, *Canadian-Soviet Relations Between the Wars*, p.44.

[53]Peter Deriabin, F. Gibney, *The Secret World* (New York: Double Day, 1955), pp.279-80.

Even if the Canadian government did not discover any subversive activities on the part of the Soviet trade mission, it does not necessarily mean that they were not engaged in such. It is difficult to explain peculiarities such as the selection of the personnel mentioned above, in any other light. At the least, it seriously questions the interpretation of David Dallin, who proposed that during the 1920's, the Soviets did not have the personnel or the money to establish a political network in Canada.[54] The above evidence even raises the question of whether or not the agency played a role in directing the Communist movement in Canada, or in supplying the Communists with Bolshevik propaganda. There is not enough evidence to show conclusively that this was the case. But it is possible, and it would not be surprising given the activities of Soviet missions abroad at this time.

Regardless of its priorities, however, the mission overtly set out to organize trade between Canada and the USSR. Still, trade negotiations were not carried out at the level that Krassin and Daly's earlier correspondences had indicated. This suggests that the Soviets may have purposely exaggerated their trade potential earlier, so that diplomatic recognition would be granted sooner.

Whatever the case, Ian M. Drummond notes that in 1924-1925, the first year that the Soviet mission had been established in Canada, a total of $11.6 million worth of Canadian production was sent to the USSR. These exports were mostly comprised of flour and wheat. This sum was much greater than the bulk of trade in the preceding two years, but it was also higher than at any other point during the rest of the 1920's. From 1925 to 1930, Canada continued to sell grain to the USSR. But it also diversified its trade to include agricultural equipment, ploughs, non-ferrous metals, and binder twine. Sales of binder twine were terminated in 1930. It has been speculated that the Soviets had built a

[54]David J. Dallin, *Soviet Espionage* (New Haven, Yale University Press, 1955), p.273.

factory to produce it themselves,[55] though documents are lacking to prove this assumption.

Canada did not import large amounts of Soviet goods at any time during the 1920's. This may have been because no reciprocal Canadian trade mission existed in Moscow. But there were other problems involved in trading with the Soviets. Canadians were forced to extend credits, because exports always exceeded imports. The low point of Soviet exports into Canada for the inter-war period was the fiscal year of 1922-3, when only $850 worth of goods were brought into the country.

The high point was 1930, when imports reached a total of $1,964,059. Paradoxically, this high point in sales spelled the doom of future imports. During this year, Soviet imports to Canada were comprised almost exclusively of furs and anthracite coal.[56] Since similar types of coal were already being produced in the Maritimes and Alberta, not to mention South Wales, the large shipment of anthracite was a lively political fish. It aided in fomenting the media blitz that contributed to the formation of the embargo in 1930.[57] In the atrophied economic climate that prevailed, Canadians would not tolerate the loss of jobs for the benefit those who imported Soviet-made goods.

The motives of the Canadian government in entering into the embargo have proved a controversial topic among scholars. The initial interpretation, put forth by Aloysious Balawyder, was that prime minister R.B. Bennett catered to voters in the Maritimes and Quebec, who comprised one-third of his seats in parliament.[58] It is true that these groups feared the importation of Soviet wheat and coal. Campaigning in Halifax, Bennett

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[55]Ian M. Drummond, "Canadian-Soviet Trade and Competition from the Revolution to 1986," p.2.

[56]The above statistical material is listed in Ian M. Drummond's unpublished paper "Canadian-Soviet Trade and Competition from the Revolution to 1986." Drummond derived his figures from the Soviet journal *Vneshniaia torgovlia*, and Canadian statistical publications.

[57]Excerpts from newspapers around the country on the topic of the Soviet sale of anthracite can be found in Aloysious Balawyder, *Canadian-Soviet Relations Between the Wars*, pp.126-130.

[58]Aloysious Balawyder, *Canadian-Soviet Relations Between the Wars*, p.135.

promised his electorate that he would not "sacrifice the coal industry in this province... (and that) he (would) not tolerate the importation of Soviet coal" when in office.[59] Balawyder explains that the Canadian government was wary of Soviet dumping and competition, and that it was a real problem for important sectors of the Canadian economy. It cannot be ignored that many of the products which Canada and the USSR marketed internationally were the same. In Balawyder's view, Bennett saw the situation correctly - excessive Soviet imports equalled political suicide.

During the early 1930's, the situation in the USSR was complex. Change was taking place at an alarming rate. In 1928, Stalin's government began to implement the policies of collectivization and dekulakization in agriculture, breakneck industrialization, and increased central authority; all of which produced massive social calamity. The difficulty which contemporaries had in understanding this situation was compounded by misinformation and disinformation circulated by the Soviet government and communist groups abroad. As a result, there were those in Canada and elsewhere who believed the Soviet propaganda claiming that the USSR would soon be transformed into a socialist utopia such as Marx had predicted. They expected the Soviet economy to increase its production by incredible amounts, beyond the capabilities of the capitalist nations. Other observers were more informed about Soviet realities, but still held erroneous perceptions of long-term Soviet production.

For example, the Anti-Soviet Persecution and Slave Labour League reasoned that since the USSR exploited forced labour, it stood to grow industrially through minimal production costs. They argued that by halting the passage of Soviet imports into Canadian markets, "we reduce the number of slave-workers, lessen the working hours of the rest, and give our own workers employment."[60] Largely owing to the groups mentioned

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[59]*The Halifax Herald*, 3 July 1930; Cited in Ibid., p.135.

[60]Anti-Soviet Persecution and Slave Labour League, "Liberty and Religion for Russia," PAC, *Bennett Papers*, no.192173.

above, the Soviet economic threat to Canada was, for the most part, overstated in the press. Nevertheless, Balawyder emphasizes that while the Bennett government understood the threat which the USSR posed to Canada, it also knew the limitations and crisis that characterized the Soviet economy.

Ian M. Drummond has written on the issue of the embargo of 1930. His conclusions, however, are markedly different from those of Balawyder.[61] Drummond insisted that the Bennett government did not understand the nature of the First Five-Year Plan, and over-estimated the productive potential of the Soviets.[62] Drummond explains that the plan had been engineered to export large quantities of produce, mostly grain, in exchange for Western currency with which the Soviets intended to buy industrial machinery. This drive was carried out, but hidden from the world, and apparently, from the Bennett government too, as Drummond has noted. "through the painfully limited productive capacity of (the USSR's) primary producing industries."[63]

Another scholar, Norman Hillmer, has supported the arguments of both scholars, claiming that they are not mutually exclusive. Citing the *Bennett Papers*, he arrives at the same conclusion as Drummond. To support Drummond's interpretation, Hillmer quoted an article by Lester B. Pearson, then a young government diplomat, which stated that the Five-Year Plan treated "150,000,000 people and 8,000,000 square miles, with all their unlimited resources, as if the whole thing were merely one large business concern, self contained and self-sufficient."[64] In an attempt to show that there was popular concern

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[61]Drummond's assessment of the embargo issue was based entirely upon materials from the *Bennett Papers*. It is peculiar that he limited his sources in this fashion. Balawyder's study used a wider diversity of sources, and was written earlier.

[62]Incidentally, the view which Drummond attached erroneously to the Bennett government was held by the Anti-Soviet Persecution and Slave Labour League. See Ian M. Drummond, "Empire Trade and Russian Trade: Economic Diplomacy in the 1930's," *Canadian Journal of Economics*, Vol.V, No.1 (February 1972): 35-47.

[63]Ibid., p.35.

[64]Pearson's essay is included in the *MacKenzie King Papers*. It is also contained in Scrutator (L.B.

over the issue of Soviet competition, Hillmer cites newspapers, businessmen, and government officials. He also cites Balawyder to show that the concerns of the voting public heavily influenced Bennett's policy.[65]

There is more merit to Balawyder's argument than to that of Hillmer or Drummond. Evidence suggests that the Bennett government understood the First Five-Year Plan, or at least, that it did not overestimate Soviet production capabilities.[66] Contrary to Hillmer's claim, the essay by Pearson cited above does not misinterpret the plan, though he did believe that Soviet production affected Canadian trade:

> We should not forget that the destiny of the farmer in the Peace River and the logger in Northern Quebec, is being tangled up with the plans of a group of revolutionaries in a Moscow back office, and the attempts of a peasant to manipulate trade in the valley of the Don.[67]

More importantly, he noted that "12,5000,00 peasants had to be hammered into collectivization,"[68] and that "it (was) difficult to tell how the plan was working out." While he understood that "tremendous industrial progress had already been made,"[69] he doubted the validity of Soviet statistics.[70]

Pearson was also aware of the incredible social hardships that the regime was inflicting upon its population. In addition to his essay on the Five-Year Plan, he wrote an essay on the topic of slave labour in Russia, which concluded that convict labour camps probably existed on the Kola Peninsula, the Murmansk coast, and the Karelian and the

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Pearson), "The Five-Year Plan," *Canadian Defense Quarterly*, Vol. VIII, No.2 (January 1931): 170-195. Cited in Norman Hillmer, "Canada and the 'Godless Country' 1930-1939," (Unpublished paper, 1987), p.8.

[65]Norman Hillmer, "Canada and the 'Godless Country' 1930-1939," p.10.

[66]The First-Five-Year Plan is a complex topic. Its origins and effects are the subject of several debates among historians today. Therefore, when I say that Bennett "understood the plan," I mean that he was under no illusion about its ramifications on Canadian-Soviet trade and competition.

[67]L.B. Pearson, "The Five-Year Plan," January 1931, PAC, *MacKenzie King Papers*, No.104051.

[68]Ibid., No.104053.

[69]Ibid., No.104064.

[70]Ibid., No.104056.

Zyryan Autonomous Republics.[71] Balawyder cites this essay by Pearson, and his conclusions about the Bennett government's comprehension of the First-Five-Year Plan were, in part, based on it.

Pearson's study on forced labour used American and European sources in an attempt to understand the essence of Soviet dumping practices, and the extent of the USSR's economic threat to Canada. Several examples of Canadian-Soviet competition are mentioned. For example, the Director of the American Lumber Division of the Department of Commerce noted that:

> The quality of Soviet lumber itself is excellent... In fact, quality for quality, I believe that more money has been paid for Russian lumber than for corresponding species in eastern Canada... I do not believe that Russian lumber comes into direct competition with the majority of American wood. We are importing large quantities of spruce from Canada, and, from our point of view, we do not see that it makes much difference which country this spruce comes from.[72]

Such statements undoubtedly elicited concern in the minds of Canadian government officials. Nevertheless, Balawyder maintains that Soviet products did not threaten the majority of Canadian markets. Another study, which polled Canadian government trade commissioners abroad, indicated that in the Carribean, Japanese, Scottish, Irish, far eastern, Australian, and Indian markets, little competition was occurring between Soviet and Canadian products.[73] Therefore, it is likely that Soviet competitiveness was limited and that the Bennett government understood this fact, even though the newspapers and the man on the street did not.

While the plight of the peasantry, and the economic collapse which existed in the USSR were not common knowledge, the Bennett government was aware of the situation. A number of reports from foreign correspondents indicated that during the years 1930-

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[71]L.B. Pearson, "Memorandum on the Question of Soviet Imports and Forced Labour," 1930-1931, PAC, *Bennett Papers*, No.192372-192386.

[72]Ibid., no.192374-5.

[73]See Aloysious Balawyder, *Canadian-Soviet Relations Between the Wars*, pp.122-4.

1933, the situation in the USSR was desperate. One of the most influential of these correspondents was William Strang, an official of the Canadian embassy in Moscow, who in October 1930, noted that:

> Of the necessity under which the Soviet Union now labours there can be no doubt... (It) has been hit by the fall in the world price of the food and raw materials which she sells. This, together with the falling off in the quantity of non-cereal food products available for export, and short non-cereal food products available for export, and short deliveries of timber at the ports owing to labour and transport difficulties... Grain export is at the moment the very life blood of the state.[74]

Strang's penetrating analysis recognized Soviet grain dumping for what it was - the sign of a desperate economy in crisis, on the verge of paralysis.

Another Canadian correspondent, J.H. Thomas of the Department of External Affairs, noted paradoxically that "the Soviet government ... exports and sells goods abroad at an apparent loss."[75] In addition, he pointed out that the Soviet economy was further frustrated due to the drop of world prices in petroleum, timber, wheat and flax. As a result, the USSR was not obtaining the necessary amounts of foreign currency to fulfill the plan. To solve this problem, Thomas noted, it diversified exports to include textiles, matches, china ware, cosmetics and optical glass, all of which were in short supply in the USSR. Since "the prices at which these products (were) being sold on foreign markets (was) so low that the home article (could) not possibly compete,"[76] Soviet products posed an economic threat. But in light of the above evidence, it would be erroneous to support the view of Drummond and Hillmer, that these correspondents did not understand the social impact which break-neck trading must have had. The Canadian government was not overly concerned about the low prices of Soviet goods in international markets, as these goods did not compete with Canadian exports in many areas of the world.

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[74]William Strang to A. Henderson, "On the topic of Soviet Grain Dumping," October 14 1930, PAC, *Bennett Papers*, No.192333-4.

[75]Circular Despatch from J.H. Thomas, "Note on Intensive Soviet Exports to Certain Foreign Markets," 12 February, 1931, PAC, *Bennett Papers*, No.192354.

[76]Ibid., no.192363.

The Canadian government was alerted to the Soviet crisis by a number of other sources. One of these was Colonel H.J. Mackie, a Canadian import-exporter, who had been dealing in Soviet trade for a number of years. He condemned the embargo, and in early 1931, notified Canadian officials of an imminent grain crisis in the USSR. Furthermore, he mentioned that he had reached an agreement with Soviet officials whereby $10 million of Canadian farm machinery would be purchased in exchange for one-third of the total in coal, and the balance in gold.[77] Politically speaking, such plans were entirely unrealistic at the time. Colonel Mackie stood to gain a great deal. But he could not overrule Bennett, who realized that he might lose political favor by allowing Soviet coal to be sold in Canada.

While businessmen such as Colonel Mackie sought the end of the embargo for financial reasons, others did so for humanitarian purposes. In 1933 and 1934, some Canadians, most notably of ethnic Ukrainian origin, tried unsuccessfully to terminate the embargo. These Ukrainian-Canadians had learned about a famine in Ukraine from letters sent by relatives in Eastern Europe. It is difficult to know when they first found out about the famine, which had begun in 1932. But they must have known about it by early 1933, as they began to organize relief efforts at that time.

Their goal was to organize a Canadian aid project for the victims of Stalin's failed collectivization drive, many of whom were Ukrainian peasants. In April 1933, an organization called the Canadian British Subjects of Ukrainian Descent wrote Bennett that, "the famine (in Ukraine) is caused by the extortion of the material resources of the country for impractical industrialization."[78] Because of their close ties to Ukraine, this organization proposed to institute a project of international relief, to remove duties on

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[77] *The Journal of Commerce*, March 5, 1931.

[78] "Resolution by the Canadian British Subjects of Ukrainian Descent," April 20 1933, PAC, *Bennett Papers*, No.192274.

clothing and food shipments into famine stricken areas, and to influence other countries to stop importing food products from the USSR.

These plans were unrealistic given the position of Canada in international politics at the time. The Canadian government refused to assist these groups in their endeavors on the grounds that the Soviet government had officially denied that there was a catastrophe in Ukraine. The reply to this Canadian-Ukrainian group was that "his majesty's government cannot undertake to investigate conditions or organize relief in territories under control of another government." In addition, this missive pointed out that Canada was not currently engaged in diplomatic relations with the USSR, and that the Soviets had reacted to the Canadian embargo in reciprocal fashion. As a result, the Canadian government referred all such cases to international relief organizations such as the Red Cross.[79]

The Red Cross was unable to intervene in the situation. It only operated within a country if the government concerned gave it permission to do so. By 1932-1933, the Stalin government was in the process of internationally proclaiming the complete success of the First-Five-Year Plan. Therefore, it did not allow the Red Cross, or other such organizations, to enter into its territory because a visit from a foreign delegation might expose the realities that lay behind Soviet statistics. Given the above occurrences, it is paradoxical that in 1934 the USSR was officially recognized by Canada, and that the embargo on Soviet goods was lifted two years later.

The issue of Western understanding of the famine, both in government and humanitarian circles, is a topic which deserves further study. In 1986, Marco Carynnyk wrote a pioneering article on contemporary British and US perspectives of the famine.[80]

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[79]"Resolutions Relating to Appeals for Relief of Ukrainians in the USSR," 1934, PAC, *Bennett Papers*, No.192291.

[80]Marco Carynnyk, "Blind Eye to Murder: Britain, The United States and the Ukrainian Famine of 1933," in *Famine in Ukraine* (Toronto: University of Toronto Press, 1986), pp.109-138.

He pointed out that some Western diplomats knew about the famine, and did nothing to stop it. But his criticism that Western governments could have alleviated the famine is mistaken. In a fashion devoid of historical context, Carynnyk vehemently condemns them for their supposed "acceptance" of and "adherence" to the Soviet regime's secrecy about the famine.

The introduction to a compilation of British Foreign Office documents on the famine, written by Carynnyk, Lubomir Y. Luciuk and Bohdan S. Kordan, also discusses this topic.[81] Its conclusions are the same as those of Carynnyk's earlier article. This essay also briefly mentioned a group named the Ukrainian National Council in Canada, which had been formed in Winnipeg.[82] This organization, like the others mentioned above, sought a means by which to provide their kinsmen with aid. As was the case with similar groups in North America and Europe, however, there was precious little that could be done.

It is not surprising that no Western aid, and no Canadian aid in particular, was forwarded to Ukraine at this time. While the Allied governments had enough evidence to show that the catastrophes which collectivization had caused were real, it would have been impossible to provide international aid to starving famine victims. The contemporaneous economic climate of the depression made it hard to sanction politically. But in addition, it is difficult to predict how the Soviet government would have reacted to offers of aid. Since they did not admit that a famine was occurring, one could speculate that they may have ignored such proposals.

Carynnyk also criticizes Western governments for not widely publicizing news about the famine. In this respect, his attitude is mistaken because unless one visited agricultural areas of Ukraine which were in the midst of famine, the reality of the situation was

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[81]Marco Carynnyk, Lubomyr Y. Luciuk, Bohdan S. Kordan eds., "Choosing not to See," in *The Foreign Office and the Famine: British Documents on Ukraine and the Great Famine of 1932 1933* (Kingston: The Limestone Press, 1988), pp.XVII-LXI.

[82]Ibid., p.XXXVI.

difficult to ascertain. Some Western correspondents, most notably Walter Duranty of the *New York Times*, were spreading misinformation that accorded with the official line of the Stalin government. In addition, French Prime Minister Edouard Herriot was given a "Potemkin tour" of Ukraine in the summer of 1932, and he reported that claims of famine were false. While Canadian officials mentioned above such as William Strang, J.H. Thompson and Lester B. Pearson were aware of the crisis that the Soviet economy was experiencing, given the reporting by Duranty and Herriot, they may have been confused about the situation in Ukraine. A more appropriate question than the one asked by Carynnyk would be to ask how Western powers (Canada included) could have possibly sent aid to Ukraine when the Soviets were doing so much to hide the catastrophe there?

Throughout the remainder of the 1930's, and especially after the defeat of Bennett's Conservatives in 1935, Colonel Mackie and other Canadian businessmen continued to push for Canadian-Soviet trade. In a memorandum to prime minister Mackenzie King, O.D. Skelton noted that

> Col. Mackie and F.H. Clergue are anxious to learn whether there is any prospect of the Canadian government cancelling the order-in-council prohibiting importation into Canada of Russian coal, pulpwood, asbestos and certain raw furs.[83]

The British protested against MacKenzie King and Skelton's interest in Colonel Mackie and Clergue's proposal. The importation of Soviet coal would undercut South-Welsh exports of anthracite into the Canadian market.[84] Nevertheless, they believed that the implementation of quota controls for the importing of Soviet goods would satisfy Colonel Mackie and Clergue, who had gathered some public support by 1936, without upsetting Welsh production. It was in this limited manner that the Bennett embargo was rescinded in the summer of 1936. Insofar as it was possible, Colonel Mackie and his business colleagues continued to export Canadian products to the USSR, but the Canadian

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[83]O.D. Skelton to MacKenzie King, 20 December 1935, PAC, *MacKenzie King Papers*, No. 149896.

[84]O.D. Skelton to MacKenzie King, 17 July 1936, PAC, *MacKenzie King Papers*, No.149897.

government refused to allow them to operate on the level that they would have liked. Once the Second World War broke out, the Allies (including Canada) feared that the Soviets were on the side of the Germans. Therefore, conducting trade with the USSR was once again highly unpopular. In addition, as we shall see in the following chapter, it was considered an issue of national security.

III) War Time Conspirators and Cold War Foes: Canadian-Soviet Economic Relations, 1939-1955

This chapter will discuss Canadian-Soviet economic relations from 1939 to 1955. The first part will cover Canada's aid to the USSR during the Second World War. It is surprising that little has been written on this topic. The economic developments which occurred during the war were instrumental in shaping all facets of East-West relations, and inter-allied negotiations for decades. In addition, there exists a significant number of relevant government documents and official memoirs.[1] It is therefore appropriate to analyze some of the historical concerns surrounding the trade relations between Canada and the USSR that have hitherto been ignored, or else given inadequate coverage by scholars.

The second, and much briefer part of this chapter, concerns aspects of Canada's economic intercourse with the USSR during the beginning of the Cold War. At this time, trade between Canada and the USSR was reduced to a minimum, and the reasons why this occurred have not been analyzed thoroughly by scholars. While discussing this issue, the

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[1]The Canadian government documents held in file on Canadian-Soviet relations are extensive for the period in question. For some examples, see "Aid to Russia Campaign," *Mackenzie King Papers*, PAC, Vol. 345, File #3712; "Trade With USSR 1940-1945," *MacKenzie King Papers*, PAC, Vol. 335, File #3624; "Exports to the USSR - Regulations - War Supplies from Canada to the United Kingdom for the USSR, 1939-1949" DEA, File #158-40C; "Wheat Donations for USSR from Farmers in Western Canada, February 1943," DEA, File #4988-40; "Resolutions Urging the Canadian Government to Extend Aid to the USSR, July 1941," DEA, File #2342-40C. For some of the memoir sources see Lester B. Pearson, *Mike: The Memoirs of the Right Honourable Lester B. Pearson, Volume I, 1897-1948* (Toronto: The University Press, 1972); Hugh L. Keenleyside, *The Memoirs of Hugh L. Keenleyside: On the Bridge of Time, Volume II* (Toronto: McClelland and Stewart Ltd., 1982); Dana Wilgress, *Memoirs* (Toronto: The Ryerson Press, 1967); Igor Gouzenko, *This Was My Choice* (Toronto: J.M. Dent & Sons, 1948); J.W. Pickersgill, *The MacKenzie King Record, 1939-1948, Volumes I-IV* (Chicago: The University Press, 1960). In addition, the series *Canada in World Affairs*, a contemporaneous effort to cover Canadian international affairs for this period *in toto*, is an excellent source from which can be obtained the opinions expressed about the USSR in Canadian newspapers and periodicals, as well as those of public figures. See *Canada in World Affairs, 1939-1946, Volumes II-IV* (Toronto: Canadian Institute of International Affairs, 1943 (vol.I), 1950 (vols.III-IV)).

chapter will also provide insights as to how economic concerns relate to the question most often asked by scholars about this period: to what extent did Canadian attitudes and policies *vis-a-vis* the USSR mirror US policy? I will show that while Canadian officials may have been more open minded towards the USSR than their US counterparts, this did not manifest itself in an increased turn over in trade.

Several authors have written on topics of Canadian-Soviet relations during the Second World War. The work by Lawrence Aronsen of the University of Alberta, and Martin Kitchen of Simon Fraser University is the most extensive study. It is particularly insightful in its analysis of the factors that weighed on the minds of Canadian government officials in formulating policy towards the USSR. Nevertheless, this work is based exclusively on secondary sources, memoirs and published documents.[2] On the other hand, the studies by Aloysious Balawyder, David Dallin, and Donald Page, former Deputy Director of Historical Research at the Department of External Affairs, are more firmly grounded in unpublished archival sources.[3]

These works, however, have either a narrow focus, or are poorly conceived. In addition, all three tend to subjugate economic concerns to political ones. Chapter seven of Dallin's work is a unique, albeit dated study, that focuses upon the Soviet espionage ring that was established in Canada during the Second World War, the existence of which was disclosed to the Canadian government by Igor Gouzenko. Page's essay is exclusively concerned with the career of Dana Wilgress, the Canadian Ambassador to the USSR from 1942-1948. Balawyder's work, while the one most closely related to the issues discussed in the present study, has been compiled carelessly, and is riddled with inconsistencies. As a

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[2]The bibliography at the end of Aronsen and Kitchen's work only cites these types of sources. Nevertheless, the content of the material suggests that these authors may have consulted available archival sources from Ottawa. It is difficult to tell whether this was the case, however, as there are no footnotes in the text.

[3]Lawrence Aronsen and Martin Kitchen, *The Origins of the Cold War in Comparative Perspective: American, British, and Canadian Relations with the Soviet Union, 1941-48* (London: The McMillan Press, 1988); Aloysious Balawyder, "Canada in the Uneasy War Alliance," in *Canadian-Soviet Relations, 1939 1941*, p.1-14; Donald Page, "Getting to Know the Russians," in *Canadian-Soviet Relations, 1939-1981*, p.15-40; David J. Dallin, *Soviet Espionage* (New Haven: Yale University Press, 1955), p.273-302.

result, the existing secondary sources are only useful peripherally in this work.

In the historical annals of Canadian-Soviet economic relations, the era of the Second World War forms an historical lacunae.This holds especially true for the period after the signing of the Nazi-Soviet Pact in August 1939, and before the German invasion of the USSR on 22 June 1941. It is likely that this lack of attention by scholars has resulted from the fact that Canada and the USSR were not allies at this time. Nevertheless, this era saw tensions in Canadian-Soviet economic relations which had important political ramifications on the world scene. Since the US continued to observe an isolationist stance after the collapse of the allied resistance in France in June 1940; Canada's role as an ally to Britain grew tremendously at this time.[4] The situation became desperate as the future existence of the entire Commonwealth was put into question by German military successes. Canada, for her part, came to the aid of Britain, and in the process, sacrificed her own economic well being.

Because of fears that the USSR was sending Canadian wheat to Germany, an order-in-council was put in place by the Canadian government in January 1940. It specified that all goods being shipped to neutral territories such as the USSR required permits.[5] This development did not significantly inhibit Canada's pre-war grain trade with the USSR as Balawyder as indicated, as Canadian exports of wheat to the USSR before the war were insignificant.[6]

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[4]R.D. Cuff and J.L. Granatstein, "Getting on with the Americans: Canadian Perceptions of the United States, 1939-1945," in *Ties That Bind: Canadian-American Relations in Wartime* (Toronto: Samuel Stevens Hakkert and Co., 1977), p.94.

[5]Ibid.

[6]Balawyder reports incorrectly that "prior to 1940, about 750,000 bushels of wheat were exported annually to Russia." In fact, the USSR had only been an "intermittent" buyer of Canadian grain during the late 1930's, having imported 13,866 bushels of wheat from Canada in 1934, no bushels in 1935, 99 bushels in 1936, 3,832 bushels in 1937, and no bushels in 1938. No listing is given in the "Memorandum to the Prime Minister" which Balawyder cited for Canadian wheat exports to the USSR for 1939. But Ian M. Drummond has indicated that a total of $250,000 worth of Canadian goods were exported to the USSR in that year. As a result, Balawyder's statement that "the Nazi-Soviet Pact threw a new light on these sales, for it was conceivable that Canadian wheat could be shipped to Germany with whom Canada was at war or could replace the wheat shipped to Germany from Ukraine" is out of perspective. See "Memorandum for the Prime Minister - Export of Wheat to the USSR," 22 January 1940, DEA, File #158-40C; Aloysious

The order-in-council of January 1940, however, entailed the cancellation of Amtorg Corporations's intended purchase of between 750,000 and 1,000,000 bushels of wheat from Canadian firms such as the Cargill Grain Company and the Continental Grain Company.[7] Balawyder therefore notes that Canada's grain exports to the USSR could have been extensive before 1941 if this deal had gone through. Nevertheless, his assessment can be questioned because prior to the war, the USSR had preferred to buy wheat from Australia and the US, rather than from Canada.

In relation to Canada's position on the grain issue, Australia's policy was more significant than that of the US, because she was a commonwealth country. In late December 1939, the Australian Contraband Control Board had refused a shipment of 25,000 tons of wheat to the USSR on the advice of the British government. The US was not viewed as a factor in the grain trade at this time because it had experienced a bad crop year, and as a result, American prices were exceptionally high.[8] Consequently the Canadian grain market was suddenly filled with Soviet purchasing orders in late 1939, and early 1940. It is possible that they may have needed this grain due to their acquisition of new territory in Poland. Whatever the case, it appears that the Soviet government was desperate to buy grain, as they were willing to resort to unusual measures, such as the purchase of Canadian harbor tugs, in order to ship it.[9]

For the sake of maintaining good relations with its colonial allies, Canada sacrificed profits in the grain market, and agreed to the unrealistic suggestions of British intelligence. This agreement occurred in the face of opposition from local producers. The order-in-

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Balawyder , "Canada in the Uneasy War Alliance," in *Canadian-Soviet Relations, 1939-1981*, p.2; Ian M. Drummond, "Canadian-Soviet Trade and Competition from the Revolution to 1986," (Unpublished Paper, University of Toronto, 1987), p.8.

[7]"Memorandum for the Prime Minister - Export of Wheat to the USSR," 22 January 1940, DEA, File #15[illegible]-40C.

[8]Ibid.

[9]"Sale of Canadian Vessels to Soviet Russia," 22 January 1940, *MacKenzie King Papers*, PAC, Vol.335, File #3624, No. 231133-4.

council derided the hopes of Canadian firms who sought to make huge profits by selling goods to neutral nations such as the USSR. The Searle Grain Company, for example, had argued vehemently that it was unnecessary to cancel exports of Canadian wheat to the USSR, as it was impossible for such shipments to help the Nazi cause.

The arguments put forward are surprisingly convincing, if their evidence can be believed. As Major Strange of the Searle Company noted, it was almost certain that Canadian wheat would not enter Germany because:

> Vladivostok (the destination of the wheat) is about 5,600 miles from Germany. The Russian railroad is broad gauge, the German railroad is narrow gauge. Russia has already made a Treaty with Germany to ship her one million tons of wheat from around the Ukraine, which is only about 900 miles from Germany. It is reported that not a single carload of this has yet been shipped because of Transportation difficulties, and the Ukraine is comparatively near to Germany.[10]

The change in gauge from the USSR to Germany would be a delay as it would be necessary to change the wheels of the trains. At any rate, it seems reasonable to assume that it would be easier to ship something by rail 900 miles as opposed to 5,600 miles, even if transport difficulties existed. Furthermore, since these wheat consignments had not yet left Canadian ports, they also had to cross several thousand miles of ocean.

Major Strange further supported his case that the British demands to inhibit sales to the USSR were unrealistic and contradictory, when he pointed out the confusion that characterized the international trading system during the early part of the Second World War. Strange made a believable case that Canadian grain exports to the USSR could be justified as patriotic. Supporting the British cause:

> Canada today is shipping wheat and all kinds of other products, such as copper, lead, zinc, etc., to Sweden, Denmark, Belgium, Holland, Switzerland, Italy, Greece and Turkey. Each one of these countries has a Trade Treaty with Germany... Italy is an acknowledged and definite ally of Germany to a much greater extent than is Russia... (Since) Great Britain is badly in need of Russian timber... and is paying for those shipments of timber, in a Treaty made with Russia on October 11th, 1939, with rubber and tin.. (which are) much more valuable to Germany at the moment than wheat... If this wheat shipment to Vladivostock had gone through, then Canada and the British Empire would have had a credit with Russia to pay for her timber.[11]

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[10]Major Strange of the Searle Grain Company to J.M. Gilchrist, 25 January 1940, DEA, File # 158-40C.

[11]Ibid.

His comments seem justifiable. The Nazis did not have food supply problems during the early part of the war, and products such as rubber and tin were important resources in the manufacture of automobiles and other machinery which they required to further their war aims.

However impractical the order-in-council may have seemed to Canadian business men such as major Strange, in a secret cypher from Vincent Massey, the Secretary of State for Dominion Affairs in London, to O.D. Skelton, then Canadian Secretary of State for External Affairs, it was disclosed that "efforts are being made to use Vladivostok as a channel for supplies to Germany."[12] Given its strong ties to Great Britain, the Canadian government had no choice other than to curtail grain exports from Canada to the USSR via the Pacific. There is no indicator in this cypher how the grain would reach Germany, and the chances grain being transported from Vancouver to Vladivostok to Germany, seem miniscule. Nevertheless, it would undoubtedly have caused political tensions between Canada and Britain if the Canadian government had consented to ship the grain.

This issue is a tautological one, however, because the US exported large sums of wheat to the USSR in the following months. The American government had imposed a moral embargo on goods entering the USSR in the latter part of 1939, after the Soviets had invaded Finland. This embargo entailed a ban on the export of goods used in the manufacture of armaments such as aluminum, and molybdenum. In addition, it included bombing airplanes, and high octane gasoline. It did not, however, include foodstuffs. British sources reported to Loring Christie, then Canadian Minister to the United States, that from 1 January , to 1 April 1940, the US government had shipped 1,700,000 bushels of wheat to Vladivostok.[13] In addition, by July, 300,000 more bushels of US wheat had

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[12]The Secretary of State for Dominion Affairs to The Canadian Secretary of State for External Affairs, 29 January 1940, DEA, Ibid.

[13]Confidential release to Loring Christie, 5 April 1940, Ibid.

been shipped to the USSR.[14]

Another issue involving Canadian-Soviet economic relations at this time is Canada's little known role in an affair involving the Soviet supply ship *Vladimir Mayakovski.* During the early part of 1940, this vessel broke US export regulations as specified by the moral embargo. Its crew intended to ship a cargo of copper, molybdenite concentrates, and aeroplane engines bought in the US and Mexico, back to the USSR. The British Ministry of Economic Warfare learned of the *Vladimir Mayakovski's* activities, and was convinced that these goods were intended for Nazi Germany.[15]

The Ministry notified US authorities of the situation prior to the vessel's departure from San Fransisco for its last scheduled stop in Seattle. In a memorandum for the Prime Minister of Canada dated March 29, 1940, it was reported that instead of carrying on to Seattle, however, the *Vladimir Mayakovsky* had diverted its course back towards the USSR. Evidently, the crew had learned of plans for its interrogation by US customs officials.[16]

Shortly afterward, the ship was apprehended by the British Naval forces just off the coast of Hokkaido, the northern island of Japan.[17] After it was detained, the High Commissioner of the United Kingdom recommended to the Canadian Minister of Finance, Colonel J.L. Ralston, that the ship should be sent to Vancouver for examination.[18] Canada was a logical choice in this matter, Vancouver was the closest Commonwealth port. As a diversion to the Soviet authorities, however, it was disclosed to the international press that

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[14]Memorandum for the Prime Minister, 7 July 1940, Ibid.

[15]O.D. Skelton to Loring Christie, 29 February 1940, Ibid.

[16]Memorandum for the Prime Minister, 4 March 1940, Ibid.

[17]Memorandum for the Prime Minster, 29 March 1940, Ibid.

[18]O.D. Skelton, Secretary of External Affairs, to Colonel J.L. Rolston, Minister of Finance, 29 February 1940, Ibid.

the *Vladimir Mayakovsky* had been sent to France.[19]

This case, in conjunction with the grain issue discussed above, indicates that Canada's loyalty to Britain during the early part of the war was unquestionable. Although it is true that Canada was isolationst to a degree in that she was reluctant to become actively committed to sending large numbers of troops abroad through conscription, these events show that the Canadian government was taking steps to actively aid the British war effort, irrespective of potential problems that might have arisen with neutral parties such as the USSR. This behavior contrasts with the more neutral isolationism displayed by the US in these situations. But this is not surprising, Canada had declared war on Germany in late 1939, while the US did not do so until December 1941.

To the dismay of the British and Canadian governments, the Americans withdrew their moral embargo against the USSR in January 1941. The US government had intelligence which justified the lifting of the embargo,[20] but they did not share it with their allies. Cordell Hull, then Secretary of State at the British Foreign Office, could not understand why his requests that the US curb its exports to the USSR were being ignored at this time.[21]

Some of the allied tensions on the Soviet question were eliminated after 22 June 1941, when the Nazis invaded the USSR, and the political situation was transformed. Aid from the allies poured into the USSR, and continued to do so for the remainder of the war. Favorable rates of credit were established with the Soviet government, and even a measure of good will and trust began to emerge between East and West. Nevertheless, the stances that the individual allied nations took in relation to the USSR were varied, and a degree of inter-allied friction persisted.

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[19]For example see, *Toronto Globe and Mail*, 30 March 1940; *New York Times*, 28 March 1940.

[20]The US State Department had learned through intelligence sources that a German attack upon the USSR was impending. See Aronsen and Kitchen, *The Origins of the Cold War in Comparative Perspective*, p.7.

[21]Ibid., p.8.

The British were quick to form ties with the Soviets. The day after the invasion, Winston Churchill, the Prime Minister of Great Britain, addressed the Western world on the BBC in one of his finest speeches of the war, and indicated that any foe of Nazi Germany's was an ally of Britain's.[22] The British immediately a military and diplomatic mission to Moscow which was composed of General Mason Macfarlane, Colonel George Hill, Sir Stafford Cripps, the British Ambassador to the USSR, and others. An agreement was ratified on July 8, which facilitated the movement of war supplies from the UK to the USSR.

The American government was slower to establish official ties. Through Lend-Lease, an agreement passed in November 1941, a total of $1 billion in credit was offered at exceptionally favorable levels to the USSR for the purchase of war materials. In September 1941, the US and the UK set up a joint committee in Moscow which was headed by Avril Harriman, and Lord Beaverbrook. This committee was responsible for sending information about Soviet needs to London and Washington and also Ottawa. Until Dana Wilgress was sent to Kuibishev in March 1943, as Canadian ambassador to Russia.

Canada's commitment to the Soviets during the Second World War was not as substantial as that of the US or the UK. In addition, the terms of Canadian aid were ratified more slowly than was the case with the other allies. Nevertheless, the amount sent was substantial for a middle power, especially after the signing of the Mutual Aid agreement with the USSR in May 1943. Therefore, it is inaccurate to argue, as did Tim Buck, the leader of the Canadian Communist Party, that the amount of aid supplied constituted a lack of effort on the part of the Canadian people, or that "MacKenzie King held out on a hard pressed ally through the most crucial days of the war."[23] Given the nature of Canadian-Soviet relations in both the pre-war and post-war eras, it is indeed remarkable that

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[22]"Summary of Recent Developments," 30 July 1941, DEA, File #158-40C.

[23]*House of Commons Debates*, 27 March 1946, p.300-301.

Canada's aid to the USSR during the Second World War outweighed its aid to every other country with the exception of Great Britain.

In accordance with the British agreement of July 8, which specified that aid from the dominions would be necessary to meet Russian demands, by 25 September 1941, almost $500,000 worth of Canadian leather, cloth and rubber had been shipped to the USSR.[24] In the following four months, Canada sent $3,862,685 in aluminum ingots, $989,425 in electrolytic nickel, $600,000 in grain and flour, $185,000 in army webbing, $100,000 in leather goods, and various other odds and ends.[25] By 31 August 1942, the total cost of Canadian goods shipped to the USSR had reached the sum of $30,000,000, and included $12,000,000 in aluminum ingots, $5,800,000 in cars and car parts, $4,000,000 in wheat and flour, $3,500,000 in cartridges and explosives, $800,000 in leather goods, as well as a plethora of other goods delivered in relatively small quantities.[26]

Nevertheless, the amount of goods shipped was not significant in relation to Soviet demands. There was no efficient Soviet apparatus to communicate quickly and accurately Soviet needs to the Canadian government. In some instances, orders were being fulfilled which had not even been placed. For example, leather goods had been a high priority among the initial Soviet orders, but were not included among their second set of requests.[27] In addition, such aid was hindered by poor transport.

The quantity of Canadian aid to the USSR began to increase by the end of 1942 and the beginning of 1943, however, through the creation of two organizations which facilitated Canadian-Soviet exchanges. The first of these was the Canadian "Aid to Russia Fund" which was set up early in 1942, and began operation later that year. The goal was to allow

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[24]"Permits Issued for exports to Russia, 1 January to 25 September 1941, DEA, File #158-40C.

[25]"Permits Issued for the Export of Goods to Russia, 26 September 1941, to 10 January 1942," Ibid.

[26]"Statement showing the Canadian Exports to Russia: By Commodities: During the Period From 1 September 1941, to 31 August 1942," Ibid.

[27]Sidney Jones, US Hides and Leather Administration, to Norman Robertson, 2 February 1942, Ibid.

individual Canadians to donate supplies to the USSR. Donations of this type consisted mostly of food and clothing. The total amount of aid which this campaign sent to the Soviets, however, is not certain.[28] Most Canadian supplies, however, were sent through the Mutual Aid Program mentioned above. On the whole, export totals to the USSR from Canada reached over $200,000,000 by the end of the war.[29]

Immediately after the German invasion, the issuing of Canadian export permits to the USSR was no longer inhibited by political factors. Nevertheless, initially, the goods which the USSR obtained from Canada had to be payed for in cash, or else handled through a British or US intermediary corporation that was willing to extend credit to the USSR. This situation changed somewhat after March 1942, when the War Appropriation Act was ratified. Through this legislation, Canada offered Britain a $1 billion dollar gift for war supplies.[30]

Some of the goods being sent to the USSR were charged to the British account.[31]

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[28]Balawyder gives the most credence to sources from the Lenin Library which, he claims, list total donations from the "Aid to Russia Campaign" at $3,857,291 in food and medical supplies, and $3,336,611 in clothing. In addition, he mentions a Canadian source from the *MacKenzie King Papers*, which gives a total of almost $14 million. Surprisingly, the Soviet figures which Balawyder lists are probably more accurate than the Canadian ones. The total for the "Aid to Russia Campaign," which I compiled from the lists contained in Department of External Affairs files, amounts to just over $7,000,000. See Aloysious Balawyder, "Canada in the Uneasy War Alliance, in *Canadian-Soviet Relations, 1939-1981*, p.7; "Aid to Russia Campaign," *MacKenzie King Papers*, PAC, File #3712, "Permits Issued for the Export of Goods to Russia During the Period of November 1942, to May 1945," DEA, File #158-40C.

[29]Over 90% of Canada's consignments of Mutual Aid went to British Commonwealth countries. The second highest proportion was sent to the USSR, which received 6.8% of the total. Since the sum of figures for Canadian Mutual Aid reached $2,271,070,000, this meant that $159,278,000 was sent to the USSR through this program. Before Mutual Aid was ratified, Canada had sent about $45,000,000 in supplies to the USSR. The details of the pre-Mutual Aid arrangements are highly controversial, and shall be discussed below. See *Canada In World Affairs, Volume IV, 1944-1946*, p.78, 298.

[30]*Canada in World Affairs, Volume III, September, 1941, to May, 1944*, p.217-8.

[31]The study by Aronsen and Kitchen gives an inaccurate portrayal of the effects that the War Appropriations Act had on Canadian-Soviet economic relations. In the first place, they title it the "War Assistance Act," which is incorrect. In addition, they state that out of the billion dollar gift allocated to Great Britain, $10 million had been set aside for general assistance to the USSR. But this was not the case. As will be shown below, the form in which Soviet payments were to be made was a topic of controversy for several months, until it was mutually agreed in August to extend the Soviets a $10 million credit for the purchase of wheat, apart from the British gift. In addition, contrary to the argument put forward by Aronsen and Kitchen, and Balawyder, it will be shown that the delay in reaching an economic agreement with the Soviets exacerbated the difficulties which Canada had in establishing diplomatic relations with the USSR. See Aronsen and Kitchen, *The Origins of the Cold War in Comparative Perspective*, p.152.

Shortly, Britain insisted that an alternate payment strategy be ratified as soon as possible. Nevertheless, a decisive answer to the question of how Canadian goods were to be paid for by the USSR was delayed for a number of months. Matters had been complicated by a several factors, and particularilly by the lack of direct diplomatic relations between Canada and the USSR.

The issue of the establishment of diplomatic relations between Canada and the USSR is complex. Aronsen and Kitchen, stress only the political aspects of this episode. They argue that the establishment of diplomatic relations between Canada and the USSR was delayed until November 1942, solely to accord with the wishes of Prime Minister MacKenzie King. While a tenuous argument can be made that this was largely the case until February, 1942, after this point, the delay can only be attributed to the failure of the Canadian government to reach an agreement with the USSR on payment for aid.

Aronsen and Kitchen propose that Canada's policy towards the USSR was largely determined by MacKenzie King, who was not inclined to revise Canadian informal diplomatic relations with Moscow, which were conducted through the British Foreign Office. In addition, they argue that by not immediately establishing diplomatic relations with the USSR, King sought to maintain the isolationism and appeasement that were characteristic of his approach to international politics.[32] It is true that King supported these policies, and insisted that exchanges with the USSR should be carried out at the consular rather than ministerial level. Nevertheless, as Lester B. Pearson, then Canadian Ambassador to the US points out, MacKenzie King was generally inclined to establish less formal exchanges in international affairs. Isolationism had little to do with his position on

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[32]Nazi Germany invaded the USSR on 22 June 1941, and only two weeks afterwards the British sent a number of highly placed officials to the USSR to assess the situation and contact Soviet officials to discuss what aid could be rendered. US intelligence had learned of the German invasion back in January 1941, and had already made efforts to remove embargoes against the Soviets. Because of the US isolation from the European theater, relations with the USSR were not formed until the signing of the Lend-Lease agreements in November 1941. See Lawrence Aronsen and Martin Kitchen, *The Origins of the Cold War in Comparative Perspective*, p.8-9, 77.

this particular issue. As Pearson notes:

Mr. King was reluctant to agree to change(s) in (legation to embassy) status. He thought it might cost money and give the head and members of the mission those illusions of grandeur to which he suspected diplomatic representatives abroad were prone.[33]

If Aronsen and Kitchen are correct in their assessment, one wonders why MacKenzie King consented to exchange diplomatic representatives with the USSR in October 1941.[34] In addition, it seems that the Canadian Cabinet War Committee had convinced Mackenzie King by 27 February 1942, that it was necessary for the exchanges with the Soviets to be carried out at the ministerial level, having anticipated the importance of the USSR in the post-war period.[35] By the end of 1941, Canadian public opinion was clearly in favor of establishing official ties with the USSR.[36] This support for the USSR was visible in tangible forms.

In the latter part of 1941, thirty eight petitions were sent to the Canadian government by trade unions, and anti-fascist groups who wished to establish diplomatic relations with the USSR. Labour and communist circles expressed similar views. For example, one of their representatives, Angus MacInnis (CCF-Vancouver), urged the Prime Minister to "open negotiations with the Soviet government for the exchange of ministers (and) to get away from some of the prejudices which prevented Canada from understanding the Soviet Union."[37] The "prejudices" to which MacInnis referred, were likely anti-Soviet views of Catholic groups, or lingering suspicions within the general public about the Nazi-Soviet pact and the USSR's invasion of Finland. Evidence suggests that such sentiments,

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[33]Lester B. Pearson, *Mike: The Memoirs of the Right Honourable Lester B. Pearson, Volume. I*, p.222.

[34]Lawrence Aronsen and Martin Kitchen, *Origins of the Cold War in Comparative Perspective*, p.153.

[35]Aloysious Balawyder, "Canada in the Uneasy War Alliance," in *Canadian-Soviet Relations, 1939-1981*, p.5.

[36]Balawyder mentions that in December, 1941, a Memorandum to the Prime Minister had indicated that 91% of Canadians favored aid to the USSR, with 80% of Quebecer's having consented in the affirmative. Ibid., p.4-5.

[37]*House of Commons Debates*, November 4, 1941, p.415.

however, weighed less heavily on the mind of MacKenzie King as time passed. Nevertheless, Aronsen, Kitchen and Balawyder have indicated that they were important aspects of his thinking on the Soviet issue well into 1942.

The MacKenzie King Record suggests that the Prime Minister was more concerned about the conscription issue at this point than anything else.[38] In addition, as has been noted above, by December, 1941, MacKenzie King knew that these anti-Soviet "prejudices" were not in the majority, even in Quebec. On the other hand, King was suspicious of Soviet intentions, and believed right up until June 1941, that the Soviets would join the Axis powers if the latter seemed to be winning the war.[39] Nevertheless, there were a number of more concrete factors involved in the delay of official diplomatic relations between Canada and the USSR.

Discussions between Canadian policy makers over Soviet credit proposals dragged on from February to September 1942. In addition, Soviet responses to Canadian government queries were delayed, and the Soviet authorities were content to ignore the issue of payment for Canadian grain while wheat continued to be supplied from the $1 billion gift to the British. There was also a hope on the part of both sides that the British might pay for these shipments. Nevertheless, the British saw this scenario as unrealistic. By mid-1942, it became clear that a direct agreement between the Soviet and Canadian governments had to be elaborated, as the Canadian gift to the British would run out near the end of 1942.

Canadian, Soviet and British opinion was divided regarding how the shipments of Canadian wheat that had already entered the USSR should be paid for. Each side sought to obtain the best possible terms for itself. In addition, opinion in Canada was divided into different camps. For example, G.F. Towers, the Chairman of the Bank of Canada, felt that "the larger the amount of wheat which Russia can obtain from the United States, the better

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[38]J.W. Pickersgill, *The MacKenzie King Record, Volume I, 1939-1944*, p.275-6.

[39]Ibid., p.149.

it (would) be for (Canada)." He viewed the USSR as a risky business partner, which might not be inclined to pay debts incurred during the war after the hostilities had ended. As for the wheat which Canada had already shipped to the USSR, Towers believed that it would be better to extract some form of payment, than to have it attached to the Canadian $1 billion gift to Britain. Nevertheless, he acknowledged that it would be better to have the payment of wheat attached to the British gift, than to have no payment at all.[40] Like several other high ranking officials in Canada, he thought it prudent to extend the USSR credit. Norman Robertson, Under-Secretary of State for External Affairs, on the other hand, felt that if Canada extended favorable credit rates to the USSR during the war, this would ensure Soviet markets for Canada in the post-war period.

On 14 February 1942, the USSR asked the Canadian government for $10 million credit for the purchase of wheat, with payment to begin in three years, and an assignment of 3% interest to be installed at that time.[41] Noting Towers' concerns, it is not surprising that Canadian officials viewed this proposal as unfavorable, and they waited for a better offer. In late February, Dana Wilgress, then deputy minister of the Department of Trades and Commerce, met with members of the Canadian Wheat Board. Afterward, Wilgress advised Robertson to explain to Malcolm MacDonald, High Commissioner for the United Kingdom, that:

> The Canadian Wheat Board and the Department of Finance are considering the Russian request for a three-year credit covering prospective purchases of Canadian wheat for the requirements of the Soviet Union. However, before a definite recommendation can be submitted to the government regarding the Russian request, it has been considered necessary to develop further information.[42]

In March, the British revealed their displeasure at the delay which placed them unwillingly in the position of intermediaries in this matter. It was disclosed by Patrick Duff, an Under

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[40]G.F. Towers to N.A. Robertson, Under-Secretary of State for External Affairs, 28 February 1942, DEA, File #158-40C.

[41]Malcolm MacDonald, High Commissioner for the United Kingdom, to Norman Robertson, Under Secretary of State for External Affairs, 23 March 1942, Ibid.

[42]Dana Wilgress to Norman Robertson, 23 February 1942, Ibid.

Secretary of the Office of the High Commissioner for the United Kingdom, to Robertson that "the Soviet government continue(s) to ignore requests for a reply to the note addressed to them by his Majesty's Ambassador at Kuibishev," and that in so doing the they were "playing off the Canadian government against the United Kingdom government."[43]

According to Duff, problems had arisen because, as mentioned above, the British had been essentially supplying the Soviets with wheat out of the $1 billion Canadian gift, and the British clearly did not want this to be the case. For their part, the British emphasized that they had always insisted to the Soviets that they were only acting as intermediaries between Canada and the USSR, and that eventually either, the USSR would have to pay the Canadian government in US dollars, or Canada would have to offer this grain as a gift to the USSR.[44] Despite the clarity of the British position, the Canadian Wheat Board continued to ponder this proposal for months.

In April, Robertson sent a missive to the British acknowledging that External Affairs was "willing to negotiate on the basis of accepting suggestion of Russian government."[45] But negotiations proceeded slowly, and it was not until June 1942, that the Canadian government reinitiated negotiations with the USSR on the credit issue.[46] On September 8, 1942, the final agreement between Canada, the UK and the USSR was ratified, and $10 million in Canadian credit was offered to the USSR.[47]

The negotiations were protracted because neither party was willing to bend on any of the issues being discussed. The Treaty, however, reflected equally the interests of all parties concerned. Canada consented to the Soviet credit terms. The British were charged for

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[43]Patrick Duff to Norman Robertson, 17 April 1942, Ibid.

[44]Ibid.

[45]Norman Robertson to Malcolm MacDonald, 17 April 1942, DEA, Ibid.

[46]Norman Robertson to Patrick Duff, 19 June 1942, DEA, Ibid.

[47]*Canada Treaty Series*, 1942, Supplement No.17.

shipping costs, and the Soviets had to pay a higher price for the grain than they would have liked. None of the parties concerned were totally satisfied, but none walked away from negotiations in disgust either.

Although it had been established by September that wheat shipments to the USSR would be paid for on credit from the Bank of Canada, Canadian public opinion, was divided on this issue. The *Toronto Daily Star* argued that the wheat already sent should be an out right gift in recognition of the Soviet war effort. In addition, this paper suggested that this "gift" should be announced upon the arrival of the forthcoming Soviet trade delegation to Canada.[48] This article may have influenced a group of farmers in Saskatchewan in mid-1943 to express a desire to deliver wheat to the USSR free of charge. On this issue, Robertson noted only that "a strong political case could be made for demanding that the Government should facilitate donations of wheat," because "if (the farmer's request) is delayed... it appears that the government's hand has been forced."[49] In other words, Robertson believed, it was paramount that the Soviets did not learn of this offer, or else the Canadian government would have been obliged to act upon it. Fortunately for Canadian diplomacy, this issue was not thrust into the international forum, as the Soviets would undoubtedly have used it to their advantage. It dropped from public discussion as soon as all parties concerned learned that Canada did not have the necessary shipping facilities to accommodate extra supplies of wheat, and that the credit agreement would be placed in jeopardy if wheat was to be supplied as a gift.

As a corrolary to the above agreement between Canada, the UK, and the USSR, Canada and the USSR also agreed to a bilateral arrangement on this issue. As a result, a second Treaty was ratified on September 8, 1942, which hastened the visit of a Soviet delegation headed by V. Krotov, the commercial attache of the USSR in Canada, to Ottawa in

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[48]*The Toronto Daily Star*, 14 September 1942.

[49]Norman A. Robertson to J.A. MacKinnon, Minister of Trade and Commerce, 9 March 1943, File # 158-40C, DEA.

October.[50]

This arrangement also facilitated the official posting of Wilgress as Canada's first Ambassador to the USSR in Novemger 1942. Wilgress explains that the decision to establish diplomatic relations seems to have been made early in the summer of 1942, but only approved in the fall. As he notes, "I spent my summer holiday in 1942 with my wife (and) follow(ed) the sweep of the German armies towards Stalingrad and (began) to link the fate of that Russian city with my own." He was officially informed that he was required to go to the USSR in October.[51] Delays continued, and Wilgress was not actually sent to head the Canadian mission to Kuibyshev only in March 1943, when agreements for Mutual Aid, a much more substantial credit program, were already well underway.[52]

Wilgress's despatches were among the finest sent to Western capitals from Kuibyshev during the Second World War. Page has argued convincingly that The British Foreign Office prized them above all others.[53] In addition, Wilgress was instrumental in informing the Canadian Mutual Aid Committee of Soviet needs, and about general circumstances in the USSR. Furthermore, he played a major role in informing the Canadian government about its trade potential with the Soviets once Mutual Aid was terminated.

The disruption of Canadian-Soviet economic relations at the end of the war has been generally seen by scholars as a reaction to political developments, rather than as a direct contributing factor in the souring of relations in itself. It will be argued here that although

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[50]Mr. Feonov, Deputy Trade Representative of the USSR in the United Kingdom, to R.V. Biddulph, European Commissioner for Canadian Wheat, 4 November 1942, Ibid.

[51]Dana Wilgress, *Memoirs*, p.122-3.

[52]The issue of when Wilgress arrived in Kuibishev has been a matter of confusion by scholars. Page states that "Canada's first ambassador to the Soviet Union set out for the temporary wartime capital of Kuibishev in 1942." But Wilgress has stated in two separate places that he was not sent to the USSR until March, 1943. See Donald Page, "Getting to Know the Russians - 1943-1948," in *Canadian-Soviet Relations, 1939-1981*, p.15; Dana Wilgress, *Memoirs*, p.126-127; Dana Wilgress, "From Siberia to Kuibishev, Reflections on Russia, 1919-1943," *The International Journal*, (Summer, 1944), p.372.

[54]Donald Page, "Getting to Know the Russians - 1943-1948," in *Canadian-Soviet Relations, 1939-1981*, p.15-40.

post-war political factors involving Canada and her allies largely caused the disruption in relations, Canada's inability to resolve post-war trade negotiations with the USSR also created political tension. This was the case before the Gouzenko Affair of mid-1946, and prior to the emergence of widespread Western awareness of Soviet intentions in Eastern Europe after the communist coup in Czechoslovakia of 1948.

The degree of official anti-Sovietism in Canada, has been a topic of controversy among scholars. For example, Don Page and Don Munton argue that Canadian policy makers were more liberal and "evenhanded" than were those of the US. Their view, however, is based on limited sources, and concerns the opinions of only one Canadian official, Escott Reid. They propose that Canadians were perceptive in that they drew little distinction between American and Soviet policy, and believed that the Soviets should be treated firmly, but also fairly.[54] In contrast, David J. Bercusion has argued convincingly that those whose positions counted most in the Department of External Affairs were "the coldest of cold war warriors from at least 1946 on."[55] It is not my objective to resurrect this political debate. Nevertheless, an analysis of the economic concerns for the period in question enriches the understanding of its context.

As noted, some Canadian government officials, such as Norman Robertson, had hoped that post-war trade relations with the USSR would be substantial. Wilgress's dispatches of 1943 and 1944, however, suggested that this was not going to be the case. In a regretful tone, Wilgress reported that irrespective of political developments, trade between Canada and the USSR offered little potential in any area for the post-war period. The Soviets were not inclined to offer tariff concessions, and they were opposed to proposals which specified annual quota purchasing of Canadian products.[56] Difficulties in establishing post-

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[54]Don Page and Don Munton, "Canadian Images of the Soviet Union, 1946-1947," *International Journal*, (Summer, 1977), p.577-604.

[55]David J. Bercusion, "A People so Ruthless as the Soviets: Canadian Images of the Cold War and the Soviet Union, 1946-1950," (Unpublished paper, University of Calgary), p.23.

[56]Donald Page, "Getting to Know the Russians,1943-1948," in *Canadian-Soviet Relations, 1939-1981*, p.17.

war trade relations were exacerbated because the only commodity that Canada could import from the USSR in any considerable quantity was anthracite coal, and such imports had elicited unfavorable responses from Canadian and Welsh coal producers in the pre-war period.[57]

In addition to these bleak prospects, however, a numbers of issues involving the manner in which the USSR conducted business dampened Canadian hopes for a post-war trade agreement with could be reached in the post-war period. Despite the ratification of credit arrangements with the USSR 1942 and 1943, the Soviets insisted that they be given preferential treatment once the war was over. As Robertson complained to Wilgress in late 1945:

> We have been unable to settle our differences with the Soviet authorities relating to credits, both commercial and those covering goods originally bought as Mutual Aid, or relating to the prices to be paid for industrial equipments. As a consequence, we have not since November 11th extended credit and have required the Soviet authorities to pay cash for all purchases... The Soviet Commercial Counsellor, Mr. Krotov... pressed hard for better terms... on the grounds that the United States was extending special terms for the Lend-Lease.[58]

Robertson specified that the Soviet attitude was highly irresponsible in relation to past developments because:

> With the cessation of Mutual Aid, the Soviet is attempting to drive inordinately hard bargains and they give no weight to our liberal Mutual Aid attitude nor the preferred treatment we granted them after the cessation of Mutual Aid... In allowing them to buy on credit at all after September 2 we were treating them more favorable (Sic!) than we did most other Allied Governments who were required to pay cash until the credit agreements were concluded.[59]

But these were not the only unusual problems which the Canadian government encountered in dealing with the Soviets. Similar complaints arose when prior to the US victory over Japan in August 1945, the USSR cancelled an order they had placed with the Canadian

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[57]For a detailed analysis of this situation, see the previous chapter of this study.

[58]Norman Robertson, Secretary of State for External Affairs (replaced Skelton), to Dana Wilgress, Canadian Ambassador to the USSR, 20 November 1945, Ibid.

[59]Ibid.

government to buy $6,250,000 worth of industrial equipment. By 1951, after much deliberation, the Canadian government consented to incur the losses that Canadian firms had incurred from the cancellation of these Soviet orders.[60] Nevertheless, they had very little choice. By this time, the Soviets simply refused to pay for them.

The problems which the Canadian government experienced in trade with the USSR at the end of the war caused the quantity of goods which these nations exchanged to plummet. From 1942 to 1944 some Canadian policy makers had forseen trade with the USSR as having potential for growth in the post-war period. This did not occur because Soviet attitudes were not conducive to compromise in international negotiations, and there was little that could actually be exchanged. The Gouzenko episode had caused a radical revision in the way that Canada and the West viewed the USSR. Nevertheless, it had a minimal impact on trade issues, as the opinion of Canadian policy makers had already been decided there.

While the periods of Second World War, and the early Cold War offer historical contrasts in a number of areas, similarities also exist. For example, in both peiods Canada was cautious about drastically altering its policy towards the USSR. This held true during the initiation of bilateral relations in 1941 and 1942, just as it did with the cutting of ties in 1946 and 1947. Further, while the Canadian government was wary of trading with the USSR, and was reluctant to establish diplomatic relations at the start of the war, her policy makers found it impossible to believe that the Soviets had been conducting war-time espionage on a grand scale in Canada after the war was over. When Gouzenko initially began telling Canadian government officials about such activities, they refused to believe him because they still considered the USSR an ally.[61] Such factors contribute to the

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[60]Aloysious Balawyder, "Canada in the Uneasy War Alliance," in *Canadian-Soviet Relations, 1939-1981*, p.9.

61 Edited by Robert Bothwell and J.L. Granatstein, *The Gouzenko Transcripts* (Ottawa: Deneau Publishers & Company Ltd., 1982), p.8-9.

historical irony of Canada's policy towards the USSR in the economic sphere during the period covered. The Second World War, the period of the greatest Canadian-Soviet cooperation in the sphere of economic and political relations, was followed by a period in which almost no goods were exchanged,[62] and diplomatic relations were severed.

[62]For the years 1948 and 1949, Canada sold an average of $5000 worth of goods to the USSR. From 1950 to 1953 Canada sold nothing to the USSR. During these years, Soviet imports to Canada were roughly on the same level as were Canadian exports to the USSR. See Ian M. Drummond, "Canadian-Soviet Trade and Competition from the Revolution to 1986," p.9.

IV) Fresh Approaches and New Political Tensions: Canadian-Soviet Economic Relations, 1956-1987

This chapter will cover Canadian-Soviet economic relations from 1956 until 1987. In its simplest form it will be an analysis of Canada's imports from the USSR, Canada's exports to the USSR, and the international economic competition which occurred between these two countries. Scholarly debate on these topics, however, revolves around a number of subsidiary concerns; for example, whether the Soviet posture on trade with the West reflected increasingly a departure from autarky during the period. This question will be discussed in the present chapter as it relates specifically to Canadian-Soviet relations.

Issues involving grain exports, and Canada's other sales to the USSR, will also be key points of investigation. For a number of years, scholars were concerned over the extent to which selling wheat to the USSR was a viable trade option for Canada. Their concerns shall be discussed here in historical perspective. Another related question is whether or not the increase in the volume, and the diversification of Canadian-Soviet trade in the 1970's, represented a gesture of sovereignty from the US on the part of the Canadian government. While one Canadian, and several Soviet scholars have suggested that it did, I will argue that it did not.

The last question to be addressed in this chapter concerns how the balance of payments in international transactions between Canada and the USSR were carried out. I will show that the official figures for imports from the USSR to Canada are not reliable, and that aggregate totals are actually higher than statistics have indicated. As a corollary of this fact, the interpretation of the balance of payments that several scholars have put forward is shown to be simplistic. Furthermore, I will speculate as to some of the forms which payments might have taken, and some of the ways that undeclared Soviet products may have entered Canada. Before these concerns are delved into, however, a general background will be provided to contextualize them in relation to each other, and the general

scope of world affairs.

Despite outward ideological and institutional differences, cooperation between Canada and the USSR increased considerably during the period in question. In 1955, Nikita Khrushchev, who had established himself as the dominant personality in the Soviet leadership after Stalin's death, invited Lester B. Pearson, then Canada's Secretary of State for External Affairs, to the USSR for an official visit.[1] Shortly afterwards, in February 1956, the *modus operandi* for economic intercourse was established with the signing of a bilateral Trade Agreement,[2] which extended mutual most favored nation status (hereafter MFN status), as per nations integrated into the General Agreement on Tariffs and Trade (hereafter GATT) structure.[3] This treaty was renewed at three year intervals throughout the 1960's and 1970's. But the growth of bilateral exchange was slow in developing. It was not until the mid-1960's that the quantity of trade between the USSR and Canada became substantial, and at this time, it was almost exclusively composed of one way grain sales from Canada to the USSR.

The form of Canadian-Soviet trade was altered in the early 1970's with the diversification of Canada's export trade to the USSR into the industrial sector. This trend was curtailed mildly in the 1980's. Nevertheless, at almost every level, the Soviets were receptive to products sold by Canadian firms.[4] Therefore, the end of diversification

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[1]William McGrath, "Recent Soviet Images of Canada and International Politics," in *Canadian Soviet Relations, 1939-1980* (Oakville: The Mosaic Press, 1981), p.195.

[2]B.I. Aliokin, I.B. Runov, *Sovietsko-Kanadskoe ekonomicheskoe sotrudnichestvo* (Moscow: Institute of USA and Canada, 1983): pp.100-107. An appendix at the back of this work contains copies in Russian of several of the inter-governmental agreements between the USSR and Canada.

[3]The GATT was first established in 1947. It outlined the MFN status principle in its first article which allowed for the elimination of customs duties or charges of any other kind on imported goods for signatory nations. See Dilip K. Das, *International Trade Policy* (London: The McMillan Press, 1990), p.73. The Canadian-Soviet Trade Agreement of 1956 also mirrored other sections of the GATT which allowed for the extention of MFN status to goods in transit (article two), ships and ports (article four), and its establishment of legal status for citizens who were engaged in business activity in the other country (article five). See Carl H. McMillan, "Canada's Post-War Economic Relations With the USSR," in Alfosius Balawyder Ed., *Canadian-Soviet Relations, 1939-1981*, p.132.

[4]J.B. Hannigan, Carl H. McMillan, "The Participation of Canadian Firms in East-West Trade: A Statistical

indicated that Soviet factories and trade institutions were still interested in acquiring Canadian products.

Rather, Canadian firms were encountering peripheral problems in establishing relations with them. As a result of Eastern regulations, the initial cost of market entry was quite high.[5] The issue was further complicated in the 1980's, when Canadian producers more concerned about the fragility of the international political situation than in the 1970's. Furthermore, at this time, the value of primary resources in world markets declined. As a result, the USSR's continued ability to pay for goods was called in question. Nevertheless, although exports stagnated and failed to diversify, industrial exports from Canada to the USSR continued at roughly the same pace during the 1980's as in the 1970's.

The quantitative record of exports from Canada to the USSR is less riddled with ambiguity than the case for the imports discussed below. For exports, the figures are reliable, the types of goods involved are well documented, and the nature of the institutions and firms which conducted them is easily ascertainable.[6] Therefore, it is inappropriate to discuss these issues at length. As background, it is necessary to provide a synopsis of overall Canadian exports to the USSR, and some of the controversies surrounding them.

The amount of exports increased from $24.6 million in 1956 to $315 million in 1964, and $320.6 million in 1966. Largely owing to the Czechoslovakian crisis of 1968, exports dropped to $86.6 million in that year, and a paltry $9.1 million in 1969. They recovered to $290.6 million in 1973, but dropped to $30.7 million in 1974 due to a poor Canadian crop yield that year. The totals for exports remained relatively high, however, throughout the remainder of the decade, exceeding $350 million in every year.[7] In the 1980's, trade

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Profile," in *the East-West Project* (Carleton University, Institute of Soviet and East European Studies, 1979), p.31.

[5]Ibid., p.4.

[6]For a detailed investigation of Canada's exports to the USSR other than grain, see Carl McMillan, "Export Diversification: The Case of Canadian Trade with the USSR and Eastern Europe" (Ottawa: The Institute of Soviet and East European Studies, 1981).

[7]Carl McMillan, "Canada's Postwar Economic Relations with the USSR," pp.141-145.

between the two northern powers continued to expand in volume, largely owing to a continued Soviet demand for Canadian grain.

The 1970's witnessed a flowering of Canadian-Soviet economic relations, which despite predictions to the contrary, continued into the 1980's. It is paradoxical, however, that this expansion occurred in the face of Canada's political commitments to the US and NATO during the USSR's invasion of Afghanistan, the tightening of political tensions in Africa, the Middle-East, and Asia, and the crisis in Poland in 1980-1981. Furthermore, it is ironic that the volume of Canadian-Soviet trade grew in the 1980's despite Canada's decision to abandon Trudeau's "third option" policy in international affairs in favor of developing freer trade with the US.[8] US policy was an attempt to limit Canada's trade with the USSR at this time.

Not surprisingly, Canadian producers were more interested in accruing profits than the political spectrum, thus the political events of the 1980's did not significantly affected the volume of Canadian-Soviet trade. But the quantity of trade was never substantial. During the 1970's and 1980's, exchange with the USSR only composed 2-3 percent of Canada's overall trade volume. Its importance should not be underestimated, however, as it constituted a significant international trade surplus for Canada.

One of the most important characteristics of East-West trade, and Canadian-Soviet trade in particular, was that all official exchanges had to be dealt with at the state level through the Ministry of Foreign trade. From 1956 to 1960, both sides officially extended feelers in the areas of sports, metallurgy and mining, health and social welfare, microbiology, medicine, labour relations, marine biology, transport, communications, northern resources, engineering and education.[9] In addition, it has been noted that during the late 1950's,

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[8] Definitions for these policies shall be provided below.

[9] Detailed compilations of primary source materials on these and other Canadian-Soviet exchanges are housed in the Department of External Affairs reference catalogue, Public Archives of Canada Record Center.

Soviet scholarly articles became more realistic, and less dogmatic, in its portrayal of Canada.[10] Therefore, irrespective of subsequent behavior, there was clearly a change in attitude occurred at this time within Soviet institutions away from Stalinist autarky and toward genuine cooperation with the West, and Canada in particular.[11] Further evidence to support this claim is provided below.

It was not until 1964 that the first concrete results of these exchanges between Canada and the USSR were produced. In this year, an agreement was reached for cooperation in the peaceful use of atomic energy between Atomic Energy Canada Ltd., and the Soviet State Committee for Utilization of Atomic Energy. Other successful inter-governmental arrangements followed, and all were conducted through ministry channels. In 1965 the Department of Energy, Mines and Resources signed an agreement with the Soviet State Committee for Science and Technology to establish cooperation in the field of metallurgy. In 1966, the Canadian Cabinet signed an agreement which set up broader exchanges between the USSR and Canada in cultural, scientific, technical, and other areas.[12]

State exchanges continued throughout the 1970's. In 1971 another bilateral trade agreement was signed for industrial cooperation with the USSR, and in the same year an agreement was signed for extensive scientific and technical exchanges, with extending protocols in 1976 and 1978.[13] Furthermore, an official agreement between the Canadian Wheat Board and *Exporthleb* governed the sale of grain. In relation to the autarky debate, it is significant that the words "cooperation" and "exchange" were used numerous in the majority of these agreements. It suggests that rather than following of a policy of autarky,

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[10]William McGrath, "Recent Soviet Images of Canada and International Politics," p.196.

[11]It should be mentioned that the autarky debate has primarily involved economists who have studied East-West relations in total. It has not, to the best of my knowledge, been applied in relation to Canadian-Soviet affairs, or any other such micro case studies. I believe that if it was to be placed in historical perspective, however, these studies would be useful in enhancing the debate among economists.

[12]Carl McMillan , "Canada's Post-War Economic Relations with the USSR," p135.

[13]B.I. Aliokin, I.B. Runov, *Sovetsko-Kanadskoe ekonomicheskoe sotrudnichestvo*, p.118-138.

the USSR was also pursuing the growth of its exports and mutually beneficial intercourse with Canada.

This institutional cooperation resulted almost exclusively, however, in a Soviet desire to increase the importation of Canadian goods and technical know-how into the USSR. But there was only a low level of reciprocation of the feeling of exchange on the Canadian side, because the latter saw little of use to import from the USSR. Consequently, Canadian exports to the USSR were largely carried out through the extension of Canadian bank credits.[14] The result was a substantial trade deficit on the Soviet side, which necessitated a balance of payment.

But no monetary conflicts occurred. The USSR had a good record for paying its bills after 1951, and it was interested in developing Canada as an export market for "high-tech" manufactured goods. As several case studies show, this drive was largely unsuccessful. It highlighted the inefficiency of Soviet factories, the inferiority of their products, and their inability to provide an adequate servicing network in Canada. Nevertheless, it suggested a genuine desire on the part of the Soviets to establish a basis for such exports to Canada.

The Lada automobile is one example. In 1979, at the height of its sales for cars and parts, it grossed only $14.7 million in Canadian markets. Furthermore, its sales quickly died out.[15] A similar example was the unsuccessful venture by Belarus Ltd. to establish a long-term distribution center for Soviet made tractors in Canada. By the time engine design defects were remedied by Soviet engineers, the product had already lost the faith of a hand-full of experimentive Canadian farmers.[16]

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[14]One author has delineated the extent that Canadian banks lent to the socialist countries, and the USSR in particular, during the 1970's. He has established that they were all "substantial lenders." For example, the Canadian Imperial Bank of Commerce and the Toronto Dominion Bank both lent $400 million to the USSR for five years. See Jozef Wilczynski, "East-West Banking and Finance and their Relevance to Austalian and Canadian Interests" (Ottawa: Institute of Soviet and East European Studies, 1978), pp.35-36. McMillan estimates that by 1977 Canadian banks had lent a minimum of $1.7 billion to the USSR and Eastern Europe. See Carl McMillan, "Canada's Post-War Economic Relations with the USSR," p.153.

[15]Ian M. Drummond, "Canadian-Soviet Trade and Competition to 1986" (Unpublished paper, University of Toronto, 1986), p.17.

[16]See R.M. Mansfield, "Belarus Ltd. -- A Joint East-West Venture in Canada," in *Student Essays in [illegible]*

Soviet intellectuals writing in the early 1980's generally avoided quantifying the miniscule and brief sales records of these endeavors. They preferred to claim them as indicators of the sound future prospects for Soviet sales in Canada.[17] During the 1980's, this outlook apparently permeated even the top Soviet leadership. Their thinking was influenced significantly by specialists working in foreign policy think-tanks such as the Institute of the USA and Canada in Moscow.[18] These intellectuals consistently argued throughout the 1970's and 1980's that Canada offered the Soviets a large potential export market.

Throughout the period, both Canada and the USSR were concerned over a number of issues concerning the forms of trade. For example, the Soviet leadership always felt uneasy that exchange was largely only in one direction - exports from Canada to the USSR. In addition, Canadians questioned whether or not the relatively large turn-overs in Canadian-Soviet trade were a passing phenomenon. This issue was controversial. After all, trade largely involved only one product - grain; and the future of the grain trade was precarious. It would continue only if Soviet agriculture remained in a crisis, and the international political climate stayed conducive to positive bilateral relations. Some Canadians questioned the prudence of building prosperity on the establishment of a production infrastructure that depended upon the USSR for prosperity.

Time has shown that these concerns were largely unnecessary. While many scholars have pointed out that importing grain from Canada, Argentina, Australia, and the US was always a second option to self-sufficiency in the minds of the Soviet leadership,[19] it is also

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West Trade (Ottawa, Institute of Soviet and East European Studies, 1974), p.26-32.

[17]B.I. Aliokin, E.G. Komkova, *Kanada v mirovoi torgovle* (Moscow: Institute of USA and Canada, 1986), p.230-231.

[18]Lenard Cohen, *Canada in the Soviet Elite Mindset: A Case of New Political Thinking* (Toronto: Center for Russian and East European Studies, 1989), p.1-2.

[19]See for example, Ivo Moravcik, "Prospects for East-West Trade," in *East-West Tra A Symposium* (Toronto: The Canadian Institute of International Affairs, 1966), p.130; Ian M. Drummond, "Canada and East-West Trade," in P. Uren Ed., p.157; Carl McMillan, "Canada's Postwar Economic Relations with the USSR," p.144.

true that they had no alternative. Their efforts to raise domestic production, such as the virgin lands project of the late 1950's, which focused upon "fertilizers, meadows, machines, and strains of seeds, various manipulations of peasant incentives, sharp increases in procurement prices, somewhat more autonomy for collective and state farms," were fiascos. Wheat would not grow in the majority of the USSR; most areas were too cold, others too dry.[20]

Political differences have only temporarily interrupted the grain trade. The biggest concern for Canadian wheat sellers was that other international competitors might try to undersell Canada in the world market. In fact, the EEC and US subsidies on wheat in the early 1980's were designed to do just that.[21] But while they may have succeeded in decreasing Canadian profits, they did not significantly affect the quantity of grain traded. Throughout the 1980's, the export of grain to the USSR remained steady, and reached exceptionally high levels in 1984 and 1986, when the Soviets were in dire need of Canadian wheat due to poor harvests.

Another issue which involves Canada's exports to the USSR, is that of Canada's political ambitions, if there were any, in expanding and diversifying its trade with its arctic neighbor. Carl McMillan, former head of the Institute of Soviet and East European Studies at Carlton University, has correctly placed this issue within the framework of Prime Minister Pierre Elliot Trudeau's "third option" policy of the 1970's.[22]

McMillan maintains that Canada pursued economic relations with the Soviets in an attempt to become more independent from US political dominance. The case for sovereignty which McMillan presents, however, is a mild one, and he notes the relative unimportance of Canadian-Soviet trade in the bigger picture. Several Soviet scholars, on

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[20]Ian M. Drummond, "Canadian-Soviet Trade and Competition to 1986," p.22.

[21]Ibid., p.23.

[22]What the "third option" entailed shall be discussed below.

the other hand, have supported this interpretation even more strongly than McMillan himself.[23]

McMillan states somewhat vaguely that during the Cold War period, with the exception of the brief stint in which Canada was headed by the Conservative government of Joe Clark,[24] "the development of national sentiment and government policy in favor of new external initiatives (were) designed to counterbalance the preponderance of Canada's relationships with the United States, and to reduce Canada's vulnerability to US actions."[25] In this case, he explains that Canada behaved more like the countries of Western Europe towards the USSR, than did the US. McMillan perhaps forgot that in a number of situations, Canadian foreign policy was largely dictated by NATO and NORAD, and accorded with US initiatives opposing Soviet aggression.

Nevertheless, for McMillan, the specific agenda of the "third option" provided the USSR with "an attractive access route to the North American economy," which the US did not approve of.[26] In addition, he suggested that Canada's selling of products to resource rich areas such as the USSR ensured the development and increased effectiveness of Canadian industry, in relation to its US competitors who preferred to buy Canada's raw materials.[27]

One facet of the controversy outlined above has been discussed thoroughly in the

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[23]See for example V.S. Guseva, "Amerikano-Kanadskie protivorechiia," *SShA*, no.7, 1972, p.49-52; L.A. Bagramov, "Kanada-SShA: uzli protivorechii," *SShA*, no.2, 1974, p.39-53; L.A. Bagramov, V.B. Povolotskii, "Sotrudnichestva s Kanadoi: vozmozhnosti i perspektivi," *SShA*, no.12, 1977, p.30-42; V. Popov, "Canada-USA: Uneasy Partnership," *International Affairs* (Moscow), no.9, September 1982, p.84-92; L.A. Bagramov, V. Popov, "Free Trade in North America and Canada's Sovereignty," *International Affairs* (Moscow), no.3, March 1986, p.81-88.

[24]Carl McMillan, "Canada's Economic Relations with the USSR in the 1980's," (Ottawa, Institute of Soviet and East European Studies, 1989), p.30-32.

[25]Carl McMilllan, "Canada's Post-War Economic Relations with the USSR," p.2.

[26]Carl H. McMillan, "Export Diversification: The Case of Canadian Trade with the USSR and Eastern Europe," p.2

[27]Ibid., p.1.

historiography of Canadian-US relations.[28] Michael Tucker, a professor of political science at Mount Allison University, does not attach a political agenda to the "third option." He states that "(it) was (not) a 'policy' within which Canadian decision-makers would be beu. ', but a framework within which policy decisions could to taken... It (did not) sanction a vigorous assertion of Canadian sovereignty claims, *vis-a-vis* the US."[29] On the other hand, Harold Crookel, professor of international business at the University of Western Ontario, feels that during the 1970's, resource-rich countries like Canada had an incre d interest in sovereignty, and that the "third option" reflected this interest.[30]

In order to place these opposing views into perspective, a brief outline of what the "third option" entailed is necessary. It was initiated in the Policy Analysis Group of the Department of External Affairs in October 1972, and encompassed the growth of "national life" and of Canada's role in international affairs. The "third option" was taken in lieu of the "first option" which suggested keeping the status quo, or the "second option" to establish closer integration with the US.

As Trudeau points out, the "third option" was a reaction to the "shock" policy introduced by US President Richard M. Nixon in 1971, which arbitrarily placed a 10% import quota on all Canadian goods entering into US markets. The former prime minister explains that in response, the Canadian government began to diversify its foreign trade with countries other than the US, and it was seen as prudent to increase the Canadian ownership of firms in Canada. Trudeau noted that many of his foreign visits, such as those to the USSR, were conducted specifically for these purposes.[31] While Trudeau's Canadian

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[28]The Canadian-Soviet angle, however, has been excluded from these discussions.

[29]Michael Tucker, *Canadian Foreign Policy: Contemporary Issues and Themes* (Toronto: McGraw-Hill Ryerson Ltd., 1980), p.85-86.

[30]Harold Crookel, *Canadian-American Trade and Investment Under the Free Trade Agreement*, (New York: Quorum Books, 1990), p.9.

[31]Pierre Elliot Trudeau, *Memoirs*, (Toronto: McClelland and Stewart, 1993), pp.203-206.

nationalism preceded Nixon's action, it is also the case the Nixon "shock" largely redirected the interests of Canadian business to other countries, such as the USSR.

Irrespective of Trudeau's policies, this suggests that Canada was seeking the path most economically viable for itself, in reaction to US initiatives. While the political manifestations of the "third option" were most sensitive in areas such as Canadian-Soviet trade, the above evidence suggests that the motives behind it were not inherently political. For the most part, Canada was only pursuing her own economic well being. It should be noted that once inflation is taken into account, the volume of trade between Canada and the USSR was roughly the same for the 1960's, 1970's, and 1980's; although the diversification of Canadian exports to the USSR grew the most during the period of the "third option."

The question of Canada's imports from the USSR during the period, and the methods used in achieving a balance of payments, forms an historical lacunae. But this is not surprising. The total for imports, in both Soviet and Canadian statistical publications, are insignificant throughout the period.[32] Ian M. Drummond, a professor of economics at the University of Toronto, has speculated that the USSR's significant trade surplus with Western Europe in the 1960's and 1970's, was used to pay Soviet debts to Canada.[33] As will be shown below, McMillan has noticed a number of inaccuracies in Canadian statistics for imports from the USSR to Canada. He has not, however, investigated the cause of these inaccuracies; or their impact on the balance of payments.

The scope of these statistical errors are probably not significant enough to negate Drummond's interpretation. They do suggest, however, that he presents a simplified version of what actually took place. The trade deficit between Canada and the USSR was

[32]Totals for Soviet imports into Canada given by Statistics Canada never exceeded $10 million until 1966, and never surpassed $100 million in any year thereafter. See Carl H. McMillan, "Canada's Post-War Economic Relations with the USSR," p.143.

[33]Ian M. Drummon, "Canadian-Soviet Trade and Competition to 1986," pp.19-20.

not as extensive as official figures have indicated. One scholar has noted that it is usual for Soviet export totals to be reduced artificially in official statistics.[34] Likewise, this was the case with Canadian totals for Soviet imports.[35] Nevertheless, the statistics which are presented in Canadian and Soviet sources do not accord with one another.[36]

For the period in question, Statistics Canada reports that the totals for imports may have exceeded the sum of the figures shown. Some imports were listed so that they were not distinguishable by commodity, and therefore were not recorded in the total aggregate. In addition, in some instances, companies who brought Soviet goods into Canada were permitted to remain anonymous in published trade statistics. Furthermore, it has been estimated that roughly one-third of purchases by Canadian firms from the USSR were carried out through an international intermediary, and not reflected in Statistics Canada's totals either.[37]

Therefore, less of the balance of payment was in the form of bullion and hard currency than has been speculated by Drummond. Therefore, it is likely that Soviet imports have played a more important role in the Canadian economy than figures have indicated. Anonymity would be a logical procedure in a situation where public anger of Soviet

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[34]Alec Nove has noted that "the balance of payments (in Soviet statistics) is never published," that it is a "state secret," and that "the censor's scissors have been at work" in official import totals. See Alec Nove, *The Soviet Economic System* (London: Allen and Unwin Inc., 1986), p.285.

[35]I will explain this below.

[36]For the 1960's and 1970's, a Soviet source claims that 1977 was the year in which the most were exported from the USSR to Canada, and the total is given as 49.2 million rubles ($41.7 million). Statistics Canada gives a total for 1977 at $55.4 million (65.2 million rubles) worth of goods. (In official currency interactions for the late 1970's, the value of the ruble (*valuta* ruble, or official ruble) relative to the Canadian dollar was roughly 0.850). Statistics Canada claims that for the period in question, the highest quantity of Soviet goods imported into Canada was in 1979, and a figure of $63 million (72.4 million rubles) is listed. But the Soviet source mentioned above reports that in 1979 only 32.4 million rubles ($27.5 million) worth of goods were shipped to Canada. These conflicting statistics are characteristic of the entire official record. But it is the case that Soviet figures are consistently lower than Canadian figures. See Carl McMillan, "Canada's Post-War Economic Relations with the USSR," p.143; *Vneshniaia torgovlia SSSR, 1922-1980*, (Moscow: The Ministry of Foreign Trade, 1982), p.22-23.

[37]In such instances, imports are classified according to the country (intermediary) from which the goods were shipped. See J.B. Hannigan, Carl H. McMillan, "The Participation of Canadian Firms in East-West Trade: A Statistical Profile," p.35-6.

imports might produce quotas, as occurred in the 1930's. This would especially be the case if the covering of a balance of payment was composed of primary resources already being produced by Canadian firms.[38] In this instance, it is worthy of note that the USSR never listed its exports of oil, gas, or gold, in any of its aggregate totals from late 1960's onward.

To further complicate matters, not only have many of the firms which imported Soviet goods into Canada remained anonymous, but scholars have been unable to determine their composition of such goods. A study which surveyed 250 Canadian companies that conducted market surveys of the USSR and Eastern Europe during the 1960's and 1970's reported that importing firms were "sensitive to recognition," and that most of them would not reply to questionnaires.[39] Another scholar has noted that these companies generally operated in large international markets, but were "small" and "obscure."[40]

On the other hand, it is easy to account for some of the goods which the USSR sent to Canada, especially those which were not sold through Western companies. Official statistics indicate that the most commonly declared Soviet imports were "high-tech" manufactured goods. It has been noted above, that these were marketed in Canada by the Soviet government for the specific purpose of narrowing the trade gap.[41]

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[38]Soviet enterprises often had limited options for the payment of foreign services. While the method of payment was sometimes not favorable to Western firms, from their perspetive, it was better to obtain some form of value than no value at all. A Soviet oil venture importing materials to build a pipeline would invariably choose to pay in crude, while a metallurgical factory importing Western equipment for the refining of metals would choose to pay in produce, and a venture which purchased timber-cutting and processing equipment would pay in wood. See Alec Nove, *The Soviet Economic System*, p.278-85.

[39]Cited in J.B. Hannigan, Carl H. McMillan, "The Participation of Canadian Firms in East-West Trade: A Statistical Profile," p.21.

[40]I.A. Litvak, "Trading with the Communists," *Behind the Headlines*, vol.XXII, no.6 (June 1963), p.17.

[41]Most Soviet goods which were officially declared coming into Canada were in the category of end products such as machinery, transport, and consumer manufactures. This reflected the Soviet leadership's hopes to greatly increase the sales of these goods in Canada, and to establish a long-term and stable market there. See Carl McMillan, "Canada's Postwar Economic Relations with the USSR," pp.136-137.

A more difficult issue is how to account for Soviet goods not declared in Statistics Canada's totals. It has already been speculated that some of these goods were primary resources imported to cover balance of payment deficits. The Soviet Ministry of Foreign Trade's statistics show Soviet exports to Canada at an even lower quantity than incidated by Statistics Canada. In addition, they do not take into account, as does their Canadian counterpart, that some of the goods were not traceable by commodity, firm, or intermediary, and therefore not included in the aggregate for total imports. Nevertheless, the nature of these businesses, and the composition of the goods which they imported, is perhaps suggested from other sources.

There is another possible answer to the problem of missing numbers which has not yet been discussed. There has been no qualification in any of the literature, or in any of the official statistics, for Canadian participation in Soviet colored markets.[42] Nevertheless, the Soviet underground economy has been the subject of intense study by scholars who have attempted to qualify and quantify its existence. Given the obscure nature of the statistics mentioned above for imports to Canada from the USSR, it is worth investigating Canadian involvement in these markets,[43] as a possible explanation for the gaps in Canadian and Soviet statistics.

The fundamental qualification for production conducted within the Soviet "second economy" was that it was external to the planning structure, or "extra-plan."[44] How such a

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[42]One author distinguishes between the grey, brown, and black illegal markets by the punishment allocated from involvement in them. According to Soviet law, proof of an individual's involvement in the grey market elicited a fine or reprimand, the consequence of participation in the brown market was dismissal, strict reprimand, or deprival of foreign trips, and involvement in the black market brought about prosecution. See A Katsenelinboigen, "Coloured Markets in the Soviet Union," *Soviet Studies*, vol.XXIX, no. 1 (January 1977), p.63.

[43]One scholar has noted that a number of Sovietological economic debates among scholars have been broadened by the inclusion of a discussion of the Soviet "second economy." In some cases this revision has "changed previously accepted notions," and provided a "second dimension to economic studies." See F.M. Feldbrugge, "Government and the Shadow Economy of the Soviet Union," *Soviet Studies*, vol.XXXVI, no.4 (October 1984), p.230.

[44]Several scholars have explained that there were pockets of the Soviet economy which existed outside of the central planning structure. These "pockets" produced goods in excess of the plan, which apparently were not recorded in published statistics, and the distribution of which was regulated by whoever "owned" these

situation could exist within a centrally planned economy is a topic of controversy.[45] But some insights have been provided by Soviet dissidents such as Konstantin Simis, a former criminal lawyer from Moscow, who has studied the workings of underground production in the USSR.[46] Simis explains that semi-legal or illegal activity under Soviet law could be conducted through a number of channels. For example, it was typical for factory managers to set up alternate production sectors in their plants which produced "extra-plan" or "left hand" goods which were "produced on the same equipment, operated and supervised by the same personnel, as the official goods."[47]

These activities were conducted under a shroud of legality and bribery.[48] Simis explains that his role in all of this was to protect Soviet "private business" in court. Such proceedings must have resembled a traditional *fait accomplit*, however, since a junior Soviet official once stated that "the government knows exactly who is dealing in what," and that "arrests are made only when there is some larger political reason."[49]

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underground workshops. The literature is extensive. But see for example, Gregory Grossman, "The 'Second Economy' of the USSR," *Problems of Communism* (September-October 1977), p.25-40; Dennis O'Hearn, "The Consumer Second Economy: Size and Effects," *Soviet Studies*, vol.XXXII, no.2 (April 1980), p.218-230; F.J.M Feldbrugge, "Government and Shadow Economy in the Soviet Union," *Soviet Studies*, vol.XXXVI, no.4, (October 1984), p.528-543.

[45]Franklin D. Holzman, for example, believes that second economy studies have been semantically misunderstood. He notes that "the legal private economy (in the USSR) may be more than usually intertwined with illegal activities in the forms of stolen supplies, (and) unreported income." (p.113) Nevertheless, he proposes that such illegal activity on the part of legitimte Soviet enterprises should not constitute a "second economy." Furthermore, he tautologically notes that all economies have "secondary" illegal aspects. Because of the nature of the Soviet "second economy's" networking distribution chain, however, I feel that Holzman's position is an erroneous one. How it is possible to differentiate between illegal activities on the part of sectors of the "first" or legitimate economy, from groups who participate in the legal, semi-legal, or illegal distribution of its products? See Franklin D. Holzman, "The Second Economy in the CMEA: A Terminological Note," *ACES Bulletin*, vol.XXIII, no.1 (Spring 1981), p.111-113.

[46]Nove defends Simis's position that "false statistics and false reporting" were endemic to the Soviet system, citing the vast number of Soviet news articles which mentioned this phenomenon. See Alec Nove, *The Soviet Economic System*, p.213-14.

[47]Konstantin Simis, "Russia's Underground Millionaires: How to Succeed in Business where Business is a Crime," *Fortune*, June 29 1981, p.38.

[48]Konstantin Simis, *USSR: The Corrupt Society* (New York: Simon and Shuster Press, 1982), p.136.

[49]Cited in Dennis O'Hearn, "The Consumer Second Economy: Size and Effects," p.219.

Legislation, to some degree, justified the existence of alternate production. For example, in 1960, *kolkhozy* were allowed to establish subsidiary industrial workshops, but were forbidden from selling goods for profit.[50] Nevertheless, it appears that profiteering occurred on a wide scale. In addition, loop-holes were written into the revisions of the Soviet Constitution in 1977, which allowed for lawful "individual labor activity," founded upon the hiring of individuals within a family structure for crafts, trades, agriculture, services to the public, and "other forms of labor activity."[51]

Nevertheless, "second economy" operators were relegated to an underground status. All materials used had to be legitimized as "waste," and legally, had to be locally generated. It was normal to purchase a large supply of material, and then officially claim that the amount obtained was miniscule. All this, however, made goods more difficult to produce. It was necessary to make some products from foreign components especially those which required rare materials such as plastics. While the majority of goods produced in the "second economy" were simple consumer products such as clothing, jewelry, key chains, and the like; there is one documented case in which a "second economy" workshop was producing television sets, and a number of cases in which they were producing car parts.[52]

The "second economy's" distribution system might account for some of the missing numbers in goods imported to Canada from the USSR. Some of these "left hand" goods were distributed in the USSR itself. Illegally produced output was usually sold in state shops, trade tents or booths which had no stock accounting and no cash registers. It was typical to make an arrangement between producer and outlet, in which a certain percentage of profit for these unrecorded goods was retained, and the rest returned to the supplier.[53]

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[50]Anonymous, "The Black Million," *Radio Liberty Research Bulletin*, 27 July 1977, p.1.

[51]Gregory Grossman, "The Second Economy of the USSR," p.40.

[52]Dennis O'Hearn, "The Consumer Second Economy," p.220.

[53]A. Katsenelinboigen, "Colored Markets in the Soviet Union," p.83.

Foreigners, and several Canadian firms in particular, were regularly in attendance at such exhibitions during the period in question.[54] Contacts could be initiated at this level. But the manner in which goods travelled out of the country is a mystery. One scholar has noted that it was necessary that foreign exchange was carried out through the state apparatus, as smuggling was impossible due to efficient border patrols.[55] Therefore, most goods probably were exported semi-legally through the official apparatus. The USSR, however, has the largest coast of any country in the world. So much under reporting is alleged to have occurred, that it possible that producers may have sometimes bypassed official channels and smuggled goods out of the country too.

Nevertheless, exchanges between "second economy" industrial producers and Foreign Trade Organizations (hereafter FTO's), under the supervision of the Soviet Ministry of Foreign Trade, were conducted on a regular basis.[56] Often, "second economy" products would be traded to FTO's for difficult to acquire materials which were necessary for the completion of the plan. This aided planned production because in the centrally organized economy, it was common to have "a set of inputs which (did) not meet output requirements."[57] In other words, both the FTO and the industrial supplier benefitted from "under reporting" totals for "second economy" goods, and then exacted a profit in an interaction with a foreign trade partner. "Second economy" producers were willing to extend favorable rates of exchange, and this was especially the case when hard currency was involved.[58] The "second economy" existed because the primary one could not survive

[54]J.B. Hannigan, Carl H. McMillan, "The Participation of Canadian Firms in East-West Trade: A Statistical Profile," p.31.

[55]Elisa B. Miller, "Barter Trade in East-West Commerce: Extending the 'Parallel Market' Concept," *ACES Bulletin*, vol.XXIII, no.3-4 (Fall/Winter 1981), p.81-95.

[56]Ibid., p.81-84.

[57]Ibid., p.81.

[58] Illegal workshops could function at an apparent loss because the underground exchange rate for foreign hard currency was 5 or 6 times the official rate. See Dennis O'Hearn, "The Consumer Second

without it.

It is possible that some Soviet products entered Canada in this manner, and went either unreported, or were sent through an intermediary. As noted, McMillan speculated that one-third of Soviet exports to Canada were unreported in Canadian statistics. He does not explain, however, how this amount was derived. It has been speculated elsewhere that the "second economy" encompassed about 10% of Soviet production.[59] The manner in which this figure was obtained is likewise questionable. The quantity of goods involved, and the percentage of Soviet exports to Canada which they entail, therefore, is impossible to determine.

The individuals who imported goods in this manner would not wish to declare publicly their transactions, because the goods were probably acquired and sold at prices far below world levels. While this was highly profitable for all involved, it constituted a policy of dumping, and contravened the GATT treaty, which specified that:

> The contracting parties recognize that dumping, by which products of one country are introduced into the commerce of another country at less than the normal value of the products, is to be condemned if it causes or threatens material injury to an established industry in the territory of a contracting party or materially retards the establishment of a domestic industry.[60]

The USSR's Ministry of Foreign Trade, however, was notorious for continuing to practice international dumping.

During the 1960's and 1970's trade authorities were alarmed at the prices of Soviet goods being sold in their countries. For example, the US Treasury became concerned when it learned that the USSR was selling the Moskvich passenger car in the US at a price of $1,560, while it sold for $6,250 (in converted *valuta* rubles) at home.[61] Such a situation could only have occurred through the networks which I have described above, or else the

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Economy," p.228.

[59]Ibid., pp.218-243.

[60]Cited in Samuel Pisar, *Commerce and Coexistence*, p.232.

[61]Ibid., p.233.

car was produced only for the foreign market, with any surplus returned home.

Although there are no documented cases of this type for Soviet imports into Canada, it is likely that this type of activity occurred.[62] It is most difficult, however, to specify at what point it began, or at what point it became significant, if indeed it did at all. After all, as I have noted, the amount of such activity is not ascertainable. But it represented another sector of the Soviet economy which had moved away from autarky to embrace the profit motive, and trade with the West.

[62]This is a topic which I believe definitely deserves more attention from scholars. Unfortunately, there is no time to cover it adequately here.

V) Conclusions

One of the primary goals of this thesis has been to place Canadian-Soviet economic relations within the more general framework of East-West commerce. In this respect, Canada's economic relations with the USSR were both common and unique. During the inter-war period and the Second World War, Canada was close politically to Britain. In the post-war era, the same could be said of Canada's relationship with the US. During the Soviet period, Britain, the US, Canada, and other Western democracies belonged to the camp of capitalism. As such, they were opposed to the Soviet system. Therefore, in its international orientation, Canada largely behaved as a typical Western power.

This trend manifested itself in different ways at various times. In the 1920's Canada was slow to establish trade relations with the USSR, and did not fullfil the stipulations of the Anglo-Soviet Trade Agreement of 1921 until a full year after it was signed. In addition, from 1924 to 1927, when a Soviet trade mission existed on Canadian soil, it was a constant concern of the Canadian government that this mission was engaged in collaboration with Canadian communists. In the 1930's, Canada accorded to the Western rejection of Stalin's "revolution from above," and placed an embargo on the import or export of goods to the USSR.

During the first two years of the Second World War, Canada joined the British cause in trying to stop the flow of Western goods from the USSR to Germany. After the German invasion of the USSR in June 1941, however, Canada accorded to British and US policies of aiding the Soviet war effort. In the years immediately following the war, Canada joined the US and its Western European allies in forming NATO and NORAD, which were organizations created to hinder the progress of the USSR's militant communist stance in Eastern Europe and other parts of the globe. In accordance with these agreements, Canada's trade with the USSR was often hindered by economic sanctions put in place in response to Soviet aggression. In addition, some goods could not be traded, especially

those that were necessary for defence purposes. Therefore, Canada's trade with the USSR was largely influenced by her political stance in world relations for the entire Soviet period.

On the other hand, Canada's economic relations with the USSR were also unique in relation to general East-West commercial interactions. Unlike the US, or some of the countries in Western Europe, Canada's production capabilities encompassed almost the same commodities as the USSR. Both countries produced metals, oil and gas, and pulp and paper in large quantities. Therefore, international economic competition with the USSR has been, historically, for Canada an equally important, if not a more important issue, than trade.

This was stressed in chapter two in relation to the inter-war period. It was also noted in chapter four with regard to the post-war era. During these periods, the import of Soviet produced coal, metals, timber and other goods into Canada and other countries with which Canada traded, was an important issue for Canadian business. Nevertheless, it caused more of a political uproar in Canada in the 1930's, than in the post-war period. There are two reasons why this is the case. First, Canada did not experience an economic crisis in the post-war era as accute as that of the 1930's. Second, importers of Soviet goods at that time conducted their activities more covertly.

As was mentioned, it is uncertain how the balance of payments were carried out in the international transactions that Canada had with the USSR. This has been especially difficult to ascertain since the USSR did not publish its exports of oil, gas, and several other primary commodities to Western countries. In addition, it has been noted that when Soviet enterprises engaged in the production of primary products purchased heavy industrial machinery from Canadian firms to improve their production capacity, they would invariably have wanted to pay for these goods in produce. Therefore, it is unknown to what extent the balance of payment effected the Canadian economy. Nevertheless, it is likely that its influence was negative, and of far greater consequence than has generally been acknowledged.

International competition for markets has been an especially important trend in Canadian-CIS economic relations during the post-Soviet era. CIS enterprises, being hungry for hard currency, have regularly dumped large supplies of commodities into markets in which Canada has been making sales for decades. As a result, the world price for many of the commodities that Canada sells has decreased, as have the profits of Canadian firms, and Canadian Federal Government tax revenues. Competition has also affected the area of investment in the post-Soviet era. Soviet and CIS legislation in 1987, and 1991 facilitated the ease with which East-West joint ventures could be conducted. As a result, a significant amount of Western investment was diverted and refocused upon the development of enterprises in the CIS. A spin-off of this trend has been that less world wide investment has been allocated to Canada.

Another difference which Canada had from its other Western allies regard to economic relations with the USSR is a similar climate and geography. As a result of these circumstances, several scholars, mostly Soviet, have noted that there is a wealth of potential for cooperation between the two countries. While there is truth to this statement, the historical record has shown that cooperation has, for the most part, been only potential. The exception to this rule was the 1970's when Canada sought to divert its trade orientation away from the US which preferred to import primary resources produced in Canada. The USSR provided a market into which Canadian manufacturers of industrial goods could successfully market their products. Nevertheless, the similarities of Canada and the USSR in their climate and geography have produced more international economic competition, than cooperation.

One of the key debates in the field of East-West commerce has been the question of whether or not the USSR practiced autarky in trade with the West. This problem has been discussed in some detail in chapters one and four of this thesis. The general argument put forward has been that the term autarky has been used largely incorrectly to explain Soviet behavior in international commerce. Nevertheless, it is impossible to provide a full

discussion of this query here, due to constraints of length. The topic of Canadian-Soviet economic relations, however, represents a unique case study in which this broader issue may be analyzed.

For the entire inter-war period, the Soviets showed much more desire than Canada to establish trade relations. The Canadian government repeatedly turned down Soviet pleas to purchase Canadian products in both the 1920's and 1930's. This situation changed during the Second World War since it was politically favorable for the Canadian government to sell to the USSR. But shortly after the war, the situation reverted back to one similar to the 1930's. In the immediate post-war era, just as in the pre-war period, Canada largely rejected trade with the USSR because it was not economically viable. In the period after the death of Stalin, the quantity of trade between Canada and the USSR increased substantially, and Canadian business began to realize that the Soviet attitude towards trade with Canada was rather positive.

What is important here in relation to the autarky debate is that without exception, it was Canadian business that chose whether or not to enter into trade negotiations with the USSR, rather than the other way around. Therefore, for almost the entire Soviet period, it is appropriate to say that the USSR did not pursue autarky in its trade with Canada.

While no period of history is exactly like any other, historical continuities often exist between eras. Analyzing the history of Canadian-Soviet economic relations, therefore, may provide perspective as to what the prospects for trade between Canada and the CIS are to be in the future. Given that this is the case, it is the opinion of this author, with regard to the historical record, that large potential for Canadian trade and investment with the CIS exists, but as with the USSR earlier, there remains a large margin for risk and uncertainty.

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