total work force. In the manufacturing sector alone, upwards of 1.2 million people are employed directly or indirectly in export-related activities.

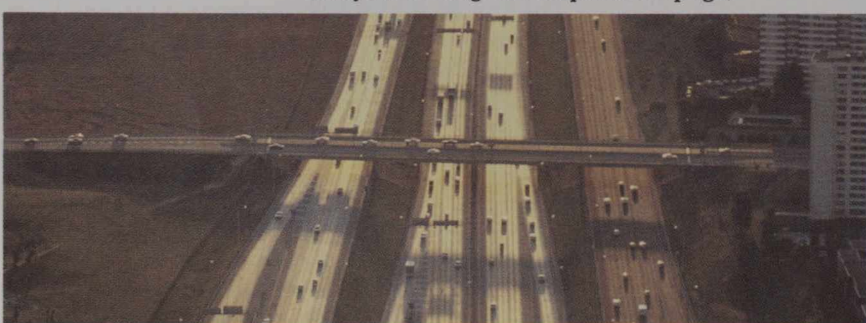
What's more, the importance of exports to Canada is growing. Between 1975 and 1985, the level of Canadian exports increased at an average annual rate of 13.6%, so that by 1985 exports accounted for 27% of the country's GNP.

Canada maintains active trade relations with all major industrialised nations, so these exports are shipped worldwide. However, by far the biggest portion are sent south of the border to the United States.

In 1985, Canada sold more than $91 billion of goods and services to the United States. That is more than Japan sold, and it is more than the UK, Germany and France sold *combined.*

Canada and the US have the largest trading partnership in the world. The two countries do more than $160 billion in trade each year (no other countries come close to that total), so that each one is the other's best customer.

It is not hard to see why North America is rapidly becoming what in effect is a single market. The larger Canadian cities and towns are all within 100 miles or so of the Canada-US border, so that major American centres — including New York, Chicago, Seattle, Minneapolis, Philadelphia and Boston — are all within one day's trucking distance; while other important US centres — San Francisco, Denver, Kansas City and Nashville — are only two days away. (See diagram on previous page)



A motorway on the outskirts of Toronto.

Also, there is a natural tendency for trade in North America to flow north-south within regional markets that ignore the border. The main reasons: proximity of suppliers and customers, similar business practices, a common business language, and shared time zones and climates.

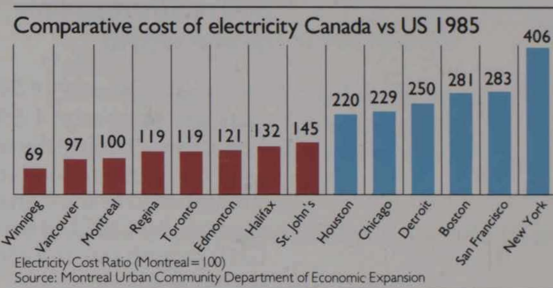
In addition, trade between Canada and the US has been enhanced by such long-standing — and liberal — trade agreements as the Auto Pact and the Defence Production Sharing Agreement (which effectively eliminate the border as far as the car and defence industries are concerned).

According to GATT, some 80% of all Canadian exports will be entering the US duty-free by 1987, and a further 10% will be carrying duty of less than 5%. That situation will prevail as a result of the Tokyo Round of negotiations concluded in 1979.

However, the chances are that duties and tariffs could be substantially lower than even the GATT levels already set, as a result of the free-trade negotiations now taking place between Canada and the US. It is too early to forecast what the outcome of these negotiations will be; but a further liberalising of trade is very much part of the philosophy of both governments.

Canada attracts major corporations

Many international companies have already taken advantage of Canada's premium position in the North American market. Among them: Toyota, Siemens, Ikea, ICI, Unilever, Volvo, Pechiney and Olivetti. In addition, several US firms (Westinghouse, United Technologies and Litton Industries, for example) have set up specialised operations in Canada and given them world product mandates.



Among the many benefits that have attracted them to Canada are lower energy prices. A 1985 study of industrial users showed that electricity rates in Toronto, Montreal and Vancouver were more than 75% *lower* than in New York, and more than 50% lower than in San Francisco, Chicago or Houston.

At the same time, the price of natural gas is also substantially lower in Canada than in the US. In 1984, the average price for industrial users in Canada was $3.62 per million BTU, while in the US it was $5.96.

Large consumers of energy (such as ENI, Air Liquide and Gould Inc) have located in Canada specifically to take advantage of these lower costs — and the greater security of supply.

A further benefit is that labour costs in Canada are significantly lower than those in the US, particularly when the industrial heartlands are compared. As an example, in August 1985 the average hourly manufacturing wage in Ontario was $11.59 and in Quebec it was $10.91.

In sharp contrast, the average hourly manufacturing wage in Michigan was $17.04 and in Ohio it was $15.28.

Furthermore, Canada's universal health care and pension plans reduce the cost of benefits paid by employers, so that the differences in labour costs are even greater than a straightforward comparison of wage rates would indicate.

Finally, construction costs can also be substantially lower. As *Forbes* magazine recently reported, TIE/communications of Shelton, Connecticut, a manufacturer of telephone systems, can serve as a fitting example. It recently constructed two similar plants — one in Quebec and the other in New Jersey.

The plant in Quebec was completed ahead of schedule — at a cost that was a full 30% below the cost of the plant in New Jersey. The main reasons: competition among Quebec builders plus some generous grants from the Quebec and Canadian governments.