international trade in other goods improved substantially in 1979, continuing a trend evident since 1975. For this trade, which comprised over two-thirds of Canada's total trade in goods, there was an increase in the net surplus from 1978 to 1979 of over $2 billion to a level of $3.7 billion.

Exports increased

The physical volume of exports of goods other than automobiles and parts to the United States, wheat and oil and gas rose by 10 per cent in the year, nearly the same gain as in 1978 and twice that of 1977. The expansion was paced by shipments of highly manufactured goods, one of the more price-sensitive components of exports, which rose by over 20 per cent in each of the last two years. This was achieved in the face of some slowing in the pace of real growth in the United States, by far [Canada's] largest market.

The competitive position of Canadian industry in many areas of trade would have allowed [Canada's] real trade balance to be stronger than it was in 1979 if the output of many suppliers had not been constrained by productive capacity. Indeed, the emergence of high levels of capacity utilization in Canada during the past year or so was in part a manifestation of the response of Canadian industry to its enhanced international competitiveness. Limitations on production capacity and improved profits spurred a marked pickup in business investment which will increase the scope for the rechannelling of trade flows in favour of Canada in the longer run. However, increased outlays on machinery and equipment worsened the trade balance in 1978 and 1979 because such outlays have a high import content. At the same time imports of industrial materials rose by more than might have been expected in the light of general economic conditions. In both these areas high levels of capacity utilization in various domestic industries, notably machinery and primary iron and steel, forced an increasing reliance on imports. The volume of imports of machinery, equipment and industrial materials rose more than by 15 per cent in 1979 while imports of other goods, comprising over half the total, increased by just 2 per cent.

Net importer of manufactured goods

The surge in imports of investment and industrial goods held the real balance of trade in 1979 in goods other than automotive products with the United States, wheat and oil and gas to much the same level as in 1978. The sharp rise in the value of the net surplus on this trade was mainly the result of a greater increase in the prices of Canada's exports than in the prices of its imports. This improvement in [Canada's] merchandise terms of trade largely reflected upward pressures in world commodity markets. Since Canada is a net exporter of raw materials and a net importer of manufactured goods, an increase in world prices for primary commodities relative to manufactured goods strengthens [its] trade balance.

Trade in services has also responded to the gain in competitiveness. The deficit on the travel account decreased markedly in 1979. Canadian expenditures on travel abroad declined, in sharp contrast to the rapid growth of the previous several years, and receipts increased strongly for the second year in a row, particularly from visitors from countries other than the United States. The effect of the improvement in the travel account on the over-all balance on services and transfers was, however, more than offset by an increase in the deficit on interest and dividends. The continued widening of the latter deficit was due mainly to the growth of Canada's foreign-held debt, the counterpart of the large current account deficits of recent years. Since most of this debt is denominated in foreign currencies, the depreciation of the Canadian dollar has contributed to the increase in interest payments expressed in Canadian dollars.

Although the net inflow of long-term capital into Canada in 1979 was of much the same order of magnitude as in the previous year there were significant changes in its composition. The net outflow resulting from direct investment transactions moderated substantially from its unprecedented level in 1978, but the inflow from borrowing by the Government of Canada in foreign capital markets decreased appreciably. Gross provincial, municipal and corporate financing in bond markets abroad, which had fallen off dramatically from a very high level in 1976, was little changed in 1979.

Favourable energy position

Short-term capital movements in the year resulted in the first substantial net inflow since 1975. The margin of Canadian shorter term interest rates over yields on corresponding U.S. dollar instruments was at no time very large in 1979, and in the latter part of the year it was on occasion negative, but there was an improvement in attitudes of investors towards Canadian dollar assets. While assessments continued to be tempered by concerns about Canada's large current account deficit and domestic cost and price increases, the depreciation of the Canadian dollar that had taken place was widely viewed in the exchange market as having restored the international competitiveness of domestic industry. Attention also focused on Canada's favourable energy position compared with most industrial countries in a world of rapidly rising oil prices and uncertain supplies. In the event, the exchange value of the Canadian dollar in terms of the U.S. dollar was relatively steady most of the time in 1979 and was a little higher at the end of the year than it was at the beginning.

Negotiations resume on bilateral fisheries agreement

Canada and Spain have overcome difficulties which had been preventing progress in the negotiation of a bilateral fisheries agreement for 1980, the Department of Fisheries and Oceans has announced.

The Spanish Government has advised the Canadian Government that Spanish vessels fishing just beyond the 200-mile limit on Canada's Grand Banks will be withdrawn pending decisions to be taken by the Northwest Atlantic Fisheries Organization (NAFO) in Toronto. The Spanish Government has also agreed to control the fishing activity of its fleet beyond the 200-mile zone in light of the regulations and decisions of NAFO.

This action by the Spanish Government opens the way for a resumption of negotiations for the 1980 bilateral agreement between Canada and Spain aimed at stabilizing the relationship and removing a number of difficulties which have been complicating the bilateral relationship in recent years.

These problems came to a head in January when it was discovered that Spanish vessels were fishing on the Grand Banks just beyond the 200-mile limit. This problem was further compounded by an indication that Spain might not be prepared to live within the limits of NAFO allocations and regulations. These developments led to Canadian officials breaking off negotiations with the Spanish representatives.