

Chapter 4

CANADA'S REGIONAL INTERESTS

The United States of America

The Canada-United States bilateral relationship is on a sounder footing now than at any time in the past 15 years. The key to this state of affairs is the warm personal relationship which has developed between the Prime Minister and the President and the close co-operation between Canadian Cabinet ministers and their US counterparts.

The government has made the strengthening of Canada-US relations a priority; the Prime Minister has made it clear that his objective is to re-establish Canada as the United States' best friend and ally. This objective was welcomed by President Reagan, who invited the Prime Minister to visit Washington less than ten days after Mr. Mulroney was sworn into office. During that visit, the Prime Minister proposed, and the President agreed, that they should meet at least once a year to review bilateral relations and key international issues. The Prime Minister and the President also agreed that the Secretary of State for External Affairs and the US Secretary of State should continue the practice of quarterly bilateral meetings to enhance the relationship. Other Ministers (Agriculture, Finance, Defence, Energy, Mines and Resources, International Trade, Environment, Forestry, Health and Welfare, etc.) have also begun more systematic and regular consultations with their US counterparts.

The Quebec Summit was the first of the annual meetings between the Prime Minister and the President. The tangible progress made on trade, defence and the environment, the signing of the Pacific Salmon Treaty and the Mutual Legal Assistance Treaty, the announcements regarding the North Warning System and Canadian participation in the manned space station reflected the general atmosphere, which was one of two friends exchanging their perceptions of the main issues affecting two sovereign countries sharing the North American continent.

In recognition of the need to reduce Canada's vulnerability to the increasingly complex and diffuse decision-making process in the United States, the Canadian embassy in Washington and the 13 consulates general have been expanding their networks of influential contacts at every level and in every region of the United States. The use of consulting firms as sources of expert advice on key bilateral issues, particularly in the areas of trade and the environment, continues to be an important part of Canada's efforts to ensure that its position on issues is presented in an effective and timely manner.

The signing of the Trade Declaration at the Quebec Summit reflected the new economic climate in the bilateral relationship. In addition to a commitment to halt protectionism in cross-boundary trade, the Quebec Trade Declaration set out a bilateral work plan to explore ways of reducing impediments to trade between the two countries. As well, it

was agreed to take action to resolve a number of trade irritants, including steel pipes and fittings, machine tools, specialty steel, copper, petroleum, sugar products, textiles and clothing.

Canada and the United States continued to be each other's most important trading partner. In 1984, two-way trade totalled \$154 billion. Canadian exports to the United States (\$85.1 billion) increased 29 per cent over those of 1983 and represented slightly more than 75 per cent of total Canadian exports. The increase in exports to the United States alone was more than double Canada's total exports to the EC and more than triple its exports to Japan. In 1984, Canada had a surplus in trade with the United States in excess of \$16.5 billion (as compared to surpluses of \$11.9 billion and \$10.1 billion in 1983 and 1982) and a current account surplus of \$6 billion. Canada purchased about 21 per cent of all US exports in 1984. Total imports were valued at \$68.5 billion, an increase of approximately 27 per cent over the previous year.

While the bilateral trade and economic relationship entered a new era of improvement in 1984-85, proposals in the United States to restrict imports in a number of sectors, including softwood lumber, hogs and pork, steel and copper, and sugar products, were a cause for concern for Canadian exporters. A countervailing duty investigation was initiated in the United States against imports of Canadian swine and pork, with the possibility of similar action being taken with regard to Canadian fish imports.

In 1984, the Canadian steel and copper industries were threatened by US actions which could have severely restricted Canadian access to the American market. The Department, working in close consultation with the affected Canadian industries and with provincial governments, argued successfully with the Administration against the proposed actions. In addition, the government made representations against the Omnibus Trade Bill of 1984, initiated by Congress, which would have curtailed Canadian access to American markets. The representations were successful and the Bill was stripped of most of its protectionist elements.

Canada continued to be concerned about the use of unitary taxation by a number of individual American state governments and about the extraterritorial application of United States laws. There was some progress on both of these issues in 1984-85.

The Department, through its corporate liaison program, continued its efforts to promote understanding among leading American business executives — and, through them, the US political and economic community — of Canadian economic policies and the potential for doing business in Canada. The program also provided a channel for advocating Canadian interests *vis-à-vis* the policies of US federal and state