

## Chapter 2

# CANADA'S REGIONAL INTERESTS

### The United States of America

Relations between Canada and the United States are of an almost infinite variety and complexity and are central to Canadian foreign policy. Since the beginning of 1982, managing these relations has proceeded against a background of economic recession in both countries. There was a marked improvement in the dialogue with the present Administration, but the U.S. Congress remained of special concern because of its increasingly important role in trade matters and its sensitivity to pressures from special interests. This led to congressional initiatives for protectionist legislation to satisfy these interests or retaliate against what are perceived as unfair trade practices by other countries.

The Reagan Administration has emphasized the free play of market forces and this has led to its expressed concern over the more interventionist policies of other governments with their potential for trade distortion. Canada's energy and investment policies continued to be the focus for much of this concern and they dominated the bilateral agenda, together with trade and environmental issues.

In such an atmosphere, the traditional trade relationship came under strain, although Canada and the United States remain each other's most important trading partners. The U.S. sells almost as much to Canada as to the entire European Community and nearly twice as much as to Japan, its next largest single trading partner. Despite the economic situation, trade remained high, totalling \$106 billion in 1982. Some 15 per cent of all U.S. exports were to Canada and about two-thirds of our total exports went to the United States. Canada's exports totalled \$59 billion, which was an increase over the previous year and \$12 billion in our favour.

The Department organized a number of initiatives in 1982-83 to promote trade and foster a better understanding of Canadian policies among U.S. political and business leaders. More effective communication at the official and ministerial levels reduced misunderstanding, and as the year progressed, achieved a measure of reconciliation on selected issues.

The Prime Minister held meetings with President Reagan at both the NATO Heads of State and Governments Summit Meeting in Bonn and at the Versailles Economic Summit. Vice President Bush visited Ottawa in March 1983 to discuss a range of bilateral and international issues, in particular arms control. In May 1982, Prime Minister Trudeau addressed the Notre Dame University convocation ceremony, urging greater progress on arms control between the two superpowers.

Several meetings took place at the foreign minister level. In October 1982, the Deputy Prime Minister and Secretary of State for External Affairs and U.S. Secretary for State Schultz

agreed to meet at least four times a year, as a means of managing our bilateral relations more effectively. In addition, Minister Lumley visited New York City in July to address the National Foreign Trade Council. Minister Regan addressed senior government officials and businessmen in Boston in November and in Dallas and Houston in February 1983. Also in February 1983, Minister of State for Economic Development and Science and Technology Johnston undertook a program of trade promotion on behalf of Minister Regan in Chicago.

Acid rain continued to be an issue of primary concern to Canada. No progress was made after negotiations were suspended in June 1982. However in October, Secretary of State Schultz and Deputy Prime Minister and Secretary of State for External Affairs MacEachen agreed that each country should prepare a position paper, Canada on abatement measures and the United States on the state of scientific research. They anticipated that this exchange of papers would lead to progress in resolving this transboundary air pollution problem.

The clean-up of hazardous and toxic wastes in the Great Lakes, particularly in the Niagara River area, became an increasingly important issue. The Garrison Diversion project in North Dakota remained a serious concern for Canada, especially in light of the Administration's proposal for a significant increase in construction funds for the project. On a more cheerful note, British Columbia and the city of Seattle made progress toward reaching agreement on a package for settlement of the long-standing Skagit Valley flooding issue.

As in the previous year, the United States continued to express its vexation over some features of the *Foreign Investment Review Act*. The two countries agreed to ask GATT to adjudicate certain alleged trade-related aspects of the Act's administration. American complaints that the Foreign Investment Review Agency (FIRA) was dilatory in processing applications were allayed by some streamlining of the process. However Canada's National Energy Policy continued as a bone of contention, principally on the Crown share and the provision of benefits to Canada in the new system for financing hydrocarbon exploration on Canadian lands.

Both Canada and the United States continued to affirm their commitment to freer trade principles and worked together internationally to maintain the momentum of liberalization. Nevertheless, the recession tended to increase protectionist pressures. New U.S. restrictions affected Canadian trade in potatoes, specialty metals, beef, steel, cement, mass transit equipment and other products. Both countries faced similar problems in automobiles *vis-à-vis* Japan and