

The government has sought to open doors to trade and investment and it encourages others to follow suit. Investment Canada has replaced FIRA and with its mandate to encourage and facilitate investment in Canada, the new body has eliminated from review, with few exceptions, all investment to establish new business in Canada. In the energy sector, the back-in provisions of the NEP have been repealed and steps taken to permit market forces to determine the price and flow of oil and gas exports to the United States. In 1985 Canadian energy exports (mainly electricity, oil and gas) to the United States came to over \$11 billion. Within Canada, accords with the Western and Atlantic provinces have largely removed tensions on energy. The recent drop in the world price of oil will have some effect on the scale and scope of future energy exploration and production in Canada. The climate for investment, however, will remain excellent.

Foreign Investment

Both countries have more money invested in each other than anywhere else in the world. U.S. direct and portfolio investments in Canada, as of the end of 1984, stood at C\$64 and C\$58 billion respectively. Canadian direct and portfolio investments in the United States are estimated to have been C\$30 billion and C\$11 billion respectively. Recent sizeable Canadian investments in the United States include those in the fields of banking, real estate, railway transportation, telecommunications equipment manufacturing and aluminum processing. New U.S. investments in Canada have taken place in such sectors as biotechnology, high technology, electronics and the plastic industries, as well as in established sectors such as automotive, aerospace and forest products.

Environment

The handling of environmental problems, especially acid rain, will constitute for many the litmus test of the relationship. The challenge ahead is to follow-up the report of the Acid Rain Envoys (former Ontario Premier Bill Davis and former U.S. Transportation Secretary Drew Lewis). Released on January 8, 1986, the report acknowledges that acid rain is a real and man-made problem and recommends, among other things, that the United States spend \$5 billion to demonstrate controls technology and that the two governments set up a bilateral advisory and consultative group. There are other environmental problems such as toxic waste in the Niagara River and the possibility of U.S. nuclear waste depository sites near the Canadian border. They demand close attention and careful management.

Defence Relations

Canadians and Americans have been at peace for over a century and a half. Our defence relations are linked through the Ogdensburg Declaration (1940), the establishment of NATO (1949) and NORAD (1957). The latter agreement has been renewed at roughly five year intervals ever since. The Standing Committee on External Affairs and National Defence recently (February 1986) completed an examination of the current agreement, which expires in May 1986, and recommended its renewal.

The government has taken a number of steps to bolster our defence contribution to the Alliance including the construction of the North Warning System, increasing the size of our military contingent to NATO in West Germany, and strengthening the Canadian military presence in the Arctic. In the arms control and disarmament arena, Canada shares the U.S. hopes for a meaningful and verifiable arms reduction at the Geneva negotiations.