

last few years, the Canadian share of the European import market has declined, as has the proportion of Canadian exports going to this area. Since a number of European countries have made major advances in their sales to this country, the merchandise surplus Canada has traditionally maintained with Europe has been falling off continuously since 1964. With regard to investment in Canada, while the flow of capital from continental European countries has grown in both absolute and relative terms since the end of the War, it has been more than counterbalanced by a decline in the value of British investments in Canada. During 1968, continental European countries were for the first time a major market for new security issues of Canadian borrowers. Meanwhile, there has been direct participation by some Canadian companies in European industry, but Canada's current financial relationship with the United States requires that further growth in such participation generally be financed for the time being by borrowing in Europe.

Although Canada benefited from the sharp increase in imports needed to rebuild post-war Europe, in more recent years Canada's performance as an exporter to Western Europe has been subject to various adverse factors.

To some extent, a certain lack of appreciation for and interest in the needs and habits of the European consumer on the part of Canadian exporters has contributed to Canada's relatively less satisfactory performance, especially in periods when high levels of demand in the closer and more familiar United States markets have prevailed. However, of possibly greater importance is the fact that Canada has encountered substantial difficulties from changing trade policies in Europe (and in some cases from shifts in demand there). For example, while European tariffs generally have declined, the EEC has not so far been prepared to reduce the basic rates of duty on a number of industrial materials of interest to Canada. In the case of aluminum and newsprint for example, the only concessions forthcoming were the binding of duty-free or low-duty quotas. The Community's common agricultural policy has stimulated production of a considerable number of products, restricted access for outside supplies and resulted in the accumulation of surpluses which have in some cases, notably wheat and other cereals, been sold in third markets with the aid of heavy subsidies in competition with Canadian exports. Finally, the European Community is developing a network of preferential arrangements through a series of arrangements with Mediterranean and African countries which could prejudice Canadian interests and which generally detract from the multilateral trading system developed with difficulties over the past two decades.