

over the previous year. While this surplus is large, in most years Canada runs a deficit on service trade with the United States and a deficit on capital movements. These deficits are the result of such factors as high American investment in Canada (the United States is the largest foreign investor in Canada, while Canadian investment in the United States ranks third) with the consequent flow of interest and dividends, and the greater propensity of Canadians to vacation in the other country. The Canadian deficit on the tourism account was \$845 million in 1984. The services deficit last year was \$13.5 billion, which resulted in another atypical current account surplus with the United States of \$7.1 billion (all figures are in Canadian funds).

An economic relationship this large will never be without friction, and 1985-86 was no exception. Nevertheless, progress continued to be made in improving the climate, as exemplified by the creation of Investment Canada and the dismantling of the National Energy Policy (NEP), although Americans were concerned about progress in improving the protection of intellectual property in Canada, particularly pharmaceutical patents. In the trade area, Canada faced renewed efforts to restrain our exports of softwood lumber and uranium; there was pressure on steel exports; livestock imports faced restrictions; and there was the possibility of restrictions on asbestos, beer and wine. There were anti-dumping or countervailing duty investigations of salted cod, rock salt, rectangular steel pipes and tubes, iron construction castings, fish, raspberries, egg filler flats and pork. There were problems with potatoes and sugar-containing products. The US International Trade Commission initiated escape clause investigations affecting steel fork lift arms, castings, and shingles and shakes.

The extent of the trade pressure, in a year when the mood in Congress was especially protectionist, required a renewed effort to safeguard the access of Canadian exporters to the American market. There were continuous informal contacts between Canadian and US officials, supplemented by written representations to the Administration and members of Congress on major issues. Canadian industry was assisted in defending trade remedy actions. The federal and provincial governments worked together with the industry in making the public case for Canadian softwood lumber imports in the United States. Concerns about the potential double taxation created by the unitary method resulted in the government's filing of an *amicus curiae* brief in Illinois Federal District Court in support of an Alcan challenge of a California law.

In 1985-86, the Department, in close consultation with DRIE, provincial governments and the private sector, continued to focus its trade development activities in the United States on a wide range of sector marketing strategies which have been initiated since 1983-84. These strategies are aimed at a variety of sectors, including agricultural equipment, manufactured wood products, sporting goods, urban transportation, home heating, oil and gas equipment, defence equipment, computer software, food and machining.

In addition, following up on the Quebec Summit of March 1985, the first incremental activities under the National Trade Strategy Program were initiated in the United States. Some of these projects are due for completion in 1986-87; others will continue over the next two to three years.

In 1985-86, the United States was the prime target for the Program for Export Market Development, and applications were approved for a total of \$14.1 million. The most popular sections for the US market continued to be PEMD B (Business Exploratory Visits to the United States) and PEMD C (Participation in Trade Fairs Located in the United States), with the combined number for these categories exceeding those for any other.

The Department has sought to increase participation by Canadian industry in the United States through the commissioning of private consultants to study regional markets for specific Canadian products. The past year saw five studies completed, and three new ones initiated. These studies uncovered new export opportunities and matched them to the specific capabilities of small and medium-sized Canadian firms. After the presentation of study findings to industry in cooperation with other federal government departments, provincial governments and trade associations, follow-up marketing strategies are being developed.

The Department provided assistance to new and experienced exporters in Western Canada through a specialized study on transportation links with the Western US and Alaska markets. As part of Export Trade Month, copies of this study were distributed to approximately 6 000 current or potential Canadian exporters, chambers of commerce and other business organizations. A second specialized study for exporters located in Atlantic Canada has been completed for distribution in early 1986-87.

To reinforce the government's message that foreign investment is welcome and required for national development, the Department undertook an active program of investment development in the United States during 1985-86. It worked closely with the newly-formed Investment Canada and with DRIE to promote Canada as a desirable location for new or expanded investment from the United States. Program activities undertaken by the Canadian Embassy and the Consulates General included visits by the Prime Minister and other ministers, as well as widespread participation in trade shows, industry conferences and a number of investment seminars organized in regional centres throughout the United States. The Department also was involved extensively in recruiting for "Opportunities Canada," a major investment development conference in Toronto in March, 1986.

The period under review was the most active on record for the Department's Corporate Liaison Program, as it engaged in initiatives to enhance perceptions by US business leaders on doing business in Canada and on Canadian trade and economic policies. The Program has a key role to play in encouraging selected sectors of the US business community to influence American political decision makers positively on economic matters of concern to Canada. This has particularly been the case, for example, in the context of preparations for the Canada-US trade initiative.

Steady progress continued on environmental and transboundary issues as Canada and the United States continued to manage them in the tradition of co-operation. A significant step was taken to manage the acid rain problem when the Prime Minister and the President endorsed the findings and recommendations of the report of the Special Envoys on acid rain at the Washington Summit. The Envoys characterized acid rain as a serious, man-made, transboundary problem