

Government incentives are offered for projects in the manufacturing industry that are in the national interest and lead to improvements in productivity or to the development of new products.

Foreign companies that already have a significant export market in the U.K. are encouraged to establish local production facilities. The recent announcement by NISSAN to build an automobile assembly plant is an example of this policy.

5. Government Procurement

The British government has implemented the Government Procurement Codes negotiated under the Multilateral Trade Negotiations. The Codes provide that:

(a) countries will not discriminate in their government purchases against goods produced abroad when such purchases exceed U.S. \$200,000; (b) countries must openly publish invitations to bid, supply all documentation necessary to bid and apply the same purchasing criteria to foreign and domestic firms; (c) countries must provide full information and explanations at every stage of the procurement process. This agreement does not apply to "services", except those incidental to the purchase of goods.

CHARACTERISTICS OF BILATERAL TRADE

1. Trends in Canada-U.K. Trade

For the past two decades, Canada-U.K. trade has shown a relatively stable growth pattern. In 1981, total trade reached a peak of over \$5.5 billion (Canadian exports \$3.3 billion, imports \$2.2 billion). However, in 1982 and the first half of 1983, the value of our bilateral trade dropped substantially as a result of the recession and subsequent slow recovery in the U.K. economy. This downward trend was arrested during the second half of 1983 and, although total trade in 1983 (\$4.3 billion) was still below 1982 (\$4.6 billion), indications are that a return to steady growth in 1984 may be expected.

As Chart III (page 39) on exchange rates indicates, since 1980 the Canadian dollar has appreciated approximately 31 per cent in relation to the pound sterling.

The percentage of fully manufactured goods in Canada's exports to the U.K. grew from 10.5 per cent in 1980 through 14 per cent in 1981, to 15.5 per cent in 1982 before slipping in 1983 to 13.6 per cent.

The major decrease in the value of Canadian exports in 1982 and 1983 was related mainly to resource products. However, with the exception of nickel, sales of which dropped by close to 50 per cent, and asbestos, there were only modest decreases in volumes of resource products exported. This is true of softwood lumber, softwood plywood, woodpulp, newsprint and most metals and minerals. The lower trade figures have therefore largely resulted not from volume reductions but from depressed prices.

Sales of agricultural products have shown a significant growth from 1976, reaching record levels in 1981. Despite the severe drop in 1982 and 1983, the total was still appreciably higher than in the years prior to 1980. Although figures for wheat show declines in tonnages, contracts for future delivery indicate a return to higher volumes. Low wheat prices throughout 1983 further depressed results. Sales of prepared fruit and vegetables have suffered due to the high dollar/sterling exchange rate. Meat, fish and fish product exports are strengthening again while feeds, seeds and other cereal and grain products maintained their markets throughout the difficult 1982-83 period. (See Appendix B for further details on the performance of selected Canadian exports.)

The U.K. as well as being Canada's third largest foreign market is also Canada's second largest market for end products. In 1980, fully manufactured goods accounted for \$390 million or 10.5 per cent of Canada's exports to the U.K. By 1983, manufactured exports had reached \$334 million or 13.6 per cent of total exports.

In 1983, exports of fully manufactured goods showed substantial increases for power generating equipment, special industry machinery and industrial machinery. In particular, there were increases recorded for: laboratory and measuring equipment, navigational equipment, telecommunications equipment, aircraft engines and parts, motor vehicle parts, heating and refrigeration equipment.

Resource products such as forestry, metals and foodstuffs will continue to comprise the bulk of our exports to this market. The volume of exports of these items should increase as economic recovery proceeds and hopefully there will also be a recovery from the depressed prices of the past two years.

Canada traditionally has a substantial trade surplus with the U.K., however, the nature of each country's shipments is quite different. British exports to Canada in 1983 were \$1.9 billion and were concentrated in the fully manufactured categories such as industrial machinery, chemicals and transportation equipment. (See Appendix C for a breakdown of Canadian imports from the U.K.)

2. Investment Relations

The U.K. is Canada's second largest source of foreign direct investment after the United States.

At the end of 1979 and 1980 (the last years for which comparable information is available), total direct investment by U.K. firms in Canada amounted to \$5,168 million and \$5,333 million respectively, representing 8.7 per cent of total direct investment in Canada.

Traditionally, British investment has been directed into the development of Canada's resource base. Much attention is now focused on the Canadian oil and gas sectors. More recently, British investment has been attracted to secondary manufacturing and service industries, often with the idea of establishing a North American base. The unrestricted freedom to