

CANADA'S ACTION PLAN FOR THE UNITED KINGDOM

By every measure, Canada's commercial relationship with the United Kingdom is the most extensive this country has in Europe; and by almost every measure, that relationship is second only to that with the United States on a global scale (Table 1). The U.K. is Canada's third-largest market for exports, and more than one third of Canadian exports to the European Union (EU) are sold there. The U.K. is a major market for Canadian primary products, as well as a significant and growing market for manufactured goods and services. In addition, the London financial market is both a key foreign exchange market and a vital source of international capital for portfolio and equity investment. As a world leader in scientific and technological research and development (R&D), the U.K. offers Canadians important opportunities for cooperation in that field.

Bilateral merchandise trade, which had remained relatively constant in the late 1980s and early 1990s, increased by 12 percent in 1995 to reach \$9.4 billion. Canadian exports that year totalled \$3.9 billion – an increase of 16 percent – while imports grew by 9 percent to \$5.5 billion, resulting in a \$1.6 billion trade deficit for Canada.

Economic Outlook

Until recently, Britain's recovery from the economic recession of the early 1990s was almost exclusively export-led. Depressed housing prices, combined with job insecurity and minimal real wage increases, had a serious effect on both consumer confidence and retail sales. In recent years, however, the recovery has broadened to include the household sector. The prospects, at least until the election (which is expected before June 1997), are for both growth in domestic gross product (GDP) and inflation to move within a 2 to 3 percent band. Ongoing government fiscal restraint will continue to lower the deficit,

although tax revenue shortfalls have limited the size of any possible election-driven tax cut.

Recent Trade Performance

Flat domestic demand combined with market access difficulties to restrain Canadian export growth to the United Kingdom in the early 1990s. Canada's success of the mid-1980s in promoting timber-frame house construction was set back by access difficulties surrounding plant health regulations. Despite a sharp decline in shipments of lumber and forest products, natural resources remain the most important items in our export profile, with metals and minerals accounting for over one third of our annual shipments, and forest products for about one quarter. Vigorous growth in shipments of coal, iron, nickel, copper, and other nonferrous metals in 1995 has compensated for slower sales of gold and aluminium.

Sales of Canadian food and agricultural products were for many years hampered by the European Community's Common Agricultural Policy but implementation of the Uruguay Round has improved market access for some products, particularly wheat. Variable levies have been replaced by duties but some of these are still high, and in addition some health regulations also limit a significant number of exports to Britain. Nevertheless, sales of traditional agricultural items and opportunities in the expanding processed foods sector are worth more than \$200 million to Canadian exporters.

A review of Canadian performance indicates strong economic links in a process of evolution as Canadian merchandise exports shift steadily towards value-added products (Table 2). Canadian consumer products exports to the U.K.

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