

Management of the relationship will also need increasingly to take serious account of priorities. The traffic will bear only so much at any given time, nor are we equipped to conduct all that many operations at the same time. There are, at any given time, many issues outstanding between us. Some of these issues are of demonstrably greater consequence for Canada's economic interests than others. While it is true that we are not bargaining with the United States across a single table, the players are often the same. At the very least, a sensible strategy will ensure that the lesser issue does not adversely affect the more important. As often as not, this may be a matter of timing rather than substance—but there is no alternative to prudent traffic control.

b) *The European Community: Building on Traditional Ties*

The EC represents one of Canada's largest markets for agricultural goods and a number of other resource-based products. The traditional ties with Europe and the existing contractual arrangements with the European Community provide a strong basis for deepening and diversifying the relationship, and working cooperatively in areas of common interest, both in multilateral fora and in pursuing export opportunities in third markets. The general terms of access for Canada in Europe in the next decade will remain difficult, but there is some prospect for improving our access to EC markets for resource and downstream products by building upon the EC's interest in Canadian resources, including energy. This will need to be balanced by efforts to reduce the trade distorting effects of the Common Agricultural Policy and to improve market access for Canadian agriculture and fishery products. This is a clear example of the need for careful management of the relationship between our trade and investment interests. There is also scope offered by opportunities for technological and industrial co-operation in, for example, aircraft and energy. More effort is needed to develop a more sophisticated economic relationship with key member states and to promote greater awareness of the opportunities for expanded trade and of the potential emerging from the results of the Tokyo Round and other negotiations.

c) *Japan: The Challenge of Diversification*

Trade relations with Japan depend largely on the complementarity between a resource-rich supplier and a resource-poor industrial giant. This relationship has generally produced a trade surplus for Canada; there is scope, however, for development and diversification of the relationship, and for improvements in the value-added component of Canadian exports. In addition, there remain fundamental questions which need to be addressed in the decade ahead. There is concern about the extent to which we should use our leverage, e.g., on resources, to secure better access for manufactured exports and more job-creating investment. There is need to build on what has been achieved and to encourage more investment partnership, joint ventures etc.

There is a strong concern in Canada that our market is more open to Japanese producers than Japan's market is for Canadians. This stems from continuing Japanese barriers on resource-based manufactured goods as well as sheer Japanese competitiveness. This is compounded by the difficulties of penetrating the Japanese