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dollars, compared to C\$ 3,723.5 billion for the USA and C\$ 367.5 billion for Canada.

The unfavorable international economic climate — as evidenced by the decline in exports — the cyclical weakening of EC investment, and the expected contraction of domestic demand due to the slowdown in real income and investment growth have led the Commission of the European Communities to revise downward to 2.3 per cent of its growth forecast for 1987. This will take its toll on the EC's growth and employment strategy — unemployment is expected to return to 12 per cent this year.

### *Canada/EC Relations*

The European Communities (EC) consist of 12 Member States: France, Italy, Belgium, Luxembourg, the Netherlands, the FRG, the United Kingdom, Denmark, Ireland, Greece, Spain and Portugal.

Two-way trade between Canada and the EC increased 21.8 per cent in 1986 to \$20.6 billion. The European Community is our second largest trading partner. While Canadian exports increased strongly (18.6 per cent) last year, our imports surged 23.8 per cent, yielding a deficit of \$5 billion. The recent trend towards deficits (1984: \$1.3 billion; 1985: \$3.8 billion) contrasts with Canada's traditional trade surplus which averaged \$1.3 billion per annum in the 10 years to 1983. On the basis of 1985 figures, the EC remains our second largest source of investment (\$14.2 billion) and the second most popular destination for Canadian investment abroad (almost \$6.2 billion).

Given the extent of our bilateral trade, relations are generally good. Our industrial cooperation and joint scientific and technological programs have been fruitful. There are problems, of course, particularly in the areas of agriculture and fisheries. Canada objects to EC export subsidies which disrupt our domestic and export markets for agricultural commodities (e.g. manufacturing-quality beef and wheat respectively), and has difficulty with certain EC veterinary and phytosanitary measures. The EC, for its part, maintains that the practices of provincial liquor boards have cost it sales; it is also seeking a GATT ruling on our countervailing duty action against Irish and Danish beef. In the fisheries sector disputes have arisen over the EC's administration of its import quotas, the fishing

by EC vessels of cod stocks adjacent to the Canadian economic zone, the closure of Canadian ports and other measures taken in response to overfishing, and bilateral and multilateral cooperation in scientific observation and management of fisheries resources.