

regulations were obtained to allow the sale of Canadian seed potatoes to Italy and Greece. Also, the Community narrowed the quarantine area applied following an outbreak of blue tongue disease (a deadly ailment afflicting ruminants) in the Okanagan Valley, so as to permit Canadian exports of live animals from outside the Valley to continue. Finally, improvements were made to the EC's import licensing system for high-quality beef which are expected to benefit Canadian exporters.

As a result of the accession of Spain and Portugal to the European Community on January 1, 1986, Canada entered into negotiations with the EC under GATT Article XXIV:6 to establish compensation for the impairment to its trade occurring as a result of the EC enlargement. Canada is concerned that several of the EC proposals, most notably in the fisheries sector, are more restrictive than those applied currently. Repeated negotiating sessions narrowed the gap but did not eliminate it; a key issue has been referred to the GATT for binding arbitration, so as to allow negotiations to conclude. Canada has also signalled its intent to negotiate compensation for other rights arising out of the formation of the EC and its first enlargement, both of which caused considerable harm to Canadian export of cereals.

The past year also saw important progress in Canada's scientific relations with the EC. This included the intensification of discussions on co-operation in fusion research with the Community. Significant advances were also made in identifying areas where respective research and development priorities coincided and which could lead to eventual co-operation in this field.

United Kingdom

The United Kingdom remained Canada's third-largest trading partner, after the U.S. and Japan, and second largest source of foreign investment. Two-way merchandise trade with Britain for 1987 grew to \$7.2 billion, an increase of 14 per cent over 1986 figures. The U.K. had a trade surplus of about \$1.5 billion, due largely to North Sea oil exports to Canada. Canadian exports to the U.K. rose by almost 5 per cent to \$2.8 billion, representing about 30 per cent of all our exports to the European Community. This increase in total value of trade with the U.K. should be viewed in the context of a further 6.5 per cent decline in the average exchange rate of the Canadian dollar against sterling from 1986 to 1987, following a 10 per cent decrease from 1985 to 1986. Thirty-three Canadian firms participated in three international trade fairs in the U.K., with on-site sales of \$3 million.

Regular consultation on political, defence and economic subjects, a hallmark of the relationship, continued at a high level in 1987. Numerous visits in both directions pointed up the close and extensive relationship between the two countries. The Commonwealth Heads of Government Meeting in Vancouver provided opportunities for Prime Minister Mulroney to discuss both bilateral and multilateral issues of concern with Prime Minister Thatcher. The Secretary of State for External Affairs received a visit to Ottawa of his British counterpart, Sir Geoffrey Howe, in September. The two meet regularly both in Ottawa and London, and at multilateral gatherings such as NATO and Commonwealth conferences. Members of the Royal family also paid visits to Canada in 1987. In pursuit of bilateral

objectives, other Canadian and U.K. ministers exchanged visits: U.K. Defence Secretary Younger visited Ottawa in September. U.K. Trade and Industry Minister Clark was in Vancouver in November; Finance Minister Wilson visited his counterpart, Mr. Lawson, in London in November; and Frank Oberle, Minister of State for Science and Technology, went to London late in the year for talks. Premiers from Quebec and Alberta travelled to the U.K. and parliamentary delegations exchanged visits during the year. The successful negotiation of a new bilateral air agreement between the two countries promises significant improvement in air services.

The Canada-U.K. Colloquium series continued in 1987 with the holding of a successful meeting in Gleneagles and a decision to hold the next in Canada in 1988.

Federal Republic of Germany

Bilateral relations between Canada and the Federal Republic of Germany (F.R.G.) continued to thrive during 1987/88. The relationship is rooted in common membership in the Atlantic Alliance, the OECD, the economic summits, the United Nations and other international bodies as well as in strong trade and economic ties. Increasing scientific, technological, cultural and academic exchanges are broadening the partnership.

Exchanges and contacts at both the official and private levels intensified over the period. The Canadian ministers of Finance and Science and Technology visited Germany during the year for consultations with their counterparts. In the spring the Secretary of State for External Affairs met with the F.R.G. Foreign Minister to review a number of issues. Canadian ministers welcomed to Canada their German counterparts from the ministries of the Interior, Economic Development, Post and Telecommunications, State for Foreign Affairs, and Labour and Social Affairs. Building upon earlier contacts, extensive exchanges took place between Canadian and German parliamentarians.

Two-way trade between Canada and the Federal Republic of Germany has grown impressively over the last decade or so to its present level of over \$5 billion. Germany has continuously had a trade surplus, which in 1987 stood at \$2.0 billion. The surplus fell over previous years in the face of a 20 per cent growth in Canadian exports to Germany in 1987. A particularly promising sector for future market development is the high technology and manufacturing sector. Over 175 Canadian companies participated in seven major international trade fairs in the Federal Republic of Germany in 1987 under government sponsorship. Reported sales at these fairs totalled \$161.8 million, of which \$15.1 million were on-site sales and the remainder projected for the coming year. Industrial and scientific links between Canadian and German firms continued to grow and Canada actively promoted German investment in the Canadian economy.

Under the auspices of "Atlantik Bruecke," an F.R.G.-Canadian private sector organization, a second conference was held in Frankfurt in October 1987 to discuss Canada's relations with the Federal Republic and their outlook on key international issues. The meeting, which brought together prominent politicians, government leaders, academics and journalists from Germany and Canada, was marked by the similarity of mutual interests and views. It is envisaged