CANADA REPORTS

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The Canadian Economy

Canada

External Affairs and
International Trade Canada

Contents

EDITOR'S NOTE

More than 300 years ago, Canada began to carve its existence out of a vast wilderness. Today, Canada is a modern, largely urbanized home to some 26 million people, who enjoy an enviable standard of living, with one of the highest rates of purchasing power and disposable income in the world. But as a trade-dependent, outward-looking nation, Canada is aware of today's accelerating pace of change, the intense competition for world export markets and the pressures toward globalization. These factors are driving an invigorated effort by business and government to prepare for the future.

Like most countries, Canada has had its share of economic problems. The devastating effects of the early 1980s recession were hard felt in many parts of the country. Since then, however, Canada has had an impressive record of growth, outperforming most of the industrialized world in terms of growth and job creation. Understandably, these accomplishments have caught the attention of international observers. At the same time, Canadian government has continued to pursue policies designed to further promote a more open, competitive, market-oriented economy.

Deregulation has been one such step. The transportation, telecommunications, banking and financial sectors have been wholly or partially deregulated. Energy policy has also strengthened market pricing mechanisms.

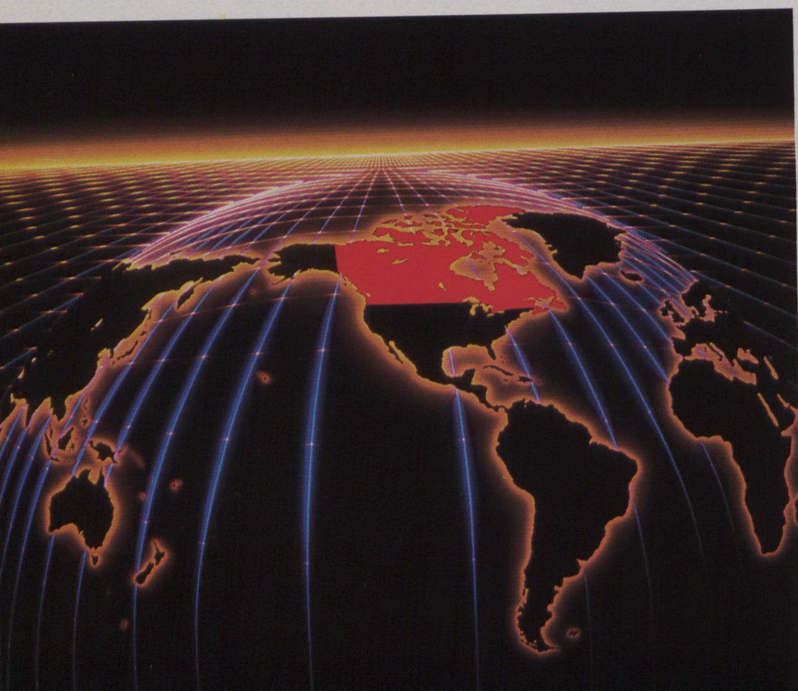
Privatization is another mechanism whose effect has been to produce a more open, market-oriented economy. Since 1984, more than 17 federal Crown corporations worth $50 million have been privatized, and more such sales are being considered.

In recent years, Canada has also greatly improved the climate for foreign investment. The old Foreign Investment Review Agency (FIRA) was dismantled in 1985. Investment Canada was subsequently established with a mandate to actively promote investment — both domestic and foreign.

International confidence in Canada is at an all-time high. Increased inflows of foreign direct investment attest to this fact. In 1988, the net direct investment inflow reached $5.1 billion, five times the level of five years earlier. At the same time, Canadian business continues to demonstrate strong confidence, as business investment in capital equipment remains at high levels.

But the hallmark of Canada's vigorous market-oriented outlook is the historic Canada-U.S. Free Trade Agreement (FTA), which took effect in January 1989. The FTA creates much more secure access to the U.S. market for Canadian-based companies. The resulting encouragement this provides to Canadian companies to export to the U.S. is expected to lead to greater economies of scale and thus greater efficiency. These, in combination with keener competition within the more open North American market, will contribute to a stronger, more productive economy. Canada will emerge as an increasingly competitive supplier, a valuable and affluent market, and an attractive investment site for all its trading partners the world over.

Throughout the 1990s and into the twenty-first century, global trade and investment patterns will likely undergo significant changes. But with the FTA in place and with prospects of further global trade liberalization as a result of multilateral trade negotiations currently under way, Canada is well poised to gear up for the demands of global competition.



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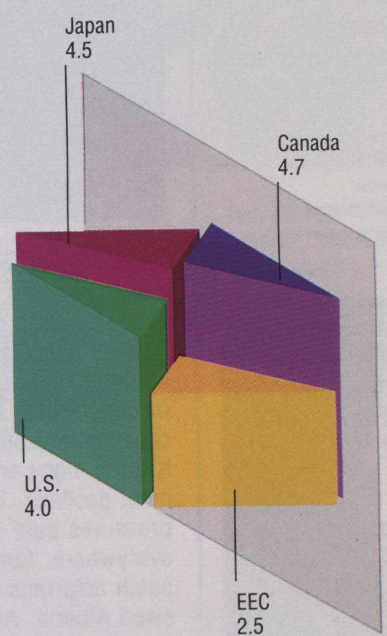
Geared for Growth: A Snapshot of Canada's Economy

The Canadian economy is one of the soundest in the world. Fully integrated into the global system, Canada is the seventh-largest trading nation among the industrialized market economies and an active partner in international investment. Between 1984 and 1988, Canada's gross domestic product (GDP) grew at an annual average rate of 4.7 per cent — faster than any of the other economies of the Organization for Economic Co-operation and Development (OECD). And although growth slowed in 1989, GDP still continued to expand at rates of 3.6 per cent in the first half and 2.3 per cent in the third quarter of the year. Canadian exports also experienced very strong growth during the 1984-88 period, with some slowdown occurring in 1989.

Canada has long been an importer of investment capital, but growth of Canadian direct investment abroad has increased significantly in recent years. In fact, from 1983 to 1988, the stock of Canadian direct investment abroad rose by 60 per cent — from $37.8 billion to $60.5 billion, according to preliminary figures.

While growth today is not what it was during the sparkling 1983-88 phase, Canada's economy still continues to come up with many pleasant surprises — even after seven years of expansion.

Real GDP / GNP Growth 1984-1988: The European Economic Community (EEC), United States, Japan and Canada



Average annual growth rates (%)

Source: OECD

Attractive to Investors

One thing is certain: international investors appear to like Canada's prospects as they continue to bid up the Canadian dollar by investing in Canadian equities, debt instruments and real estate. Much of this activity appears to be grounded in a belief that Canada is poised to gain from its preferred access to the United States market, a result of the year-old Canada-U.S. Free Trade Agreement (FTA), and from improved long-term prospects for many of Canada's exports.

Fighting Inflation

But there are uncertainties. The Bank of Canada has been trying to contain some worrisome inflationary pressures. As a result, interest rates have risen substantially during the course of 1989.

Fiscal policy has also been used as an anti-inflationary tool, but its use has been constrained. The Canadian government, for example, has applied spending restraint across the board. But much federal spending takes the form of statutory transfer payments to provinces or to individuals, making restraint politically difficult.

Nonetheless, the federal spending deficit as a percentage of gross national product (GNP) has been reduced significantly. In fact, excluding the actual cost of carrying the debt, Canada's ''primary deficit'' — the annual gap between revenues and expenditures — fell steadily from a high of $20.1 billion in fiscal 1984/85 to $2.0 billion for 1988/89. But net debt charges, payable on cumulative debt (of $321.1 billion at year end 1988/89, or 53.6 per cent of GDP), have continued to rise.

Enhancing Industry Competitiveness

In the face of a tight monetary policy and tight fiscal stances by the federal and provincial governments, Canada's private sector remains remarkably robust. In part, business observers attribute this to efforts by government to disentangle itself from the marketplace — through deregulation, privatization, tax reform and freer international trade. Each area has seen significant developments due to the privatization of 187 enterprises previously owned by government and because of the Canada-U.S. Free Trade Agreement.

Strong Economic Growth Since 1983

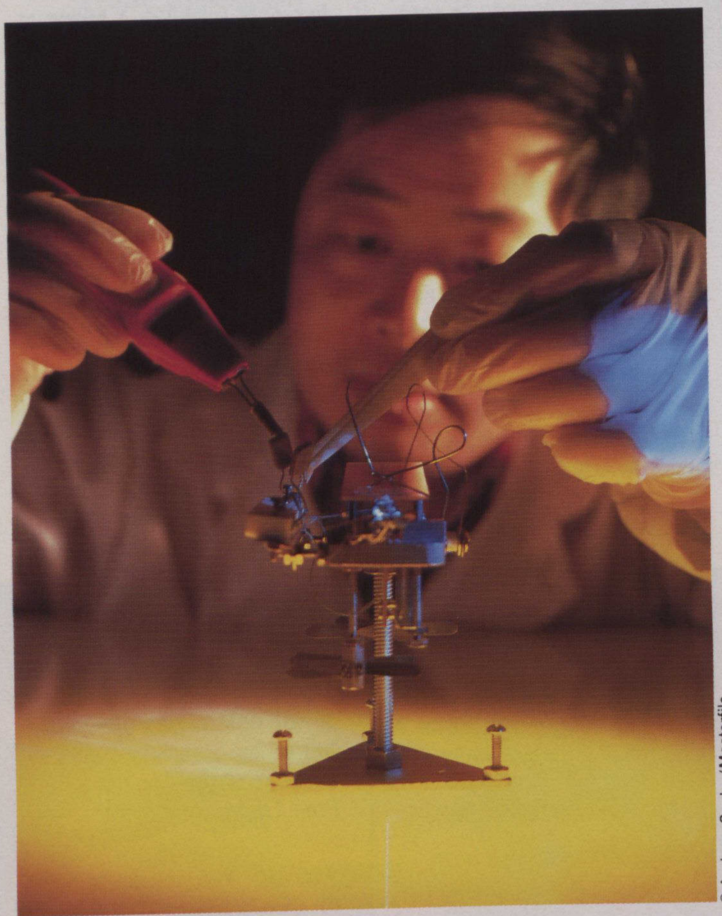
Encouraged in large part by a predominantly export-led recovery, and then by booming investment, the Canadian economy has been internationalizing itself, from government and industry on down.

The upturn, which began in 1983, was buoyed largely by resumed growth in U.S.-related consumer demand, which fed directly into Canada's industrial heartland, especially the auto-related industries of Ontario and Quebec.

Then, starting in 1986, as worker recalls spread and domestic consumer confidence returned, Canadian demand kicked in. As a result, Canada realized a growth rate in the early and middle phases of the recovery which was the highest average one achieved in the industrialized world.

Indeed, Canada has emerged more competitive and more efficient. More than a million jobs have been added to the economy since 1983. At the same time, corporate debt levels have been brought down significantly and industrial productivity has been improving as plants and equipment have been more fully utilized. Average labour productivity, reflecting output per hour of work, has improved at an average annual rate of 2.2 per cent since 1983, having remained roughly static during the inflationary 1970s.

Canada's new technology means increased employment, profits and investment opportunities.



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The Bank of Canada: trying to contain worrisome inflationary pressures.

Inevitably, growth created some problems as well. Real estate demand grew, to the point of speculative frenzy in Toronto, Ontario, and Vancouver, British Columbia. As capacity utilization reached historic highs and unemployment declined, inflationary pressures built — but not everywhere. Continuing oilpatch doldrums overshadowed Alberta. And a two-year drought, at a time of low world grain prices, ravaged the rest of the western Prairie economy. Nationally, growth figures were phenomenal. Regionally, the boom was uneven until 1988 when forestry, fishery, minerals, metals, petroleum and grain prices rose, ensuring that all parts of the Canadian economy shared in the overall growth.

A More Sophisticated Economy

Underlying these trends is the fact that the structure of the Canadian economy is itself changing. Over the past quarter-century, resource exports have become a less important part of Canada's trade mix, representing just over one-fifth of Canadian exports now compared with 40 per cent in 1963. Fewer than 13 per cent of Canadian workers are now employed in primary industries, compared with 29 per cent in 1946. Remarkably, a similar trend has been taking shape in manufacturing.

In 1963, the services sector accounted for only 51.7 per cent of Canada's GDP; in 1988 it produced 60.5 per cent. Today, the services sector is king, employing over 70 per cent of the Canadian work force (accounting for 9 out of every 10 new jobs over the decade) and creating major demands for new skills and for reallocation of capital. The growing role of knowledge-based activity, either within existing industry or as self-sustaining business, is forcing re-examination of educational priorities and retraining programs.

Role of the Dollar

Through all this, the Canadian dollar has played a pivotal role, declining to record lows against the U.S. currency in the mid-1980s, thereby helping Canadian products to recapture lost markets and penetrate new ones. Through 1988-89, the Canadian dollar has been exploring decade-level highs, particularly with respect to the U.S. dollar, testing the revamped Canadian economy's ability to compete abroad.

Exchange rate movements have complex results. A higher dollar can mean cheaper imports and cheaper travel abroad by Canadians. In commodity markets, where the producer has little influence over price, it means a lower return to exporters. Where the commodity is sold offshore and price is denominated in U.S. dollars, the returns in Canadian dollars can be higher or lower, depending on both the Canadian dollar-U.S. dollar rate and on the U.S. dollar value against other currencies. Like exporters, traders and producers everywhere, Canadian industry has learned to watch closely the movement of international exchange rates.

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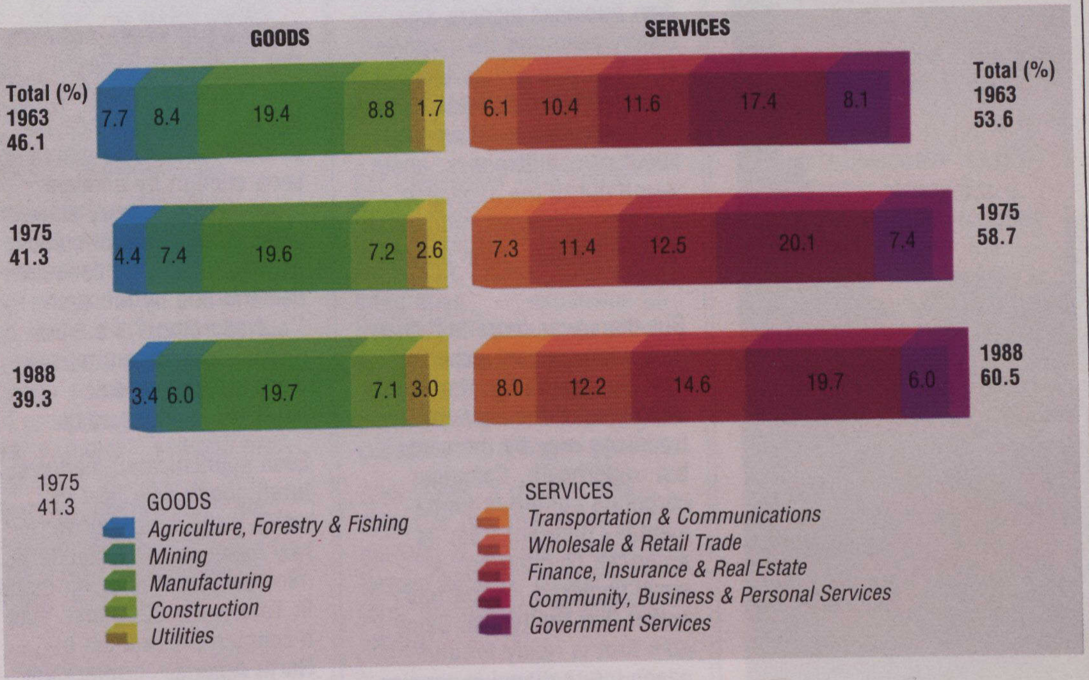
Traded against offshore currencies, the Canadian dollar has generally tracked the path of the U.S. dollar, exposing Canadian exporters to many of the same difficulties and opportunities as have been experienced by U.S. industries. The notable result has been common North American interest in the rise of competition and increased opportunities in Japan, Europe and the newly industrialized countries, and in a well-functioning global trade system.

Through 1988-89, the Canadian dollar has reached new, decade-level highs.

Real Gross Domestic Product by Industry in Canada

(1963-1988, selected years, % of total)



Source: Statistics Canada

Going Global

Trade and investment relations with those and other countries actively participating in the world economy are becoming a vital component of Canada's increasingly open economy, helping create the conditions keeping Canadian business competitive. As domestic industries move into the international mainstream, they have no choice but to abide by global business disciplines, locating production wherever comparative advantage dictates.

The benefit internationalization brings to Canada and to Canadians — via increased employment, profits, investment opportunities and new technology — is greater prosperity for all Canadians in the 1990s.

GOING GLOBAL:

Canada Takes Its Goods to World Markets

The international financial pages tell the tale. A Canadian company finds a major role for itself in the U.K.-France ''Chunnel'' project. Another Canadian company is behind London's largest commercial office complex. A third beats its western competitors to the Japanese market by getting a major supply contract from NTT, Japan's huge telecommunications utility.

So begins the next phase of Canadian corporate development. Such companies — respectively Bombardier, Olympia & York and Northern Telecom — have become the new models for others to emulate.

Canada's Bombardier remains heavily involved in the American mass transit market.

Not that any of Canada's budding global players are turning their backs on the huge neighbouring U.S. market. Far from it. Bombardier remains heavily involved in the American mass transit market. Northern Telecom continues to operate so successfully in the U.S., and is so firmly entrenched there, that many Americans are barely conscious of its national origins. And Olympia & York remains New York City's biggest commercial landlord.

But the U.S. market serves purposes well beyond those of simple profitability. It introduces discipline, helps create scale efficiencies and forces abandonment of wasteful and ineffective plans. Bad companies don't last. Good ones become competitive enough to tackle other markets.

Canada-U.S. Free Trade Agreement

That's one of the principles behind the Canada-U.S. Free Trade Agreement (FTA) that came into effect a year ago. The FTA was welcomed with surprising relish by much of the Canadian business community despite the agreement's objective of eliminating trade barriers that had in many cases protected these same businesses.

The trade pact became symbolic of a change in Canadian business aspirations. Suddenly, national market share, no matter how commanding, was no longer enough. And if Canadian firms were to be successful elsewhere, they would require inputs, both domestic and imported, that would also be competitive internationally.

It was tempting to view Canadian business leaders as simply parroting the rhetoric of U.S. trade policy. Like their American counterparts, the Canadians were worried about competitiveness, about losing out to the Japanese and the Europeans, and about establishing a ''level playing field.''

But there was more to it than that, management experts say. For one thing, the titles and some of the executive trappings may be the same, but underneath, Canadian corporate culture is fundamentally different from its American counterpart. A small domestic market has meant that the typical Canadian firm is ready for and needs international expansion at a much earlier stage of development than the equivalent U.S. company. Many firms are resource-based, of course, and need to be attuned to international markets from the outset. But even manufacturers and service businesses in Canada view international sales as an inevitable requirement for growth. So too, they regard international purchases, since price-competitive components are another essential for profitability.

All Canadians have reason for acute awareness of international economic developments. They buy more foreign-sourced products and earn more from foreign sales than do individuals practically anywhere else. Canada's reliance on external trade, generally accounting for 25 to 30 per cent of gross national product (GNP), is twice that of the U.S. and one and a half times that of Japan.

It's a world where comparative advantage is fleeting: this year's low-cost, high-yield mineral find in Canada will, as often as not, be matched soon enough by an even lower-cost discovery somewhere else. Product homogeneity, driven by consumer demand and by increased ''out sourcing,'' i.e., purchasing component parts from cheaper outside sources, is widespread.

Even sophisticated manufactured goods now flow in world trade as if they were raw materials. If a standard microcomputer is being made in Taiwan for $200 less than a comparable product in North America, brokers are soon on the phone making deals, either bringing the Taiwanese machines across the Pacific or lowering the North American price or, more likely, both.

Virtually nothing Canada produces can escape international comparison. Take the common scallop as an example. The Atlantic scallop is big, succulent and very white — a choice product by any measure. But ''in no way can we dominate the scallop market,'' observes Steve Green, assistant to the president at Clearwater Fine Foods of Nova Scotia.

There are in the world about 100 varieties of scallop. Most are smaller than Canada's Atlantic version. Many aren't quite as white. But Green says scallops are easily substituted one for the other, especially in the breaded form many consumers buy. There are even ersatz scallops, ordinary fish cut cookie-cutter style. So, with a relatively small Canadian scallop resource available, companies such as Clearwater have to take whatever price they can get.

Similarly, Canada's Atlantic cod sells into the vast whitefish market, to which everything from hake to Alaskan pollock have been introduced in recent years. ''Canada,'' says Green, ''is just a player, with lots of competition.''

Clearwater's answer has been ''forward integration'' — establishment of a presence closer to the consumer end of the marketing chain. Its long-term agreement with Canada's Loblaw supermarket group to supply ''President's Choice'' seafood products is an example of this, allowing Clearwater to claim a greater share of the value contributed by processing and packaging.

Clearwater Takes Nova Scotia to the World

Owen Fitzgerald

Fish packing at Clearwater Fine Foods Inc. — Canada's largest exporter of sea scallops, shrimps, clams and live lobster.

In a world where even the personal computer quickly falls victim to the intense pressures of price competition, consider the case of fish.

Like pork bellies and microcircuits, grains and crude oil, Canada's vast harvest of seafood depends for its price on the surging tides of global supply and demand.

For Clearwater Fine Foods Inc. of Bedford, Nova Scotia, the answer increasingly is something called ''forward integration'' — expansion up the marketing chain to allow for more and more value-added factors, in essence putting out a more highly processed and packaged product.

Clearwater, a relative newcomer to the international market, is already Canada's largest exporter of sea scallops, shrimp, clams and live lobster.

But now, fresh from its successful domestic deal with Canada's Loblaw supermarket chain, under which it supplies ''President's Choice'' brand seafood products, Clearwater recently acquired a British company selling house-branded ready-to-prepare products to the popular Marks & Spencer stores in Britain. A similar sales tactic is being tried with two smaller chains in the United States.

This isn't Clearwater's only gambit in the struggle to moderate its exposure purely to price competition. The company has also invested in big, technologically advanced lobster pounds to establish itself as a year-round supplier of lobster. The east coast lobster is an attractive product to begin with, because no other lobster offers claw meat. But, until quite recently, it was considered a seasonal delicacy. By providing a year-round supply, Clearwater finds it can demand higher prices from regular customers, even in mid-season.

Steve Green, assistant to Clearwater president John Risley, credits one of Clearwater's Canadian competitors, National Sea Products, for building a market advantage through its ''High Liner'' brand of retail products. Foreclosed from that route to the marketplace — ''it just takes too much money,'' Green says — Clearwater plans to expand its house-brand strategy instead.

The effort has been paying off. With just four years of fullscale participation in the international market, exports took off in 1987, producing in that year 95 per cent of the company's total sales.

Champion Road Machinery in Goderich, Ontario — one of eight internationally ranked producers of road-grading equipment — has managed to stay competitive by shaving costs, by rationalizing its production in its southern Ontario plant, and by sharpening its marketing skills. But industry trends are clear, according to head office product specialist Napier Simpson. Differences among various brands of equipment are narrowing. And manufacturers are being taken out of the play by corporate mergers. Champion has escaped the latter fate, although it was acquired a year ago by a U.S.-based investor group.

For a firm such as Champion, non-North American competition can be harrowing. Exchange rate fluctuations alone can spell disaster in particular markets. The Canadian dollar's recent rise against the American dollar, however, has had a fairly neutral effect, Simpson indicated: about 30 per cent of the typical Champion grader employs U.S. parts, including its engine. So, denominated in Canadian currency, the U.S. selling price may come under pressure, but U.S. parts go down in price too.

Elsewhere in the world, however, both North American dollars have soared against other currencies and other Canadian companies have been less fortunate than Champion.

West-coast-based lumber producer MacMillan Bloedel really has to watch the currency markets. As marketing vice-president Bill St. John puts it, only half-jokingly, ''If the Canadian dollar dropped two cents tomorrow somebody would have given that away in price.''

On Champion Road

To judge the steady pressure for product conformity, look no further than the control levers of a modern road grader.

Like most of the world's manufacturers, Champion Road Machinery Ltd. of Goderich, Ontario, used to boast a unique configuration for its machines' controls. But in an industry dominated by one giant manufacturer, U.S.-owned Caterpillar Corp., the other manufacturers faced a problem: buyers resisted having to retrain operators to use a different system of levers.

''When you're second or third in the world, you can't be too different,'' says Napier Simpson, product specialist at Champion headquarters. So, like the rest of the industry, Champion adopted Caterpillar's standard — ''the exact feel, the exact look, the exact position.''

Champion maintains that its graders are still unique. The controls may be the same, but Champion's cabs are ''the most comfortable in the industry,'' Simpson claims.

Champion itself is an unusual company. Virtually alone among diversified giants such as Caterpillar and John Deere, Champion remains a grader specialist. The company has been producing the big machines since 1886 and has been exporting them for 30 years. Long family-owned, the firm was acquired last year by a U.S.-based investor group.

The heavy-equipment industry is awash with change. Manufacturers are being merged and consolidated. They are having to develop new strategies to deal with keener competition and market protectionist measures. At one time, Champion sold 300 machines during a two or three year period in Brazil — at today's prices, a business worth $30 million. But Brazil currently requires at least 50 per cent domestic content, and Champion now finds itself locked out of that market.

Elsewhere, the company has to accept a lower price. In New Zealand, for instance, Simpson says that lack of local content in Champion products can lead to a ''slight penalty'' of perhaps 5 per cent on a tender.

Champion Road Machinery sells heavy equipment to more than 90 countries worldwide.

One response has been to enhance the value of the product. ''People are becoming more quality-conscious,'' Simpson says. Buyers want higher productivity from the operators, and so they look for greater protection from noise and the elements. And they want lower operating costs — higher fuel efficiency and low-cost maintenance.

Champion has also been paying closer attention to its ties to distributors in the 92 countries with which it does business. And out of its 700 Ontario-based employees, about 125 sales and service representatives travel regularly.

Another important Champion response has been the company's willingness to tailor its products to the specific demands of individual markets. The company will create a special design for a ''cab style, an attachment, or an addition to an attachment,'' says Product Manager John Marshall. ''We survive because we're so adaptable and because we're able to react so quickly.''

T-I-M-B-E-R!

For Canadian timber giant MacMillan Bloedel Ltd., the search for international markets is matched by a quest for value within a tree. It may sound mystical, but there is a thoroughly practical explanation.

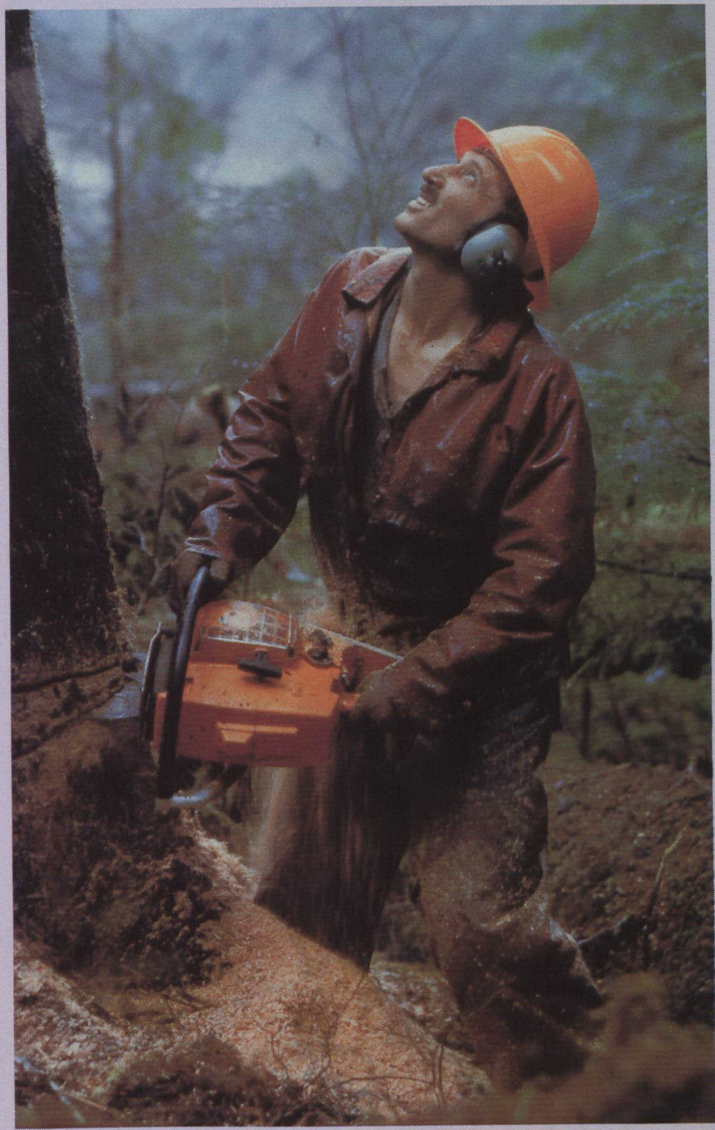
To compete in non-North American markets, the big British Columbia producer must find the highest possible degree of added value, so that basic costs such as labour and transportation are minimized. After all, some of the competition faced offshore involves labour at $1 a day — ''costs that are beyond all understanding to us,'' as William St. John, marketing vice-president, puts it.

Sales figures reveal the results: by volume, MacMillan Bloedel sells 60 per cent of its production in North America and 40 per cent offshore. But by value, the proportions are exactly the reverse.

They need to be. Offshore sales are more difficult and far more expensive. Take the example of window frames in Switzerland. The company faced exacting Swiss building specifications and competition from low-cost Southeast Asian producers. And the market required an unconventional wood treated in an unconventional way — kiln-dried hemlock. ''It took two to three years to do it,'' St. John recalls. ''We went over there. We had them [the buyers] over here.'' Ultimately, MacMillan Bloedel came up with a product the Swiss wanted: framing in virtually finished form.

The key, internationally, is not so much specialization as flexibility, St. John says. North American sales, driven as they are by volume, require huge mills which cannot produce economically the relatively small runs required by offshore buyers. Accordingly, the company tends to ''sell forward'' for international markets, making the sale and only then ordering production, often from other, smaller producers.

Where lumber is a commodity product, says St. John, ''we certainly try to specialize as much as we can.'' But if cedar siding sales to New England slip, as they have in the past year, the company has to be flexible enough either to find another market for that production — or another product from the same feedstock.



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Canadian timber giant MacMillan Bloedel: constantly on the lookout for new international markets.

One response has been the development of MacMillan Bloedel's Custom Processing Division, a specialty component producer that has managed to tap construction markets throughout Asia, Europe and the U.S. ''We were the leaders in moving into the value-added field,'' St. John says. By moving ''up-market,'' i.e., providing a more highly refined or specialized product, the company tries to hedge against cyclical swings in fibre prices.

Even so, the forest industry is constantly on the lookout for new developments — an upswing in the Soviet economy, which might increase domestic demand and slow U.S.S.R. exports, or maturation of Southern Hemisphere plantation timber sources, which move in on the market for reconstituted wood products. Even companies that seek a specific market niche, such as Calgary's INTERA Technologies, have to watch out for international competitors. Their main advantage is adaptability.

INTERA's Marc Wride, marketing vice-president, is already preparing for the next generation of technology competitive with the firm's highly successful airborne radar imaging system, a process that produces detailed pictures of land under weather conditions that would defeat alternative techniques.

Wride expects radar imaging's biggest challenge will come from satellite-borne radar systems. Over the next decade, at least two or three such advanced satellites may be placed aloft. So INTERA is participating in a private consortium proposing commercialization of a Canadian entry. ''We know the clients [for such a project] around the world,'' Wride says.

Wride's company presents an intriguing example of how governments can assist the

Global Images

Globalization may be all the rage at business school seminars, but Calgary-based INTERA Technologies Ltd. went "global" a few years ago for decidedly unfashionable reasons. Its oil industry-related business in Canada's Arctic was drying up.

So INTERA went south for new business. A long way south — to the tropics, where its unusual expertise in radar imaging, developed to cut through the gloom of the long Arctic night, was just as useful to peer through the cloud cover typical of equatorial regions.

In fact, those are INTERA's best markets still — at the earth's extremes, the high North and the steamy middle, where conventional techniques, from aerial photography to satellite imaging, are unreliable.

The result? Some 70 to 80 per cent of the 140-employee firm's revenues are from offshore markets. The company has offices or subsidiaries in the U.S., Britain, Greece and Indonesia.

"We've got most of the [world] market," says Marc Wride, vice-president, marketing. "In fact, we're responsible for expanding the market." Principal competitor is a U.S.-based giant, but Wride says that the American firm can be beaten on any but the biggest projects.

So INTERA's four marketing specialists hunt far and wide for new business, travelling the trade-show circuit, accompanying Canadian trade missions, and using foreign agents to make the appropriate connections.

"Our approach to marketing is to find a niche and to be the very best in the world," Wride says. Selling, which commonly involves a foreign government, relies heavily on personal communication.

Meanwhile, the company is preparing for market change, which could come, in spades, in the next 5-10 years. That's when a new generation of radar-equipped satellites will start spinning into orbit, potentially reducing demand for airborne radar imagery.

INTERA plans to get into the cartographic business, offering high-resolution mapping services using twin, side-mounted airborne radar units. As a further hedge, the firm has become one of the partners in a proposal to commercialize Canada's next satellite, which will be radar-equipped.

INTERA's weather radar on location in Greece.

private sector in the development of world-class technology. INTERA's radar technology was developed largely on the basis of a $2.3-million 1978 contract from the Canadian government, at the time the largest unsolicited proposal ever approved by Supply and Services Canada, the Canadian government's central purchasing agency. The results have been remarkable revenues of $5-7 million a year in the past five years, Wride says. And the federal officials involved "have been amazed by what they achieved."

The Canadian Government's Role

Government's role in trade development takes any number of forms. Currently, Canada is marshalling a major effort in preparation for the European Community's planned market integration slated for 1992. Three major studies of Europe's plans, a set of sectoral working groups and an array of private-sector advisory groups are all aimed at identifying competitive challenges posed by pan-European trade regulation and by the massive, new "Euro corporations" expected to emerge on world markets as a result.

The hope is that, armed with the new Canada-U.S. Free Trade Agreement, Canadian firms can begin to organize themselves around their combined new North American "home market," now with a population of 270 million, to compete with European firms and their post-1992 market of 320 million.

The Canada-U.S. trade pact also dovetails with Canada's strategy for the Asia–Pacific Region, especially with respect to investment. There is widespread expectation that Canada could become a launching pad to the whole North American market for many Asia–Pacific firms. Japan alone could be the source of as much as $3 trillion in overseas investment by the end of this century.

Japan's neighbours cannot be ignored either. India's middle class will exceed in size that of the U.S. by the year 2000. Incomes in Taiwan, Singapore, South Korea and Hong Kong are expected to match and in some cases exceed European levels by then. By any yardstick, these are enormously wealthy potential markets for Canadian firms, though they may seem far away and hard to crack.

Here, the Canadian government views information flow and cultural links as critical. There could be improvements on several fronts — language training, for instance. Only 1 200 Canadians are studying the Japanese language at present, compared with 140 000 Americans. Canada views as important the establishment of new trade-promotion facilities in the region, to help Canadian business identify opportunities and make the right connections. And to enhance the Canadian presence, the Canadian government proposes more active participation in such regional groupings as the Pacific Economic Co-operation Conference involving Canadian business, government and the academic sector.

Taken together, all this activity is meant as something of a counterweight to the understandable business inclination toward the U.S. Canada wants the FTA to represent much more than a quick ticket south. It is rather a building block towards competing effectively on a worldwide scale. If Bombardier and Northern Telecom can compete internationally — not to mention smaller players such as INTERA and Champion — other expansion-minded Canadian firms should be taking the global view.

Between Neighbours:
The Canada-U.S. Free Trade Agreement

On January 1, 1989, a truly historical event took place when the world's biggest trading partners — Canada and the United States — entered into a bilateral trade accord. The Canada-U.S. Free Trade Agreement (FTA) is acknowledged to be the largest and most comprehensive trade arrangement ever negotiated between sovereign nations. The FTA will, over the next 10 years, eliminate most of the trade barriers that currently exist between the two countries, including complete elimination of tariffs.

''Canada has gained in the past from opening its economy to outside investment and outside technology. Now it's up to Canadian businesses to take advantage of their natural market just across the border. After that, they will be ready to take on the world.''

''Canada is open for business,'' Prime Minister Brian Mulroney told a New York audience shortly after winning the election in November 1988, where he promoted free trade with the United States as the centrepiece of his government's economic strategy. ''Even better,'' he told the audience of financiers, ''the U.S. is now open for business for Canadian entrepreneurs. The combined market is worth $5 trillion, richer than any other in the world.''

A 315-page document, the bilateral agreement makes substantial progress on Canada's twin goals: it provides Canada with more secure access to the U.S. market and it increases the access in many areas.

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Peace arch at Canada-U.S. border.

''The benefits from this deal are immense,'' Canada's International Trade Minister John Crosbie told an audience of Canadian exporters after the agreement was ratified. ''Canada has gained in the past from opening its economy to outside investment and outside technology. Now it's up to Canadian businesses to take advantage of their natural market just across the border. After that, they will be ready to take on the world.''

International trade is Canada's lifeblood, as exports account for 30 per cent of national income. Since nearly three million Canadians work in industries that produce goods and services for export, securing and enhancing Canada's access to world markets is understandably a cornerstone of Canada's foreign policy. In this respect, the Canada-U.S. Free Trade Agreement is a significant step towards meeting Canada's goal of multilateral trade liberalization. The agreement does the following:

- enhances market access;
- creates effective machinery for resolving disputes;
- facilitates business travel;
- reduces trade-restricting regulation of services; and
- secures two-way investment flows.

Benefits beyond Borders

The FTA represents an important milestone in the development and growth of the Canadian economy. Trade liberalization has been a consistent element of Canadian economic policy throughout the postwar period. This commitment has been evident through Canada's participation as a founding member of the General Agreement on Tariffs and Trade (GATT), and through the negotiation with the U.S. of key sectoral trade arrangements such as the Auto Pact and Defence Production Sharing Arrangements.

Canada will emerge as an increasingly competitive supplier, a valuable and affluent market, and an attractive investment site for its trading partners throughout the world.

The new bilateral agreement, however, goes even further by effectively dismantling many of the remaining trade barriers with the United States without raising barriers to other countries. As well, it provides a model for future multilateral trade agreements, particularly in the area of trade in services.

Former President of the World Bank A.W. Claussen points to the FTA as proof that bilateral arrangements can produce what multilateral negotiations have been unable to achieve. ''It reaches well beyond current GATT boundaries and provides an effective way of ending disputes,'' says

Claussen. ''It shows no one in the modern world can circle his wagons and retreat behind trade protections.''

With assured access to a North American market of over 270 million people, Canadian industry will become more competitive and efficient, contributing to a stronger and more productive Canadian economy. As a result, Canada will emerge as an increasingly competitive supplier, a valuable and affluent market, and an attractive investment site for its trading partners throughout the world.

Implications for World Trade

Today, the FTA and its results are being closely scrutinized around the world. Some world trade analysts see the FTA as a bold step into a future where the private sector can go about its business without government intrusion and where foreign businesses can enter new markets without the burden of discriminatory national policies.

The FTA is a remarkably comprehensive agreement, covering every aspect of business. The agreement is unique in that it not only aims to remove tariffs on goods, but also attempts to address some of the less-visible barriers that restrict transborder trade.

As international commerce becomes more sophisticated, transactions become more complex. Gone are the days of a company's international business plan being the simple shipment of goods over a foreign border. International business now entails much more: investment, relationships with distributors and agents, business travel, and after-sales support and service. The FTA is the first agreement to deal so completely with all these factors.

For International Trade Minister John Crosbie these are critical elements of the agreement. ''The substantially improved freedom for business people to move across the border means business now has clear rules it can rely on.''

The FTA was also the first agreement between nations that affected trade in services as well as goods. One of Canada's priorities in the continuing GATT negotiations is to establish a set of rules to liberalize world services trade. The FTA's sections on services and investments should facilitate considerations of these issues in the multilateral trade negotiations.

Key Provisions

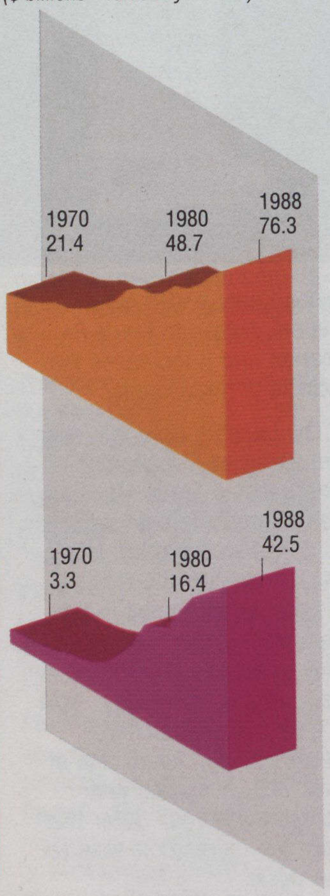
The FTA covers the traditional elements found in other trade arrangements such as tariffs, rules of origin, quantitative restrictions, government procurement and technical standards. It also has specific arrangements for the agricultural, automotive and energy sectors. The FTA is unique, however, in that it not only deals with the flow of goods, but attempts as well to eliminate barriers that exist in the services and investment areas. The agreement also has ground-breaking institutional arrangements.

The most immediate and obvious benefit of the FTA is the phasing out of all tariffs between Canada and the U.S. over a 10-year period. On January 1, 1989, the agreement completely eliminated tariffs on a broad range of goods, including computers and computer equipment. Other sectors will see their tariffs reduced incrementally to zero in either 5 or 10 years (see schedule).

The gains for some sectors are dramatic. The Canadian petrochemical industry stands to benefit once the current American tariffs, averaging 30 per cent, are phased out. Industry executives such as John Feick of Novacor Chemicals of Calgary predict large new investments will now go ahead with the FTA in place. This enthusiasm is shared by municipal leaders in Sarnia, the petrochemical centre in Canada's largest province, Ontario. Mayor Mike Bradley says the FTA will spark a ''new era'' for workers and spin-off industries, especially as foreign firms invest in Canada.

United States Direct Investment Position in Canada and Canadian Direct Investment Position in the United States

($ billions - value at year end)



Source: Statistics Canada

A sizable portion of the FTA text details the agreed-upon rules of origin, central to a free trade area where both sides maintain separate external trade policies. These rules guarantee that neither country can simply be used as a point of transshipment of imported products into the other country by a third country that would thus obtain duty-free access. The general rule is that where imported material is transformed in either Canada or the U.S. to the point where it changes tariff heading — for example, an imported fabric becomes a garment — then it qualifies for tariff-free treatment under the FTA.

In the area of quantitative restrictions, the FTA clarifies the GATT rules on export and import controls and eliminates some specific restrictions on both sides, such as Canada's embargo on the import of used cars and the American embargo on printed lottery materials.

The most immediate and obvious benefit of the FTA is the phasing out of all tariffs between Canada and the U.S. over a 10-year period.

In the area of government procurement, modest success was achieved, essentially lowering the threshold on the GATT procurement provisions. As for technical standards, the FTA enhances GATT rights and obligations and is meant to guard against using technical standards to erect non-tariff barriers.

Unique Sectoral Arrangements

The FTA has specific sectoral provisions covering agriculture, alcoholic beverages, the automotive sector and energy.

Tariffs on agricultural products will be phased out — generally over 10 years. Tariffs on some meats will end in 5 years, while special provisions will allow each party, for a period of 20 years, to apply a temporary duty (not to exceed 180 days) on fresh fruits or vegetables, subject to specific conditions. Canada has the right under the FTA to maintain supply management programs and input controls in accordance with the GATT.

Canadian import permit requirements for grains are to be eliminated when government support levels for these grains in the U.S. become equal to or less than government support levels in Canada.

This has already been accomplished for oats. In addition, both countries agree to work together under the GATT to end the export subsidy war in agricultural products. Special provisions cover trade in meats, exempting each country from the other's meat import law.

In the area of alcoholic beverages, a new regime has been established for wine. The FTA provisions phase out discriminatory practices in regard to American wine over seven years.

The FTA undertakes to establish a continent-wide free market in energy products. Border barriers, quotas and tariffs are eliminated — most of them immediately. If Canada finds it necessary — in the case of an emergency, for example — to impose export or production controls, Canada will allow exports to the U.S. to continue at the historic proportion of Canadian production.

In the automotive area, the FTA builds on the success of the 1965 Auto Pact. For Auto Pact companies, the safeguards remain fully intact but membership is limited to existing companies. For non-Auto Pact companies, the FTA sets new rules of origin, and if these are satisfied, assures access to North American markets.

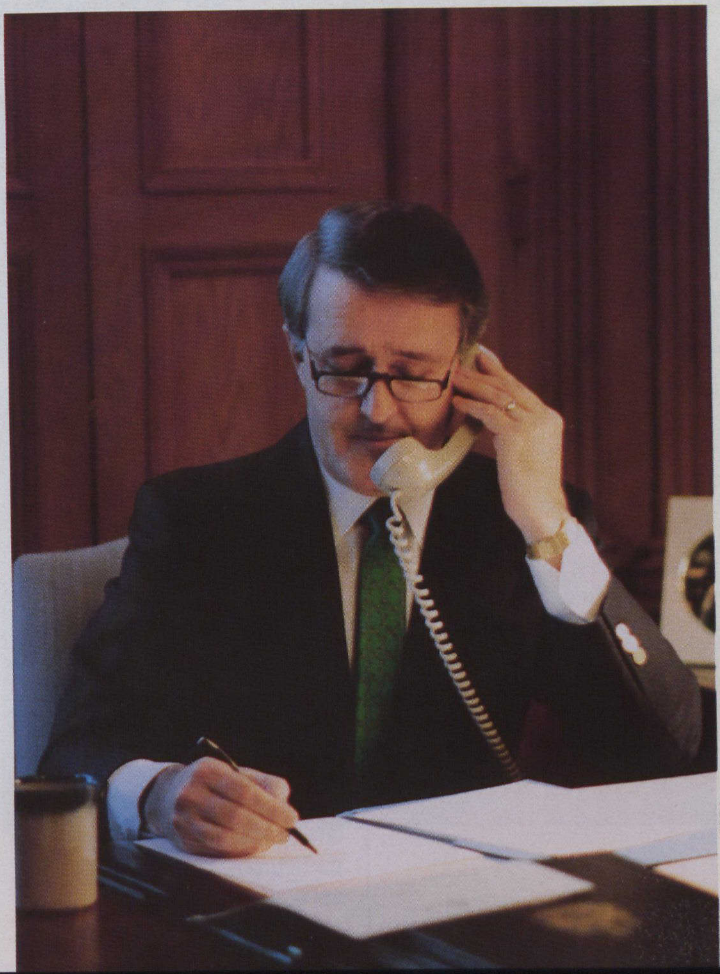
Breaking New Ground

The FTA provisions governing the service industries, personnel movement, financial services and investment break new ground in international trade agreements.

The FTA contains a set of principles to govern future regulatory measures in the services industry on both sides of the border. The new code enshrines the principle of national treatment between Canadian and American firms and sets rules with respect to right of establishment, right of commercial presence, and the transparency of laws and rules.

Besides the general principles that apply to most services, there are three model sectoral agreements. These agreements set in motion a process to roll back existing restrictions in tourism, enhanced telecommunication services and architecture, and make Canada and the United States into a true single market for the firms in these sectors. Provision exists for including additional sectoral annexes as these are agreed upon.

Prime Minister Brian Mulroney signed the FTA on January 2, 1988.



Bill McCarthy/PMO

The investment chapter of the FTA essentially enshrines existing Canadian and U.S. investment policies: current laws, policies and practices in areas such as communications, culture, transportation and energy are left intact. Although Canada's right to review direct acquisitions was retained, the threshold for American takeovers will rise in annual stages to $150 million on January 1, 1992, from the present level of $25 million. In addition, the agreement prohibits the imposition of local content requirements as a condition for investment. But the right to negotiate product mandates, research and development, and technology-transfer requirements is retained.

The FTA provisions governing the service industries, personnel movement, financial services and investment break new ground in international trade agreements.

The FTA provisions governing border crossing by business professionals now provide Canadians with a special category under American immigration law. The effect of this is to permit substantially freer access to the U.S. for certain professions (detailed in an FTA annex) and for sales and after-sales personnel.

Novel Institutional Provisions

To help secure market access, the FTA has a number of new institutional arrangements. Where disputes over countervailing duties and anti-dumping are involved, cases will be subject to binding adjudication by binational panels. Decisions must now be rendered within 10 months.

Under the general dispute-settlement provision, either country can request consultations if it feels its interest has been harmed. If the resulting review does not produce satisfaction, then both sides can refer it to a binational panel. In the special case of emergency safeguard measures, differences will be settled by a binational panel with binding powers. Decisions on other cases can be binding if both parties agree.

The intent is to avoid disputes and settle differences by requiring and encouraging early and frequent consultation. Consultations include regular bilateral meetings of International Trade Minister John Crosbie and his American counterpart, U.S. Trade Representative Carla Hills. Rapid and non-political resolution of what otherwise might blossom into serious irritants should result.

Where either country amends its trade law, changes can only apply to the FTA partner if it is named. For Canada particularly, this means that there will be no more side-swiping by punitive measures intended for others. Disputes about new trade legislation in either country are to be sent to a binational panel which will rule on whether the changes conform to FTA principles.

What the Future Holds

The Canada-U.S. Free Trade Agreement is unique among international trade agreements in that almost every chapter contains provisions and an agenda for further negotiations either bilaterally or multilaterally through the GATT.

The most contentious negotiations will concern subsidies and trade remedies (anti-dumping and countervail). This was a very difficult issue during the FTA negotiations. The best both sides could do was agree to continue negotiations over the next five years, with a two-year extension if necessary, to attempt to introduce disciplines in the area of subsidies and trade remedies.

With major ports and transportation infrastructure on both the Pacific and Atlantic oceans, the opportunities in the major markets of the European Community and Asia-Pacific are key to Canadian business success.

In the areas of government procurement and intellectual property, the FTA did not accomplish what had been hoped, but both sides agreed to try again at the GATT negotiations. The U.S. was not prepared to limit its unilateral powers in regard to intellectual property. There may be some progress in Geneva where the stated goals are to clarify the GATT provisions, elaborate new rules and disciplines, and develop a multilateral framework of principles and rules to deal with international trade in counterfeit goods.

For International Trade Minister John Crosbie, the FTA gives business "clear rules it can rely on."

The FTA holds important ramifications for Canada's relations with the GATT. Previously, Canada spent much of its energies at GATT meetings negotiating market access issues with its largest trading partner, the U.S. Now, Canada has settled most of those questions with the U.S. on a bilateral basis and can turn its attention to negotiating matters with other significant trading partners such as the European Community, Japan and the newly industrialized countries of the Third World.

For the GATT in general, the Canada-U.S. FTA can be seen as a positive step. It breaks new ground in the services and investment areas, and it has achieved substantial gains in the agricultural sector. No doubt, the FTA and its results are being closely scrutinized by all GATT members. Many, in fact, believe that the historic agreement provides a model for future bilateral and multilateral trade arrangements, particularly in investment and services.

As a small, open economy, Canada loses a lot when trade protectionism breaks out. Thus, it is taking a lead in the GATT negotiations. In fact, the same Canadian Cabinet meeting in 1985 that approved a free trade initiative with the U.S. also approved the basic elements of Canada's position for the current GATT Uruguay Round. "This has been a two track process," says International Trade Minister John Crosbie. "Negotiating improved access to the United States is meant to give Canadian business a head start in taking on competition from around the globe."

Schedule of Tariff Elimination

Immediate
- Computers and equipment
- Some pork products
- Some unprocessed fish
- Fur and fur garments
- Leather
- Whiskey
- Yeast
- Animal feeds
- Unwrought aluminum
- Vending machines and parts
- Airbrakes for railroad cars
- Skates
- Some paper-making machinery
- Needles
- Ferrous alloys
- Skis
- Warranty repairs
- Motorcycles
- Some telecommunications equipment

Five Years
- Subway cars
- Chemicals, including resins (excluding drugs and cosmetics)
- Explosives
- Paints
- Furniture
- Paper and paper products
- Printed matter
- Hardwood plywood
- Some telecommunications equipment
- After-market auto parts
- Some meats (including lamb)

Ten Years
- Most agricultural products
- Beef
- Steel
- Textiles and apparel
- Appliances
- Softwood plywood
- Pleasure craft
- Railcars
- Tires
- Many manufactured goods

SOURCE: Ernst & Whinney

The GATT is now key to Canada's trade strategy. Canada's horizons are not limited to North America. With major ports and transportation infrastructure on both the Pacific and Atlantic oceans, the opportunities in the major markets of the European Community and Asia-Pacific are key to Canadian business success.

The Pacific coast province of British Columbia has used the FTA to intensify promotions to attract investment, touting its location as an industrial and service centre with good access to the U.S. west coast market. British Columbia politicians and business persons led a number of provincial governments and Canadian business leaders to the April 1989 World Economic Forum in Davos, Switzerland. They weren't disappointed. The province of Ontario's Agent General in France, Gerald Doucet, reports investor interest ''. . . has gone straight up. The FTA is a very positive element in persuading Europeans to step up their business activity in Canada.''

In terms of the impact of the FTA on Canada, there are three forces in play: first, higher productivity and resulting reductions in production costs as a consequence of greater economies of scale; second, greater confidence within Canadian businesses as new markets open up; and third, the positive impact of increased investment in Canada from domestic and foreign investors impressed by the more secure access to the U.S. market generated by the FTA.

For Canada, the FTA is one of several market-oriented policies that the Canadian government, in line with what is happening elsewhere in the world, has been implementing over the past five years. A more neutral tax system, industry deregulation, and reform of combines policy are all structural changes introduced by the government that have the same effect — opening the economy up to market forces.

Canadian business is planning to take advantage of the security of the larger market. As the smaller partner in the FTA, Canada stands to make major gains. Since December 1987, public support for free trade has grown, proof as Prime Minister Brian Mulroney puts it that ''support for free trade means Canadians have affirmed their confidence in the future of their own country. This is the most valuable gain of all.''

The Canada-U.S. Free Trade Agreement is sending a signal in favour of trade liberalization to the rest of the world. It will also provide additional momentum to the round of GATT multilateral trade negotiations now under way. Building upon the progress achieved in the accord, Canada's priority remains the encouragement of the trend towards a more open and mutually beneficial international trading system.

Automobile production in Oshawa, Ontario: the FTA secures provisions of the 1965 Auto Pact.

© Mike Dobel/Masterfile

Key Provisions of the Canada-U.S. FTA

• **Tariffs.** Eliminates all tariffs on U.S. and Canadian goods by January 1, 1999.

• **Rule of Origin.** Creates rules to determine country of origin to prevent third country goods from receiving FTA tariff treatment.

• **Customs.** Ends Customs user fees for goods and duty drawback programs by January 1, 1994, for bilateral trade and duty waivers linked to performance requirements by January 1, 1998 (except for those specified through the Auto Pact).

• **Quotas.** Eliminates import and export quotas unless allowed by the GATT or grandfathered in the agreement.

• **National Treatment.** Reaffirms GATT principles preventing discrimination against imported goods.

• **Standards.** Prohibits use of product standards as a trade barrier and provides for national treatment of testing labs and certification bodies.

• **Agriculture.** Eliminates all bilateral tariffs and export subsidies and limits or eliminates quantitative restrictions on some products, including meat. Eliminates Canadian import licences for wheat, oats and barley when U.S. crop price supports are equal or less than those in Canada.

• **Wine and Distilled Spirits.** Removes most discriminatory practices against wine or spirits imported from the other country.

• **Energy.** Prohibits most import and export restrictions on energy goods, including minimum export prices. Requires any export quotas to enforce short supply or conservation measures to share resources proportionately. Provides for Alaskan oil exports of up to 50 000 barrels per day to Canada.

Brad Markel

Ex-U.S. Trade Representative Clayton Yeutter (left) and then President Ronald Reagan signing trade accord.

• **Autos.** Replaces Canadian content rule for duty-free Auto Pact imports into the U.S. with tougher FTA content rule. Does not change rules for Auto Pact qualified companies importing duty-free into Canada, but does not allow new companies to qualify. Permits U.S. auto and parts exports that meet the FTA rule to enter Canada at FTA tariff rates, which phase out over 10 years. Ends all Canadian duty remission programs for autos by 1998.

• **Emergency Action.** Allows temporary import restrictions to protect domestic industries harmed by imports from the other country in limited circumstances.

• **Government Procurement.** Expands the size of government procurement markets that will be open to suppliers from the other country.

• **Services.** Commits governments not to discriminate against covered service providers of the other country when making future laws or regulations (certain service sectors exempted).

• **Temporary Visas.** Facilitates travel for business visitors, investors, traders, professionals and executives transferred intra-company.

• **Investment.** Provides national treatment for establishment, acquisition, sale, and conduct and operation of businesses. Commits Canada to end review of indirect acquisitions and to raise to $150 million (in constant 1992 Canadian dollars) the threshold for review of direct acquisitions. Bans imposition of most investment performance requirements.

• **Financial Services.** Exempts U.S.bank subsidiaries in Canada from Canada's 16 per cent ceiling on assets of foreign banks. Ends Canada's foreign ownership restrictions on U.S. purchases of shares in federally regulated insurance and trust companies. Reviews U.S. firms' applications for entry into Canadian financial markets on the same basis as Canadian firms' applications. Permits banks in the U.S. to underwrite and deal in debt securities fully backed by the Government of Canada or political subdivisions. Guarantees continuation of multistate branches of Canadian banks.

• **General Dispute Settlement.** Establishes a binational commission to resolve disagreements (except for financial service, countervailing, and anti-dumping cases).

• **Countervailing/Anti-dumping Dispute Settlement.** Allows countries to continue to apply existing national laws. Replaces court review with a binational panel (when requested), which must apply national law in rendering decisions under international law.

• **Softwood Lumber.** Preserves the 1986 agreement with Canada on provincial pricing practices.

• **Culture.** Exempts cultural industries from the FTA, but authorizes measures of equivalent commercial effect in response to actions otherwise inconsistent with the agreement.

Investment — The New Fast-Track to Canada

When it comes to expressing confidence in a business enterprise or a nation, nothing gets the message across quite as clearly as making a financial investment. It's called putting your money where your mouth is — a measure of business confidence accepted the world over.

According to this handy yardstick, Canada can safely be called the focus of a powerful surge of international and domestic confidence. Investment in Canada is at an all-time high.

Some observers might claim this is uncharacteristic of Canada. After all, only a few years ago, many foreign investors viewed Canada at arm's length. The trend changed, however, in 1985 and since then, significantly increased flows of foreign investment have been moving into the country.

''We have attracted record foreign direct investment inflows into Canada since 1985,'' said John Crosbie, Canada's Minister for International Trade. ''From a net outflow figure in that year, we reversed our position to a $1.6 billion net inflow in 1986 and $4.8 billion in 1987.'' Between 1980 and 1988, the book value of these direct investments increased from $62 billion to $110 billion.

© James Willis/Masterfile

Because of its ethnic diversity, people from any part of the world can readily integrate into Canadian society.

Although the United States and the United Kingdom have traditionally been the dominant foreign direct investors in Canada, the greatest growth of foreign direct investment is coming from new, non-traditional sources in Europe and the Pacific Rim. These include Japan, New Zealand, Hong Kong, Italy, Switzerland, West Germany and Sweden.

International companies such as Hyundai, Toyota and Michelin Tire have built plants in Canada, manufacturing parts and products for both North American and international markets. Companies such as Philips and Xerox make goods in Canada for shipment to destinations around the world.

So why would a relatively small country such as Canada — with a population of only 26 million people — be the object of such increased investment activity? After all, according to one recent count, there are more than 35 countries, 500 states and 6 000 municipalities trying to attract new foreign investment. There seem to be several key factors, acting together, that create the attraction.

Falling Ramparts

For one thing, the Canadian investment landscape has been smoothed and redesigned since the more protectionist, pre-1985 years. The major defensive mechanisms against foreign investment fell in 1985, with the dismantling of the Foreign Investment Review Act (FIRA) and the National Energy Policy (NEP). That same year, Canada launched the Investment Development Program (IDP) whose primary objective was to encourage investment — both foreign and domestic — and to ensure Canada's success in an ever-more competitive global marketplace.

When the IDP was created, three Canadian government departments were charged with contributing to the investment-promotion effort: Investment Canada, a federal agency that co-ordinates the overall promotion of investment in Canada; External Affairs and International Trade Canada, responsible for delivering the IDP abroad; and Industry, Science and Technology Canada, whose role is to identify domestic investment interests and pay particular attention to sectoral and regional investment activities.

Government promotions have found appreciative clients. "The establishment of our business in Quebec is in large measure due to the efforts of the governments of Quebec and Canada who recognize our expertise," says Stéphane Magnan, president and director general of Montupet SA of France, which established an automotive manufacturing plant near Montreal in 1989.

But the changes to Canada's investment landscape have gone much further. The federal government has deregulated key industries, such as transportation, energy and financial services, allowing market forces to establish rates and prices. It has also whittled away at the federal budget deficit — reducing it from 8.6 per cent of Canada's gross domestic product (GDP) in 1984-85 to 4.8 per cent in 1988-89.

Furthermore, to the advantage of foreign and domestic investors, Canada's tax rates have been lowered. In 1988, the general federal corporate income tax rate dropped from 35 per cent to 28 per cent, and in 1991 the tax rate for manufacturing will drop from the present 25 per cent to 23 per cent. By contrast, the federal income tax rate in the United States is 34 per cent for manufacturing and other companies.

In business terms, these measures have sent messages of confidence, responsibility and willingness to compete to foreign and domestic investors. These improvements have increased the allure of Canada's basic business attractions: comparatively higher corporate profits and lower business costs than those existing in many other countries.

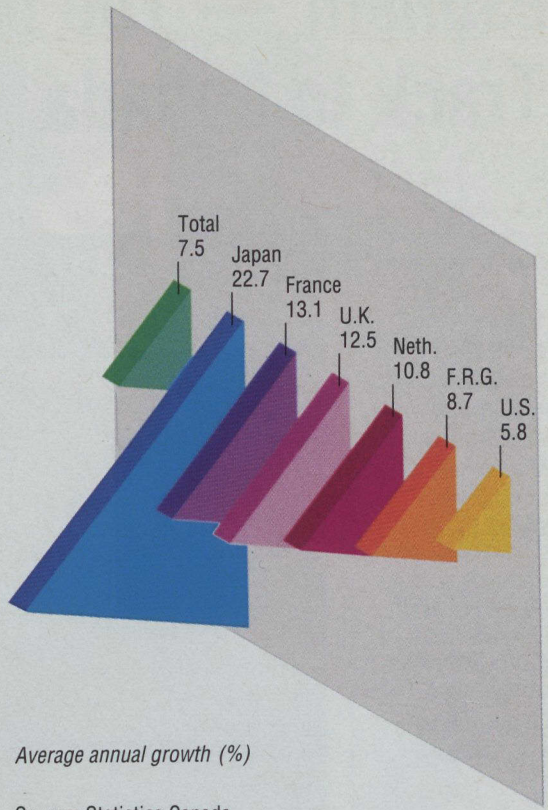
The Free Trade Era

The Canada-U.S. Free Trade Agreement (FTA) is the centrepiece of the new, liberal investment landscape. The largest trade agreement ever reached between sovereign nations, the FTA will eliminate over the next 10 years the trade barriers that currently exist between Canada and the United States. While 75-80 per cent of cross-border trade was already duty-free before the agreement, the FTA now places the Canada-U.S. trade relationship on unprecedentedly secure footing.

With this kind of security in place, Canadian-based firms now have greatly improved access to a North American market of some 270 million people. From Toronto alone, 103 million people in major U.S. cities are within one day's trucking distance. In all, more than 150 million people live within a day's trucking distance of the Canada-U.S. border, and another 60 million live within two days' trucking distance.

In anticipation of the FTA, Ferro Corp. of Cleveland bought an Ontario-based firm called Canadian Plastics Concentrate Ltd. (CPC) in 1988.

Growth in Book Value of Foreign Direct Investment in Canada By Major Source Countries, 1980-1988



Average annual growth (%)

Source: Statistics Canada

CPC makes plastic compounds used to manufacture a wide variety of goods. Ferro, a *Fortune 500* company, appreciated that CPC was ideally located for supplying Michigan's auto industry, given the new open trade borders under the Free Trade Agreement. Said Adolph Posnick, the Canadian-born chairman of Ferro Corp.: "We would not have bought that facility if free trade were not being discussed." Plans for CPC include a switch to production of goods of a more highly finished and more specialized nature — part of its attempt to win and secure larger market shares.

Many small firms in both countries are finding joint ventures to be the most effective strategy in tapping the whole North American market. One example involves Nordco Ltd., a Newfoundland research and development company that produces underwater sensing equipment and signal processors. Through a joint venture with Connecticut-based Ship Analytics Inc., the two firms design and fabricate simulators of ships' bridges for training ships' officers.

Benefits flow both ways in this joint venture. The arrangement gives Nordco access to a U.S.-based sales organization. For its part, Ship Analytics gains ease of access to Canadian contacts and to Nordco's technical expertise.

The FTA's allure has already become a strong factor in the thinking of many investors, especially those who consider the Canadian lifestyle an added attraction. Laporte Chemicals of the United Kingdom recently invested $12.5 million to expand the Edmonton-based chemical firm, Terochem Laboratories Ltd. Most of the plant's production will be exported to the United States.

''There's no doubt that the FTA had a lot to do with Laporte's interest in Terochem,'' says Terochem's founder, Gerard Tertzakian. ''It gives their Canadian-made products tariff-free access to the U.S. market, but enables them to locate in Canada. They prefer the Canadian way of doing business, the cultural affinities to the U.K., as well as the Canadian regulatory and legal climate.''

Northern Charms

With the larger continental market delivered through the free trade agreement, investors are feeling emboldened to take a second look at the dollars-and-cents reality of an investment in Canada. Profitability is frequently higher, and business costs are often lower in Canada than in the U.S.

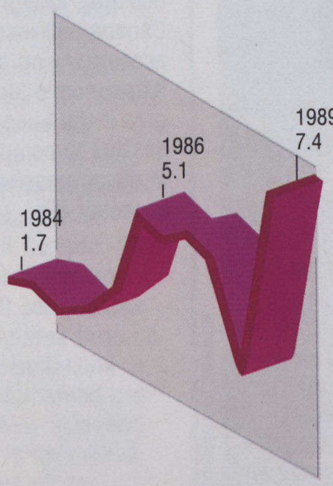
In 1988, Canadian pre-tax corporate profits were 10.4 per cent of GDP, compared to 6.3 per cent in the U.S. After-tax corporate profits in Canada were 7.3 per cent in 1988, while in the U.S. they were 3.4 per cent.

This enticing profit picture is part of an overall, dramatic strengthening trend in the Canadian economy. From 1983 until 1988, Canada's GPD grew at an average annual rate of 4.7 per cent — a faster rate than that recorded by any other major industrialized country. Despite a slowing trend in 1989, business investment continues to show strength, stimulating a seventh consecutive year of growth.

As for traditional business costs, recent surveys and studies show lower rates in Canada than in the United States for energy, leased office space, and total compensation costs. As recently as a decade ago, Canada was gaining a reputation in some circles for high labour costs. However, after adjusting for exchange rates, average hourly earnings in manufacturing are actually less in Canada than in the United States. And because of Canada's universal health care and pension plans, employers face lower fringe benefit costs in Canada than in most U.S. centres.

Gross Flows of Foreign Direct Investment to Canada, 1984-1989

($ billions - half-year totals)



Source: Statistics Canada

Canada's Investment Development Program

Canada has made an abrupt, even startling, about-face in attracting foreign investment. From a net outflow of $2.8 billion in 1985, Canada has reversed direct investment flows to a net importer position of $5.1 billion in 1988. And the trend continued in 1989, although at a slightly reduced level.

This dramatic turn-around has been largely due to the efforts of the Investment Development Program (IDP), launched in 1985 by the Canadian government to improve the economy by stimulating investment. Initially, its purpose was to get the message out that ''Canada was open for business.'' Indeed, the program has been fruitful: the world perception of Canada as an attractive investment destination is continually growing.

Today, Canada has successfully proven that it welcomes foreign investment. As a result, the IDP's role has become much more focused. Now, it actively promotes investments in the form of joint ventures, strategic partnerships and technology transfers. The program's ongoing challenge is to promote investment opportunities that will make Canada more innovative and internationally competitive.

To identify Canada's business and investment priorities, the IDP works closely with the federal government department of Industry, Science and Technology Canada, as well as with provincial and regional governments. Its promotional initiatives, for the most part, use techniques that support focused, targeted contact with selected companies or groups of companies. These include corporate visit programs, direct mail and telemarketing, participation in exhibitions and investment missions.

At the outset, the IDP originally gave priority attention to investments from the U.S., the U.K., France, West Germany and Japan — the sources of 95 per cent of total direct foreign investment in Canada in 1985. But today, the program reflects the proliferation of many other investment sources. Now, the IDP has expanded into additional European and Pacific Rim countries and the Middle East. In fact, non-traditional sources now account for the highest growth trends of foreign investment in Canada.

The IDP operates through External Affairs and International Trade Canada's missions abroad, with dedicated offices in London, Paris, Bonn, New York, Los Angeles, Tokyo, Hong Kong and The Hague. In total, there are now 43 missions worldwide actively promoting investment.

Today, overall investment can be seen as a reflection of the efforts of the IDP and various agencies, together with the economic attractions of Canada. Says Canada's Minister for International Trade John Crosbie: ''I think it is a testament to our efforts, and recognition abroad of Canadian economic performance and prospects, that we have attracted record foreign direct investment inflows into Canada since 1985.''

Naturally, lower labour costs mean little if the quality of work is correspondingly low. But Canada's workforce alone seems to be an incentive to many investors. ''We are extremely pleased with the workforce,'' says Cecil Hellaby, general manager of Canadian Auto Parts Toyota, at the newly expanded plant in Delta, British Columbia. ''Toyota rates this plant on a par with its plants in Japan.''

A survey of Canadian workers in October 1989 revealed that Canadians are significantly more proud of, and fulfilled by, their jobs than are Japanese or Americans. The market research study, conducted by Backer Spielvogel Bates Worldwide of New York, showed that among young ''baby boomers'' (people born in the first few years after the end of the Second World War) with high school educations, 75 per cent of Canadians said they were proud of where they worked, compared to 62 per cent of Americans and a surprisingly low 36 per cent of Japanese.

Once They've Seen Paris . . .

Any senior personnel executive will have tales of woe to relate about trying to transfer top-notch managers to ''less desirable'' locations. But the word is out that a transfer to a Canadian location — with Canada's political stability, low crime rate, natural beauty, high living standards and sophisticated amenities — is ''quite desirable.''

''Canada offers the best of both the new and the old world,'' says Jock von Karstedt, vice-president and general manager of Edscha of Canada, a German-owned auto-parts manufacturer who moved to Niagara Falls, Ontario, in 1987. ''Europeans tend to feel more at home in the Canadian cultural environment than they do in that of the United States, while at the same time, they have all the benefits of the U.S. markets and business environment available to them.''

People of many backgrounds could no doubt say the same thing about the country's major cities. In many Canadian cities, for instance, street signs in various neighbourhoods are written in Chinese, Greek, Portuguese and Italian as well as English, reflecting the many ethnic groups living there. In addition, the streets of Canada's urban centres are lined with numerous ethnic shops and grocery stores and an incredible variety of ethnic restaurants. Because of the country's ethnic diversity, people from any part of the world can easily enter Canadian society. This, in turn, gives Canada a unique linguistic and cultural advantage in its business dealing with other countries.

The bustling Toronto Stock Exchange: one indicator of a sound Canadian economy.

© Bob Anderson/Masterfile

Facing the Future

More and more countries the world over are viewing Canada as an increasingly attractive location for investment. The result, of course, has been a surge in investment activity which has put Canada in a strong position to face the future.

Far more than the simple infusion of funds, investment into Canada is bringing with it new technology, new capacities in research, new kinds of jobs, and new technical and managerial abilities. By boosting foreign investment, Canada will incorporate these accompanying benefits into its economic structure and give it the keen edge it desires to compete better in the aggressive global economy.

FISHING IN TROUBLED WATERS

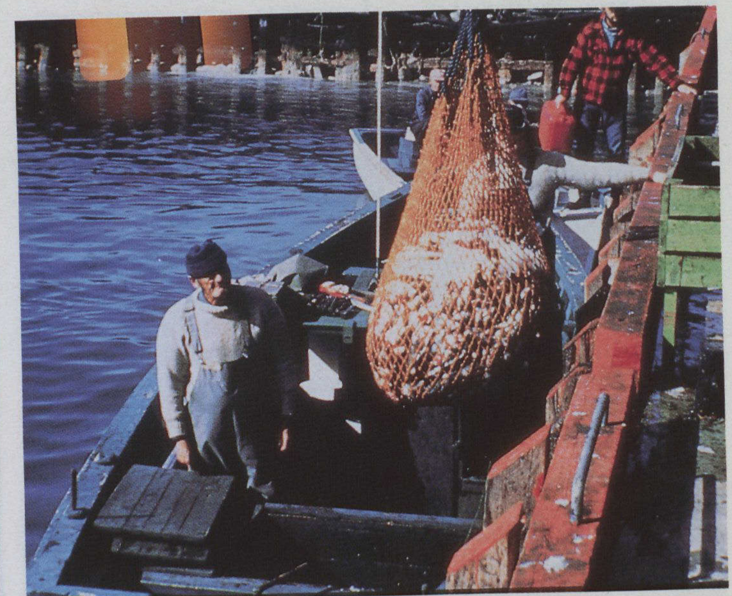
It's a lucid rule, observed by prudent people the world over: if you want to avoid surprises on cliffs, stand back from the edge.

Despite this eminently sane principle, the modern world has been walking off cliffs with surprising regularity in managing its natural resources, especially its fisheries.

In 1970-71, a final, devastatingly large harvest all but destroyed the Peruvian *achovetta* fishery, which once provided 10 million tonnes (t) a year. Overfishing in the waters of northern Europe all but eradicated the herring, leading to a ban on heavy fishing that brought sudden economic collapse to an entire industry.

Despite such sad object lessons, the old mistakes are being repeated and have led to a potent fisheries dispute between Canada and the European Community (EC) in the lucrative fishery of the northwest Atlantic Ocean, near Newfoundland.

The dispute is about fisheries in international waters just beyond Canada's 200-mile limit, particularly two heavily fished areas colourfully termed the Nose and Tail of the Banks. Fishing there is regulated by the Northwest Atlantic Fisheries Organization (NAFO) in which Canada, the EC and 10 other states are members. NAFO sets quotas for its regulatory area through international consultations based on the information provided by the NAFO Scientific Council, which is composed of scientists from all the NAFO parties.



Government of Newfoundland and Labrador : Department of Development and Tourism

Canada, the coastal state closest to the fishing grounds, has a special role and interest in the NAFO decision-making process and in preventing excess fishing in the area. Since the shoals of fish on the Nose and Tail of the Grand Banks migrate back and forth across the 200-mile line, European catches in international waters have a direct effect on the fish stocks within Canada's own waters.

Canadians see the excessive fishing in the international fishing zones as being leaks in the bathtub that is the Grand Banks. The drainage is steady, and the ultimate result will surely be the destruction of the resource. In fact, in the last few years, the Europeans are catching far less than the quotas they have set for themselves — a serious indication that some of the stocks have already been badly depleted.

Declining fish stocks make responsible resource management mandatory if future generations are to meet their own needs.

Until 1986, the EC had generally supported NAFO's management of these highly concentrated, and therefore vulnerable, fish stocks. But that year, Spain and Portugal, which had been members of NAFO, joined the EC, bringing the increased demands of their own fleets and a heavy domestic reliance on the fishing economy. At that point, the Community changed its position and began demanding that catches be allowed at levels much higher than those set by NAFO — with the Community's support — since 1978. These demands seemed to be motivated by the domestic considerations, political and economic, of its two new member states.

Also in 1986, Canada took a firmer stance in the managing of its stocks and in its conservation approach. Canada stopped allocating non-surplus fish quotas to other countries and returned to the Law of the Sea framework, which provides for allocation of only surplus resources. It also stopped making allocations directed at gaining other nations' co-operation in reducing impediments to the marketing of Canadian fish products. Instead, the Canadian government ruled that the condition for allocating fish quotas, surplus resources only, would be co-operation on conservation. Canada protested that excessive EC fishing on the Nose and Tail of the Banks was depleting stocks, invalidating NAFO's conservation role and undermining the EC's fishery relations with Canada.

The fragility of the world's fishery environment is beyond question. The Grand Banks themselves, once monumentally bountiful, were scraped almost bare of fish by overfishing before 1977, when Canada declared its 200-mile zone. Landings around Newfoundland had dropped by more than 50 per cent in the preceding nine years, to levels so low as to be catastrophic for all the fishing fleets, industries and communities involved.

Canada found it had inherited a withered and depleted resource that was too fragile to be the cornerstone of an efficient, modern fishery. So it enforced a rigorous management plan to restore the stocks and establish economic efficiency in the fishery.

In time, the stocks responded. The northern cod stock near Newfoundland rebounded dramatically. In 1977, Canadian trawler landings of northern cod were only 7 000 t; by 1986, they were more than 120 000 t. This salvage operation is one of the industry's biggest success stories.

But in stark contrast, on the nearby Flemish Cap in international waters, cod stocks have continued to decline over the past decade. Scientific advice has been ignored in favour of a strategy of short-term gain. Cod catches have plummeted from 30 000 t in 1979 to a mere 10 000 in 1980. And in 1987, two of the countries most involved in fishing the stock — the Faroe Islands (Denmark) and Norway — were forced to ask NAFO for a moratorium on the stock. NAFO complied, and the EC, with some reluctance, redirected its fishing effort to other NAFO stocks it was already overfishing. The moratorium has been in place for the 1988 and 1989 fishing seasons. If the moratorium is not respected, prospects for the future are bleak: low catches of mainly small, young fish.

The dispute between the European Community and NAFO about the total levels of catch to be allowed for each stock has centred on the difference between two management concepts. The EC supports a level of fishing intensity that attempts to maximize catch at the expense of catch rates and stability.

The target used by Canada and NAFO leaves more fish in the water than the European concept with more of each age group. This produces an economically more valuable resource and also builds in a cushion against error or natural hazards.

But errors will happen. In 1988, Canadian scientists realized they had seriously overestimated the abundance of Canada's largest fish stock, the northern cod. This discovery shocked both the fisheries managers and the fishing industry, since the resulting total allowable catch (TAC) recommendation was half the previous year's. However, because of the margin for error built into the original TACs, the fish stocks has not been depleted past the figure for previous years. There was no danger of disaster.

For their part, the Europeans are no less fallible. Events in late 1988 and 1989 have clearly shown that the EC's management strategies have been inadequate within its own waters. The European Council of Fisheries Ministers last December was compelled to suddenly reduce the total allowable catch for a variety of Community fish stocks.

In eastern Canada, some 60 000 people rely directly on the fishery for their livelihood.

Assessing fish stocks anywhere in the world is by nature difficult, because of two variables: the survival rate of a ''year class'' (i.e., classified by age) of young fish and the growth rate of the fish. Neither can be estimated with great accuracy and each is influenced by weather, water temperatures, and other environmental conditions, in addition to fishing pressure.

What does it mean to be responsible in managing a natural resource? For answers, the world has increasingly turned to the Brundtland Commission report with its notion of sustainable development: ''Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.''

By reducing effort now, catch levels will, over time, allow the rebuilding of stocks for future generations. In eastern Canada, some 60 000 people rely directly on the fishery for their livelihood. The industry also provides one of Canada's major export commodities.

The crux of the world fishery dilemma is stated by Dr. John Beddington, director of the Renewable Resources Assessment Group at Imperial College in London, England: ''The short-term goals of fishermen are incompatible with the long-term goals of a society that wants to manage the resource.'' In other words, free access equals over-exploitation.

Clearly, excessive fishing in NAFO waters will hurt all NAFO members. Managing the resource responsibly, on the other hand, will bring benefits to all parties involved. Solutions will only be achieved when all countries come to the realization that the environment and its resources can only sustain so much exploitation. We ignore the cliff edge at our peril.

© Mike Dobel/Masterfile

Artistry in Motion: Canada's NFB at 50

Canada's National Film Board (NFB), which marked its 50th anniversary last May, has a precious legacy to celebrate. For Canada, it has provided a moving picture of an elusive nation. For the world, it pioneered the documentary, refined the art of animation and created dozens of technical innovations. Over the past year, the NFB has basked in a well-deserved birthday glow. It won an Oscar for special achievement at last March's U.S. motion picture Academy Awards. It was honoured at film festivals and major retrospectives the world over. And last June in Montreal, it hosted its own party: North America's first major documentary film festival.

The NFB is the oldest active government film production agency in the world. And no other government film body has racked up such an impressive reputation on at least three levels: for artistic quality, for thoughtfulness, and for independence from governmental influence as well as the whims of fashion.

Of course, not every moviegoer is ecstatic about the film board's contribution. A taxi driver in Toronto voices an alternative opinion as he scorns the organization for making "intellectual" pictures that "average people" find irrelevant and dull.

However, one can't help but wonder if such critics have actually seen many NFB productions. Have they seen, say, *The Big Snit*, a free-wheeling animation film about the not-so-different subjects of global nuclear war and domestic quarreling. Like many other board prize-winners, the film is thought-provoking. But its content is no more "intellectual" than its title or wacky images.

The First Emperor: a $7 million Canadian co-production filmed in the oversize format known as Imax.

In a different vein, have the skeptics seen *Train of Dreams*, the 1987 drama that portrays a teen-age prison inmate in terms as blunt and streetwise as its protagonist? Have they seen the trailblazing documentaries on such tough topics as incest and pornography? Or have they sampled the products of Studio D — the board's world-renowned women's studio grounded in feminist culture, politics and values?

True, some of this work can be considered "intellectual" or at least "serious" and "reflective." But few of the NFB's films are solemn and none are elitist. For five decades now, NFB filmmakers and administrators have clung proudly to the board's original mandate: to interpret Canada for Canadians and for the world. It's a broad mandate, but one that has produced an enormously wide range of activity.

In fact, the NFB reaches an awesome quantity of "average people." In 1988, "over a billion people saw our films around the world," says Anthony Kent, an employee of the board's international wing.

The structure of the NFB is a very canny mixture of centralized and decentralized offices. The headquarters building, located in Montreal, houses production facilities, divided into English-speaking and French-speaking departments. The board also has branches in 12 Canadian cities, 6 of which have their own production facilities as well as distribution and marketing operations. The films are marketed internationally through offices in Paris, London and New York.

What these offices distribute is a prodigious number of movies: more than 17 000 have flooded from the NFB's busy cameras so far. Of those, more than 6 500 are full-fledged original productions. The rest are such things as adaptations, revisions, newsreels, and multilingual versions of existing films.

In the course of making all these movies, the NFB has found itself in the vanguard of technical development in cinema. And current projects still in the research and development stage offer much promise: among them is a gadget called ''The Brain'' — a multi-axis camera and ''object motion control system.''

Internationalism is a high priority at the NFB. Co-productions with other countries are thus gaining popularity with the board's administrators. Among the most recent projects are a co-operative production with PBS-TV in the United States and more exotically, a co-production with China's enterprising Xian Film Studio that uses the elaborate Imax system of giant screen projection, which is 10 times larger than the conventional 35-mm frame.

''Co-productions allow us to do more expensive projects that we couldn't do otherwise,'' explains Colin Neale, an NFB executive producer. Now in the planning stage, he adds, is a series of six hour-long films on urbanization in developing countries, to be co-produced with the United Kingdom's Channel 4 television.

Another NFB priority is using state-of-the-art video technology to disseminate films. Last year, TV viewers accounted for 85 per cent of the film board's worldwide audience. This is in sharp contrast to bygone times, when spectators saw board products largely on 16-mm screens in schools, libraries, church basements and union meeting halls. Today, video is revolutionizing the distribution of NFB films in two ways: by making them more accessible for home viewing and by compelling the board to target its marketing at individuals as well as institutions.

But what matters most to the NFB is making quality products for diverse audiences — both domestic and foreign. ''We're creating films for various audiences,'' says Douglas Macdonald, a veteran NFB producer who works in the English-speaking animation department. ''We have one group of films loosely called *Just for Kids*, for instance. They're all directed at children between the ages of 5 and 11 years old.''

Then at the other end of the spectrum there is the *65 Plus* series devoted entirely to seniors. ''The first film, *George and Rosemary*, deals with romance after 65,'' explains Macdonald. ''And although we designed it for older people, it's winning audiences in all age groups. High school kids, for instance, love it because it deals with a first date!''

Since the NFB operates in a bilingual country, one may wonder if there is a significant difference between its English- and French-language productions. ''There's always been a cultural difference,'' says Barbara Emo, director of the board's English-language programming. ''The French production departments are addressing the Quebec market, so the kinds of films they make have a different perspective from the kinds we make.'' Emo adds, ''It's a real and valid cultural separation. But we are under the same roof and we sit at the same table to discuss budget allocations and common policy, so in that sense we work together.''

But the future looks promising for all productions — whether French or English, animation or live action — at the NFB. True, recent years have brought budget squeezes; they have also been a time of major government policies

A scene from *Mon Oncle Antoine*, regarded by many as one of Canada's best feature films of all time.

such as the National Film and Video Policy, and of reassessment and reorganization. But in spite of these new adjustments, some of the board's most significant films have emerged during this decade.

A new style of low-budget filmmaking, dubbed ''alternate drama,'' was created with films such as the 1986 comedy hit *90 Days*, or the 1987 dramas *Sitting in Limbo* and *Train of Dreams*. Also produced were such acclaimed dramatic features as 1986's Oscar-nominated *The Decline of the American Empire* and the 1989 Cannes hit *Jesus of Montreal* — both by Montreal director Denys Arcand, a former NFB employee.

In addition, the eighties saw the arrival at the board of computer animation and 3-D Imax filming. The latest Imax spectacular, *Quin Shihuang, The First Emperor*, premiered at the new Museum of Civilization last July. Filmed entirely in China, the $7 million giant-screen production was a co-operative effort of the NFB, the Museum of Civilization and Xian Film Studio of China.

Proud of what the NFB is producing is Robert Forget, head of the French animation department and a visionary who's working on the cutting edge of computer animation. Forget — surrounded by an array of new technical toys, such as a prototype computer sound library for 1 000 digital audio cassettes, complete with a robot arm (co-developed by the NFB and a private firm) — is adamant that the NFB keep up the pace when it comes to research and development.

In a screening room, Forget sits in the dark watching rushes of *L'Anniversaire*, a computerized animation short he crafted to celebrate the NFB's 50th. The clarity is stunning and the shapes of the characters are unlike anything seen before. It looks like a new world.

''Bravo! Bravo!'' A small group of onlookers cheer, for they know that Forget is part of the future, and that he's worth celebrating too, as is the NFB.

Commonwealth Heads of Government Meeting

Heads of government of 49 Commonwealth states met in Kuala Lumpur, Malaysia, last October to review world political and economic issues. At the conclusion of their meeting a series of documents was issued, including the Langkawi Declaration on the Environment, the Kuala Lumpur Statement on Southern Africa, and a 33-page communiqué which outlined broad agreement on many topics from Third World debt to super-power relations and the fate of Hong Kong.

Media attention focused on the Kuala Lumpur Statement on Southern Africa, subtitled ''The Way Ahead,'' which drew conclusions on a situation in flux. The statement reflects a broad consensus that there are signals from Pretoria that it may be prepared to move towards negotiation at a time when the anti-apartheid opposition, the Mass Democratic Movement, has also taken several concrete steps to move towards negotiations. The statement also included agreement that now is not the time to relax sanctions. With the exception of Britain, the heads of government agreed that some measures, in particular in the financial area and the arms embargo, still required tightening.

The Commonwealth Committee of Foreign Ministers, created at the previous Commonwealth Summit in Vancouver and chaired by External Affairs Minister Joe Clark, had its mandate renewed. It was agreed that the committee would next meet in April 1990 to review progress in Southern Africa.

While Britain continued to object to economic sanctions against South Africa, Prime Minister Brian Mulroney concluded that ''the unanimity here has been impressive'' and that all of Canada's objectives had been achieved. In all areas of its agenda, the Commonwealth has moved forward. The message the Commonwealth sent to South Africa was a clear and unanimous condemnation of apartheid and the desire of the Commonwealth to see a negotiated and peaceful settlement in South Africa.

Bill McCarthy/PMO

Prime Minister Brian Mulroney addressing the Commonwealth Heads of Government.

New Governor General Announced

Last October, the Honourable Ramon John Hnatyshyn was appointed Governor General of Canada. The Saskatchewan-born lawyer will serve in succession to the Right Honourable Jeanne Sauvé and will assume office in mid-January 1990.

First elected to the House of Commons in 1974, Hnatyshyn served for 14 years as the representative of Saskatoon West, including five years as a Minister of the Crown. He held portfolios of Minister of Energy, Mines and Resources, Minister of State for Science and Technology, Government House Leader, President of the Queens' Privy Council for Canada, Minister of Justice, and Attorney General for Canada.

Canapress

The Honourable Ramon Hnatyshyn: Canada's new Governor General.

Mounties Keep the Peace in Namibia

Canada has sent 100 Royal Canadian Mounted Police (RCMP) volunteers to bring ''law and order'' to strife-torn Namibia.

Last September, the Secretary-General of the United Nations (UN) sent a formal request to Canada asking for a police contingent to help monitor elections and Namibia's transition to democracy. When word got out to Canada's Mounties, some 2 000 volunteered for the six-month assignment which began in November.

This is the RCMP's first role abroad as a ''formed force'' since the Second World War. Canada's typical contribution to UN commitments has come through the Armed Forces — usually air, communications and logistics personnel, but sometimes live infantry or armoured suits.

In his annual speech to the opening of the UN General Assembly, Secretary of State for External Affairs Joe Clark said that Canada was proud to send an RCMP contingent to Namibia. ''I am pleased to see our legendary Mounties — Canada's earliest peacekeepers — involved for the first time in support of our country's traditional commitment to UN peacekeeping,'' said Clark.

The Canadian contingent will join the United Nations Transition Assistance Group (UNTAG) police from 24 countries already in Namibia as part of an overall expansion to 1 500 officers. The Canadian contingent, which is one of the largest, will be deployed mostly in northern Namibia.

The RCMP initiative underlines Canada's longstanding commitment to assisting Namibia on the road to independence, as provided for under Security Council Resolution 435 which Canada co-sponsored. Previous Canadian support for this Resolution includes 255 Canadian Forces personnel deployed in April as part of UNTAG's military component; $2 million in aid for the refugee repatriation operation that began in June 1989; and 4 000 election ballot boxes presented to Namibian authorities last July.

Canada's legendary Mounties — seen here in the ''Musical Ride'' — involved for the first time in the country's traditional commitment to UN peacekeeping.

RCMP

Revolutionary Satellite Scheduled for 1994 Launch

After more than 10 years of planning, RADARSAT — Canada's first radar earth observation satellite system — is now scheduled for launch in 1994. From almost 800 km above the earth, the state-of-the-art satellite will scan the globe from pole to pole and produce high-resolution images of the earth's lands and oceans. Processed and interpreted data will be available just a few hours after RADARSAT passes over an area.

The benefits of this revolutionary technology will be enjoyed worldwide. RADARSAT will view every part of the earth's surface and provide valuable scientific and environmental information on agricultural changes, pollution, deforestation and natural disasters such as forest fires, drought and flooding.

Because the new technology will be able to measure ocean winds and waves, it will improve weather and sea-state forecasts, as well as make fishing, shipping, oil exploration, offshore drilling and ocean research safer and more efficient.

RADARSAT will also gather essential data for Arctic and offshore surveillance. The movement of ships and their tracks through the ice will be monitored. Daily surveillance of Arctic waters and islands will help protect Canadian sovereignty in the Arctic.

The first of a new generation of observation satellites, RADARSAT is capable of discerning objects as small as 20 m wide from an orbiting height of 800 km. Unlike satellites now in orbit, which depend on advanced camera-like technology, the new radar equipment will be able to obtain images at night or through clouds.

''No such commercial radar satellites are presently in orbit,'' said Larkin Kerwin of the Canadian Space Agency. ''Canada is becoming one of the most well placed countries to participate and show leadership in this field.''

RADARSAT is a Canadian-led project involving the United States, several provinces and the private sector. The most important feature of the sophisticated satellite is its Synthetic Aperture Radar (SAR) — a powerful microwave instrument that transmits and receives signals which allow it to ''see'' detailed images even through clouds and darkness.

The economic benefits of the new remote-sensing satellite will be substantial. More than 1 000 jobs in Canada and approximately $1 billion in benefits to the country's private and public sectors will be generated. This will help strengthen Canada's world-class position as a leader in remote-sensing technologies — a market expected to account for 30 per cent of worldwide space business by the year 2000.

Jeux de la Francophonie

Athlete Information Bureau

Casablanca may have been the start of a good, long friendship. For two weeks last July, the first Jeux de la Francophonie (Francophone Games) assembled 39 French-speaking countries, principalities and provinces in Morocco to compete in athletic and cultural competitions.

The Canadian delegation consisted of three separate components: Canada, Canada-Quebec and Canada-New Brunswick. This formula combined the uniqueness of Canada's participation as a French-speaking nation, while acknowledging the presence and the particular contributions of Quebec and New Brunswick.

Canada came second to France in the medal standings, bringing home 9 gold, 14 silver and 17 bronze medals. Canada-Quebec won two silvers and nine bronze, while Canada-New Brunswick's tally was one silver medal.

In the demonstration event for disabled athletes, Canada-Quebec's André Viger and Marc Quessy took the first two places in the 1 500-m wheelchair event, while Canada's Jeff Adams claimed the bronze. In the 100-m event, Canada's Dan Westley took the gold while Quessy and Viger placed second and third respectively. Organizers hope to incorporate a full-scale competition for disabled athletes in the 1993 Francophone Games.

Canada's delegation to the first Jeux de la Francophonie comprised three separate components: Canada, Canada-Quebec and Canada-New Brunswick.

The Jeux de la Francophonie were announced at the Francophone Summit held in Quebec City in September 1987 and received the unanimous support of conference participants. The Games will be held every four years, alternating between the industrialized and industrializing countries of the Francophonie. The next Games will be held in 1993 in Paris, France.

Fighting Heredity

Last August, scientists at Toronto's Hospital for Sick Children, with the help of colleagues at the University of Michigan in Ann Arbor in the United States, announced an achievement of staggering complexity: they had identified the cystic fibrosis (CF) gene.

The Toronto team was composed of geneticists Lap-Chee Tsui, Jack Riordan and Manuel Buchwald, who had been studying CF for eight years. For decades, scientists have known that cystic fibrosis was caused by defective genes — one from each parent — but they did not know which genes. Then, in 1985, Dr. Tsui and Buchwald located the site of the CF gene on chromosome 7. This discovery led to a large-scale CF genetic research program at the Toronto Hospital for Sick Children where investigators set out to isolate the faulty ''CF gene.''

Cystic fibrosis is among the most common of all hereditary diseases. In fact, 1 in every 2 000 Canadian children is born with it and half of those afflicted die before they are 25. Few survive beyond their 30s.

CF is not only deadly — it is relentless. Thick, sticky mucus constantly clogs the small air passages in the lungs, the ducts of the liver and pancreas, and the intestines, making victims susceptible to lung infections and serious digestive disorders.

Indeed, the discovery has won the praise of excited researchers everywhere. Ronald Worton, chief geneticist at Sick Children's, called the finding ''one of the most significant discoveries in the history of human genetics.'' University of Michigan researcher Francis Collins, who headed the collaborating team in Ann Arbor, said that the advance has provided ''a real sense of hope'' that science will be able to identify the genes implicated in about 4 000 other genetic diseases, including some forms of cancer.

Louis Siminovitch, research director at Toronto's Mount Sinai Hospital Research Institute believes ''we have made a pretty large step toward prevention.'' The next step, he added, will be for researchers to identify the cell protein associated with the renegade gene. When that is accomplished — perhaps in the next five years — ''we can start looking at some way to counteract that protein and come up with a treatment for people who already have the disease.''

The breakthrough has not only provided the scientific community with new hope: for thousands of parents and their CF-stricken children the world over, the news offers the possibility of escaping what has been, up until now, a depressingly predictable future.

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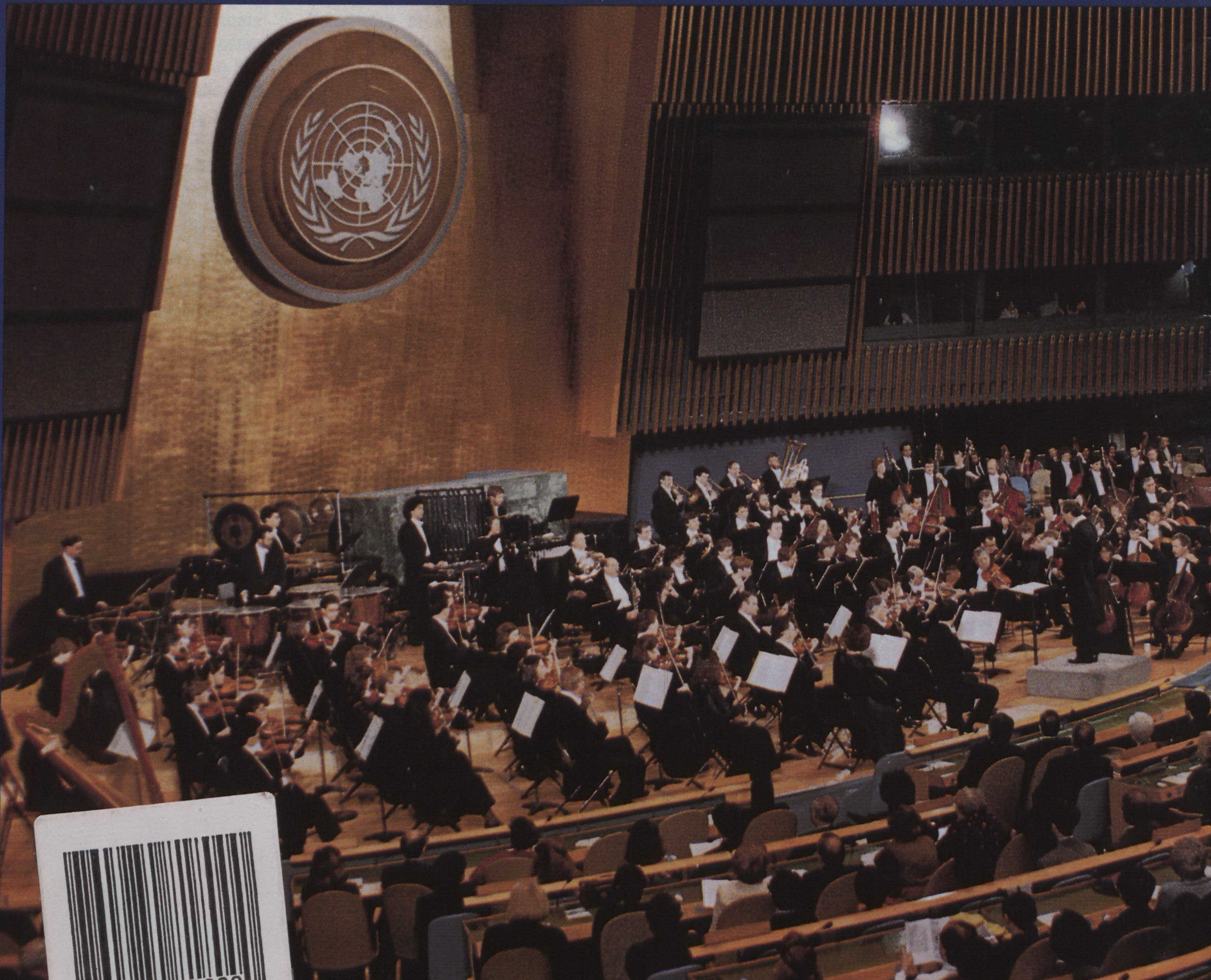
Montreal Symphony Orchestra Performs at the United Nations

On UN Day, October 24, 1989, the Montreal Symphony Orchestra (MSO) performed at the United Nations General Assembly in New York to celebrate the 44th anniversary of the organization.

Every year, since 1954, an internationally renowned orchestra is invited to give a concert to commemorate UN day. Canada, and particularly the MSO, was honoured to be a part of this prestigious event.



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