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Canada/U.S. relations. --
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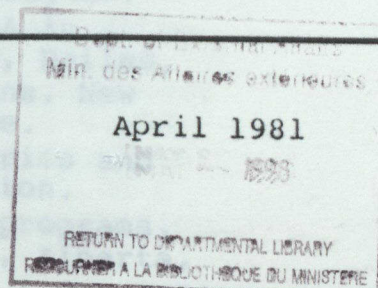
Canada

Canadian Foreign Policy

TEXTS

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CANADA/U.S. RELATIONS



The Magnitude and Complexity of the Relationship

Probably no other two countries in the world have so complex and extensive a relationship as Canada and the United States. Two-way trade in 1980 was approximately Cdn \$94 billion and the two countries are each other's largest supplier and customer. Canada and the USA cooperate to ensure the security of the North American continent and through NATO, Western Europe as well. They share and manage an environment along a 5,000 mile border. There are countless personal, family, academic, cultural, professional, business and trade union ties. The two countries are each other's largest source and destination of tourists with over 30 million border crossings each way annually.

Although most contacts between Americans and Canadians do not involve government participation, management at government level is essential to the harmony of the relationship. The embassies and diplomatic services of the two countries are the principal channels of communication on policy matters. Bilateral agreements, arrangements and understandings have been reached on a vast array of subjects. Crossborder regional affinities are strong and there are many links between Canadian provinces and American states within their areas of jurisdiction. The recent visit to Canada of President Reagan provided a valuable opportunity to establish personal contact between the two heads of government and produced a renewed commitment to careful management of the Canada/USA relationship.

43-235-136



External Affairs
Canada

Domestic Information
Programs Division

Affaires extérieures
Canada

Direction des programmes
d'information au Canada

Canadian Representation in the USA

In addition to the Embassy in Washington, Canada has fourteen consular posts in the USA in Atlanta, Boston, Buffalo, Chicago, Cleveland, Dallas, Detroit, Los Angeles, Minneapolis, New Orleans, New York, Philadelphia, San Francisco and Seattle. Consulates represent Canada in their territories and implement general relations, trade, immigration, tourism, consular, information and cultural programs. Several Canadian provinces, British Columbia, Alberta, Ontario, Quebec and Nova Scotia, maintain non-diplomatic offices in the USA.

Trade and Investment

In 1980 the value of Canadian exports to the USA was over Cdn \$46 billion, that is, more than two-thirds of total Canadian exports. Canadian imports from the USA were over Cdn \$48 billion or about 20 per cent of all U.S. exports. The USA sells almost as much to Canada as to the entire European Community and about twice as much as to Japan, its next largest single trading partner. With two-way trade and economic relationship on this scale, commercial and financial policies in one country can have a disproportionate effect on the other.

Implementation of the Multilateral Trade Negotiations will have a significant and beneficial effect on bilateral trade relations. It is estimated that over 90% of Canadian exports will enter the USA at tariffs of 5% or less and almost 80% will be duty-free. The agreements reached on non-tariff measures such as subsidies, countervailing duties, and product standards should make market access between Canada and the USA more secure. The strengthened procedures for settlement of disputes in the General Agreement on Tariffs and Trade should provide a means to resist protectionist pressures. However, the proliferation of U.S. federal and state "Buy America" legislation and the percentage of government contracts set aside for small business have been a source of concern to Canada as they increasingly restrict our access to the U.S. market.

Canada and the USA enjoy free trade in automobiles under the Auto Pact signed in 1965. However, this sector currently presents particular problems for

Canada. In 1979 we had a deficit of over Cdn \$3 billion in automotive trade with the USA. Preliminary data for 1980 show an improvement of almost \$1 billion in the balance. At the same time, total two-way automotive trade slipped by \$3.4 billion, reflecting the drop in automotive sales in both countries. Last year, Canada initiated discussions with industry in the USA and ministerial consultations to determine appropriate measures that would allow Canadian manufacturers to participate fully and effectively in the new generation of motor vehicle production. President Reagan confirmed in Ottawa that his Administration is prepared to continue these consultations.

Canada and the USA are each other's foremost destination for foreign investment. The USA has over Cdn \$52 billion in direct and portfolio investment in Canada and Canada has an estimated Cdn \$9 billion in the USA.

Energy

Energy issues, important nationally and internationally, continue to figure prominently in Canada/USA relations. While both countries are pursuing their respective domestic programs, there is continuous consultation and cooperation in areas of mutual benefit.

The Canadian government's basic energy policy is spelled out in its National Energy Program of 1980. This comprehensive program is designed to restructure Canada's energy system to balance domestic oil supply and demand by 1990 and achieve an equitable sharing of energy benefits and burdens among Canadians. Its intention is to produce a high level of Canadian ownership and control of energy, expand public ownership in oil and gas and ensure greater industrial benefits from energy development. Its purpose is to end Canada's dependence on imported oil and to correct a system which has worked against increased Canadian participation in the energy sector and in favour of the larger, mostly foreign-owned petroleum companies. In 1979, for example, 72% of oil and gas industry revenues went to foreign-owned companies at a time when the industry claims an ever rising share of our wealth. While this program will necessarily affect multinationals operating in Canada, including

Canada. In 1979 we had a deficit of over 500 \$ billion in automotive trade with the USA. Preliminary data for 1980 show an improvement of almost \$1 billion in the balance. At the same time, total two-way automotive trade slipped by \$1.4 billion, reflecting the drop in automotive sales in both countries. Last year, Canada initiated discussions with industry in the USA and ministerial consultations to determine appropriate measures that would allow Canadian manufacturers to participate fully and effectively in the new generation of motor vehicle production. President Reagan continued in October that his Administration is prepared to continue these consultations.

Canada and the USA are each other's foremost destination for foreign investment. The USA has over 500 billion in direct and portfolio investment in Canada and Canada has an estimated 200 billion in the USA.

Energy

Energy issues, important nationally and internationally, continue to figure prominently in Canada/USA relations. While both countries are pursuing their respective domestic programs, there is continuous consultation and cooperation in areas of mutual benefit.

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U.S. firms, it continues to provide foreign investors with terms that compare favourably with those available in most other producing countries.

Canada, like the USA, must import oil to meet its domestic needs. At the same time, Canada produces significant surpluses in other forms of energy including natural gas, heavy oil and electricity, which we export to the USA. These exports are not large compared to total U.S. consumption, but they are important and reliable sources of supply for certain U.S. markets and earned Canada about \$6.6 billion in 1979.

Other areas of bilateral cooperation abound. The most significant example is the 1977 Northern Gas Pipeline Agreement. The southern segments of this project are well under way and will be used to export some of the current Alberta natural gas surplus until 1985 when, with the completion of the northern segments, Alaska gas can be transported to U.S. markets.

In 1979, the two countries published a joint study on Electricity Exchanges which identified opportunities for increased trade. With Alberta and Saskatchewan as full participants, they also signed an understanding on tar sands and heavy oil research and development. Since 1975, oil has been swapped across the border to maintain supplies to certain U.S. refineries with savings on transportation costs. The two countries are now looking into further cooperation on increased use of coal, petroleum product swaps and tar sands development.

Canada also cooperates closely with the USA and other nations on international energy questions and related financial issues in multilateral organizations, notably the International Energy Agency.

Environment

Cooperation on environmental matters predates even the 1909 signing of the Boundary Waters Treaty, which underpins our water resource management and environmental relations. Both countries assign high priority to the close monitoring and resolution of transboundary environmental problems of public concern on both sides of the border.

There are frequent bilateral consultations and negotiations on a wide variety of projects relating to the transboundary environment. The International Joint Commission, established by the Boundary Waters Treaty, plays an active and valuable part in these. It has certain regulatory functions and, at government request, undertakes special studies and makes recommendations.

An important recent development, reflected in a Joint Statement, July 26, 1979 and a Memorandum of Intent, August 5, 1980, is the commitment by both to reduce transboundary air-borne pollutants. This problem, and particularly the phenomenon known as acid rain, has been identified as a major threat to large areas in both countries.

Canada and the USA are committed to cooperative efforts to clean up the Great Lakes under the 1972 and 1978 Great Lakes Water Quality Agreements. The disposal of hazardous and toxic waste, particularly in the Great Lakes region, has recently become a matter of increasing concern to both governments.

The Garrison Diversion project in North Dakota, which could pollute the Hudson Bay watershed in Canada, is a continuing concern, as are tanker traffic, both on the West Coast and associated with the proposed oil refinery at Eastport, Maine, and the proposed U.S. flooding of the Skagit Valley in British Columbia.

Defence Relations

Close cooperation between Canada and the USA during World War II established a lasting pattern of joint defence planning. The Permanent Joint Board on Defence, established by the Ogdensburg Agreement of 1940, ensures continuous consultation on defence policy and plans. Canada and the USA are founding members of NATO. The North American Aerospace Defence Command (NORAD) Agreement between Canada and the USA has provided for joint command of the air defence of North America since 1958. The Agreement was renewed for five years on March 11, 1981, during President Reagan's visit to Ottawa.

The Canada/USA Defence Development and Defence Production Sharing Arrangements (DD/DPSA) are intended to ensure the maintenance of a long-term balance in reciprocal procurement of defence items and to utilize the industrial, scientific and technological resources of both countries in the interests of continental defence. During his visit to Ottawa President Reagan reaffirmed the importance the USA attaches to the Arrangements as the basis for cooperation in the defence economic field.

Fisheries and Maritime Boundaries

In January 1977, Canada extended its fisheries jurisdiction to 200 miles; the USA followed suit in March. The two claims overlapped. It then became necessary to establish a new bilateral framework for fisheries management and cooperation as well as to delimit the maritime boundaries in the Strait of Juan de Fuca and Dixon Entrance in the Pacific, in the Beaufort Sea in the Arctic and off the east coast.

On August 1, 1977 the two governments appointed special negotiators to recommend a resolution of these issues. After eighteen months of negotiations, agreement was reached on fisheries and maritime boundary settlement procedures for the east coast. Treaties were signed in Washington, D.C. on March 29, 1979. Negotiations on the three other maritime boundaries have been in abeyance pending final determination of the east coast boundary.

One of the treaties signed in March 1979 provided for the submission of the east coast boundary dispute to adjudication by the International Court of Justice. It was directly linked to the fisheries treaty, which provided for cooperative management and for specific access and entitlements to particular east coast fish stocks of mutual concern. For two years, the U.S. Senate did not act on the treaties. This became the most serious of all Canada's bilateral issues with the USA. It was exacerbated by U.S. over-fishing of stocks covered by the treaty during this period.

In March 1981, the U.S. Administration abandoned the fisheries treaty, separating it from the maritime boundary treaty and withdrawing it from the

Senate on grounds that the Senate would not consent to ratification. The Canadian Government has made known its profound disappointment at this action. The USA is proceeding to ratify the maritime boundary treaty alone and Canada is reviewing its position on the issue.

On West Coast fisheries, discussions have continued towards a comprehensive salmon interception agreement and a formal round of negotiations took place at the end of April, 1981.

On August 22, 1980, Canada and the USA agreed to an interim arrangement for reciprocal fishing of albacore tuna off the Pacific coast while negotiations proceeded towards a longer term treaty which would also provide for reciprocal landing of tuna at designated ports. A treaty to this effect was initialled in February and will be signed when Canada has assurances that it is approved by the U.S. senators most concerned and would therefore be ratified by the USA. Canada will continue to pursue its GATT rights which were impaired from the time the USA imposed an embargo on Canadian tuna products in 1979 until the lifting of the embargo when the interim arrangement was in place. This trade matter is now before a GATT panel.

Taxation

A Canada/U.S. Double Taxation Convention was signed in 1980 and is now awaiting U.S. Senate consent to ratification.

Extraterritoriality

An increasingly frequent irritant between Canada and the U.S. is the extraterritorial application of U.S. jurisdiction. Recent or current examples include: the Federal Reserve Board's involvement in certain Canadian bank activities with other Canadian financial institutions; the Inter-State Commerce Commission's efforts to deregulate U.S. railways in a way that could adversely affect Canadian railways in Canada; and attempts to have the Federal Maritime Commission regulate Canadian shipping between Canada and third countries when U.S. cargo or ports are involved.

Antitrust litigation in U.S. courts, launched by U.S. private parties against Canadian and other uranium producers, has raised serious concerns for Canada. The Canadian government maintains that actions of Canadian companies, taken outside the USA, which were required by Canadian law and pursuant to Canadian policy, should not be called into question by U.S. courts. Legislation (Bill C-41) was introduced in Parliament in July 1980 to protect Canadian citizens and corporations from extraterritorial rulings by foreign tribunals.

Broadcasting Measures

In 1976 a section of the Canadian Income Tax Act (Section 19.1) was amended so as to ensure the viability of the Canadian broadcasting industry by encouraging greater use of Canadian television outlets for Canadian advertising directed to Canadian markets. This action was opposed by the owners of a number of U.S. television stations near the border because it reduced their advertising revenues from Canadian sources.

In August 1978, a group of United States broadcasters filed a complaint with the office of the United States Trade Representative (USTR) imputing injury to United States commerce. On July 31, 1980, President Carter agreed with the USTR recommendation which found broadly in favour of the broadcasters' complaint. As a result of this decision the Administration has proposed legislation which would mirror Section 19.1. Congress has yet to act on this proposal. Section 19.1 remains an important feature of Canadian policy and there are no plans to change it.

	Canada	USA
Canada	-	20
USA	70	-
Japan	6	9
EEC	9	22

DISTRIBUTION OF IMPORTS (% - 1978)

	Canada	USA
Canada	-	19
USA	71	-
Japan	5	14
EEC	9	17

CANADA/USA ECONOMIC INDICATORS

GNP

	<u>Canada</u> (Cdn current \$ billions)	<u>USA</u> (U.S. current \$ billions)
1976	191.0	1718.0
1977	208.8	1918.0
1978	229.7	2156.1
1979	260.3	2413.9
1980	288.1	2627.4

TRADE (Cdn. \$ millions) (customs basis)

	<u>TOTAL</u>		<u>WITH USA</u>	
	<u>Exports</u> (incl re-exports)	<u>Imports</u>	<u>Exports</u> (incl re-exports)	<u>Imports</u>
1978	53,182.8	50,101.6	37,371.6	35,436.3
1979	65,514.3	62,724.0	44,452.4	45,419.5
1980	75,932.9	68,979.4	48,058.4	48,414.1

(% Change)

	<u>TOTAL</u>		<u>WITH USA</u>	
	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>
1978	19.2	18.4	20.1	18.7
1979	23.5	24.5	18.9	28.2
1980	17.8	11.4	8.1	6.6

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Canada	-	19
USA	71	-
Japan	5	14
EEC	9	17

BILATERAL TRADE (1980) (customs basis) (Cdn \$ billion)

<u>Top ten Canadian Imports from USA (1980)</u>	48.4
Motor vehicle parts, except engines	5.8
Passenger autos and chassis	3.4
Crude Petroleum	1.7
Electronic Computers	1.6
Precious metals incl. alloys	1.4
Motor vehicle engines	1.1
Other metals in ores, concentrates, scrap	1.0
Trucks, truck tractors and chassis	1.0
Aircraft complete with engines	0.8
Coal	0.8

Top Ten Canadian Exports to USA (1980) 48.1

Passenger autos and chassis	4.2
Natural gas	4.0
Newsprint paper	2.9
Crude Petroleum	2.9
Motor vehicle parts except engines	2.7
Trucks, truck tractors and chassis	2.3
Lumber, softwood	2.0
Precious metals incl alloys	1.9
Wood pulp	1.9
Petroleum and coal products	1.5

1980 BALANCE OF PAYMENTS WITH USA (Current Account/Cdn \$ Millions)

	<u>TOTAL</u>	<u>MERCH TRADE</u>	<u>NON-MERCH TRADE</u>
1976	-4090	519	-4609
1977	-4115	1496	-5611
1978	-4747	2241	-6988
1979	-7774	171	-7945
1980	-8250	799	-9049

RECEIPTS & PAYMENTS ON TRAVEL ACCOUNT/USA (Cdn \$ Millions)

	<u>RECEIPTS</u>	<u>PAYMENTS</u>	<u>BALANCE</u>
1976	1346	1956	-610
1977	1525	2280	-755
1978	1650	2553	-903
1979	1881	2457	-576
1980	2061	2844	-783

1980 CURRENT ACCOUNT - USA

	<u>\$ Millions</u>
Merchandise Trade Balance	799
Services Trade Balance	- 9179
Travel	- 783
Interest and Dividends	- 4516
Freight and Shipping	- 195
Other Business Services	- 3685
Net Personal and Institutional Transfer Payments	130
(Services Trade Balance Including Transfer Payment)	- 9049
 TOTAL CURRENT ACCOUNT BALANCE	 <u>- 8250</u>

PRICES & COSTS (% Change)

	<u>CPI-CDA</u> (% Change)			<u>CPI-USA(yr to yr)</u> (% Change)		
	<u>Total</u>	<u>Food</u>	<u>Non-Food</u>	<u>Total</u>	<u>Food</u>	<u>Non-Food</u>
1976	7.5	2.7	9.4	5.8	3.1	6.6
1977	8.0	8.3	7.9	6.5	6.3	6.5
1978	8.9	15.5	6.4	7.7	10.0	7.2
1979	9.1	13.2	7.9	11.3	10.9	11.4
1980	10.2	10.7	10.0	12.4	n/a	n/a

Industry Selling Price Index/CDA
(%Change)

Producer Price Index
(Finished Goods)/USA
(%Change)

1976	5.1	3.3
1977	7.9	6.6
1978	9.2	9.2
1979	14.5	12.6
1980	13.4	11.7

United Labour Costs/CDA
(1971 = 100)

United Labour Costs/USA
(Non-farm Business Sector
1967 = 100)

1976	165.9	166.0
1977	178.0	175.2
1978	187.6	190.4
1979	202.2	210.2
1980	224.5	n/a

EMPLOYMENT

	<u>Labour Force/CDA (% Change)</u>	<u>Labour Force/USA (% Change)</u>
1976	2.3	
1977	2.8	3.4
1978	3.6	3.1
1979	3.0	2.5
1980	2.8	n/a

	<u>Unemployment Rate/CDA</u>	<u>Unemployment Rate/USA</u>
1976	7.1	7.7
1977	8.1	7.0
1978	8.4	6.0
1979	7.5	5.8
1980	7.5	7.1

USA DOLLAR IN CDN CENTS (average noon spot rate)

1976	98.60
1977	106.34
1978	114.07
1979	117.14
1980	116.92

FOREIGN INVESTMENT (Latest Statistics Canada Estimates)

U.S. Direct Investment in Cda	\$34.9 billion (end of 1976 cumulative)
U.S. Portfolio Investment in Cda	\$18.3 billion (end of 1975 cumulative)
Canadian Direct Investment in USA	\$6.05 billion (end of 1976 cumulative)
Canadian Portfolio Investment in USA	\$3.2 billion (end of 1975 cumulative)

IMMIGRATION

	<u>Canada to USA</u>	<u>USA to Canada</u>
1975	6,034	20,155
1976	12,256	17,315
1977	20,663	12,888

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Labour Force/USA (% Change)

Labour Force/GTA (% Change)

3.4
3.1
2.2
1.8

2.3
2.8
3.0
3.1
2.0

Unemployment Rate/USA

Unemployment Rate/GTA

7.7
7.0
6.0
5.8
5.1

7.1
6.1
5.4
5.2
5.2

LABOR IN CANADA (average non spot rate)

98.60
106.34
114.07
117.14
116.92

INVESTMENT (latest statistics Canada Estimates)

534.9 billion (end of 1976 cumulative)
518.3 billion (end of 1975 cumulative)
505.0 billion (end of 1974 cumulative)
492.2 billion (end of 1973 cumulative)

Direct Investment in Canada
Portfolio Investment in Canada
Canadian Direct Investment in USA
Canadian Portfolio Investment in USA

USA to Canada

Canada to USA

20,155
17,315
12,205

2,004
12,352
20,005

STATISTICAL

1975
1976
1977

BORDER CROSSINGS (millions)

	<u>Canada to USA</u>	<u>USA to Canada</u>
1975	32.9	34.5
1976	35.9	32.2
1977	37.9	31.8
1978	37.3	31.6
1979	34.4	31.2
1980	34.7	38.5

POPULATION

	<u>Canada</u>	<u>USA</u>
1980	24,000,000	222,807,000

U.S. GENERAL RELATIONS DIVISION

BORDER CROSSINGS (Millions)

USA to Canada

Canada to USA

38.2
37.3
37.8
37.6
37.3
38.2

32.9
32.9
37.9
37.3
34.4
36.7

1975
1976
1977
1978
1979
1980

EXPLANATION

USA

Canada

222,000,000

24,000,000

1980

U.S. GENERAL RELATIONS DIVISION

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