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Canada.

10 DOWNING STREET

From the Private Secretary

21 June, 1982

The Prime Minister was grateful for your Secretary of State's minute of 16 June on his visit to Canada, which she read with interest over the weekend.

A. J. COLE^c

John Rhodes, Esq.,
Department of Trade

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PRIME MINISTER

VISIT TO CANADA: 27 MAY-6 JUNE

1 I visited Canada during the Recess, paying official visits to British Columbia, Alberta, and Ontario, and having discussions with Ministers in the Federal Government in Ottawa on a range of bilateral and multilateral trade issues. In addition I met representatives of the business community in all the centres I visited.

2 This was the first major visit to Canada by a Trade Minister for some years, and now that the Constitutional difficulties have been solved, I think it was particularly helpful in re-affirming the United Kingdom's friendly relations with Canada. The primary purpose of my visit was, however, economic. Our exports to Canada have declined steadily in the last ten years, and we now have a substantial deficit on our visible trade: although there is a substantial surplus on invisibles. There are, of course, good reasons for the position on visible trade. But the important thing is not simply to provide explanations but to identify ways of improving the situation. At the same time I wanted to let Canadians know at first hand how our economic policies were working out.

3 Our discussions centred primarily on how we might increase our exports to Canada. Everyone I met expressed a desire to increase the level of bilateral trade, although there were clear differences of outlook between the Western Provinces and the East. The Provincial Governments in all three Provinces visited were keen to encourage inward investment, as well as the importation of expertise, technology and advanced equipment. On the other hand, the Federal Government take a more guarded view of foreign investment, being much more concerned both to advance Canadian ownership of industry and to divert orders to Canadian suppliers.

CONFIDENTIAL

Prime Minister

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You may care to glance
at this over the weekend.

A.S.C. 17/6



4 The activities of the Foreign Investment Review Agency are an emotive issue in Canada and a subject of conflict between Ottawa and the Provinces. Although aimed largely at United States companies, the legislation has adversely affected many British firms wanting to expand or diversify their operations in Canada. However, in my discussions with Federal Ministers, I secured assurances that procedures were being thoroughly reviewed and that we could expect clearer guidelines and faster decision-making in future. In addition, the Federal Government offered direct consultation with us about how to ease the path for potential British investors. All the Provincial Governments - British Columbia, Alberta and Ottawa - were also very willing to offer assistance.

5 The other major issue of discussion both at Provincial and Federal level was the National Energy Programme. During my visit, the Federal Energy Minister - Mr Lalonde - announced modifications to this policy designed to help revive the depressed oil and gas industries, particularly in Alberta, where a number of major projects have been shelved. although Lalonde's package received a cautious welcome, there is still a gulf between the aspirations of the Federal Government, particularly over its Canadianisation policy, and those of the Provincial Governments which remain anxious that artificial restrictions on the oil and gas industries should be as limited as possible in scope. I doubt whether their latest easement will go far to restore confidence.

6 Nevertheless, it is in the energy sector that we must look for the main opportunities for companies to increase their exports. The very large projects for the extraction of oil from the tar-sands have been postponed - possibly indefinitely, although views are divided - and petrochemical developments are also slowing down, but there will be smaller-scale oil resource projects and the prospects in the mining, transportation and processing of coal are still encouraging.



7 There is general agreement among our representatives in Canada that we need to be selective in the efforts we make to encourage British business to export to and invest in Canada. Other high technology areas besides energy will undoubtedly repay closer attention, but our firms will have to put in more time and effort than they have tended to in the past if they are to make the most of the opportunities. My Department is now engaged in assessing the prospects in particular sectors and deciding how the British Overseas Trade Board machinery can best be used to give support to those firms who are willing to explore the market further.

8 Canada is a fruitful field for our invisible exports. Although, again, Federal regulations pose problems to investors in both banking and insurance, my discussions encouraged me to believe that the Committee on Invisible Exports is right to maintain a good programme of promotions in this part of the world, and I took every opportunity of drawing attention to their work.

9 In Ottawa, I discussed a range of multilateral trade issues with Federal Ministers. On the surface, there was a wide measure of agreement on the need to maintain the open trading system, though the weakness of much of Canada's manufacturing sector has led to significant derogations in the past and more could be in store. As in Europe, the Japanese are the prime target. My arrival in Vancouver coincided with the start of a programme of deliberate slowing-down of cars from Japan by means of special inspections by Customs officials. This may in due course have to be replaced by more formal controls under the GATT 'safeguard' clause, but I was given firm assurances that the even-handed approach required by GATT would not result in United Kingdom vehicle exports being affected. As with investment and energy, so on the issue of protection, the Western Provinces are at odds with Ottawa and the Eastern Provinces.



10 However, everyone I met in Canada, whether in business or Governmental circles, was united on the one issue of the harm which the high interest rates in the United States are doing to the Canadian economy. With the prospect of negative growth in 1982, and with wage settlements generally ahead of an uncomfortably high inflation rate, it is not surprising that there is talk of devaluation as a means of forcing down domestic interest rates. On the other hand, there was genuine pleasure at the picture I was able to paint of the improvements in our own economic performance. This was not well understood in Canada, and I took every opportunity to reinforce the message that inflation was falling and productivity dramatically improving in the United Kingdom. Finally, I should record the overwhelming and widespread support I encountered for our action over the Falkland Islands: and I took every opportunity of expressing our appreciation of the support Canada had given.

11 Canada is not an easy market to summarise: there are enormous differences between the relatively industrialised East, and the resource-rich West. However, I am sure that we should be encouraging United Kingdom companies to take a long-term approach to the Canadian market. I was often reminded that there is still a great deal of goodwill towards the United Kingdom, but Canadians are clearly disappointed that United Kingdom companies have not to date displayed a more aggressive presence. Although the Canadian economy overall is depressed at the moment, Canada's endowment of natural resources has no parallel. It is important for our companies to establish a presence now, so that they are in a position to take advantage of the inevitable eventual development of these resources.

12 I had a long talk with Peter Lougheed, the Premier of Alberta. He occupies a position of some importance in Canada, not only because of the extreme wealth of the Province over which he has presided for so long, but because he is widely regarded as a possible future Prime Minister. Indeed it was only his reluctance



to leave his native Province which led to his aide, Joe Clark, being adopted as the leader of the Conservative Party and briefly Prime Minister of Canada in 1979/80. There had been some suggestion of coolness towards this country but I found that this was not really so at all. At the High Commissioner's suggestion, I suggested to Mr Loughheed that when he next came to London we should arrange some official discussions and offer him some hospitality. He very willingly accepted.

13 The High Commissioner gave us invaluable assistance throughout. So, indeed, did the Consular staff in all the centres we visited. Their relations with the local business community are very good and they give every assistance to British firms seeking to penetrate the Canadian market. But neither we, nor the High Commissioner, are entirely satisfied that we are tapping the full potential of Canada or that the work is organised in the way best directed to this end: this is receiving active attention.

14 I am copying this to Geoffrey Howe, Francis Pym, Patrick Jenkin, Nigel Lawson, and to Sir Robert Armstrong.

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Arthur Cockfield
LORD COCKFIELD

16 June 1982