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BRITISH HIGH COMMISSION  
80 ELGIN STREET  
OTTAWA K1P 5K7

30 June

CDP  
4/7

Dear Charles,

Following your recent  
visit here, I thought you  
might just possibly be  
amused to see the enclosed  
(First Impressions" are not an  
art form to which I have  
ever been much attracted).

The visit here was a  
temporary success and the  
Kuloney took a look, while  
Kinn, Innes & Broadbent  
took their words. However  
the opinion polls remain  
obstinately static i.e. showing  
the three parties more or

ten level-teggin

I encourage you  
the visit and covering  
the opportunity to see  
that incredibly efficient  
hard-working equipo  
around the PN at work  
and get to know them  
a little better. Bernard  
birthday celebration definitely  
the high point.

I do hope you will  
be allowed a little break  
during the summer. I  
depart for rural hillside  
troughs and am greatly looking  
forward to next year's session!  
Yours ever, Alan

FIRST IMPRESSIONS OF CANADA

The British High Commissioner in Ottawa to the  
Secretary of State for Foreign and Commonwealth Affairs

SUMMARY

1. Canada a loose and quarrelsome Confederation and there is an unending tug of war between Ottawa and the Provinces. But Mulroney, by his conciliatory approach embodied in the Meech Lake agreement, has cut the ground from under the Quebec separatists. (Paras 1 - 4)
2. A fast growing economy no longer dependent on oil and other primary products for growth; nonetheless Canada's huge energy reserves are an asset for the Western world. But Canada is living beyond her means. (Paras 5 - 7)
3. The US is now overwhelmingly Canada's most important trading partner and the Canada/US Free Trade Agreement, negotiated by the Mulroney Government and recently blessed by the G7 Summit, is likely to be the principal issue in the forthcoming elections. Canadian fears of absorption by the US and uncertainty about their place in the world. (Paras 8 - 11)
4. Britain and Canada still have a special relationship and there is a great deal we can do together. British exports are growing fast, but should do even better when the commercial work of our Posts is directed from Toronto by the new Director of Trade Promotion and Investment. With our many shared problems and interests, we must take care not to allow our two countries needlessly to grow apart. (Paras 12 - 15)

BRITISH HIGH COMMISSION

OTTAWA

29 June 1988

The Right Honourable  
Sir Geoffrey Howe QC, MP  
LONDON

Sir,

FIRST IMPRESSIONS OF CANADA

1. Now that I have visited all ten Provinces of Canada, undergone an FCO inspection, observed a Winter Olympics at Calgary and a G7 Summit in Toronto and participated in the Prime Minister's recent highly successful visit to Ottawa, the time has come to set down some first impressions: avoiding, if I can, too many of the familiar clichés about the vast, underpopulated country with a proprietary claim on the 20th century. I do so with diffidence: 20 years, not 6 months, are needed to understand this often baffling country where nothing is quite what it seems to be.

A Loose and Quarrelsome Confederation

2. That Canada was a Confederation in which very considerable powers rested with the Provincial Governments, I knew before I came; it would be difficult to envisage a democratic system of government operating effectively over such huge distances without a large measure of devolution. Even so, I was unprepared for the often tense and unending tug of war which characterises relations between Ottawa and the Provinces. Holding Canada together, balancing the interests of its different regions (or sometimes deliberately favouring one at the expense of the others for political reasons), is an unremitting and exhausting task which absorbs a large part of the energies of her Federal politicians.

3. Nonetheless Canada has come a long way since the 1960s when Quebec separatism threatened the very existence of the confederation and civil war seemed a possibility. The Quebec nationalist party is struggling to find a cause to rekindle its electoral hopes. Most Quebecers, especially in Montreal, are instead reaping the fruits of the Quiet Revolution: francophone Quebecers now dominate the Quebec industrial and financial scene and are making their mark beyond the Province. The Bourassa government gives the new entrepreneurs every encouragement and is seeking to secure the Province's economic future through the development of its huge hydro-electric resources and high-technology industries. But Quebec never allows the Federal Government to forget that its goodwill and continued cooperation are conditional upon a steady flow of Federal favours: not for nothing is Bourassa nick-named The Fox.

4. Mulroney for his part is by character and conviction very different to Trudeau. The son of an Irish immigrant raised in rural Quebec, he believes that Quebec and Canada can be reconciled and that his own approach, in contrast to the high-handed and disdainful centralism of Trudeau, can achieve this result. By forcing Quebec to state its terms for voluntary adhesion to the 1982 Constitution and then accepting them, Mulroney removed an essential plank in the separatists' platform. But the Meech Lake Accord which incorporates this deal still has hurdles to overcome and poses two questions. Did the Federal Government pay too high a price for Quebec's signature in terms of further dissipation of its powers, and has the agreement really brought permanent peace? Neither question can yet be clearly answered; linguistic tensions remain close to the surface, both in Quebec and in the anglophone provinces reluctant to accept bilingualism.

A Prosperous Economy, but ....

5. The Canadian economy as a whole has also been growing fast over the last six years, faster than almost any other OECD country, and should maintain this record in 1988; the outlook for 1989 is for continued growth, albeit at a rather slower pace. Canada is one of the world's wealthiest countries: with well under half the population of the UK, her GDP is 70% of ours. But the growth is unevenly spread and has been maintained in spite of the decline in the price of oil, grain and some other commodities on which Canada used to depend for her exports. The motors of Canadian prosperity are now elsewhere: in the burgeoning high-technology factories near most of Canada's principal cities, in the automobile industry nurtured by the Auto-Pact with the US and in the commercial and financial enterprise of a number of very large companies such as Northern Telecom, Bombardier and Lavalin and of the business families like the Bronfmans, Westons, Reichmans, Irvings and a score or so others in whose hands wealth is concentrated to an extent even the US cannot match.

6. Even though the importance of energy products in the Canadian economy has lessened with the drop in oil prices, it is just as well for the Western world that such vast energy resources, in both conventional and non-conventional crude as well as gas and uranium, are located in Canada and require only a rise in price to bring them into production: they should serve as a brake on any unreasonable demands by the OPEC countries if world demand for oil once again outruns supply. The future for Canada's agriculture and especially for the grain farmers of the Prairies, hit by drought and uncertain markets, looks bleak despite heavy subsidies from the Federal Government. With 80% of her wheat being exported, the success of the GATT negotiations in reducing subsidies is crucially important for Canada. Meanwhile farmers are leaving the land in considerable numbers and a further reduction in the acreage under cultivation seems inevitable.

7. An underlying source of concern is the propensity of Canadians to live beyond their means. The accumulated national debt now amounts to about Canadian \$300 billion and one-third of all government tax revenues goes towards paying the annual interest. Although the annual deficit has been reduced from a peak of C\$38 billion to an estimated C\$29 billion in the present financial year, the Mulroney government in spite of its large majority in the Commons and

excellent intentions at the outset, has shied away from taking the measures needed to tackle the problem. It is now too late for the present government and it will require courage for any successor to touch the sacred cows which the generous and universal welfare programmes represent. So an opportunity has been lost, with potentially serious long-term consequences, although it should be borne in mind that the deficit in 1987 represented not more than 4.5% of GDP.

#### Canada and the Rest of the World

8. For Canada the relationship with her immensely powerful and populous Southern neighbour, with whom she lives in somewhat uncomfortable propinquity, is the dominant theme in her external policy. The negotiation of the Canada/US Free Trade Agreement, recently blessed by the G7 Summit, has been the most important achievement of the Mulroney government and is likely to be the principal issue in the forthcoming Federal elections. More than three-quarters of Canada's external trade is with the US and the Mulroney government sees it as essential for Canada's economic survival, let alone her continued economic growth, that the impact on her of any increase in protectionism in the US should be mitigated. The agreement has however been bitterly opposed by the Federal Liberal Party (traditionally the supporters of free trade with the US) and by the Liberal Premier of Ontario (although his Province stands to gain more from it than any other), but is being strongly backed by the Liberal Premier of Quebec - such anomalies are the stuff of Canadian politics.

9. Those against the agreement often cite specific grounds for their opposition: for example, that it will give the US unrestricted access to Canada's energy resources. But the underlying fear expressed to me by both the Liberal and the NDP leaders and of the many who think like them is that it will lead to the gradual absorption - economic, cultural and eventually political - of Canada by the US. Already, superficially at least, the process has gone quite far. Canadians are subjected to a daily bombardment of US television programmes. Canadian towns, with their motels, shopping malls, ice-cream parlours and ubiquitous advertisements for American consumer goods, look much like their US counterparts. Large sections of Canadian industry and real estate are American owned, although the Reichmans and Campeau have shown that it can be a two-way process. Yet Canada's whole history is based on her separation from the US: it is the colony which successfully defied the Revolution and provided a refuge for the Loyalists. Laura Secord (under whose name chocolates are now sold in every Canadian shopping mall) was the heroine of the war of 1812, when Canada again successfully resisted an attempted American invasion. Canada's continued allegiance to the Crown remains a potent symbol of the different path chosen by Canada.

10. This helps to explain the furore on the Opposition benches when Mrs Thatcher told the Canadian Parliament last week that, just as Britain's personality had survived entry into the European Community, so too would Canada's survive Free Trade with the US. Many Canadians are less sure. They lack 1000 years of history to give them confidence and the US is proportionately so much larger than France, Italy or Germany: Americans also speak the same language.

Canadians value and are loth to lose some of the things which make Canada different from the US: her excellent health and social services and a social ethic which emphasises the public no less than the private good, the cleanliness and relative absence of crime on her streets, her so-called multiculturalism in which all races and cultures are accommodated rather than being forced into a single mould. The proponents of free trade would stand these arguments on their head, saying that Canada's continued prosperity depends on unhindered access to the US market and that if she fails to grasp her economic future, she will gradually sink into genteel poverty and one day be forced to seek union with the US on disadvantageous terms rather as Newfoundland entered the Canadian confederation.

11. While geography and economic factors impel Canada into an ever closer relationship with the US, culturally most Canadians feel in many ways more akin to Europe. As membership of the European Community is clearly excluded and as they are not strong enough to stand on their own like Japan, they seek to balance their relationship with the US through membership of other groupings, playing an active role in the Commonwealth and at the United Nations and thus trying to avoid the feeling that they have been left out or are being marginalised. NATO membership too is helpful in placing their defence in a multilateral context and they see the countries of the Pacific rim as an increasingly important outlet for their trade. Over time, as Canada's population increases through immigration, her economy becomes stronger and her self-confidence grows, she should be able to find the role she is seeking: especially if the removal of trade barriers makes membership of this or that grouping less important in the global economy of the future. Meanwhile her search for a distinct personality finds expression in her large and effective aid programme, her role in UN peacekeeping and her assertion of leadership in the Commonwealth over South Africa. But there is a lingering uncertainty about Canada's place in the world, and traces too of a quite unwarranted inferiority complex. Ottawa, perhaps partly because it is not in the mainstream of Canada's economic activity, seems particularly susceptible to the influence of pressure groups, sometimes leading to the adoption of policies which do not entirely coincide with a broader view of Canada's interests. Discussions in the Department of External Affairs frequently have a slightly academic character; one's interlocutors are interested, but somehow do not seem really involved in the events they are discussing. It must also be said in parenthesis that, in their eager but often short-lived espousal of good causes and moral crusades, the Canadians can irritate with their singular blend of New World innocence and Anglo-Saxon moral superiority.

#### Canada and the UK

12. It is a common-place that things are not what they used to be between Canada and the UK. Nor can they be: just as Canada has been drawn into the US economic orbit, so Britain's trade is increasingly with the European Community countries. Our shared history carries a special liability, in that our relationship can so easily be soured by the appearance of either indifference or condescension. But without harking back to a past to which there can be no return and which many Canadians are glad to have shaken off, there is still a very great deal which we can do together in an

increasingly interdependent world, building on the many close affinities between us. The underlying relationship has remained a special one in so many different ways: a shared monarchy and political institutions, language and culture and innumerable family and personal links. Our exports to Canada continue to expand rapidly, in spite of an adverse exchange rate, and investment in both directions has been growing even faster. Increasingly, British companies look to Canada as a good base from which to tackle the North American market and Canadian companies feel the same about Britain in relation to the EC. Here too the Mulroney government has been helpful, dismantling most of the regulations and institutions which put difficulties in the way of inward investment into Canada, while Canadian firms have taken advantage of the warm welcome now awaiting overseas investors in the UK. The ambitious programme for re-equipping the Canadian armed forces, launched about a year ago, has created important opportunities for us as potential suppliers of helicopters, tanks, nuclear-powered submarines and communications equipment, all of which feature on Canada's extensive shopping list.

13. For some time there has been a feeling at home, particularly in the Department of Trade and Industry, that well as we are doing in the Canadian market we could do even better if our trade promotion effort were to be more closely coordinated and directed from Toronto, Canada's commercial capital, rather than from Ottawa as at present. To this end a new Toronto-based post of Director of Trade Promotion and Investment is to be created and the Consulate-General in Toronto reinforced to enable it to fulfil a coordinating role for our commercial work in Canada on the model of the British Trade Development Office in New York.

14. I am confident that these new arrangements can be made to work and that our posts will do everything they can to ensure their success. But if we are to seize the increased opportunities which I believe Canada holds out for us, we shall also depend heavily on back-up from home and especially on the ability of the DTI regional offices to play their full part in export promotion. All of us therefore await with interest the emergence of the new approach to export promotion being developed in London. But whatever balance is drawn between responding to enquiries from British business and seeking out new opportunities for our exporters, it will remain important to avoid treading on Canadian sensitivities by treating Canada as a mere offshoot or extension of the US market: there could be no surer way of offending this particular customer. We must also avoid appearing to act directly against Canada's own interests, as in the case of the proposed fur-labelling order. I trust therefore that during my time here we shall be able to respond fully to the ever-growing interest in the Canadian market on the part of British firms and that we shall also have a useful role to play in encouraging further Canadian investment in the UK.

15. Our relationship with Canada is multifaceted and, given her increasing role in the world the fact that we belong to so many of the same international organisations and groupings, the opportunities for consultation with each other are many: she can be a useful ally, but also a troublesome opponent. As I have

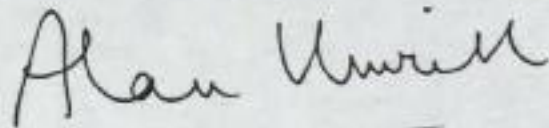


travelled around Canada talking to Provincial Ministers and officials, I have been struck by the similarity of so many of our preoccupations: the rising cost of health care, educational reform, minority communities to cite only a few examples of problems we have in common. In these and other areas, there is a lively interchange and also an evident keenness to learn from each other's experience, which gives the lie to those who affirm that our two countries are no longer relevant to each other. But we can never take the relationship for granted: and, as a new generation of Canadians grows up so many of whom will have come from Asian or Middle Eastern countries and thus have no family or other ties with the UK, it will be more than ever important to maintain a steady flow of young people in both directions and thus ensure that we do not needlessly grow apart. The revival of the Athlone scholarship scheme can make a valuable contribution to this aim.

16. I am sending copies of this despatch to HM Ambassador in Washington and to the Ministry of Defence, the Department of Trade and Industry, the Overseas Development Administration and to our Consuls-General in Canada.

I am, Sir,

Yours faithfully,



A B Urwick