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Foreign and Commonwealth Office

London SW1A 2AH

15 June 1988

Dear Charles,

Prime Minister's Visit to Ottawa, 22 June

The programme in my letter of 8 June has now been finalised, with the changes you sought, and I attach a copy.

The visit takes place at Mr Mulroney's invitation (issued when they met at the NATO Summit in Brussels on 3 March) and is clearly designed to enhance his standing as Canada approaches a general election (see below). The Prime Minister last met Mr Mulroney in London on 23 May, when he toured G.7 capitals in preparation for the Toronto Economic Summit.

OBJECTIVES

The meetings on 3 March and 23 May drew a line under the events at CHOGM in 1987. We see the Ottawa visit as further consolidating relations at the highest level and as having five broad objectives:

- to put across to the widest possible audience, in Canada and the world, our views on international security and other issues;
- in the process to stiffen Canada's defence resolve and increase its contribution to Western defence;
- to advance even further our booming trade with Canada and two-way investment (both at highest levels ever) as a main element in regenerating previously stagnating UK-Canada relations;
- specifically, to persuade the Canadians to buy British SSNs;
- to highlight, by the public signing with Mr Mulroney of two agreements, the importance we attach to liberalisation of air services and to international co-operation to hit the drug traffickers where it hurts most - in the pocket.

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The first two will be served by the Prime Minister's speech to the Canadian Parliament at 11 am on 22 June; and the third by that speech and her attendance at the reception hosted by the High Commissioner that evening. The visit as a whole and references in the speech to the links we have in common (underscored by the Prime Minister laying a wreath at the War Memorial), are important gestures in making Canada aware that we do not take her for granted.

BILATERAL ISSUES

The two issues which currently dominate our bilateral relations are our attempt to sell SSNs to Canada; and Canada's strong objections (with the threat of trade retaliation) to Mr Alan Clark's proposed Order to label furs from animals caught in leg traps. These are likely to be the main features in the Prime Minister's tête à tête with Mr Mulroney. Since there are last-minute developments on SSNs, and OD(E) is to consider Mr Clark's proposed Order on 16 June, I will send briefing on both issues separately.

A third issue is becoming an increasing irritant in our relations with the Canadians (and, incidentally, also with the Australians). This is the fact that the pensions of 76,000 UK pensioners in Canada are "frozen", in contrast to those of UK pensioners in, for example, the US and EC, which are index-linked. The Canadians revived the question with us in 1983 but we have refused to index link the pensions in question on the grounds that no money is available. Pressure from Canada (plus Australia, which is in a similar position) and Parliament is increasing. An Early Day Motion now has over 200 signatures in the House and Sir John Farr will be chairing a meeting on 23 June to put further pressure on the government. The Foreign Secretary is writing to Mr Moore pointing to the problem and asking him to review the situation. Our current line (that no money is available) will contrast strongly with the Prime Minister's upbeat remarks on our economic recovery in her speech to the Canadian Parliament, and she may face demonstrations on the issue. It will be helpful if she could say that "the matter is kept under review". The DHSS agree.

/Mr Mulroney

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Mr Mulroney will no doubt welcome a short discussion on the outcome of the Toronto Economic Summit. He will possibly thank the Prime Minister for our undertaking to support Canada for a seat on the UN Security Council (exceptionally, we have told the Canadians in strict secrecy that we will support them). He may also mention Canada's recently improved links with the machinery of European political co-operation, where we have also been helpful and will continue to do what we can.

We hope that the question of the UK's decision not to participate in RADARSAT will not be raised. It was a difficult decision for us, especially in view of the considerable effort in planning and technology which the Canadian team had brought to the project. Inevitably, the decision not to increase expenditure on civil space programmes made hard choices necessary. We very much hope that the Canadians can take the project to a successful conclusion. In that event, we would be interested in obtaining RADARSAT data on a commercial basis.

BILATERAL AGREEMENTS

The Prime Minister and Mr Mulroney will sign two agreements in Ottawa. The first is the UK-Canada reciprocal Agreement to trace, freeze and confiscate the proceeds of drug trafficking. The signature at Prime Ministerial level is designed to draw attention to the determination of both countries to work together to combat drug trafficking even more assiduously than hitherto. It is only the second such agreement which we have signed (the first was with the US) and the first with a Commonwealth country. The second is the UK-Canada Air Services Agreement. After a particularly difficult and protracted negotiation, we have achieved a useful tool for liberalising air services between our two countries. The new Agreement has many features which not only enhance competition in the UK/Canada market but also allow the airlines of both countries rapidly to respond to changing market needs. The market is now open to any designated airline, Canadian or British. The Agreement allows all airlines operating scheduled services to have access to all airports in both countries available for long haul services; to determine their own capacity, route by route, for bilateral services; to determine /their

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their own passenger tariffs within a liberal arrangement of tariff zones to be reviewed after 18 months with a view to liberalising the arrangement even further; and freely to determine their own cargo rates. The Agreement also enables UK airlines to combine services to Canada with points beyond in the US and vice versa for Canadian airlines to points beyond the UK in Europe.

CANADA INTERNAL

A general election in Canada should take place within the next year. There is speculation that Mr Mulroney will go to the country shortly after the new constituency boundaries come into effect in September of this year: Spring 1989 is the most likely alternative. Mr Mulroney's popularity has been wavering for some time. His party made a come-back but are now once again trailing (Liberals 39%, NDP 31% and Progressive Conservatives 28%). But other party leaders also have problems. The calls being made by Mr John Turner (Liberal) and Mr Ed Broadbent (National Democratic Party) on the Prime Minister will provide a good opportunity for Mrs Thatcher to sound them out on their policies and to have personal contact with them as possible future Canadian Prime Ministers. Personality notes on Mr Broadbent and Mr Turner are attached. I attach short briefs on:

- the Opposition parties in Canada;
- the Canadian economy; and
- Canada's international stance.

I am sending a copy of this letter to Trevor Woolley (Cabinet Office).

However, L Parker

(L Parker)
Private Secretary

C D Powell Esq
10 Downing Street

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PRIME MINISTER'S VISIT TO OTTAWA, 22 JUNE: PROGRAMME

WEDNESDAY 22 JUNE

- 0825 Depart Hotel in Toronto
- 0855 Doors Close, Toronto Airport
- 1000 Doors open, Uplands Airport (Ottawa)
Arrival Ceremony as in first tur
- 1020 Depart Uplands Airport, accompanied by Mr Mulroney
- 1040 Arrive Parliament Hill. Short welcome and introduction to
Speaker of the Senate and the Speaker of the House of
Commons. Sign visitors' book
- 1100 Address to joint session of Parliament
- 1200 Return to Speakers' Office
- 1205 Signature of two Bilateral Agreements. Precise venue to be
decided
- 1215 Depart Parliament Hill for Rideau Gate
- 1220 Arrive Rideau Gate
- 1225 Depart Rideau Gate for Number 24 Sussex Drive, Mr Mulroney's
residence
- 1230 Tete-a-tete with Mr Mulroney at number 24 Sussex Drive
- 1300 Working lunch at Number 25 Sussex Drive (We have asked the DEA
to let us have a list of the guests who will attend)
- 1445 Depart lunch
- 1447 Arrive Rideau Gate
- FREE
- 1455 Depart Rideau Gate
- 1500 Wreath laying ceremony at War Memorial
- 1510 Depart from Rideau Gate
- 1515 Arrive Rideau Gate
- 1520 Meeting with Mr Turner, leader of the Liberal Party, at
Rideau Gate
- 1545 Meeting with Mr Broadbent, leader of the New Democratic
Party, at Rideau Gate

1610 -

1640 Free to prepare for evening/deal with telegrams

1640 Depart from Rideau Gate for Earnscliffe, The High
Commissioner's Residence

1645-

1700 Meeting with High Commission staff at Earnscliffe

1700-

1800 Guest of Honour at reception at High Commissioner's residence

1800 Depart Earnscliffe for Airport

1820 Doors close at Uplands Airport

Thursday 23 June

0600 Arrive Heathrow



PERSONALITY NOTE

THE RIGHT HONOURABLE JOHN TURNER, PC, QC, MP
LEADER OF THE FEDERAL LIBERAL PARTY AND LEADER OF THE OPPOSITION

Born Richmond, England in 1929 of mixed English and Canadian parentage. Educated at the Universities of British Columbia, Oxford (Rhodes Scholar) and Paris. Practised Law in Montreal 1954-62; also lectured at Sir George Williams (now Concordia) University 1956-58 and wrote a book on the Canadian Senate. First elected to the Federal Parliament in 1962 for a Quebec constituency, he now holds one of the Vancouver seats. Held a number of Ministerial posts between 1963 and 1968, when he succeeded Mr Trudeau as Minister of Justice and Attorney-General. A successful Minister of Finance between 1972-75, when he chaired the IMF Interim Committee. He stood unsuccessfully for the Leadership of the Liberal Party in 1968, taking third place. His backing like Trudeau's came from younger party members (where he still claims that the bulk of his support lies). He was the dominant English Canadian in Trudeau's cabinet; however, partly because of his known political ambitions, his personal relations with Mr Trudeau were strained. He resigned from the Government in 1975, and left Parliament to return to Law Practice in Toronto.

Following Trudeau's surprise announcement in February 1984 of his intention to resign, Turner returned to active politics by putting himself forward for the leadership of the Liberal Party which he narrowly won in June 1984. He was sworn in as Prime Minister on 30 June and called an election for 4 September, in which he was heavily defeated by Mr Mulroney's progressive Conservative Party: the number of Liberal seats in the House of Commons dropped from 171 to 40.

Turner has had an uphill task in trying to rebuild the Liberal Party from the confusion in which it was left by Trudeau's precipitate departure. He has faced great difficulty in trying to hold the Party together on important issues such as the Free Trade Agreement with the US (which Turner once claimed he would tear up, although he has softened his position since) and Meech Lake, which Turner supports but over which many Liberals have serious misgivings. There have been two major attempts to remove him from the Leadership, the first at the party convention in November 1986 and more recently in April of this year in a swiftly suppressed coup led by members of the Quebec caucus.

There have been persistent rumours that Turner has a drink problem, which have emerged in the media but have not been substantiated. While he sometimes gives an appearance of being ill at ease in Television interviews, in private he is confident and impressive.

He is married with three children.

He retains a considerable affection for Britain, formed in childhood and during his years at Oxford, and (notwithstanding policy differences) is a strong admirer of Mrs Thatcher.

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PERSONALITY NOTE

**THE HONOURABLE ED BROADBENT, PC, MP, MA, PH.D
LEADER OF THE NEW DEMOCRATIC PARTY SINCE 1975**

Born in Oshawa, Ontario, March 1936. Educated at University of Toronto and London School of Economics, where he took a PH.D in Political Science. First elected to House of Commons as NDP member for Oshawa in 1968, which he still represents. Part author in 1969 of "Manifesto for an Independent Socialist Canada" which was anti-American in tone and advocated public ownership of industry.

Since becoming Leader of the NDP, Broadbent has greatly increased in stature, confidence and popularity. It was partly due to his personal efforts that the NDP managed to survive its internal differences during the constitutional crisis of 1980/81. He and the party made a strong showing during the 1984 election, though they proved unable at that time to push support for the NDP beyond about 20% of the electorate. Since then NDP popularity in the polls among committed voters has risen and peaked in the summer of 1987 at over 40%, but has since slipped to about 30%. The party is sharply divided on defence issues. Broadbent has done his best to rid the NDP of earlier commitment to take Canada out of NATO, but so far has only succeeded in watering it down to an understanding to re-examine the matter after the NDP's first term in office.

An academic radical whose views have increasingly been tempered over time by pragmatism, he has encouraged a close working relationship between the NDP and the Canadian Labour Congress. Has been working at his French to increase his appeal to French Canadians, particularly Quebec (The NDP has never won a seat in that Province in a General Election, but Broadbent is determined to do better next time). Comes across as a very intelligent, lively, candid and well-informed politician.

Married to a Quebecker, with two children (one step-child, one adopted child).

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PRIME MINISTER'S VISIT TO OTTAWA: 22 JUNE

BACKGROUND BRIEF

OPPOSITION PARTIES

1. With so few Parliamentary seats (40 Liberal, 32 NDP) the Opposition Parties are in theory ill-placed to prevent the Government (with 204 seats) from carrying out its programme. However they have proved a thorn in the Government's flesh, using the powers of delay inherent in Canadian Parliamentary procedures (long-winded debate and lengthy committee hearings all over the Country), the Liberal majority in the senate and televised question-time to harry the Government at every turn. These tactics, together with carelessness and scandal on the Government side during the first half of the Parliament, leave the Government with many more promises than achievements to show for its tenure of office. The readiness of the Government to face up to and deal with important but awkward issues has, however unfairly, earned few political marks.

LIBERAL PARTY

2. The Liberals have been the traditional party of Government for much of this century. Even when the progressive Conservatives have won large majorities, as they did under Diefenbaker, they have not hitherto managed to hold on and complete a second term. That knowledge and the reserves of experienced party workers in the provinces have kept alive Liberal hopes since their resounding electoral defeat in 1984. These factors also help to account for the Party's continued good showing in the polls, with almost 40% of committed voters at present declaring for the Liberals (compared with about 30% for the Conservatives), despite repeated factional quarrels among the Party's Leaders including two major attempts to deprive Turner of the Leadership. There is also considerable disarray within the Party on policy issues, especially over free trade, and the Party's large accumulated debt (amounting to \$C6m) is now seriously impeding campaigning activity. Turner's strategy has been to rebuild the Party from the



grassroots, accepting some shift to the left in the process, and to avoid committing himself sooner than he can help on specific policy issues. Many observers now think a minority Liberal Government the most likely outcome of the next election, whether it is held in Autumn 1988 or Spring 1989. Such a Government would probably halt, but not significantly reverse the present Government's privatisation measures; give lower priority to deficit reduction; maintain Canada's current NATO commitments, while slowing down the re-equipment programme and cancelling the SSN project in favour of diesel powered Submarines. Relations with the new US administration would be the major preoccupation, with defence, trade and acid rain the main issues. In the UN Canada would go further in seeking third world approbation, especially on South Africa (on which Mr Turner is on record as supporting mandatory sanctions and a break in diplomatic relations).

NDP

3. Most think that popular support for the NDP has passed its peak, and that the Party's performance in an election will be worse than its showing in the polls (about 30% of committed voters). It could make unexpected gains in three cornered contests, but an NDP-led Government is improbable. A more likely possibility is that the NDP would support or enter into coalition with the Liberals. In that case there would be a shift towards greater economic interventionism, less fiscal prudence and a more difficult relationship with the US, especially on defence (eg Cruise Missile testing) and foreign policy issues. But the NDP's most distinctive commitment, eventual withdrawal from NATO, would remain on the back burner. A Canadian Government in which the NDP played a part would present problems for our commercial interests and might be tempted to "footnote diplomacy" in NATO.

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PRIME MINISTER'S VISIT TO OTTAWA: 22 JUNE 1988

BACKGROUND: THE CANADIAN ECONOMY

1. Canada is the world's seventh largest market economy. GDP per head was \$16,000 in 1987, the second highest (in terms of purchasing power) in the OECD. The economy is highly diversified. Canada is more than self-sufficient in energy and a major exporter of grains, timber and other primary products, but is also a major manufacturing nation and has a highly developed services sector, accounting for over 60% of GNP. Trade with the US accounts for three-quarters of Canada's exports and two thirds of her imports.
2. The Canadian economy has performed impressively since Mr Mulroney's government took office in 1984. Output has grown faster than in any of Canada's G7 partners, averaging 4.5% pa. Unemployment is down from 11.3% in 1984 to 7.7% in April 1988. Inflation has remained steady at around 4%. The Governor of the Bank of Canada has repeatedly stated that monetary policy will be kept tight to reduce inflation further. With high interest rates vis-a-vis the US, the Canadian dollar has been strong in recent months.
3. Like the US, Canada's main economic problem is its twin deficits. The general government budget deficit has been cut from 6.9% of GDP in 1983 to 4.6%, but is still well above the OECD average. Further cuts in the deficit are planned but mainly after the next election. The current account deficit was US\$7bn in 1987 (1.7% of GDP) and is expected to rise to nearly US\$12bn (2.2% of GDP) by 1989 on current policies.
4. Canada has introduced a number of structural measures in recent years designed to improve the supply side of the economy. The energy sector has been deregulated, foreign investment liberalised and financial market reform is under way. The Canada/US Free Trade Agreement, due to come into force on 1 January 1989, provides for a phased elimination of tariffs, reductions in other trade barriers, easing of restrictions in investment flows and a dispute settlements procedure. The Canadian Government estimates that the agreement could eventually boost GDP by 2-3%. Finally personal and corporate taxation is being reformed with lower rates, fewer tax brackets and a wider tax base. Stage II of the tax reform, involving a move to a more equitable and broadly based sales-tax is still to come, probably after the election.



PRIME MINISTER'S VISIT TO OTTAWA: 22 JUNE

BACKGROUND BRIEF

CANADA/INTERNATIONAL

1. Canada's interests and traditions naturally incline her towards internationalism. With vast natural resources, a well developed industrial base and a high degree of dependence on international trade, Canada's interests require the maintenance of a suitable international trade and payments system and unfettered access to the US market. Although Canada has an enviable geographical position, her limited military power requires her to pay due heed to US security concerns: historic links with Europe also help to keep alive the recognition of common security interests. But at the same time Canadians have a deep-rooted belief in the power of virtuousness, reflected in and reinforced by their experience in the 1960's: under Lester Pearson Canada could operate with greater influence in the brave new world of the United Nations which he helped to found and in the Commonwealth with a Canadian as its first Secretary General. In the 1970's, essentially the Trudeau years, the Canadian vision was dimmed by preoccupation with Quebec, differences with the US over Vietnam and inflation. The present decade has been marked by uncertainties over the direction of Canadian Foreign Policy. The Mulroney Government's 1985 Green Paper was, for example, given the title "Competitiveness and Security". The backbencher report commenting on it was called "Independence and Internationalism". The Government statement in reply simply "Canada's International Relations". But the cornerstones of Canadian External Policy remain NATO membership, bilateral trade and defence treaties with the United States and adherence to a multiplicity of international organisations.

COMMONWEALTH

2. The Commonwealth provides Canada, as one of its principal contributors, with a well established field for influence. It is also a body in which Canada can differentiate herself from Britain without calling into question her allegiance to the Crown and where



virtue can be paraded at little cost to Canadian Economic interests. The present Canadian Government, therefore, is like its predecessors disposed to endorse almost any Commonwealth initiative short of policies involving the use of force.

SOUTH AFRICA

3. Canadian policy on South Africa is a specific illustration of their policy in relation to the Commonwealth as a whole. Because their own interests do not oblige Canadians to look critically at currently fashionable ideas, there is little incentive for the Government to resist either domestic or international lobbies. Mr Mulroney is one of those whose emotions are engaged on this issue, even though he now recognises that the achievement of change in South Africa is likely to be a more complex and long drawn-out process than he at first supposed.

UNITED STATES

4. Good relations with the US are both essential for Canada and difficult to achieve, given deep-seated contrasts in attitudes between Canadians and Americans and Canada's weak bargaining position in the countless day-to-day differences bound to arise with a Superpower neighbour which takes three-quarters of Canada's exports. The signature of the bilateral Free Trade Agreement is intended to make trade disputes easier to manage. But there are many other unresolved difficulties, of which two are currently uppermost: acid rain and (less prominently) US policy towards Central America.

BRITAIN

5. The complexes still run deep. Historic links, shared institutions, closeness in all aspects of security and common interests in international trade Policy tend, for all their value to Canada, also to serve as reminders of former dependence. So there is a thinly-concealed element of anti-Britishness in Canada's assertion of her own role on the international stage and deep sensitivity to any British move which could be regarded as



patronising or inimical to Canadian interests. These attitudes help to explain the sharpness of Canadian reactions to the proposed fur labelling order, although the harm it is likely to do to the native peoples of Canada by removing their principal source of livelihood is real.

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