

# *News Release*

## *International Trade and Commerce*

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### **TRADE LIBERALIZATION WITH EUROPEAN UNION**

#### **COULD BRING ECONOMIC GAINS**

International Trade Minister Pierre Pettigrew today released a study suggesting that trade between Canada and the European Union (EU) could increase by over \$10 billion a year if tariffs were eliminated on transatlantic trade.

Minister Pettigrew presented the study during his bilateral discussions with Pascal Lamy, European Commissioner for Trade, as part of the Canada-EU Summit in Stockholm, Sweden. Minister Pettigrew and Minister of Foreign Affairs, John Manley, accompanied Prime Minister Jean Chretien to the Summit.

"We must give serious consideration to liberalizing trade between Canada and our second most important commercial partner, the European Union," said Minister Pettigrew. "Our trade relationship harbours tremendous untapped potential for both sides."

The study suggests that Canadian exports to the EU would likely increase at least 11.2 percent, or \$2.4 billion annually, if tariff were eliminated on all merchandise trade except agricultural and processed food products. If tariffs were also eliminated on agricultural products that are currently trade between Canada and the EU, Canada's exports would potentially increase by 15.6 percent, or \$3.4 billion. Likewise, EU exports to Canada would rise by over \$7 billion a year, an increase greater than 34 percent.

"There is clearly room for expansion of our commercial relations," added Mr. Pettigrew. "Stronger trade ties would be a natural extension of our shared political and cultural linkages. This study offers a compelling base for consultations with Canadians and our European partners about the merits of close bilateral trade relations."

The study notes that the EU is also Canada second most important source and destination for foreign direct investment, after the U.S. Canada's stock of foreign direct investment in the EU stood at nearly \$49 billion in 1999, while the EU's direct investment stock in Canada was \$45 billion. Canada exported \$16 billion worth of goods to the EU in 1999 (the most recent year dealt with in the study), and imported \$31.4 billion. Examination of the implications of transatlantic trade liberalization has been recommended both by the Senate Standing Committee on Foreign Affairs and the House of Commons Standing Committee on Foreign Affairs and International Trade.

The study is one step toward evaluating the benefits and costs of trade liberalization with Europe. Other issues such as non-tariff barriers, investment, trade in services, rules of origin and agriculture warrant further examination.

The study will be available on the Department of Foreign Affairs and International Trade Web site at <http://www.dfait-maeci.gc.ca/English/geo/Europe/EU/Eumainpage2english.html>.

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## **Backgrounder**

### **CANADA-EUROPEAN UNION TARIFF ELIMINATION STUDY**

Eliminating tariffs on Canada-EU trade would benefit consumers and business on both sides of the Atlantic through increased product choice, lower prices and lower costs for industrial inputs.

The Canada-EU Tariff Elimination Study suggests that Canadian exports to the EU would likely increase by \$2.4 to \$3.4 billion, depending on whether trade in agricultural and processed food products is liberalized. This increase in exports to the EU would lead to a slight displacement of exports to other destinations. Overall, Canada's total exports to the world would likely increase by \$2.3 to \$2.5 billion.

At the same time, Canada would likely import some \$7.1 billion more from the EU. However, this increase would displace, to some extent, imports from other regions, resulting in an increase of Canada's total imports of \$3 billion.

For example, Canadian exports to the EU in machinery, equipment and transportation equipment would see a strong increase. Also, Canadian imports from the EU would increase in high-tech, high value-added sectors, including machinery, equipment and transportation equipment, as well as in mining, steel and textiles.

The study does not deal with other important factors, such as non-tariff barriers, investment and services trade liberalization, and rules of origin. In sectors such as agriculture, where current tariffs can be high, the study's methodology is limited in predicting trade effects. More research is required on the effects of a trade liberalization agreement on agricultural trade.

## **Backgrounder**

### **CANADA-EUROPEAN UNION ECONOMIC RELATIONS**

The European Union is the world's largest single market. With a population of 376 million and enormous market and production capacity, the EU's share of the world's aggregate GDP in 1999 was 20.3 percent. The EU is also the world's largest trader of goods and services: in 1999 It accounted for 39.3 percent of all exports of goods and services in the world.

Canada's economic relations with the EU are characterized by strong two-way trade and investment flows. Canada has a \$180 billion trade and investment relationship with the EU. There is scope for expansion of bilateral trade ties. Canada is one of only eight WTO members without preferential access to the EU market. Canada-EU trade accounts for only six percent of Canada's total goods and services trade, and our trade with the EU is not growing as fast as with other regions around the globe. As a result, the EU's share of Canada's total exports and imports has been declining over the past decade.

#### **Trade:**

The EU is Canada's second largest trading partner after the United States.

- ❑ In 1999 (the most recent year dealt with in the study), two-way merchandise trade between Canada and the EU totaled \$47.4 billion.
- ❑ Canada exported \$8.1 billion worth of services to the EU in 1999, and imported \$9.5 billion.
- ❑ In 2000, Canadian exports of goods to the EU amounted to \$19 billion, and imports to \$36.9 billion.
- ❑ Canada exported \$8.9 billion worth of services to the EU in 2000, and imported \$10.3 billion.

#### **Investment:**

The stock of Canadian foreign direct investment (FDI) in the EU has grown substantially during the past decade.

- ❑ Canada's stock of foreign direct investment in the EU stood at nearly \$49 billion in 1999.
- ❑ During that same year, the EU's direct investment stock in Canada was \$45 billion.
- ❑ The stock of Canadian FDI in the EU stood at \$54 billion in 2000.
- ❑ The stock of EU FDI in Canada stood at \$7.8 billion in 2000. This inward FDI represented a very substantial increase of \$ 8.3 billion in 2000 due to major acquisitions, which included Alcatel's purchase of Newbridge and Vivendi's acquisition of Seagrams.