CANADEXPORT

May 26, 2008

Unlocking growth in Europe

Canadian companies are not only one step closer to enjoying increased access to four of the wealthiest economies in the world, but also to unlocking opportunities in Europe—a market of over 500 million people. In January 2008, Canada signed its first free trade agreement with the European Free Trade Association (EFTA), which includes the non-EU countries of Switzerland, Norway, Iceland and Liechtenstein.

Three of the EFTA countries—Norway, Iceland and Liechtenstein - are members of the European internal market and have an economic agreement in place with the EU which allows them to participate in EU activities and programs.

Canadian importers can expect better and more affordable access to goods from EFTA countries and manufacturers can take advantage of lower priced manufacturing inputs. Trade experts say this agreement is an important first step in giving many Canadian companies a chance to crack the EU market.

The free trade agreement with EFTA provides for the elimination of tariffs in all non-agricultural sectors including products like aluminum, prefabricated buildings, coldwater shrimp, apparel products and cosmetics. It also provides for the elimination or reduction of tariffs on selected Canadian agricultural and agri-food products such as durum wheat, frozen french fries, beer and Canadian crude canola oil.

"Canada's challenge in recent years has been to move beyond the traditional country-to-country mode of thinking and treat the EU as a series of integrated markets with opportunities in many key sectors," says David Emerson, Canada's Minister of International Trade.

Trade with EFTA in 2007
(Iceland, Norway, Switzerland and Liechtenstein)

- Two-way merchandise trade: $12.9 billion
- Canadian merchandise exports: $5.2 billion
- Two-way investment:
  $27.5 billion*
- In 2007, EFTA was Canada's
  fifth-largest merchandise export destination

* Statistics not available for inclusion: foreign direct investment from Liechtenstein, Canadian direct investment in Liechtenstein, foreign direct investment from Iceland.

Emerson says that countries in the EU are making things together—and the benefits are spread out far beyond any one country. "The integrated, almost borderless nature of the European economy means that trade, investment and innovation are already closely intertwined and mutually reinforcing," says Emerson.

Jason Langrish, Director of the Canada Europe Roundtable on Business, says that tariff cuts go a long way to allowing Canadian firms to tap into European value chains.

“Some people say that tariffs are insignificant, that they don't really matter and that they're only up to 5%,” says Langrish. “But 5% is enough to divert trade in a whole range of ways. With high value-added industrial products that carry margins of 5 to 10%, that tariff can be equivalent to half or all of the margin. Clearly, the exporter will look to a market with no tariffs.”

For example, Langrish says that if a European maker of wind turbines needs to source high-grade aluminum, chances are it won't be getting that aluminum from Canada, even though tariffs on Canadian aluminum are low at 4.9%. Langrish says firms will buy the aluminum from Europe given the proximity of the product and that fact that firms won't have to pay a tariff, even if the aluminum is produced at a lower cost in Canada.

So that tariff can prevent the participation of a Canadian firm in that supply chain. Under the agreement, the current 4.9% tariff on aluminum to Switzerland will be eliminated.

Another way Langrish says tariffs disrupt supply chains is trade within companies. “Tariffs can act as an inter-company tax,” he says. For example, if one company has operations in Canada and Europe, tariffs would still have to be paid on the transfer of goods from one market to the other, even if the material stays within the same company, limiting the effectiveness of that supply chain.

Langrish points to “just-in-time” manufacturing created under NAFTA. A raw material from Canada, for instance, can cross the Canada-U.S. border, get processed in the U.S., get shipped back to Canada then sold. The reason that occurs is that the tariff lines have been eliminated. Companies are given the chance to leverage those value chains to become more efficient. And Langrish says the Canada-EFTA agreement could give Canadians that opportunity.

Legislation to implement the Canada-European Free Trade Association free trade agreement is currently before Parliament and the agreement could take effect as early as January 1, 2009.