

Executive Summary

A) Background

Even though Canadian trade with Europe is dwarfed by the bilateral trade flows with the United States, trade with the EU is important to Canada, and reflects not only historical, cultural and linguistic ties, but also a major component of our total trade outside of NAFTA. The level of bilateral Canada-EU Foreign Direct Investment is also significant, hence any major change in the EU will undoubtedly have both direct and indirect effects on Canadian individuals, businesses and governments. The implications for Canada may be on two levels. On one level, the most immediate concern, for Canadian individuals, businesses and governments, will be to adapt to the new currency, the euro, ensuring acceptability, recognisability, and transfer of legal contracts currently denominated in Member State currencies, into the new currency, where appropriate. On another level, concerned Canadians will also have to monitor developments in the EU, as events will unfold fairly rapidly during the next five years, and these may be profound, posing both threats and opportunities for Canadian individuals, businesses and governments. The paper explores some of the possible and potential developments in the EU over the next decade, and draws some conclusions as to the extent that these changes will impact Canada.

B) Contents of the Paper

The realisation that EMU will likely occur has recently led to intense speculation about the likely and possible effects on countries outside of the EU. Indeed, like the US, Canada has until recently largely ignored these turbulent and tumultuous events in Europe, unless foreign exchange market volatility surrounding these events affected the Canadian dollar. It is therefore timely that this report should consider the implications of EMU for Canadian trade and foreign direct investment.

The paper reviews the current state of affairs with European Monetary Union (EMU) and draws out some the implications for trade in goods and services and foreign direct investment, both within Europe and outside of Europe, and with particular reference to Canadian interests. There are sections which review recent Canada-EU trade and investment trends to place the possible changes in proper context. Other sections review the merchandise trade issues and services issues for the EU members and Canada. Also there is a section of the report devoted to some of the economic issues regarding the effects of EMU on foreign direct investment (FDI) flows. As part of the paper, a survey of Canadian exporters to the EU was mounted, and the results of this survey are presented in the report.

C) Specific Conclusions

Trade in Goods and Services

Although Canada-EU trade is not a large proportion of Canada's trade, the direct effects of EMU will be felt by Canadian companies, particularly if the single currency becomes a world trading currency outside the EU. Indeed, the consensus is now leaning towards the view that the introduction of the single currency will cause considerable changes in certain aspects of world trade. These changes will likely be in terms of:

- ◆ an increase in intra-EU Member State trade;
- ◆ a reduction in trade with third countries outside the EU; and
- ◆ a significant change in the pattern of world trade invoicing.