

European Union

The European Union is the world's largest single market, having surpassed the United States in population and exports and rivalling it in GDP. With its population of 376 million and its enormous market and production capacity, the EU's share of the world's aggregate GDP in 2000 was 20%, compared with 22% for the United States and 2% for Canada. The EU is also the world's largest trader of goods and services: in 2000, it accounted for 36% of all exports of goods and services in the world, while the U.S. accounted for 14.2% and Canada 4.2%.

As a group, the 15 EU member states continue to rank as Canada's most important trading partner after the United States, as well as the largest source and destination of foreign direct investment (FDI) in Canada after the United States. Bilateral Canada-EU trade and investment flows reached record levels in 2000. Total two-way merchandise trade between Canada and the EU grew from \$48.3 billion in 1999 to \$56 billion in 2001. In absolute terms, imports into Canada from the EU grew more than did Canadian exports to the EU. As a result, the deficit in Canada's balance of trade with the European Union set a new record of -\$20.1 billion in 2001, surpassing the previous record in 2000 of -\$17.8 billion.

Likewise, the stock of both EU FDI in Canada and Canadian FDI in the EU also reached record levels in 2000. The flow of EU FDI to Canada totalled \$28.3 billion in 2000. This raised the stock of EU FDI in Canada from \$49.6 billion in 1999 to \$77.9 billion in 2000. The sharp rise in investment from the EU in 2000 reversed the situation that had existed since 1996, in which Canadian FDI in Europe had been higher than EU FDI in Canada. Major acquisitions included Alcatel's purchase of Newbridge and Vivendi's acquisition of Joseph E. Seagram & Sons, Inc. The inward flow of \$28.3 billion included \$22 billion from France and \$5 billion from the U.K. The flow of Canadian FDI to the EU in 2000 totalled \$4.1 billion. This increased the stock of Canadian FDI in the EU from \$52.4 billion in 1999 to \$56.5 billion in 2000.

Several major trade and economic developments in the European Union have implications for Canada, including economic and monetary union (EMU), market distortions in the agriculture sector arising from

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domestic support, protective tariffs in certain sectors, further development of the single market, negotiations on enlargement and new regional trade agreements, and the imposition of EU import bans/restrictions based on its interpretation of the precautionary approach. The EU will continue to grapple with the question of institutional reforms, which the accession of new members makes necessary if the European Union is to function effectively in future.

The euro is the official currency of 12 of the 15 EU member states, with only Denmark, Sweden and the United Kingdom as non-members. Although the economic and monetary union was launched on January 1, 1999, euro notes and coins only began circulation on January 1, 2002. Together with the private sector, the Government is helping to ensure that Canadian business is prepared for the changes that the euro may bring to trade and investment. A number of European Commission-sponsored conferences and workshops on the euro will also be held across Canada in 2002. However, it is not anticipated that the currency change will in any way harm Canadian economic interests.