

Factors which have influenced the development of trade between Canada and the European Community

While detailed examination, involving consultations with both producers and consumers, would be needed to determine precisely the reasons for the trade performance of individual products, a number of general factors have clearly influenced the development of Canada/European Community trade.

An important influence has, of course, been the very process of European economic integration — a development which parallels the time frame of this analysis. In this general context, certain aspects merit emphasis. The relative deterioration in the Canada/United Kingdom trade account has been largely uninterrupted throughout the 1962-1977 period (a trend beginning well before the U.K. became a member of the Community in 1973). Secondly, this deterioration is responsible for virtually the entire relative decline of Community-Canada trade. In contrast to the dramatic decline over the past seventeen years in the relative significance of Canada-U.K. trade, there has been very little change in the relative importance of other Community countries as a source for Canadian imports. There was a slight decline in the comparative share of the "other EC" market as a destination for Canadian exports.

The establishment of the Community of Six in 1958 involved changes in access terms for many Canadian products including the creation of reverse preferences. However European integration has particularly affected Canada's trading relationship with Britain, first indirectly through the establishment of EFTA and later through British entry into the Community. These developments have resulted in the elimination of the tariff preferences which benefitted about one-third of Canadian exports to that country and the loss of free entry and creation of reverse preferences on about half of Canada's shipments to Britain. Association arrangements with the Community enjoyed by some non-member countries have also adversely affected Canada's competitive situation vis-à-vis these countries. On the other hand, to the extent that European economic integration has accelerated economic growth of member countries, this has no doubt increased demand for products of third countries including Canada.

For Canada, geographical contiguity with the U.S.A. has led to greater concentration of its trade towards that country. In addition the Canada-U.S. Automotive Products Agreement has transformed not only Canada's trading relationships with the United States but also the composition of Canada's trade statistics. Joint defence-purchasing agreements assisted in a similar rationalization of production in certain industries such as parts of the aircraft manufacturing industry.

At the same time, various factors have made for a diversification of suppliers to both the Canadian and the Community's markets. Certain countries have emerged as highly competitive suppliers for a variety of products in both the industrial materials and manufactured goods sectors. In addition, the establishment of a generalized preference scheme by industrialized countries has improved the terms of access to their markets for beneficiary countries. These factors, together with the presence of rising costs of production or slow productivity growth have affected the international competitive position of certain manufacturers in both the Community and Canada, and thus the trade flows between them.