

The EC-Canada relationship: unrealized potential

While the trade and investment relationship between Canada and the EC is already enormous, there is potential for even greater growth. This chapter is about the nature of the existing business relationship between Canada and the EC. The remainder of the book describes how Canadian companies can build on this relationship by using strategic alliances.

Canada has strong ties with Europe. We are allies in NATO and we share numerous diplomatic, cultural and academic linkages. In 1976, this special relationship was documented in the Canada/EC Framework Agreement for Commercial and Economic Cooperation which was intended to stimulate trade between our two regions. Within that framework, Canada and the EC have expanded their links to include other dimensions such as industrial, scientific, and technological cooperation.

The EC is our second largest trading partner. In 1990, Canada's total trade with the EC (imports and exports) reached \$27 billion. Canada's total trade with the U.S. was \$193 billion and with Japan it was \$17.7 billion. There is a lot of scope for expanding Canada's trading relationship with the EC. The EC receives only 10% of Canada's total domestic exports, while more than 70% goes to the U.S.

For years, wood pulp, lumber, iron ore, fish, and newsprint were Canada's top exports to the EC. Now, higher value-added products have gained in importance. Office machines and equipment have grown dramatically. In 1990, they ranked third among our exports to the EC, with a value of over \$437 million. At the same time, organic chemicals, aircraft parts, and aircraft engines have continued to grow steadily in importance.

Share of Canadian Imports in Selected EC Countries (percent of total imports)

| | U.K. | France | Ireland | Italy | Germany |
|------|------|--------|---------|-------|---------|
| 1980 | 2.5 | 0.7 | 1.1 | 1.1 | 0.7 |
| 1981 | 2.7 | 0.7 | 1.5 | 1.0 | 0.6 |
| 1982 | 2.3 | 0.6 | 1.0 | 0.8 | 0.6 |
| 1983 | 2.2 | 0.6 | 0.9 | 0.6 | 0.6 |
| 1984 | 2.1 | 0.6 | 0.8 | 0.6 | 0.6 |
| 1985 | 1.7 | 0.5 | 0.6 | 0.5 | 0.5 |
| 1986 | 1.8 | 0.6 | 0.5 | 0.5 | 0.4 |
| 1987 | 1.7 | 0.6 | 0.7 | 0.5 | 0.4 |
| 1988 | 2.0 | 0.6 | 0.9 | 0.6 | 0.5 |
| 1989 | 1.9 | 0.6 | 0.7 | 0.7 | 0.5 |

Source: IMF, Direction of Trade Statistics.

With the exception of crude oil from the United Kingdom, Canada's top ten imports from the EC are primarily value-added items. Airplanes, automobiles, auto parts, and organic chemicals are especially significant.

In the last decade, our exports to the EC have increased only slightly, despite a generally favourable Canadian exchange rate. In the meantime, our share of merchandise imports in the major EC markets has actually declined.

While slower economic growth in Europe may be responsible in part for this performance, the figures suggest that Canadians must be more aggressive if they are to capitalize on the opportunities offered by the development of the Single Market.

Canada's Exports to the EC by Commodity (\$ millions)

| | 1980 | 1988 | 1989 | 1990* |
|-----------------------------------|--------------|-----------------|-----------------|-----------------|
| Live animals | 10.8 | 12.8 | 19.2 | 19.0 |
| Food, feed, beverages and tobacco | 1,253.2 | 1,067.1 | 932.8 | 1,002.2 |
| Crude materials, inedible | 2,114.6 | 2,075.4 | 2,203.6 | 2,170.5 |
| Fabricated materials, inedible | 4,763.4 | 5,119.3 | 5,826.4 | 5,643.5 |
| End products, inedible | 1,384.9 | 2,413.1 | 2,502.0 | 2,640.3 |
| Special transactions** | 0.1 | 23.6 | 39.3 | 32.0 |
| Total Domestic Exports | 9,527 | 10,711.3 | 11,523.2 | 11,507.9 |

* Preliminary data.

** Special transactions trade consists of small value goods and all other transactions aggregated because of confidentiality.

Source: Statistics Canada.