

prospect for great leaps forward in the trading relationship either with the newest states or with the EU as a whole. However, there is considerable investment potential for Canadian companies, particularly for those that have already established trade and investment relationships or branch operations in the region. The new EU members offer well-educated populations, particularly in science and engineering, lower costs of labour and, in some cases, favourable corporate tax rates.

Enhancing trade and investment

The EU is Canada's second-largest trading partner, albeit a distant second to the United States, with two-way trade equal to less than 10 percent of that between Canada and the U.S. However, these statistics do not accurately reflect Europe's economic importance to Canada. Direct investment in Europe as of December 2003 represented 29 percent of total Canadian outward investment, up from 25 percent a year earlier. The share represented by investment in the U.S. fell from 46 percent to 41 percent in the same period.

Many well-known Canadian firms are household names in Europe: Alcan Inc., Bombardier Inc. and Magna International Inc. each have 10 plants in Germany alone. Some 50 percent of Alcan's business is in Europe, compared with 35 percent in North America. Bombardier and Nortel Networks Corp. are the largest employers in Northern Ireland. A vast amount of EU Internet traffic is carried on Nortel equipment.

Siegfried Wolf, Vice-Chairman of Canadian auto parts giant Magna International, says the company has built

seven new facilities in Eastern Europe in the past seven years. The company anticipates a continued shift eastward of vehicle production to the new EU states of Poland, Slovakia and the Czech Republic. Eastern European vehicle production is forecast to grow by 57 percent through the rest of the decade. "This is an excellent base for future markets," Wolf says.

In an effort to improve access to markets and bring considerable benefits to companies and consumers, Canada and the EU have agreed to a framework for a Trade and Investment Enhancement Agreement, or TIEA. An ambitious bilateral initiative, the agreement is designed to prevent and eliminate unnecessary barriers to trade and investment while ensuring better quality and efficiency of regulations. The TIEA would also look to address diverse areas such as trade and investment facilitation, competition, financial services, science and technology, and the mutual recognition of professional qualifications.

The Canadian advantage

Canada is increasingly seen by Europe as among the leaders in such diverse areas as fiscal responsibility, governance, the integration of immigrants into society and technological innovation, particularly in the emerging biotechnology and nanotechnology sectors. Europe also looks to Canada as the model to follow in wireless technology and e-government.

A report published in May by Accenture Inc., an international technology consulting firm, named Canada as the world's most electronically advanced government—ahead even of the U.S.—for the fourth consecutive year, and noted that Canada is increasing its advantage every year. Of the EU countries, only Denmark made the survey's top five. Canadian wireless technology developed for far-flung northern communities is also of keen interest to Europeans, particularly those new EU members looking to skip a generation in telecommunications development as they rid themselves of antiquated Communist-era equipment.

Geography and membership in the North American Free Trade Area are also important advantages, particularly for European firms looking to Canada as a gateway to the U.S. "If you're a French investor, for instance, you might see Quebec as a more friendly environment because of the common language," says Fen Hampson, Director of Carleton University's Norman Paterson School of International Affairs. "Or if you're an investor who is concerned about who is going to pay for your employees' health care, Ontario may be attractive. Because of NAFTA, Europe is seeing more than just the U.S. when they see North America."



photo: Brigitte Bouvier, PMO

Close relations: (left to right) EU President, Irish Prime Minister Bertie Ahern, Canadian Prime Minister Paul Martin and European Commission President Romano Prodi at the Canada-EU Summit in Ottawa on March 18.