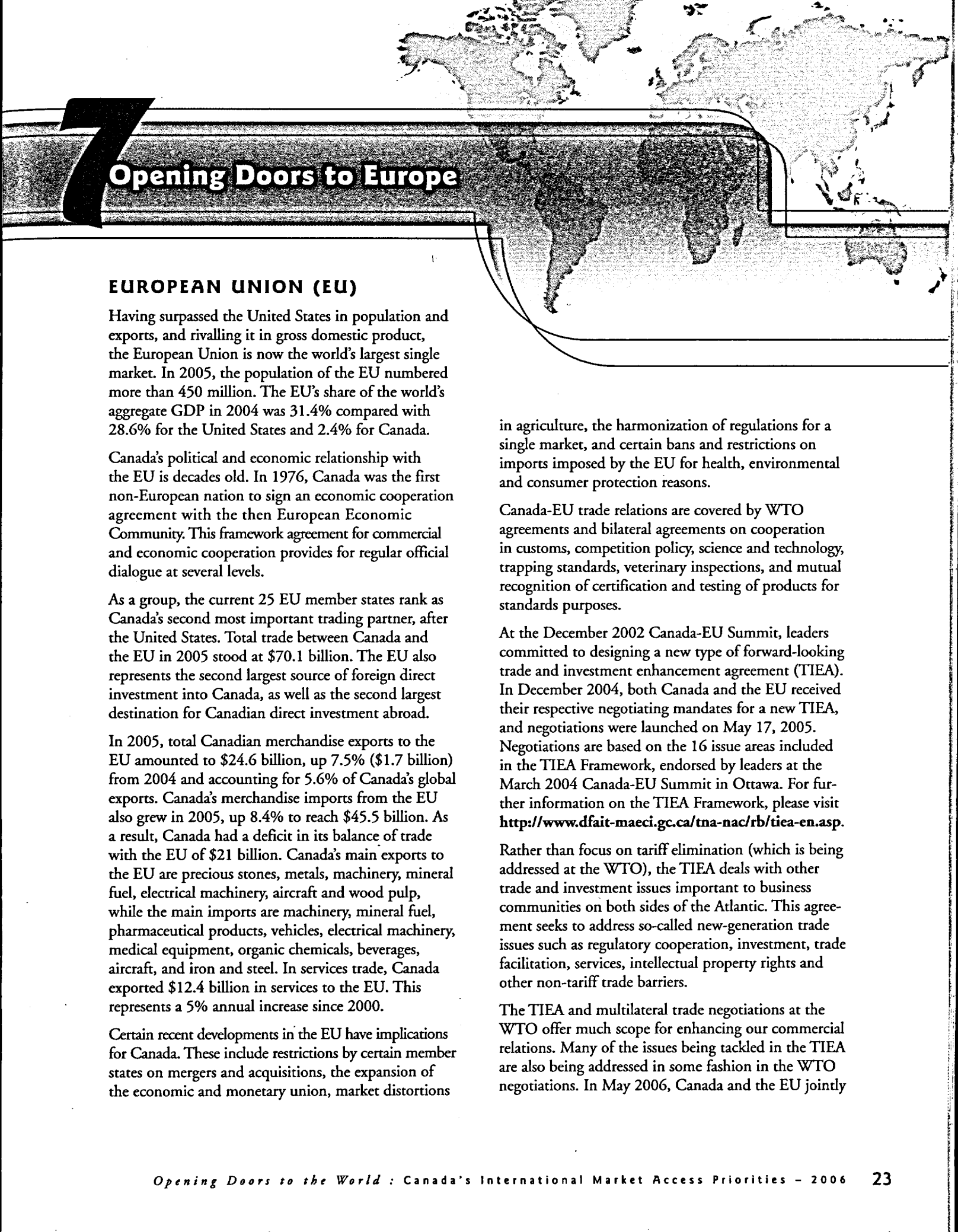




7 Opening Doors to Europe

EUROPEAN UNION (EU)

Having surpassed the United States in population and exports, and rivalling it in gross domestic product, the European Union is now the world's largest single market. In 2005, the population of the EU numbered more than 450 million. The EU's share of the world's aggregate GDP in 2004 was 31.4% compared with 28.6% for the United States and 2.4% for Canada.

Canada's political and economic relationship with the EU is decades old. In 1976, Canada was the first non-European nation to sign an economic cooperation agreement with the then European Economic Community. This framework agreement for commercial and economic cooperation provides for regular official dialogue at several levels.

As a group, the current 25 EU member states rank as Canada's second most important trading partner, after the United States. Total trade between Canada and the EU in 2005 stood at \$70.1 billion. The EU also represents the second largest source of foreign direct investment into Canada, as well as the second largest destination for Canadian direct investment abroad.

In 2005, total Canadian merchandise exports to the EU amounted to \$24.6 billion, up 7.5% (\$1.7 billion) from 2004 and accounting for 5.6% of Canada's global exports. Canada's merchandise imports from the EU also grew in 2005, up 8.4% to reach \$45.5 billion. As a result, Canada had a deficit in its balance of trade with the EU of \$21 billion. Canada's main exports to the EU are precious stones, metals, machinery, mineral fuel, electrical machinery, aircraft and wood pulp, while the main imports are machinery, mineral fuel, pharmaceutical products, vehicles, electrical machinery, medical equipment, organic chemicals, beverages, aircraft, and iron and steel. In services trade, Canada exported \$12.4 billion in services to the EU. This represents a 5% annual increase since 2000.

Certain recent developments in the EU have implications for Canada. These include restrictions by certain member states on mergers and acquisitions, the expansion of the economic and monetary union, market distortions

in agriculture, the harmonization of regulations for a single market, and certain bans and restrictions on imports imposed by the EU for health, environmental and consumer protection reasons.

Canada-EU trade relations are covered by WTO agreements and bilateral agreements on cooperation in customs, competition policy, science and technology, trapping standards, veterinary inspections, and mutual recognition of certification and testing of products for standards purposes.

At the December 2002 Canada-EU Summit, leaders committed to designing a new type of forward-looking trade and investment enhancement agreement (TIEA). In December 2004, both Canada and the EU received their respective negotiating mandates for a new TIEA, and negotiations were launched on May 17, 2005. Negotiations are based on the 16 issue areas included in the TIEA Framework, endorsed by leaders at the March 2004 Canada-EU Summit in Ottawa. For further information on the TIEA Framework, please visit <http://www.dfait-maeci.gc.ca/tna-nac/rb/tiea-en.asp>.

Rather than focus on tariff elimination (which is being addressed at the WTO), the TIEA deals with other trade and investment issues important to business communities on both sides of the Atlantic. This agreement seeks to address so-called new-generation trade issues such as regulatory cooperation, investment, trade facilitation, services, intellectual property rights and other non-tariff trade barriers.

The TIEA and multilateral trade negotiations at the WTO offer much scope for enhancing our commercial relations. Many of the issues being tackled in the TIEA are also being addressed in some fashion in the WTO negotiations. In May 2006, Canada and the EU jointly