

The European Economic Community and Western Europe

Canada's political and military commitment to Europe is central to the Canada-Europe relationship. Fourteen of NATO's sixteen members are West European. Canada has a vital interest in the political and economic security of Western Europe and in the maintenance of a balance between East and West. It pursues these interests bilaterally and multilaterally in such forums as the Conference on Security and Co-operation in Europe (CSCE), the Mutual and Balanced Force Reductions in Europe (MBFR), and the United Nations. Nineteen out of twenty-four OECD members are West European. Moreover Canada's regular participation in the economic summits and in quadrilateral trade ministers' meetings has reinforced our overall bilateral relationships with the United Kingdom, France, West Germany and Italy.

While the European Economic Community (EEC) or Common Market is the principal focus of our trade, European political co-operation is adding a new political dimension that will require careful attention. The Presidency of the EEC rotates on a six-month basis through each of the twelve members. Luxembourg and the Netherlands held the Presidency for most of the period under review.

Canada is intensifying and enhancing its political, economic and trade relations with the Nordic countries, a process which is expected to bring tangible returns over the medium term. The southern tier of Greece, Turkey and Cyprus is politically critical. The sensitive Greek-Turkish relationship has contributed to a stalemate in Cyprus and complicated relations both within NATO and the expanded Common Market.

Canada's relationship with Europe is based on historical and socio-cultural ties. It is undergoing considerable evolution; political and military commitments remain predominant although more emphasis is attached to economic and trade relations.

The importance of the West European market

Western Europe is the world's largest import market. It is Canada's second-largest trade and investment partner after the United States. It is a changing market, still emerging from the recession and confronting an imperative need for structural readjustment. As economic recovery takes hold and with more favourable exchange rates, the West European market offers both challenges and new opportunities for Canadian exports. Essentially a cash market, it is still dependent on raw materials and agricultural products from Canada. After the United States, it is Canada's most important market for secondary manufacturing and services. It is as important, if not more important, than the United States as a source for emerging and new technologies.

The West European market holds out considerable potential for industrial co-operation, joint ventures and technological transfer in sunrise industries generally and in secondary manufacturing processes in particular. These sectors are vital to Canadian productivity and competitiveness in the medium and long term. Value-added processing and manufacturing are areas of concentration for job creation as Canada moves upstream in its own industrial development.

Highly sophisticated competitive trade, investment and marketing strategies are required to expand Canadian exports. Western Europe is frequently the prime source for emerging

and enabling technologies that increase the competitiveness of both manufacturing and distribution, offering unique research and commercial skills to Canadian industry.

Trade relations

Fully one-half of Common Market trade is with the outside world. This translates into \$375 billion of imports per year in comparison to \$363 billion for the United States — in other words it buys more abroad than the United States. Canada has captured only 1.8 per cent of this market or \$7.7 billion, which amounts to 6.4 per cent of all Canadian exports (\$120 billion).

Since 1980, an average of more than 60 per cent of Canadian exports to Europe have been value-added fabricated materials and end products. This demand trend is expected to continue into the next century. For the last three years, Canadian sales to Europe have been stable. In contrast, Canada's imports from Western Europe have grown rapidly from \$7.5 billion in 1983 to \$12.6 billion in 1985, incurring a trade deficit of \$4.8 billion in 1985. There were two prime reasons for this: the sluggishness of the European markets and the relatively high value of the Canadian dollar *vis-à-vis* the various European currencies.

Investment

The most recent investment statistics (1983-84) indicate that of the total \$83.1 billion of existing foreign investment in Canada, \$65.4 billion originated in the United States, \$15.2 billion in Western Europe and \$2.5 billion in Asia, Australia and Japan.

Trade with Western Europe

West European demand is broadly based, involving a wide range of manufactured products originating in most provinces of Canada. The diversity of economic development and requirements in Western Europe offer Canadian exporters opportunities which match Canada's expertise in such sectors as agriculture and food products (including fish), informatics, defense and security products, machinery and equipment (off-shore oil and gas), telecommunications equipment, aerospace products, consumer goods, automotive parts, forestry products, and the cultural industries.

Western Europe represents the most important international trade show venue in the world. In 1985-86, the Europe Branch organized government and industry participation in 19 major trade fairs in Western Europe at a cost of \$2.8 million, which resulted in sales for Canadian firms of an estimated \$680 million. Sixty per cent of these sales were to countries other than those in Western Europe.

Canada's dealings with Western Europe in the science and technology sector were very significant during the 1985-86 fiscal year. The main reason for increased Canadian interest in the technological development of Western Europe was likely the political recognition being given by the Europeans to science and technology in the form of the Eureka technological initiative.

West European posts continued to process applications from highly skilled emigrants, particularly entrepreneurs, investors and the self-employed. With the help of funds from Investment Canada totalling \$195 000, our posts actively promoted the entrepreneurial program and achieved commensurate