

Committee on Foreign Affairs report which called for an exploration of the costs and benefits of transatlantic free trade.

Bilateral consultations have already shown that the EU and Canadian positions are aligned on a vast majority of issues on the multilateral trade agenda. Considerable road-work on achieving agreement over various remaining trade issues has already been logged. There is cooperation from both sides and both sides recognize the growing complexity of trade and investment issues. Serious consideration of a free trade agreement between the EU and Canada may not be such a big step for either party — after all, Canada (with the US amongst others) and the EU member nations (primarily with themselves) are already functioning largely in a free trade environment and are facing up to the competition existing in open markets.

The purpose of this paper is to explore and measure some of the economic implications for Canada of tariff elimination from a possible Canada-European Union Free Trade Agreement. It is an important, albeit preliminary, element in the evaluation recommended by the Senate committee. The paper is not intended to be comprehensive or definitive; rather, it is intended to provide an indication of the broadly-based impacts of tariff liberalization between our two regions. Other important factors, such as non-tariff barriers, investment and services trade liberalization, and rules of origin considerations, may influence the results but are outside the scope of this study and are not examined here. Moreover, certain sectors, especially those agriculture sub-sectors with prohibitive tariffs are not adequately dealt with by our approach because of a lack of "history" of foreign trade in their sectors. Such sub-sectors need additional, separate study. With these caveats in mind, the outline of the remainder of this paper is as follows:

- review of the recent patterns of trade and investment in the Canadian and European economies;
- review of the econometric model and regression analysis;
- review of the CGE model work; and,
- conclusions.