

1,800 European companies have investments in Canada. This makes the EU the second largest investor in Canada, accounting for 29% of all FDI.

Canada is the third largest investor in Europe (after the United States and Japan). The stock of Canadian direct investment in the EU has grown substantially during the past decade. The aggregate value of Canadian direct investment in the EU stood at \$99.9 billion in 2002. Twenty-three percent of all Canadian direct investment abroad is in the European Union, a proportion topped only by our investment in the United States.

Canada-EU trade is reasonably dispute-free; however, certain developments in the EU have implications for Canada. These include the expansion of the economic and monetary union, market distortions in agriculture, protective tariffs, the harmonization of regulations for a single market, new bilateral free trade agreements, and bans and restrictions on imports imposed by the EU for health, environmental and consumer protection reasons.

Canada-EU trade relations are covered by World Trade Organization (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.

Regarding enlargement of the European Union, the following countries will become full members as of May 1, 2004: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. Bulgaria and Romania are also negotiating with the EU, but these two countries are not expected to join until 2007 at the earliest. Turkey has not yet entered into accession negotiations, because it does not meet the political, economic and "acquis communautaire" criteria for EU membership.

The EU is also negotiating regional free trade agreements with other parts of the world, including with the Mercosur countries and Chile. In recent years, free trade agreements have been reached with Mexico and South Africa. Some 77 developing countries that are signatories to the Cotonou Agreement already enjoy preferential access to the European Union. The EU eventually intends to convert these arrangements

into free trade agreements. In addition, the EU is moving to deepen its economic ties with its "new neighbour" economies, which include Belarus, Moldova, Russia, Ukraine, and the southern Mediterranean economies (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Authority, Syria and Tunisia). Canada is one of only eight economies worldwide that does not have some form of preferential trading relationship with the European Union.

### **Canada-EU Trade Relations**

A number of bilateral instruments are in place to help manage Canada-EU trade relations, and the Minister of International Trade and his counterpart, the EU Commissioner for Trade, meet frequently to discuss the bilateral and multilateral trade agenda. The 1976 Framework Agreement for Commercial and Economic Cooperation established the Joint Cooperation Committee, which meets annually at the senior official level. Canada-EU trade issues are also addressed by officials through the Trade and Investment Sub-Committee as well as in other sectoral working groups.

### **Canada-EU Trade and Investment Enhancement Agreement**

One of the key outcomes of the December 2002 Canada-EU Summit was the commitment by leaders to "design a new type of forward-looking, wide-ranging bilateral trade and investment enhancement agreement" (TIEA). This new agreement, in combination with the anticipated results of the Doha Round, is intended to move beyond traditional market access issues and would include areas such as trade and investment facilitation, as well as science, technology and regulatory cooperation. Following agreement on their design, it is expected that negotiations will start in 2004 and conclude once the results of the WTO Doha negotiations are known.

The TIEA will be an important element in the development of Canada's broader relations with the EU, particularly as the EU enlarges to 25 countries. Canada sees the proposed TIEA as an ambitious and forward-looking initiative, responding not just to current issues, but also anticipating future challenges and creating opportunities to broaden and deepen the trade, investment and overall relationship. Although