business cycles of nations. This is not to say that trade with the US should be diminished. On the contrary, increased trade with the US is a good thing; however, if trade can be increased with other non-US regions, then so much the better for Canada. To this end, the Canadian Government has pursued bilateral free trade initiatives with individual trading partners in Latin and Central America, and has engaged in negotiations to establish a Free Trade Agreement of the Americas (FTAA). However, the most obvious candidate for another major free trade agreement is the European Union (EU) – Canada's second largest trading partner after the US.

The European Union is the core of an integrating Europe that is growing in economic power. More and more candidates for membership are knocking on the door. The EU already accounts for more trade and investment than any other area of the world, and the expected expansions into Eastern and South/Central Europe will create a market of some 550 million.

Economic relations between Canada and the EU are characterised by strong two-way trade and investment flows[3]. Trade between Canada and Europe has a long history[4]. Two-way trade in goods and services between Canada and the EU reached nearly $65 billion in 1999. The EU is also the second-most important source and destination for Canadian foreign direct investment after the United States. Just slightly less than 20 per cent of the stock of Canadian direct investment abroad has been placed in the EU and, equally, just slightly less than 20 per cent of the stock of foreign direct investment in Canada comes from the European Union. The completion of the single European market and the introduction of the euro offers vast new opportunities for Canadian business.

Canada established diplomatic relations with the precursor to the modern EU in 1958. In 1976, the European Economic Community (EEC) and Canada entered into a Framework Agreement for Commercial and Economic Cooperation[5]. This agreement was the EC's first framework cooperation agreement with an industrialised country, and has facilitated efforts by both sides to build economic ties and set the foundations to manage and resolve trade and investment disputes.

Under the umbrella of the 1996 Canada-EU Joint Action Plan, a number of bilateral agreements in the trade and economic area have been agreed upon. For example, the 1997 Agreement on Customs Cooperation and Mutual Assistance provides the basis for a closer working relationship between Canadian and EU customs administrators to combat fraud and to protect and promote legitimate trade. The 1998 Agreement on Mutual Recognition of Conformity Assessment facilitates bilateral trade by allowing each side to certify the conformity of products with the standards required by the other. The EU-Canada Trade Initiative (ECTI) was launched at the Canada-EU Summit in Ottawa in December 1998. ECTI sets a limited number of objectives aimed at improving market access and bilateral economic cooperation over a range of issues, and it also calls for regular consultations between both parties on multilateral trade issues.

Canada is, however, one of only eight WTO members without preferential access to the EU market. Canada has advocated the establishment of a Canada-EU free trade agreement (FTA) on a number of occasions, most notably with the November 1998 Senate Standing