



5 Opening Doors to Europe

European Union

Overview

Canada and Europe have long-standing historical, cultural and commercial links, and the European Union (EU) is a key trade and investment partner. The relationship dates back to 1956, and Canada was the first country to sign a cooperation agreement with the EU: the Framework Agreement of 1976. Subsequently, the 1996 Joint Political Declaration on Canada-EU Relations and the Canada-EU Action Plan (www.dfait-maeci.gc.ca/english/geoleurope/declaration-e.htm) set goals for broadening bilateral relations, not only in the trade and economic areas, but also on a broad range of foreign and domestic policy issues as well. Both parties conducted a comprehensive review of their relationship in 2003. Canada also works closely with the European Union on the promotion of the multilateral trading system,

and the parties are now laying the groundwork for the negotiation of a leading-edge bilateral Trade and Investment Enhancement Agreement.

The European Union is the world's largest single market, having surpassed the United States in population and in exports and rivalling it in gross domestic product. Its population was 377 million on January 1, 2001, and its share of the world's aggregate GDP in 2001 was 32.5%, compared with 25.2% for the United States and 2.2% for Canada. In May 2004, 10 central and southern countries will join the EU, increasing its population to 450 million.

As a group, the current 15 EU member states continue to rank as Canada's second most important trading partner. They represent the largest source of foreign direct investment (FDI) into Canada, as well as the largest destination for Canadian direct investment abroad, after the United States. The total trade and investment flow between Canada and the EU in 2002 was \$97 billion. Increasingly, Canadian and EU firms rely less on selling to each market and more on establishing a presence in each market.

Total Canadian merchandise exports to the European Union amounted to \$18.8 billion in 2003, accounting for 4.9% of Canada's global exports and 36.5% of Canada's non-U.S. exports. Canada's main exports are machinery, gas turbines and aircraft. The European Union represents approximately 17% of Canadian services exports. Although the United States absorbed 92% of the growth in Canada's global exports from 1993 to 2003, the European Union accounted for 45% of the growth in non-U.S. exports.

Canadian imports from the EU grew at more than double the rate of Canadian exports to the EU between 1993 and 2003, climbing at 9.1% compounded annually. Imports from the EU reached \$38.7 billion in 2003, with the main imports being machinery, vehicles, pharmaceuticals and aircraft. As a result, Canada has a deficit in its balance of trade with the EU, which stood at \$19.9 billion in 2003. However, at \$77 billion in 2001, sales by Canadian affiliates based in the EU are now more than four times greater than Canadian exports and will continue to grow as investment increases.

Canada and the EU are leading investors in each other's economies. Seven out of Canada's top 10 investment sources are European, and over