

# INFORMATION

EXTERNAL RELATIONS

CANADA AND THE EUROPEAN COMMUNITY

113/76

M. François-Xavier ORTOLI, President of the Commission of the European Community will pay an official visit to Canada on 18/23 February 1976.

He will formally open the Offices of the Commission's new Delegation in OTTAWA on 19 February 1976.

An information note on the relations between Canada and the European Community is attached.

## THE EUROPEAN COMMUNITY AND CANADA

Negotiations will shortly be opened between the European Community and Canada for a Framework Agreement for Economic and Commercial Co-operation.

The purpose of this note is to provide background information on the evolution of the European Community's relations with Canada.

### Background to Proposals for an Agreement

A mutual desire for closer relations between the Community and Canada found expression in 1972 on the eve of British accession to the Community. The resolution of the October 1972 Community Summit Conference of Heads of State and Government called for a "constructive dialogue" between Canada and the EC. In Nov. 1972, Canada addressed an aide-memoire to the Community suggesting the possibility of a general agreement on economic and other matters.

The Canadian approach was well received by the Commission. A series of twice yearly informal consultations was inaugurated between the Commission and the Canadian Government which continues to flourish. Present in Ottawa during one of their consultations, Vice-President of the Commission Sir Christopher Soames said in a speech before the Canadian Institute for International Affairs :

"Canada appears to us as a country whose approach to world problems is similar, and in many aspects identical, to the approach which the European Community itself is seeking to adopt. In our desire, for example, to secure a further liberalisation of world trade and to trade and to promote a new and more satisfactory balance between developed and developing countries, we believe that Canada and the Community are walking the same road together."

Canada, for her part, clearly has many reasons for wishing to forge new links with the Community. One is that, with an overwhelmingly large proportion of her trade being with the USA, Canada wishes to develop alternative markets, notably the hitherto fast expanding EEC common market. Indeed, the Community of the Six was in 1972 already Canada's third biggest market, following closely behind the UK. British membership in the EC however, has greatly increased the importance to each other of the Community and Canada as commercial partners; it has in fact approximately doubled the level of trade between Canada and the Community. The EEC now ranks only behind the USA in importance as a trading partner.

Canadian thinking was taken a step further in an Aide-Memoire of 20 April, 1974 proposing the negotiation of an Agreement which would establish a "direct contractual link between Canada and the Community" and foster the development of long-term commercial and economic relations".

Taking up the challenge, the Commission (communication to the Council of 16 Sept. 1974) expressed a preference for an agreement which would constitute "a broad Community framework for economic and commercial co-operation between Canada and the Member States extending well beyond the field of classical trade policy". In considering this question on 14/15 October 1974, the Council emphasised the importance attached by the Community to its traditional ties with Canada and considered that they should be strengthened in a manner to be negotiated between the two parties. In the course of the visit of the Canadian Prime Minister to Brussels at the end of the same month, it was therefore agreed that informal exploratory talks should take place on this basis between the Commission and the Canadian Government. The Commission also took the opportunity to confirm to the Prime Minister, their intention to open a Delegation in Ottawa corresponding to the Canadian Mission accredited to the Community in Brussels.

On completion of their exploratory soundings (which were pursued during the winter and spring of 1975) the Commission, on 21 May 1975, put forward clear cut proposals to the Council for the conclusion with Canada of a Framework Agreement for Economic and Commercial Co-operation.

### Features of a Framework Agreement

Such an agreement would be non-preferential and non-discriminatory in character. It would be the first such agreement between the Community and an advanced industrial nation. It would have the following basic elements :

- an economic co-operation clause setting out common objectives and the means by which this might be obtained.
- a commercial co-operation clause affirming adherence to the Gatt and calling for the expansion and liberalisation of trade.
- a clause setting up a Joint Co-operation Committee through which co-operation activities would be systematically encouraged and directed.

The agreement would be of an evolutionary character, no field of co-operation being a priori excluded at the outset.

Possibilities would be taken up progressively and pragmatically. The Agreement would be complementary to, not a substitute for, co-operation between Canada and individual Member States of the Community. The real "moteur" of the Agreement will be the Joint Co-operation Committee. A practical work programme for the Committee will probably be worked out in the course of the negotiation on the Agreement. The programme is likely to provide for co-operation activities in a number of sectors of mutual interest for the Community, new-material related and for Canada value-added related.

### Some Facts about Canada

- Area : 3,851.809 square miles (9,976.100 sq. Km). Canada's area is greater than that of the USA, Brazil or China, though slightly less than half of the USSR. Only 250,000 sq. miles of this area is cultivated, forests and woodlands accounting for nearly half the total.
- Population (1975) : 22.8 million
- Gross National Product (1974) : \$ Can. 140,9 billion, an increase of nearly 40 % over the \$ Can. 103.5 billion of 1972. It represents per capita income of \$ Can. 6,180.

- Production

Energy : Crude Oil 675.2 million barrels (1974)  
Coal 23 million tons (1974)  
Electricity produced 240.2 billion Kw(h)  
per capita consumption : 10,150 Kwh.

Agriculture (1974) Wheat 488.5 million bushels  
Oats 254.7 million bushels  
Barley 404.2 million bushels  
Cattle (slaughtered) 3.368.000 thousands  
Pigs (slaughtered) 8.965.000 thousands  
Sheep (slaughtered) 185,000

Industry

The main industries, in order of value of shipments of its products are motor vehicle manufacturing, pulp and paper mills, (largest employer), slaughtering and meat processing, petroleum refining, sawmills and planing mills, iron and steel.

Production (1973)

Iron ore	43.9 million tons
Wood pulp	18.072 million tons
Newsprint	} 12.243 million tons
Kraftpaper	
Other paper/board	
Crude Steel	13.386 million tons
Cars	1,147.000 (1972)

- Main exports : Motor vehicles, metal ores, timber, newsprint, machinery, wheat, wood pulp, chemicals, copper, aluminium.

- Main imports : Motor vehicles and parts, machinery, chemicals, petroleum, textile yarns and fabrics, iron and steel, fruit and vegetables.

- Balance of International Payment : Current Account

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
			§ Can.billion		first 9 months
Receipts	22.8	25.5	31.7	39.8	30
Payments	<u>22.4</u>	<u>26.2</u>	<u>31.7</u>	<u>41.5</u>	<u>34.3</u>
Balance	+0.3	-0.6	0.0	-1.7	-3.9

Sources : Statistics Canada, Canada 1975

European Community Statistical Office

#### Canada's World Trade

Canada is one of the most trade-dependent countries of the world, trade representing about 20 % of GNP, compared with 25 % for the EEC. Canada has had a trade surplus every year since 1961 and in only thirteen years since 1926 has there been a deficit. There were large surpluses in the 1970s, as high as § C.2.2 bn in 1971 and § C.2.1 bn in 1973. In 1974 the situation deteriorated owing to the effects of the world trade recession on Canadian exports of raw materials and semi-finished goods while the cost of imported manufactured goods rose steadily. During the first nine months of 1975 Canada was running a trade deficit at an annual rate of over § Can. 2 billion.

Canadian External Trade

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u> (Jan.-Sept.)
<u>Exports to:</u>					
World	17.8	20.1	25.4	32.2	23.9
U.S.A.	12.0	14.0	17.1	21.3	15.6
EEC (Nine)	2.6	2.5	3.2	4.0	3.1
Japan	0.8	1.0	1.8	2.2	1.6
<u>Imports from:</u>					
World	15.6	18.7	23.3	31.6	25.6
U.S.A.	10.9	12.9	16.5	21.3	17.2
EEC (Nine)	1.8	2.2	2.5	3.0	2.4
Japan	0.8	1.1	1.0	1.4	0.9
<u>Balance with:</u>					
World	2.2	1.5	2.1	0.6	- 1.8
U.S.A.	1.1	1.1	0.6	0.0	- 1.6
EEC (Nine)	0.8	0.4	0.7	1.0	0.7
Japan	0.0	- 0.1	0.8	0.8	0.7

Source : Statistics Canada

The United States is by far the most important trading partner, taking between two-thirds and 70% of Canadian exports and supplying around 70% of imports. The Community takes second place and Japan third. Canada has a trade surplus with Japan, imports having risen only very moderately in recent years (even slightly falling in 1975), Canadian exports (minerals and cereals) are rising spectacularly: during the first nine months of 1975 they were double the level for the whole year 1971.

Canadian Trade with the EEC (Nine)

	<u>1958</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
		(\$ Canadian billion)			(9 months)
Canadian exports	1.3	2.5	3.2	4	3.1
imports	0.8	2.2	2.5	3	2.4
	+0.5	+0.4	+0.7	+ 1	+0.7

Source : Statistics Canada

Canada has enjoyed a (usually substantial) trade surplus every year since the EEC was formed in 1958. The Community's share of Canadian exports fell however from 21.1% in 1965 to 12.6% in 1974; similarly the share of the Community in Canada's import bill fell from 13.5% to 9.6% during the same period. The Canadian figures for 1975 (Jan.-Sept.) suggest that the importance of the EEC as a source of imports is still falling, though the contrary is suggested for exports. The Community has been accounting for about 40% of Canadian exports to countries other than the U.S.A. in recent years.

Of the Member Countries, the U.K. took in 1974 about 46% of Canadian exports to the EEC and accounted for about 40% of imports. The relative value of the British market for Canada has in fact been declining during the sixties and early seventies in spite of the existence of Commonwealth preferences (which are being phased out in stages over 1973-77).

Trade between Canada and the Community is 'complementary' in character. EEC exports to Canada consist largely of manufactured goods. Canadian exports to the Community consist largely (nearly two-thirds) of crude and semi-manufactured materials (including minerals, timber and wood-pulp) and foodstuffs, especially wheat. Only 10% of exports to the Community are finished products. The Community is Canada's largest market for agricultural products. Finished goods account for only a small proportion



of Canadian Exports to the EEC, industrial exports being overwhelmingly orientated to the USA. The pattern of Community exports to Canada is vastly different, consisting almost entirely of a wide range of industrial products particularly machinery and consumer durables and manufactured foodstuffs.

#### Adjustment to EEC Enlargement

Under the Ottawa Agreement of 1932 Canada enjoyed preferential access to the British market and granted reciprocal preferences to the UK. Membership of the Community obliged the UK to cease to apply such preferences and, in stages, to adopt the Common External Tariff (CET) of the Community and the disciplines of the Common Agricultural Policy : a first step towards alignment of 40% took place on 1 January 1974, followed by a further 20% at the outset of each of the three following year; the UK will thus apply the CET on 1 July 1977. As far as agricultural products are concerned the UK is progressively applying Community levies on imports for products subject to the Communities market organization; and for products which are not the alignment on the CET is taking place by five annual steps.

Prior to 1973 more than half of Canadian exports to the Community of the Nine were going to the UK alone, while 95% of these exports entered the UK duty-free. Canadian exporters are thus in stages losing any tariff advantages they may have had on the British market; and whether they have enjoyed a preferential margin or not Community tariffs or levies will apply to them. Not only, then, do some products now face a tariff on the UK market for the first time; in many cases they are losing their preferential margin and becoming subject to a regime under which preferences are enjoyed by their European competitors. In trade terms there are of course also many positive aspects of the EEC's enlargement. The market of the Six was already prior to 1973 expanding faster for Canadian exports than was the UK in spite of preferences operated by the UK and the tariffs and levies of the Six. Since 1973 the EEC common market has continued to generate external trade, and from this Canada has benefitted.

Canada however, acting within the terms of Article XXIV-6 of GATT requested adjustments to the EEC tariff to compensate for possible trade losses on the British market. In November, 1974, the Community offered Canada tariff reductions on a number of products (including copper, asbestos fibre, wood pulp, newsprint and Kraft-liner) and announced its readiness to negotiate a special arrangement for cheddar cheese. On 5 March 1975 the two parties signed a joint declaration aiming at putting to an end any remaining differences over the Community offer. Canada remained unsatisfied that the Community offer gave adequate compensation for possible trade losses resulting from more difficult access to the British market for cereals; the two parties agreed however that the matter should be discussed in the context of the Tokyo Round, in which the possibility of international mechanisms governing world trade in cereals is on the agenda. As for cheddar cheese, the EEC has made a concession for Canada which should result in Canada enjoying conditions for exports equivalent to those existing prior to UK membership.

#### Existing EEC / Canada Co-operation

The Community and Canada have over the years developed links on various planes and have been acting together in various multilateral bodies. To give some examples :

- Since 1972 regular twice-yearly meetings have been taking place between the Commission and high-ranking officials of the Canadian government alternately in Brussels and Ottawa. The last consultations took place on 3-4 November 1975 in Brussels.

- Members of the European Parliament and the Canadian Parliament have since 1974 been meeting annually, alternately in Europe and Canada.

- Frequent exchange visits take place between Canadian Ministers and Members of the Commission.

- A Community Delegation was established in Ottawa on 19 February 1976; it will contain a Press and Information Service.

Canada is the third country (the other two are the USA and Japan) to which Delegations have hitherto been accredited. (There are also Delegations to the UN in New York, and the OECD in Paris and to the GATT in Geneva; and a regional Delegation in Latin America).

- The Community and Canada are negotiating as partners in the Tokyo Round Multilateral Trade Negotiation : a further liberalization of industrial and agricultural trade is of great importance to both. Canada and eight countries of the Community are members of the International Energy Agency and both the Community and Canada are parties to the on-going North-South dialogue.

- Community and Canada have been participating in the work of UNCTAD and have a common concern for the Less Developed Countries. Both the Community (since July 1971) and Canada (since July, 1975) operate a Generalized System of Preferences to the benefit of LDC's.