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BACKGROUND NOTE

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EC-CANADA EXPLORE POSSIBLE TRADE ACCORD

Canada and the European Community this year began exploring the possibility of forming a broad trade cooperation agreement that could mark the turning point in EC agreements with industrialized countries. In an April 20 memorandum to the Commission, the Canadian Government proposed negotiation of a bilateral non-preferential trade accord. To date, the Community has concluded bilateral agreements only with European or developing countries. Relations with the industrialized world are settled by the general international trade provisions under the General Agreement of Tariffs and Trade (GATT) and by collaboration developed within the Organization for Economic Cooperation and Development (OECD).

Canada's overture to the Community was prompted by its desire to expand trade with Europe and the fact that its Commonwealth preferential agreements with Britain will be phased out, due to EC enlargement.

Canada EC Trade Development

The Common Market is Canada's second largest trading partner next to the United States. In 1973, Canada exported C\$3.1 billion (Canadian dollars) in goods to the enlarged Community* and imported C\$2.4 billion, according to Canadian Government Statistics.

* Figures for Denmark and Ireland not available.

Canada sent 12.4 per cent of its total exports (C\$25.2 billion) to the Community last year; 67.7 per cent to the United States (C\$17.1 billion).

The growth of Canadian exports to the Community has been outpaced by its major competitors -- the United States and Japan. Between 1958 and 1972, Canadian exports to the Six grew by 153 per cent, from 430 million units of account (UA) to nearly UA 1.1 billion. (One UA equals \$1.20635 at current rates.) Japanese exports, on the other hand, grew more than 1,500 per cent to nearly UA 1.9 billion, while US exports rose 204 per cent to UA 8.5 billion. Canada's industrial exports to the Community grew 210 per cent during those years; but US exports grew 255 per cent and Japan's went up nearly 1,800 per cent. Although Canada's farm export growth was almost the same as that of the United States in 1972 (133 per cent and 143 per cent, respectively), they totaled only UA 408 million while the US figure came to about UA 2.2 billion.

Additionally, Canada's trade surplus with the Common Market has steadily declined from its 1970 peak of UA 532 million. The Canadian surplus fell to UA 257 million in 1972 and UA 67 million in 1972. Although Canadian figures record a 1973 trade surplus of C\$132 with the Six, they reflect the effects of inflation rather than an improved balance.

Effects of British EC Membership

Britain is Canada's largest trading partner in the Community. Last year, over half of Canada's exports to the Community went to Britain (C\$1.589 billion). As a member of the Commonwealth, Canada receives special trade preferences from Britain. However, the terms of British EC membership call for the phasing out of Commonwealth preferences by 1977. As a result, many Canadian products will face an EC tariff for the first time. Canadian exports to be affected include agricultural products such as barley, apples, tobacco, and cheddar cheese; certain manufactured goods, and materials such as aluminum and zinc. The Community has already agreed to offset some of the tariff increases on Canadian trade through negotiations under Article XXIV-6 of the GATT. (The EC made similar arrangements with the United States this year.)

Canada welcomed EC enlargement and moved to strengthen diplomatic and trade relations with the Community. Canada installed an accredited ambassador to the Communities in 1972 and carries on a regular series of bi-annual consultations with the Commission, similar to those between the EC and US officials. The Commission plans to send a permanent delegation to Canada in 1975. A dialogue between the Canadian and European legislatures was initiated last year when a European Parliament delegation visited the Canadian Parliament in Ottawa at Canada's invitation. To boost trade with the Community, Canada has participated in European trade fairs and initiated programs to encourage European businessmen to "buy Canadian."

Preliminary Talks on a New Agreement

In addition to the various agreements and arrangements made between Canada and the Community under the GATT, Canada and the European Atomic Energy Community have had a cooperation accord for the peaceful use of atomic-energy since 1959.

A bilateral non-preferential agreement with Canada, as suggested in the April memorandum, would not resemble other EC agreements. Current EC non-preferential agreements are with countries under development or whose economic structure is inferior to that of industrialized countries such as Canada. These agreements tend to concentrate on specific problems related to certain types of products, mainly primary commodities. The EC has such agreements with Yugoslavia, Brazil, Uruguay, Argentina, and India. Since relations with countries such as Canada are both of a bilateral and multilateral nature and no products or services dominate a pattern of trade, a bilateral agreement would require a new design.

The Canadian memorandum envisages an agreement which would establish a "direct contractual link between Canada and the Community" and "complement rather than supersede existing trade and commercial arrangements between Canada and the member states." It would also "underpin the contractual relationship with the Community which is currently based on the [GATT] ...foster the development of long-term commercial and economic relations," and formalize regular consultation procedures.

In response to the Canadian memo, the Commission began a series of informal exploratory contacts with Canadian officials during April-June of this year. The Canadians have made no formal proposals for the precise trade content of an agreement but did suggest certain areas to be covered by detailed clauses. They include: the exchange of Most Favored Nation Treatment,* subject to certain derogations; quantitative restrictions and exceptions; direct shipment, internal taxes, valuations, and trade regulation administration. These clauses, the Canadians said, should be based on the relevant GATT and existing bilateral trade agreements.

Toward a Wider Ranging Agreement

The Commission's view of these proposed guidelines was outlined in a September 12 communication to the Council of Ministers. The Commission points out that they contain practically nothing new compared to existing multilateral provisions and would only "re-express" the obligations already existing in the GATT and other contexts. Furthermore, the Commission sees potential difficulties with the Canadian emphasis on the GATT as a basis for negotiation, pointing out that duplication of GATT provisions in a bilateral framework could weaken the structure of the multilateral system.

* Whereby preferential tariff treatment extended to any GATT member is automatically extended to all.

The Commission favors working toward a wider ranging agreement. It would like to explore a type of agreement which would provide a broad EC framework for economic and commercial cooperation between Canada and the member states, extending beyond the field of classical trade policy (tariffs, quotas, liberalization, etc.) It would also cover other economic issues important to both parties, such as guarantees of access to raw materials and energy supplies, and would provide for the encouragement of mutual investment and the promotion of industrial and technological cooperation.

The Commission has asked the Council to deliver an opinion, in the near future, on whether an agreement of this type is preferable to the classical type of trade agreement. This would allow the Commission to have better policy guidelines when Canadian Prime Minister Pierre Elliot Trudeau visits Brussels to continue talks on this subject October 23-25.

A Canadian Parliamentary delegation will be the guests of the European Parliament at its next plenary session in Strasbourg, November 11-16.