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External Relations

1/78

THE EUROPEAN COMMUNITY AND CANADA

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The following is an information note on the relations between Canada and the European Community.

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March 1978

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THE EUROPEAN COMMUNITY AND CANADA

The purpose of this note is to provide information on trade and investment trends between the European Community and Canada, and to summarise the development of Community-Canada relations and cooperation, in particular those taking place under the Framework Agreement for Economic and Commercial Cooperation concluded in July 1976. It brings up-to-date the data contained in Notes 113 and 134 (both of 1976) in the Commission's series of background information notes.

1. Introduction: Canada and the European Community

In July 1976 a Framework Agreement for Commercial and Economic Cooperation was signed between Canada and the European Community. The agreement, the first of its type to be concluded by the Community with an advanced industrial nation, responds to the will of the two parties to enter into a formal contractual link. The two partners have common links and ethnic origins, and have shared interests, values and aspirations. Both (with the exception of one Community country) are members of the Atlantic Alliance. Both are firmly committed to pluralistic democracy. Both are mixed economies based on the principle of the free play of market forces; they are highly developed industrial societies with, by world standards, high levels of consumption. The Canadian GNP per capita was an estimated \$ Canadian 8,222 (\$ US 7,400), one of the highest in the world, in 1977 compared with \$ 6,039 estimated for the Community in the same year.

But they are approximate partners on other counts. Both economies are increasingly based on modern and efficient industry with a rapidly growing involvement in advanced technology. And both are highly dependent on external trade: world trade accounts for 40% of Canada's GNP, and 24% of that of the EC (compared with only 14% for the USA). Indeed the Community is not merely Canada's second largest export market (absorbing nearly 40% of her *overseas* or non-American exports) and second most important source of imports, but also her second largest source of foreign investment capital.

Yet while Canada and the EC have reached similar stages of industrial development, there are major contrasts in the shape of their respective economies, some of which make for an important and potentially greater degree of complementarity between the two economies. For a start Canada, with an area of 9,976,100 square kilometres, is bigger than the USA and six times as large as the EC Nine. But her population of 23 million is only one-eleventh that of the Community.

Canada's huge actual and potential production of minerals, is in marked contrast with the situation in the Community which is to varying degrees dependent upon imports and wholly so for a wide range of products. The value of total mineral production in 1975 was \$ 13.4 billion (a twenty seven-fold rise since 1945). Canada is in fact already one of the world's greatest producers of minerals, the leaders being crude oil (value of production \$ 3.8 bn in 1975), natural gas, copper (\$ 1.4 bn, the fourth non-Communist producer), nickel, zinc, iron ore (the world's fifth largest producer), uranium and coal. Canada produces in varying quantities a wide range of other (rare or relatively rare) metals, running from antimony to zinc and non-metallic minerals including asbestos, potash, salt and titanium dioxide.

Another major contrast with the Community lies in the fact that Canada produces a substantial proportion of her oil needs. But over the long run it is the enormous deposits of uranium, which will not only give Canada a large degree of energy security but also a big export potential.

Canada is at the same time basically an advanced industrial economy, the main industries, in order of value of shipments being motor vehicle manufacturing, pulp and paper mills (the largest employer), meat

processing, petroleum refining, sawmills and planing mills, and iron and steel. The industrial sector has been expanding rapidly in the 60s and 70s: during the period 1961-73 motor vehicle production rose 587% motor vehicles parts 444% and crude steel 136%.

2. Trade and investment

Trade

Canada's main exports are motor vehicles, metal ores, petroleum, timber, newsprint, machinery, wheat, wood pulp, chemicals, copper and aluminium. The main imports are motor vehicles and parts, machinery, chemicals, petroleum, textile yarns and fabrics, iron and steel, fruit and vegetables.

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 trade surpluses with Japan, imports having risen only very moderately in recent years (even slightly falling in 1975), and has had one with the Community Nine every year since 1958. Although for the first time since 1961 there was in 1975 an overall trade deficit (\$ 1.7 bn) Canada reverted to surpluses in 1976 and 1977. In 1976 and during the first nine months of 1977 Canada was in surplus with the USA, the Community and Japan.

Canadian trade with the EEC

(\$ Canadian million (9 months)

	1971	1972	1973	1974	1975	1976	1977
exports imports	2.6 1.8	2.5 2.2	3.2 2.5	4.0 3.0	4.1 3.3	4.5 3.2	3.3 2.8
balance	+ 0.8	+ 0.4	+ 0.7	+ 1.0	+ 0.8	+ 1.3	+ 0.7

Source: Statistics Canada

Canada has had a (usually substantial) trade surplus with the Community every year since it was formed in 1958.

Trade is largely complementary in character. EC exports to Canada consist largely of a wide range of manufactured goods: industrial machinery, transport equipment (including cars), chemical, clothing, footwear, textiles, consumer durables and manufactured foodstuffs. The proportion of manufactured goods in the total exported has risen from 65% in 1965 to 71% in 1976.

About 80% of Canadian exports to the Community consist of crude and semi-manufactured materials, including minerals, timber and wood pulp, and foodstuffs, especially wheat. The Community is Canada's largest market for agricultural products. Finished goods still account for a modest proportion of exports, though the proportion has risen from 7% in 1966 to 11% in 1976. More than one-half of Canadian exports consist of about 10 products: (in order of importance) wood pulp, wheat, copper and alloys, iron ore, nickel ore, timber, barley, newsprint, asbestos and chemicals. For some of these products the Community is a very important market taking, about half of copper, one-third of wood pulp and about 30% of barley and

asbestos exports. On the other hand a high proportion of the EC's imports of certain items come from Canada: in 1976, 61% for nickel concentrates and unmanufactured asbestos, 48% for wheat, 41% for nickel ore and concentrates and 39% for barley.

Overall, the Community is Canada's second largest trading partner, taking about 11% of Canadian exports (compared with the USA's 69% and Japan's 6%); and it accounts for about 9% of Canadian imports (compared with the USA's 71% and Japan's 4%). Canada, on the other hand, is of much less importance as a trading partner to the Community, accounting for 2.7% of EC imports (eighth largest supplier) and taking 2% of its exports (thirteenth largest market).

The share which both sides hold in each other's overall imports have however been declining rather rapidly. Canada's share in Community imports has fallen from around 5.1% in the sixties to 2.7% in 1976. The Community's share in Canadian imports fell from 14.6% in 1962 to 8.5% in 1976. Indeed, there was in 1976 even a decrease in absolute value of Community exports to Canada over the level of the previous year. Likewise, the proportion of Canadian exports going to the EC fell from 22% in 1962 to 11.9% in 1976 while the share of EC exports going to Canada fell from 3.2% in 1962 to 2% in 1976.

This negative pattern may be ascribed to various factors, some of which are common to most industrialised countries: new trading partners, increased exports of such traditional partners as Japan, increased oil prices, etc. But there are also certain factors special to the Canadian situation.

One is a high degree of integration of the US and Canadian economies. Another factor has been the fact that over the sixties and seventies, while the decline in exports to the original six members of the Community has been only slight, the fall in Canada's share of the British market has been much greater. This trend has been further stimulated by the ending of Canada's privileged position on the British market under the Commonwealth Preference System: while prior to 1973 more than half Canadian exports to the Nine were going to the UK, this proportion fell to about 42% in 1977 (first nine months).

Investment

At the end of 1975 the Community had invested (book value) some \$ 6 billion in Canada. This represented 15% of total foreign investment in Canada and three-quarters of non-US investment (the USA accounts for about 80%). Canadian direct investment in the Community at the same date amounted to some \$ 1.6 bn, representing about 15% of total Canadian investment abroad and one-third of Canadian direct investment overseas (about half of Canadian investment is in the USA).

3. Background to the framework 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 November 1972, Canada addressed an aide-mémoire 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 these consultations, former 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 whole 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 had many reasons for wishing to forge new links with the Community. Above all, she wished to diversify her external relations in general and to add a Community dimension to the already existent good relations with individual EC member countries. But in more material terms, with an overwhelmingly large proportion of her trade being with the USA, Canada wished to develop alternative markets, notably the hitherto fast expanding EC common market. Indeed, the Community of the Six was in 1972 already Canada's third biggest market, following closely behind the U.K. British membership in the EC however, has obviously 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 Community now ranks only behind the USA in importance as a trading partner. Yet the proportion of Canadian exports going to the Community has been declining in recent years (see page 4) (the same is true of imports) and it is hoped that this trend will be reversed. Other major attractions of the Community are its capital resources and investment potential; and Canada's desire for optimal terms of access to European know-how and technology.

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 September 1974), expressing the limited value of merely confirming GATT engagements, preferred an agreement which would constitute 'a broad Community framework for economic and commercial cooperation 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; it considered that these 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 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 as a counterpart to the Canadian Mission accredited to the Community in Brussels.

Initial exploratory conversations took place in Ottawa between Canada and the Commission in February 1975, to be followed by two further series of talks at Brussels in April and Ottawa in May. On 21 May the Commission put forward clear-cut proposals to the Council for the conclusion of the Framework Agreement. In February 1976 the Council adopted the Commission's negotiating mandate and the negotiations opened in March. Rapid progress was made in two negotiating rounds and the agreement was initialled on 2 June and signed on 6 July 1976.

4. Main features of the agreement for commercial and economic cooperation

- 1. The two parties undertake to accord each other *most-favoured-nation* treatment in accordance with the rights and obligations under GATT.
- 2. They undertake to promote the reciprocal development and diversification of trade at the highest level through: international and bilateral cooperation for the solution of trade problems of common

interest, the mutual granting of the widest facilities for commercial transactions, and the taking into account of their respective interests regarding access to and processing of *resources*. They also agree to discourage, in conformity with their legislation, *restrictions of competition* including pricing practices distorting competition carried out by their industrial enterprises.

3. They agree to foster economic cooperation in all fields deemed suitable such as: the development and prosperity of their industries, the encouragement of technological and scientific progress, the opening up of new sources of supply and new markets, creating new employment opportunities, reducing regional disparities, the protection and improvement of the environment and economic development.

With such aims in view they agree to encourage and facilitate industrial links, especially joint ventures, greater reciprocal commercial participation in industrial development on mutually advantageous terms, increased and mutually beneficial investment, technological and scientific exchanges, and joint operations by their respective firms and organisations in third countries.

It is stipulated that the Agreement and subsequent actions will not affect the powers of Member States to undertake *bilateral* economic cooperation activities with Canada.

- 4. The Agreement provides for the setting up of a *Joint Cooperation Committee* to promote and review activities inaugurated under the agreement by holding consultations at an appropriate level. The Committee will normally meet at least annually but special meetings may be held at the request of either party; and subcommittees may be set up where appropriate.
- 5. The agreement is of *indefinite duration* and may be terminated by either party after five years subject to one year's notice.
- 6. There is a separate protocol between the ECSC and its Member States and Canada.

5. Cooperation under the agreement

It is obviously premature, little over one year and a half after the signature of the agreement, to attempt to assess its implementation. Here follows a summary of the types of cooperation embarked upon or envisaged.

The Joint Cooperation Committee (JCC) held its first meeting in December 1976; its second meeting was held at Ottawa on 8 March 1978. The JCC has established two sub-committees, which meet twice a year: the General and Preparatory Cooperation Sub-Committee, which held its second meeting on 18 January 1978, and the Industrial Cooperation Sub-Committee which has held three meetings, the last also on 18 January 1978. The tasks of the General and Preparatory Sub-Committee include the preparation of the work of the JCC and the examination of new areas of cooperation. The role of the Industrial Cooperation Sub-Committee is to promote and monitor joint industrial cooperation ventures.

The sub-committees have established working groups in a number of sectors, notably forestry-based products, nuclear industries, non-ferrous minerals and metals and aerospace. The setting up of similar

groups in other sectors notably coal, iron ore and steel, the environment and science/technology is envisaged or under study. The forestry-based products working group is particularly active and has promoted joint meetings of the industrial confederations of the two parties. In the field of non-ferrous metals important exchange missions have taken place: a mission of Community industrialists and civil servants visited Canada in September 1975, and a mission of Canadian businessmen visited the Community in March, 1977. These missions have led to a number of industrial and technical cooperation projects between Community and Canadian firms, the missions having proved of inestimable value in providing opportunities for the initial contacts. Another type of mission for businessmen was the one organised for 200 Canadian businessmen, journalists and provincial civil servants who visited the Commission in November 1977 for a series of high-level briefings about the Community.

Lastly, the two sides have prepared a joint study of EC/Canada trade and investment flows.

6. Other aspects of EEC/Canada cooperation

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:

- The Euratom/Canada Agreement on Nuclear Cooperation. The agreement, concluded in 1959, provides for research and other cooperation on the development of nuclear power for peaceful purposes. It was renewed for a further period of three years on 16 January 1978, after the re-negotiation of clauses concerning safeguards necessitated by more stringent Canadian policies. The Community currently relies on Canada for one-third of her needs of natural uranium.
- 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 (the tenth round) took place on 19/20 January 1978 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 and includes 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 liberalisation 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 ongoing *North-South* dialogue.
- Community and Canada have been taking a leading part in the work of UNCTAD, having a common concern for the Less Developed Countries (LDCs). Both the Community (since July 1971) and Canada (since July 1975) operate a Generalised System of Preferences to the benefit of LDCs.

1. Canada - Statistical fact sheet

	•	1972	1973	1974	1975	1976	1977
ı.	Population (June) (millions) Labour force (average	21.8	22.1	22.4	22.8	23.1	23.3
	monthly figure) Unemployed (average	8.9	9.3	9.7 -	10.1	10.3	10.6
	monthly figure)	0.56	0.52	0.53	0.70	0.74	0.85
	Rate % of labour force	6.3	5.6	5.4	6.9	7.2	8.0
II.	GNP (\$ Billion)						
	a) Market Prices	103.5	120.4	144.6	161.1	184.5	201.6(¹)
	b) 1971 Prices	99.1	105.9	108.9	111.0	116.1	119.9(1)
III.	Production (A) Manufacturing: Shipments by main industries monthly average						
	(\$ Million)	4624.1	5475.8	6871.5	7299.8	8179.4	8903.6(2)
	(B) Agriculture: annual production of grain:		· .				
	Wheat (million bushels)	533.3	604.7	488.5	624.6	863.5	
	Oats (million bushels)	300.2	326.9	254.7	310.0		
	Barley (million bushels)	518.3	469.6	404.2	436.3	473.1	
	Rye (million bushels) Livestock:	13.5	14.3	18.9	19.7		
	Cattle (slaughtered thousands)	3282	3168	3368	4020	4331	2474(³)
	Pigs (slaughtered thousands)	8999	8721	8965	7656	7393	4463(³)
	Sheep (slaughtered thousands)	215	235	185	187	184	69(³)
	(C) Energy: annual production: Crude oil: million barrels (Reserves: 31.12.1975:						
	38 billion barrels)	621.6	716.4	675,2	575.7	534.4	300.7(3)
	Coal: thousand tons	20709	22604	23445	27911	28095	18842(3)
IV.	Consumer Price Index (1971:100) Increase over previous	104.8	112.7	125.0	138.5	148.9	165.0(4)
	year (%)	4.8	7.6	10.9	10.8	7.5	8.8
	-						

Source: Statistics Canada (1) First six months seasonally adjusted at annual rate

⁽²⁾ January-August monthly average

⁽³⁾ January-July

⁽⁴⁾ October

2. Canadian External trade

(\$ Canadian Billion)

	1971	1972	1973	1974	1975	1976	1976 (9 mths)	1977 (9 mths)
Exports to:								
World	17.8	20.1	25.4	32.4	33.1	38.0	28.3	32.3
U.S.A.	12.0	14.0	17.1	21.3	21.7	25.8	19.1	22.4
E.E.C. (9)	2.6	2.5	3.2	4.0	4.1	4.5	3.3	3.5
Japan	0.8	1.0	1.8	2.2	2.1	2.4	1.8	1.9
Imports from:								
World	15.6	18.7	23.3	31.7	34.6	37.4	27.8	31.3
U.S.A.	10.9	12.9	16.5	21.3	23.6	25.7	19.0	21.8
E.E.C. (9)	1.8	2.2	2.5	3.0	3.3	3.2	2.3	2.8
Japan	0.8	1.1	1.0	1.4	1.2	1.5	1.1	1.3
Balance with:						·		
World	2.2	1.5	2.1	0.7	– 1.5	0.6	0.5	1.1
U.S.A.	1.1	1.1	0.6	0.0	– 1.9	0.1	0.1	0.6
E.E.C. (9)	0.8	0.4	0.7	1.0	0.8	1.3	1.0	0.7
Japan	0.0	- 0.1	0.8	0.8	0.9	0.9	0.7	0.6

Balance of payments - Current account of Canada

(\$ Canadian Billion)

							,	,
	1971	1972	1973	1974	1975	1976	1976 (6 mths)	1977 (6 mths)
Total current receipts								
World	22.8	25.5	31.7	40.3	41.4	46.6	22.8	26.1
U.S.A.	15.2	17.1	20.8	25.6	25.8	29.8	14.6	17.1
U.K.	1.9	1.9	2.2	2.8	2.8	2.9	1.4	1.5
All other countries	5.6	6.2	8.4	11.4	12.3	13.4	6.5	7.2
Total current payments								
World	22.4	26.2	31.7	41.8	46.4	50.9	25.8	29.2
U.S.A.	15.4	17.6	21.6	27.1	30.5	33.7	17.1	20.0
U.K.	1.4	1.6	1.7	2.1	2.2	2.5	1.1	1.2
All other countries	5.6	6.8	8.0	12.1	13.2	14.3	7.2	7.6
Balance:								
World	+ 0.3	— 0.6	(+) 0.0	– 1.5	- 0.5	- 4.3	- 3.0	— 3.1
U.S.A.	- 0.2	- 0.4	– 1.8	1.5	– 4.7	 4.0	- 2.5	- 2.9
U.K.	+ 0.5	+ 0.3	+ 0.5	+ 0.7	+ 0.6	+ 0.5	+ 0.3	+ 0.2
All other countries	(+) O.O	- 0.5	+ 0.4	- 0.7	- 0.9	- 0.9	- 0.8	- 0.5

Source: Statistics Canada

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ELECTIONS TO THE EUROPEAN PARLIAMENT BY DIRECT UNIVERSAL SUFFRAGE

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This latest volume in the series published by the Directorate-General for Research and Documentation of the European Parliament comprises the principal recent texts on direct elections to the European Parliament. Its aim is to provide essential documentation for members of national parliaments in their debates on the electoral Bills necessary to provide for the holding of direct elections and for those who will have to prepare for the debates and inform the public about them.

The brochure contains the Decision of the Council of Ministers of 20 September 1976, to which is annexed the Act governing the holding of direct elections. Then follows the Resolution of the European Parliament of 14 January 1975 embodying the draft Convention on direct elections, on which the Act was based, and which contains a legal commentary on each article and an Explanatory Memorandum.

The debate in the European Parliament on the draft Convention and on the amendments proposed is printed in full, and the resolutions of the European Parliament in 1976 relating to direct elections conclude the documents printed.

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