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TRADE AND INVESTMENT



Canada–European Union

Publication No. 2011-126-E
25 November 2011

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Canada–European Union
(Trade and Investment Series)

HTML and PDF versions of this publication are available on IntraParl
(the parliamentary intranet) and on the Parliament of Canada website.

Ce document est également publié en français.

The Library of Parliament ***Trade and Investment*** series provides information on Canada's trade and investment relationship with selected countries. Particular attention is paid to bilateral merchandise trade, trade in services, and foreign investment. These publications are prepared by the Parliamentary Information and Research Service, which carries out research for and provides information and analysis to parliamentarians and Senate and House of Commons committees and parliamentary associations.

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Merchandise Trade

The European Union (EU) is Canada's second largest trading partner worldwide, behind the United States. In 2010, Canada's bilateral trade with the 27 countries that are currently EU members totalled \$82.3 billion, consisting of \$34.5 billion in Canadian exports to, and \$47.8 billion in imports from, the region.

The EU is growing in importance as a trading partner for Canada, especially as an export destination. Over the 2005 to 2010 period, the value of Canadian exports to the EU grew at an average annual rate of 6.7%, which exceeded the 1.8% annual average decline worldwide. The value of Canadian imports from the EU grew at an average annual rate of 0.8%, which was lower than the 1.2% increase worldwide.

In 1995, Canadian exports to, and imports from, the EU accounted for 6.5% and 10.3% respectively of Canada's total exports and imports. These shares were 8.7% and 11.9% respectively in 2010.

As a result of the global financial and economic crisis, the value of Canadian exports to, and imports from, the EU declined from 2008 to 2009. A return to pre-crisis levels has started, however; the value of Canadian exports to, and imports from, the EU grew by 16% and 6% respectively from 2009 to 2010, compared to increases of 11% and 11% in the value of Canada's exports to, and imports from, the rest of the world.

Ontario and Quebec accounted for the majority of Canadian exports to the EU in 2010, with exports valued at \$17.2 billion and \$7.9 billion respectively. Ontario was the fastest-growing Canadian exporter to the EU over the 2005 to 2010 period, with the value of its exports growing at an average annual rate of 12%.

Figure 1

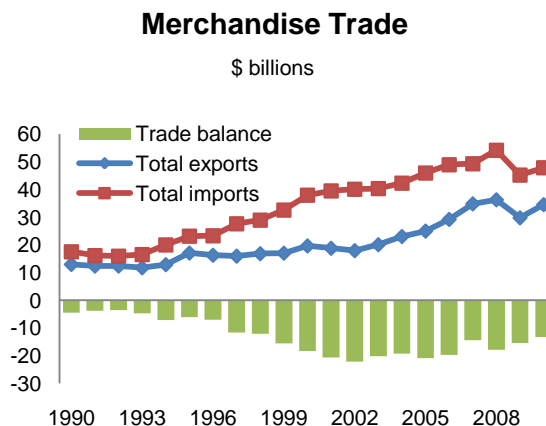


Figure 2

Importance to Canada

Average yearly growth (%): 2005–2010 Share of total trade (%):

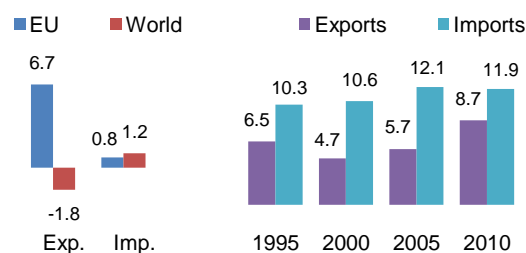
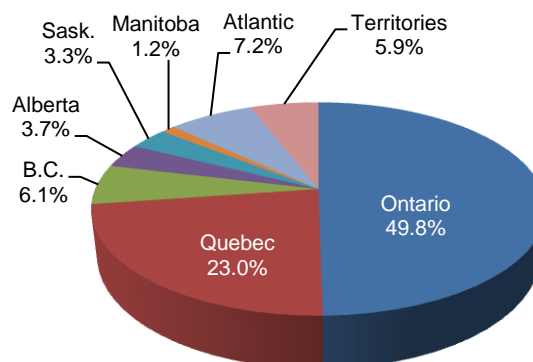


Figure 3

Exports by Province/Territory – 2010



All figures were prepared by the authors using Statistics Canada annual figures as of spring 2011.
The merchandise trade data are customs-based; the services trade and foreign direct investment data are balance of payments-based.

Products

The EU is a significant, and growing, destination for Canadian exports. In 2010, manufactured goods accounted for 54% of the value of Canada's exports to the EU, while resource-based products represented the remaining 46%. This composition is more balanced than in 2005, when manufactured goods and resource-based products accounted for 71% and 29% respectively of the value of Canadian exports to the EU.

In 2010, Canada's highest-valued export products to the EU included gold, aircraft, diamonds, uranium and iron ore, all of which experienced growth over the 2005 to 2010 period. The value of Canadian exports of gold and aircraft to the region increased at an average annual rate of 35% and 34% respectively over the period, while diamonds, uranium and iron ore grew at an average yearly rate of 9%, 7% and 10% respectively.

In 2010, manufactured goods accounted for 90% of the value of Canadian imports from the EU, while resource-based products represented the remaining 10%. This composition is largely unchanged from that in 2005.

Highly valued Canadian import products from the EU in 2010 were in-dosage pharmaceuticals, crude petroleum oil, light petroleum oil, motor vehicles and wine. The value of Canadian imports of certain in-dosage pharmaceuticals, light petroleum oil, motor vehicles and wine from the region grew at average annual rates of 3%, 4%, 9% and 6% respectively over the 2005 to 2010 period; the value of crude petroleum imports declined at an average rate of 5% per year over the period.

In 2010, Canada was a net importer from the EU in most product categories. Only in the metals, mines and energy category and in the "other" category did Canada have trade surpluses with the region in that year. Canada's trade balance in metals, mines and energy with the EU changed from a trade deficit of \$2.0 billion in 2005 to a trade surplus of \$7.2 billion in 2010.

Figure 4

Major Export Products

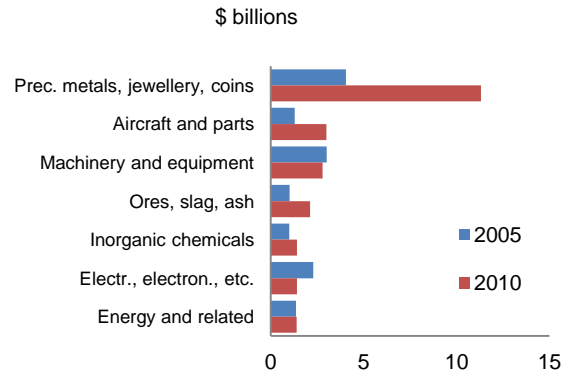


Figure 5

Major Import Products

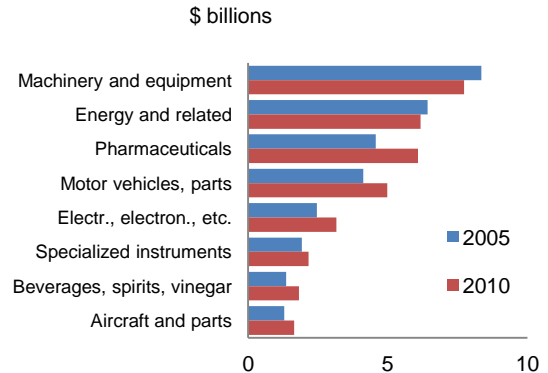
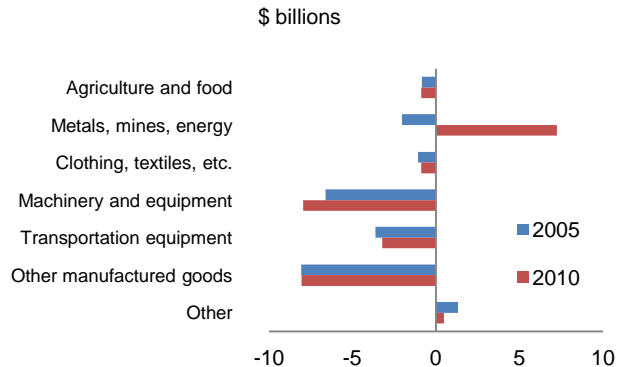


Figure 6

Balance by Category



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Trading Partners

With exports valued at \$16.4 billion, the United Kingdom (U.K.) was Canada's largest export destination in the EU in 2010. In that year, exports to the U.K. accounted for 48% of total Canadian exports to the EU, and they increased considerably in value over the 2005 to 2010 period, in part due to a \$6.6-billion increase in the value of gold exports. In 2010, Germany, the Netherlands and France were Canada's next-largest export destinations in the EU, accounting for 11%, 9% and 7% respectively of the value of Canadian exports to the region.

Canada's imports from the EU are more evenly distributed across countries. Germany and the U.K. were Canada's largest sources of imports in 2010, together accounting for 46% of the value of Canada's imports from the region. In that year, Canadian imports from these two countries were valued at \$11.3 billion and \$10.7 billion respectively. France and Italy were Canada's next-largest sources of imports from the EU in 2010, accounting for 11% and 10% respectively of the value of Canadian imports from the region.

Twelve countries have joined the EU since 2004, but EU expansion has not had a major effect on Canada–EU trade. The 12 newest EU members account for a relatively small proportion of the value of Canada's total trade with the region. In 2010, 3% of the value of Canada's exports to, and 6% of the value of imports from, the EU were linked to the region's 12 newest members.

That said, the value of Canada's imports from the 12 newest EU members is growing more rapidly than its imports from the pre-2004 EU-15 members. Over the 2005 to 2010 period, the value of Canadian imports from the EU-12 grew at an average annual rate of 4.4% compared to 0.6% for the EU-15. However, growth in the value of Canadian exports to the EU-15 slightly exceeded growth to the EU-12 over the period, with average yearly growth rates of 6.7% and 6.0% respectively.

Figure 7

Major EU Export Destinations

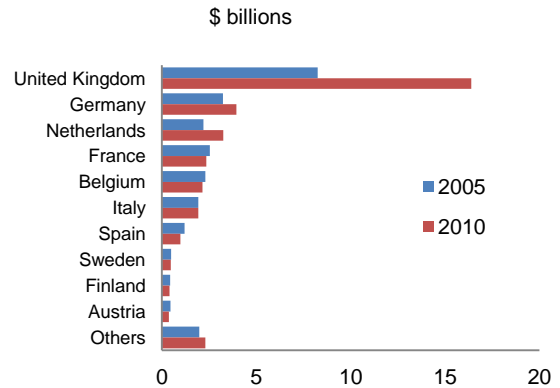


Figure 8

Major EU Sources of Imports

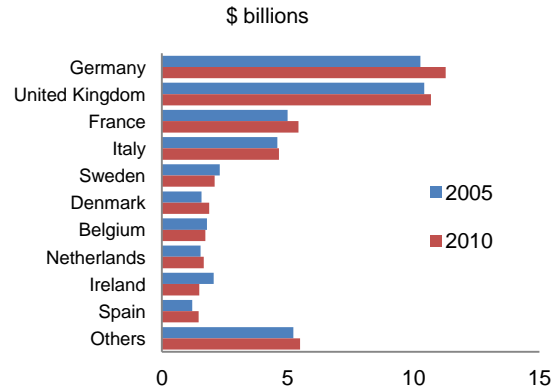
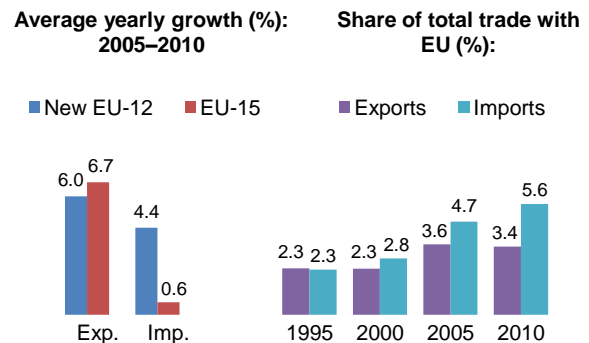


Figure 9

Trade with New EU Members



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Services

The EU was Canada's second largest trading partner in services worldwide in 2010, behind the United States. Canada's bilateral services trade with the EU in that year totalled \$28.0 billion, comprised of \$12.9 billion in services exports to, and \$15.1 billion in services imports from, the region.

In 2010, Canada's services exports to the EU accounted for 18% of the value of total Canadian services exports, and services imports from the region accounted for 16% of total Canadian services imports. While the value of Canada-EU services trade has increased overall over the past 20 years, it has declined somewhat since 2008.

Canada was a net importer of transportation and government services as well as travel services from the EU in 2010. However, it had a surplus in commercial services trade with the EU in that year. Over the 2005 to 2010 period, Canadian services exports to, and imports from, the region remained relatively steady across most services categories. Most of the growth in the value of Canadian services imports from the EU over the period was in the commercial services category, with an average annual growth rate of 6%.

Within the EU, the U.K. is Canada's largest services trading partner. In 2009, the most recent year for which country-specific data are available, the U.K. accounted for 33% of the value of Canada's services exports to, and 31% of the value of imports from, the region.

Canada's fastest-growing services export destinations in the EU over the 2004 to 2009 period were Greece, Spain, the Netherlands and Poland. The fastest-growing sources of Canadian services imports from the EU over that period were Belgium, Luxembourg, Sweden and Ireland.

Figure 10

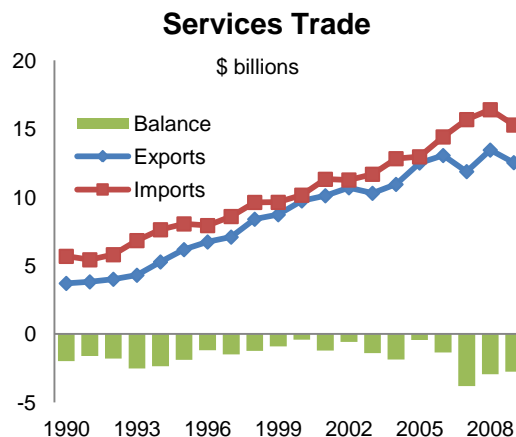


Figure 11

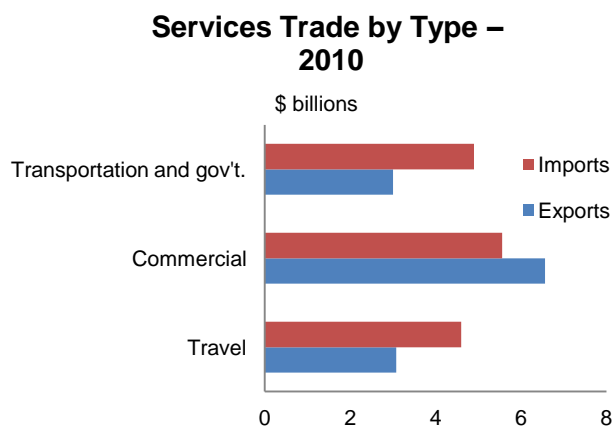


Figure 12



All figures were prepared by the authors using Statistics Canada annual figures as of spring 2011.
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Investment

Worldwide, the EU is Canada's second largest source of, and destination for, foreign direct investment, behind the United States. The stock of Canadian direct investment in the EU totalled \$145.5 billion in 2010, accounting for 24% of Canada's total direct investment abroad. Similarly, the stock of direct investment in Canada from the EU totalled \$148.8 billion in 2010, accounting for 27% of total foreign direct investment in Canada.

Direct investment by Canada in the EU and by the EU in Canada has increased significantly over time. That said, the stock of Canadian direct investment in the EU decreased by 11% from 2009 to 2010. Direct investment by the EU in Canada experienced growth of 0.3% from 2009 to 2010, but the stock of this investment has not returned to the 2008 level of \$154.3 billion.

As with trade in merchandise and services, the U.K. was Canada's most important investment partner in the EU in 2010. In that year, the U.K. accounted for 48% of Canada's investment presence in the EU, and was the source of 28% of direct investment by the region in Canada.

Canada's fastest-growing investment destinations in the EU over the 2005 to 2010 period were Luxembourg, Cyprus, Romania and Hungary. The fastest-growing sources of direct investment by the EU in Canada over the period were Spain, Luxembourg and the Netherlands.

The EU was a net investor in Canada in the energy and mining industry in 2010, and Canada was a net investor in the EU in the finance and insurance industry as well as in the services and retailing industry. Canada's energy and mining industry has experienced relatively substantial growth in inbound direct investment from the EU in recent years, with an average annual growth rate of 30% over the 2005 to 2010 period.

Figure 13

Foreign Direct Investment

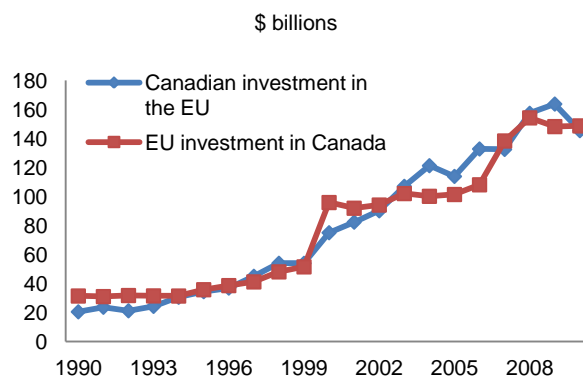


Figure 14

Investment by Country – 2010

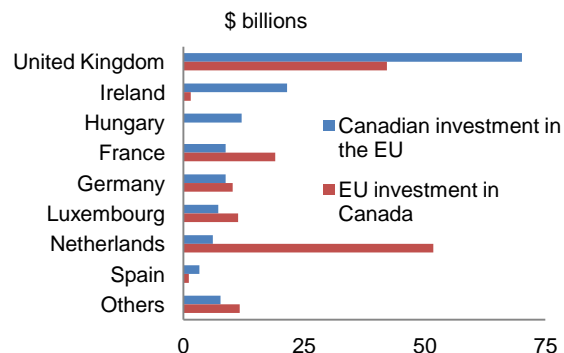
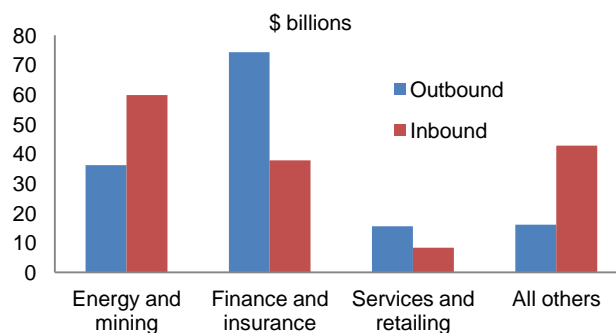


Figure 15

Investment by Industry – 2010



All figures were prepared by the authors using Statistics Canada annual figures as of spring 2011.
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