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Canada's Merchandise Trade with European Union: 1995 to 2004

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Note of Appreciation

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Overview

While two way trade between Canada and the EU accounted for 8% of Canada's total trade in 2004, the same as a decade earlier, Canada has seen its trade balance with the EU move ever further into a deficit position. Canadian imports from the EU have increased at twice the annual rate of our exports to the EU since 1995.

Imports of machinery and mechanical appliances have had the biggest impact on the trade deficit with the EU. However, the trade deficit in pharmaceutical products has emerged as a major down force on Canada's balance of trade with the EU as imports of pharmaceuticals from the EU accounted for half of Canada's total imports of pharmaceuticals in 2004.

Only the recent discovery of diamonds in Canada's North has stemmed the ever increasing deficit with the EU. Exports of this commodity have skyrocketed since 1998. Conversely, wood pulp, the primary Canadian export to the EU in 1995, has seen its export values decline steadily since 2000, leaving the value of exports to the EU at less than half of what they were in 1995.

Ontario and Quebec contribute the greatest amount to the trade deficit, while British Columbia, Saskatchewan and the Northwest Territories record the only positive trade balances by 2004. Nova Scotia relies the most on exports to the EU, with 11% of their total exports shipped to the EU in 2004.

Recently, Canada's trade balance with the EU has been impacted by three significant developments: exports of pulp and paper, a traditionally big export to the EU, have slipped considerably; exports of diamonds from the North have increased sharply; and, pharmaceutical imports from the EU have increased dramatically.

Highlights

- Canada's trade deficit with the EU stood at \$19.3 billion in 2004, down only slightly from a record high of \$21.5 billion in 2002.
- Of Canada's major trade partners, only imports from China have grown at a faster pace than the EU since 1995.
- Two way trade between Canada and the EU represents 8% of Canada's total trade in 2004, the same as it did a decade earlier.
- Canada imported \$8.5 billion worth of pharmaceuticals from the EU in 2004. This represents almost half of our total pharmaceutical imports for that year.
- Diamonds have emerged as Canada's biggest export to the EU, reaching just over \$3.2 billion in 2004.
- The value of wood pulp exports from Canada to the EU has declined by more than half since 1995, to \$1.3 billion in 2004.
- Nova Scotia relied on the EU for 11% of its total exports in 2004, highest among the provinces.

Findings

Canada's total trade with the European Union (EU) has increased considerably. From 1995 to 2004, our exports have risen 36% for an annual compound average of 3.5%, while imports from the EU have increased by more than 86%, for an annual average of 7.1% during the same period.¹ These differing rates of growth have resulted in an increasing trade deficit with the EU.

Table 1a. Size of Canadian trade by selected countries, 1995 and 2004

| Year | European Union | | United States | | Japan | | China | |
|---------------------|----------------|---------|---------------|---------|---------|---------|---------|---------|
| | Imports | Exports | Imports | Exports | Imports | Exports | Imports | Exports |
| millions of dollars | | | | | | | | |
| 1995 | 22,617 | 16,654 | 150,682 | 207,753 | 12,094 | 12,061 | 4,639 | 3,646 |
| 2004 | 41,984 | 22,599 | 208,872 | 348,186 | 13,364 | 8,529 | 24,083 | 6,614 |

Data source: Statistics Canada, 2005, International Trade Division.

Table source: Statistics Canada, 2005, Canada's Merchandise Trade with the European Union, 1995 to 2004, catalogue number 65-507-MWE2005006.

Table 1b. Change in share of Canadian trade by selected countries, 1995 and 2004

| Change | European Union | | United States | | Japan | | China | |
|---------------------|----------------|---------|---------------|---------|---------|---------|---------|---------|
| | Imports | Exports | Imports | Exports | Imports | Exports | Imports | Exports |
| percentage | | | | | | | | |
| Annual ¹ | 7.1 | 3.4 | 3.7 | 5.9 | 1.1 | -3.8 | 20.1 | 6.8 |
| Period ² | 86 | 36 | 39 | 68 | 11 | -29 | 419 | 81 |

1. "Annual" refers here to year-over-year change.

2. The reference period is from 1995 to 2004.

Data source: Statistics Canada, 2005, International Trade Division.

Table source: Statistics Canada, 2005, Canada's Merchandise Trade with the European Union, 1995 to 2004, catalogue number 65-507-MWE2005006.

At 86% the growth of imports from the EU since 1995 has eclipsed that of several of Canada's other leading trade partners, including the United States. Canadian imports from the U.S. have increased by 39% during the last decade, while Canadian imports from Japan increased by just 11% during the same period. Only Canada's imports from China have grown at a greater pace than that of the EU.

Since 1995, Canada's trade position relative to the EU has deteriorated significantly. While most of Canada's major import commodities from the EU have remained the same, the emergence of imports of pharmaceuticals has had a significant impact on Canada's trade position. Imports of pharmaceuticals have increased at an annual rate of 23% since 1995, reaching \$4.2 billion in 2004. It is important to note, however, that Canada's trade deficit with the EU has narrowed since 2002, based, primarily, on the strength of exports of diamonds from the Northwest Territories. Without this increase in exports, Canada's trade deficit with the EU would have reached a record level in 2004.

1. The term 'annual average' used in the text refers to a compound annual average.

Two way trade between Canada and the EU accounted for 8% of Canada's total trade in 2004, identical to a decade earlier. The proportion of total Canadian exports destined for the EU declined steadily, while the share of Canadian imports originating in the EU has increased. Canada's exports to the EU represented 6% of our world exports in 1995 and by 2004 this had decreased to 5%. At the same time, the EU's share of Canada's total imports has increased from 10% in 1995 to 12% by the end of 2004.

Imports: driven by increasing pharmaceutical products

Canada's import mix from the EU varied little over the 1995 to 2004 period. Canada imports primarily finished goods. Mineral oils and organic chemicals are the only non-finished goods to have cracked the top five import commodities at any time during the period under review. In fact, all of the top three commodities with positive trade balances in 2004 were natural resource commodities, while the top three negative trade balances were all manufactured goods.

Table 2a. Top Canadian imports from the European Union and their share of total imports, 1995

| Commodity | Imports from the European Union millions of dollars | Share ¹ of total imports from the European Union percentage | Value of total Canadian imports millions of dollars | European Union share ² of total commodity imports percentage |
|---|--|---|--|--|
| Machinery, boilers, mechanical appliances | 4,577 | 20 | 42,389 | 11 |
| Electrical machinery and equipment | 2,191 | 10 | 29,514 | 7 |
| Mineral fuels, oils | 1,693 | 7 | 8,187 | 21 |
| Vehicles and accessories | 1,541 | 7 | 41,340 | 4 |
| Organic chemicals | 1,085 | 5 | 3,716 | 29 |

Notes:

1. In this column, the share of total imports from the EU is expressed as a percentage of the total value of the top five commodity imports from the EU.
2. In this column, the EU share of total commodity imports is shown for each commodity group, and is expressed as a percentage of the value of total Canadian imports for that commodity group.

Data source: Statistics Canada, 2005, International Trade Division.

Table source: Statistics Canada, 2005, Canada's Merchandise Trade with the European Union, 1995 to 2004, catalogue number 65-507-MWE2005006.

Table 2b. Top Canadian imports from the European Union and their share of total imports, 2004

| Commodity | Value of imports from the European Union millions of dollars | Share ¹ of total imports from the European Union percentage | Value of total Canadian imports millions of dollars | European Union share ² of total commodity imports percentage |
|---|---|---|--|--|
| Machinery, boilers, mechanical appliances | 7,529 | 18 | 58,438 | 13 |
| Mineral fuels, oils | 4,364 | 10 | 25,203 | 17 |
| Pharmaceutical products | 4,186 | 10 | 8,533 | 49 |
| Vehicles and accessories | 3,988 | 9 | 64,398 | 6 |
| Electrical machinery and equipment | 2,739 | 7 | 36,575 | 7 |

Notes:

1. In this column, the share of total imports from the EU is expressed as a percentage of the total value of the top five commodity imports from the EU.
2. In this column, the EU share of total commodity imports is shown for each commodity group, and is expressed as a percentage of the value of total Canadian imports for that commodity group.

Data source: Statistics Canada, 2005, International Trade Division.

Table source: Statistics Canada, 2005, Canada's Merchandise Trade with the European Union, 1995 to 2004, catalogue number 65-507-MWE2005006.

Canada's primary import from the EU is machinery (dominated by aircraft engines) and this commodity has recorded the highest value of imports for every year from 1995 to 2004. Imports of this commodity reached a record \$7.5 billion in 2004. This increase has not only been in absolute terms, but in relative terms as well. The EU's share of Canada's total imports of machinery has increased from 11% in 1995 to 13% in 2004.

Canadian imports of pharmaceutical products from the EU surged during the period under review registering an almost 7-fold increase from just over \$630 million in 1995 to \$4.2 billion in 2004. In addition, the share of Canada's total imports of pharmaceutical products originating in the EU has increased from 31% in 1995 to 49% by 2004. This increase was likely due to a surge in demand for age-related drugs caused by shifting demographics.

The EU accounted for 4% of Canada's total imports of vehicles and accessories in 1995; this increased to 6% a decade later. The relative importance of vehicles to total imports from the EU increased as well, moving to 9% in 2004 from 7% a decade earlier. At over \$64 billion in 2004 vehicle imports are the single largest commodity imported into Canada.

Both the overall level of imports of mineral fuels and oils into Canada and the level of imports from the EU have increased from 1995 to 2004. However, the rate of increase in total imports of these goods has vastly outpaced that of imports from the EU and, as a result, the EU share of the total has decreased. Imports of mineral fuels and oils from the EU have more than doubled, to \$4.4 billion in 2004, but the EU share of Canada's total imports of mineral fuels and oils have declined from 21% of total imports of mineral fuels and oils in 1995 to just 17% in 2004.

Emergence of diamond exports

In 2004, three of the top five Canadian exports to the EU were finished goods, including machinery, electronic equipment and aircraft. These same commodities were also included in the top imports from the EU to Canada and, combined, produced a Canadian trade deficit of \$6 billion.

Table 3a. Top Canadian exports to the European Union and their share of total exports, 1995

| Commodity | Value of exports to the European Union millions of dollars | Share ¹ of total exports to the European Union percentage | Value of total Canadian exports millions of dollars | European Union's share ² of total commodity exports percentage |
|---|---|---|--|--|
| Wood pulp | 3,064 | 18 | 11,082 | 28 |
| Machinery, boilers, mechanical appliances | 1,688 | 10 | 23,631 | 7 |
| Ores, slag and ash | 1,141 | 7 | 2,852 | 40 |
| Aircraft, spacecraft, and parts | 959 | 6 | 4,095 | 23 |
| Wood and articles of wood | 882 | 5 | 14,495 | 6 |

Notes:

1. In this column, the share of total exports to the EU is expressed as a percentage of the total value to the EU.
2. In this column, the EU share of total commodity exports is shown for each commodity group, and is expressed as a percentage of the value of total Canadian exports for that commodity group.

Data source: Statistics Canada, 2005, International Trade Division.

Table source: Statistics Canada, 2005, Canada's Merchandise Trade with the European Union, 1995 to 2004, catalogue number 65-507-MWE2005006.

Table 3b. Top Canadian exports to the European Union and their share of total exports, 1995

| Commodity | Value of exports to the European Union millions of dollars | Share ¹ of total exports to the European Union percentage | Value of total Canadian exports millions of dollars | European Union's share ² of total commodity exports percentage |
|---|---|---|--|--|
| Precious stones and metals | 3,276 | 14 | 6,547 | 50 |
| Machinery, boilers, mechanical appliances | 2,680 | 12 | 32,700 | 8 |
| Electrical machinery and equipment | 2,026 | 9 | 18,854 | 11 |
| Wood pulp | 1,396 | 6 | 7,311 | 19 |
| Aircraft, spacecraft, and parts | 1,464 | 6 | 9,515 | 15 |

Notes:

1. In this column, the share of total exports to the EU is expressed as a percentage of the total value to the EU.
2. In this column, the EU share of total commodity exports is shown for each commodity group, and is expressed as a percentage of the value of total Canadian exports for that commodity group.

Data source: Statistics Canada, 2005, International Trade Division.

Table source: Statistics Canada, 2005, Canada's Merchandise Trade with the European Union, 1995 to 2004, catalogue number 65-507-MWE2005006.

The value of wood pulp exports to the EU declined by 54% from 1995 to 2004. This commodity fell from the highest export value, representing 18% of total exports to the EU in 1995, to just 6% of total exports a decade later. While the overall level of exports of this commodity fell, exports of wood pulp to the EU recorded an even greater drop in their share of exports, falling from 28% of Canada's total exports of this commodity in 1995, to just 19% in 2004. The bulk of the decline occurred in 1996, when the value of exports fell by almost half from 1995 levels.

Canada's total world exports of wood and wood products surged from 1995 to 2004, but our exports to the EU declined, driving down the share of exports of this commodity from 6% of the total in 1995 to just 2% by 2004. This commodity was driven down, principally, by a drop in exports of softwood lumber.

The picture for exports over the period would have been significantly worse were it not for our diamond exports from the North. Canadian exports of precious stones and metals increased from just under \$200 million in 1995 to a staggering \$3.3 billion by 2004, of which diamonds accounted for half this value. Companies have exported more than \$6 billion worth of diamonds since 1998 from mines in Canada's North. Production is expected to surge with two additional mines to come on-line by 2006. The EU is the principal destination for Canada's exports of diamonds, as most of the world's supply are sorted and sold through either Antwerp (Belgium) or London.²

While Canada's export mix to the EU has changed over the period under review, the commodities driving our trade deficit have remained quite similar. Indeed, in 2004, the highest trade surplus of any finished manufactured good was ships and boats, in 10th place. Primary industry commodities such as oils seeds and grains, ores, cereals, nickel and wood pulp, have enjoyed a positive trade balance for the entire decade. Based on balance of trade, Canada's top five commodities included no manufactured goods and accounted for a combined positive trade balance of \$6.5 billion in 2004.

2. *Diamonds: Adding luster to the Canadian economy*, Publication # 11-621-MIE2004008, Statistics Canada. January 2004.

Canada's trade deficit with the EU has increased significantly

Over the last decade Canada has seen its trade deficit with the EU increase significantly. From 1995 to 2004, Canada's exports to the EU increased by a modest annual growth rate of just 3.5%. During the same period, however, the level of imports from the EU had almost doubled, resulting in an annual growth rate of 7.1%, more than double the growth rate of exports.

Table 4a. Canada's trade balance with the European Union, 1995 to 2004

| Year | Exports | Imports millions of dollars | Balance |
|------|---------|--------------------------------|---------|
| 1995 | 16,654 | 22,617 | -5,963 |
| 1996 | 15,738 | 22,738 | -6,999 |
| 1997 | 15,426 | 26,923 | -11,498 |
| 1998 | 16,233 | 28,161 | -11,938 |
| 1999 | 16,567 | 31,796 | -15,299 |
| 2000 | 19,164 | 36,869 | -17,705 |
| 2001 | 18,396 | 38,462 | -20,065 |
| 2002 | 17,471 | 38,995 | -21,524 |
| 2003 | 19,385 | 39,001 | -19,617 |
| 2004 | 22,599 | 41,984 | -19,385 |

Data source: Statistics Canada, International Trade Division.

Table source: Statistics Canada, 2005, Foreign Control of Canada's Merchandise Exports, 2002, catalogue number 65-507-MIE2005004.

Table 4b. Compound annual change in Canada's trade balance with the European Union, 1995 to 2004

| Period from 1995 to 2004 | Exports | Imports percentage | Balance |
|--------------------------|---------|-----------------------|---------|
| Compound annual change | 3.5 | 7.1 | 14 |

Data source: Statistics Canada, International Trade Division.

Table source: Statistics Canada, 2005, Foreign Control of Canada's Merchandise Exports, 2002, catalogue number 65-507-MIE2005004.

The annual rate of increase in imports from the EU (7.1%) is second only to the explosive growth seen in imports from China. Imports from the U.S., Canada's leading source of imports, increased by an annual average of only 3.7% by comparison.

Since 2002, exports to the EU have increased at a significantly faster rate than imports, resulting in a reduction in the trade deficit to approximately \$19 billion in 2004. While imports from the EU have increased every year since 1995, reaching \$42 billion in 2004, the growth has slowed considerably since 2000, with yearly increases in imports sliding from 16% from 1999/2000 to just 8% from 2003/2004.

Nova Scotia exports greatest proportion to the EU

Nova Scotia's exports to the EU accounted for 11% of their total exports in 2004, the largest percentage of all provinces. In terms of dollar value, however, Quebec and Ontario were the biggest sources of exports to the EU, accounting for over half of total exports for every year from 1995 to 2004. These two provinces also dominate the import side of Canada's trade with the EU, accounting for approximately 80% of total imports for each year from 1995 to 2004. Quebec relies more on exports to the EU than does Ontario (9% of their total exports versus 4% for Ontario).

In nearly all provinces, the proportion of exports destined for the EU declined from their 1995 levels. The lone exception was Ontario, which saw a small increase of 0.4% over the period.

Exports from Ontario to the EU have increased at an annual rate of 6%, the highest of any province. However, this was not the largest growth, as the Northwest Territories, on the strength of the burgeoning diamond trade, saw their exports increase at an annual rate of 26%. At the opposite end of the spectrum is British Columbia, where exports to the EU fell by \$650 million from 1995 to 2004 and were concentrated in wood pulp exports. In proportional terms, New Brunswick recorded the largest percentage decline, with an average annual decrease of 5%.

Of all provinces, only British Columbia and Saskatchewan recorded annual surpluses in trade with the EU for each of the ten years under study. The trade surplus in British Columbia was just over \$1.8 billion in 1995 and has been deteriorating throughout the period. By 2004, the balance had shrunk to \$367 million. In Saskatchewan, there was little variation in the trade balances over the period, with most coming in at around the \$500 million mark. This difference in variation between the two provinces is attributable to the different commodities that make up the bulk of trade from the provinces. In British Columbia, imports were driven by the manufacturing based commodities, and exports by the more volatile resource commodities, while in Saskatchewan, the main engine of exports were resource industries and imports were spread evenly across commodities.

Prior to 2000, Ontario recorded the largest trade deficit with the EU. This trade deficit was concentrated in the manufacturing sector, specifically, machinery and equipment. While Ontario's exports of machinery and equipment to the EU have changed little from 1995 to 2004, staying at around the \$1 billion level, imports from the EU have increased considerably. In 1995 Ontario imported approximately \$2 billion of this commodity and by 2004, imports had jumped to over \$3.5 billion. The result is an average annual increase of 6.5%.

Methodology

Note to readers: In order to facilitate year over year comparisons, this paper uses the EU as of December 2004. The countries as of that date are included in the composition of the EU trade data for each year from 1995 to 2004, regardless of actual year of inclusion.

The EU includes: Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.