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CETA@5

Delivering trade benefits during unprecedented times

September 2022



Cette publication est aussi disponible en français sous le titre : *AECG@5 : Générer des avantages commerciaux dans une période sans précédent*

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## Key points

- Trade between Canada and the EU has seen impressive growth since CETA implementation. Despite the COVID-19 pandemic, two-way trade grew to a record high of \$100 billion in 2021, an increase of 33.7 percent compared to the 2016 level, and outpacing the 18.6 percent growth recorded by overall Canadian merchandise trade over the same period.
- Canadian exports to the EU reached a record high of \$32.5 billion in 2021, an increase of 46.4 percent from 2016. Over the same period, Canadian merchandise imports from the EU rose 28.4 percent. The number of Canadian firms exporting to the EU increased significantly over this period, the large majority being SMEs.
- Canadian exports that received tariff reductions from CETA grew 24.6 percent between 2016 and 2021. Products that saw the largest tariff reductions experienced the fastest growth: those that experienced a tariff reduction of more than 10 percentage points grew by 54.5 percent; those that received a reduction of between 5 and 10 percentage points grew by 36.2 percent; and those witnessing a reduction of between 0.1 and 5 percentage points grew by 19.5 percent.
- CETA is supporting increased trade in environmental goods, helping both Canada and EU member states achieve their climate change goals. Trade in environmental goods between Canada and the EU grew 21.8 percent in 2021 compared to 2016.
- The utilization of CETA preferences was 65.4 percent in 2021 for Canadian exports to the EU, an increase of 13.4 percentage points when compared to 2018. The utilization of CETA preferences for imports by Canada from the EU was slightly lower at 59.5 percent in 2021, but a sharp increase from the 38.4 percent utilization rate in 2018.
- Thanks to CETA, it is estimated that as much as \$890.6 million was saved in duties in 2021 alone, which contributes to increased competitiveness for Canadian businesses and reduced prices for Canadian consumers. Nevertheless, if CETA preferences were fully utilized, an additional \$415.5 million in savings could be realized.



## Canada-EU Trade Performance<sup>1</sup>

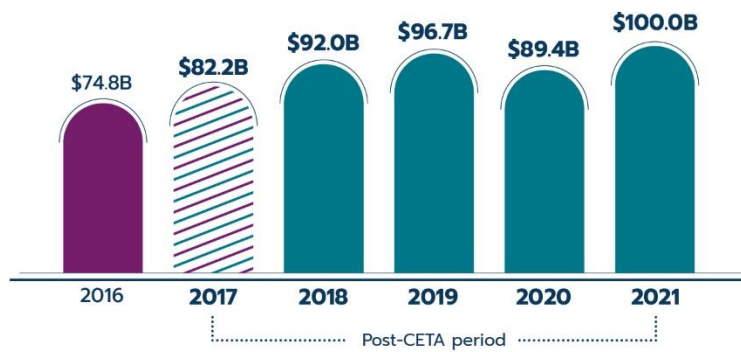
### Overview

As a group, the 27 European Union members<sup>2</sup> (referred to as the EU hereafter), represent Canada's third largest merchandise trading partner after the United States and China. In 2021, the EU accounted for 4.8 percent of Canada's merchandise exports (the 2<sup>nd</sup> most important destination for Canadian merchandise exports) and 11.0 percent of Canada's merchandise imports (the 3<sup>rd</sup> largest source).<sup>3,4</sup>

On September 21, 2017, the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) provisionally entered into force, meaning that 2022 marks the fifth anniversary of the agreement. Two-way merchandise trade between Canada and the EU improved almost every year since CETA implementation (except in 2020), growing to a record high of \$100 billion in 2021, an increase of 33.7 percent compared to the level recorded in 2016 – the last full-year before preferential tariff treatment under CETA was applicable. For comparison, overall Canadian merchandise trade expanded by 18.6 percent over the same period.

Furthermore, despite global economic challenges due to the COVID-19 pandemic heavily disrupting international trade flows in 2020, trade between Canada and the EU proved to be relatively resilient. Trade contracted by 7.6 percent in 2020 (compared to a 10.7 percent decline for overall Canadian merchandise trade), and it quickly rebounded in 2021 to 3.4 percent above its pre-pandemic level in 2019.<sup>5</sup>

Canada-EU bilateral merchandise trade



Data: Eurostat and Statistics Canada

<sup>1</sup> Unless otherwise noted, all figures use data from Statistics Canada for Canadian imports, and EU import data from Eurostat for Canadian exports. All figures are in Canadian dollars, and figures originally in Euros have been converted to Canadian dollars using the annual average exchange rate of the Bank of Canada at the following exchange rates: 2016 (1.4660), 2017 (1.4650), 2018 (1.5302), 2019 (1.4856), 2020 (1.5298), and 2021 (1.4828).

<sup>2</sup> The United Kingdom is excluded from the analysis in this report.

<sup>3</sup> Based on Statistics Canada data.

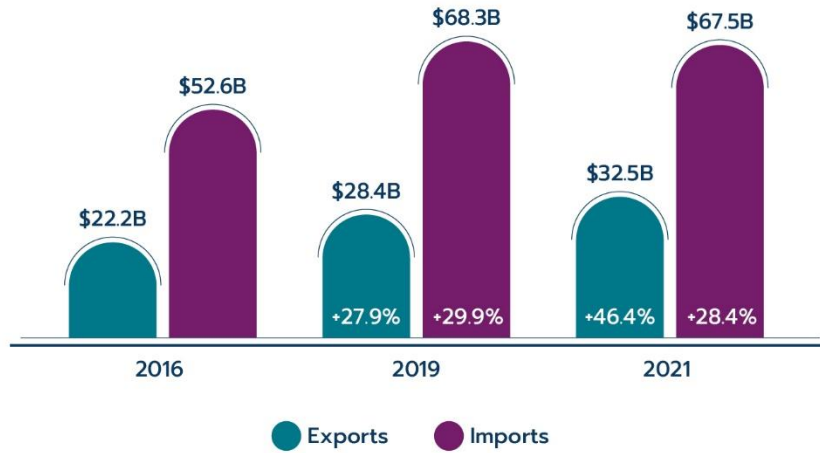
<sup>4</sup> This report aims to examine Canada-EU trade performance under CETA by providing descriptive statistics since the agreement's implementation. However, the findings in this report must be interpreted with caution, as changes highlighted may not be completely attributed to the agreement because there were other factors at play influencing international trade flows such as the pandemic.

<sup>5</sup> 2019 values are presented throughout this report as pre-pandemic benchmarks.



Canadian merchandise exports to the EU recorded exceptional growth since the agreement came into force. From 2016 to 2021, they expanded from \$22.2 billion to a record high of \$32.5 billion, an increase of 46.4 percent.<sup>6</sup> Over the same period, Canadian merchandise imports from the EU rose 28.4 percent to \$67.5 billion in 2021.

### Canadian merchandise exports to and imports from the EU, 2016-2021



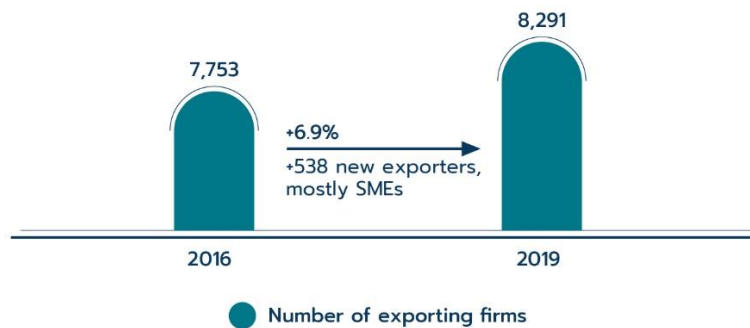
\* Growth from pre-CETA levels  
Data: Eurostat and Statistics Canada

<sup>6</sup> Growth figures are reports as simple % changes over the periods specified and are not compounded in this document.

## A growing number of Canadian firms trade with the EU

In addition to the impressive growth in trade values, the number of Canadian businesses that engage in trade with the EU has also increased since CETA implementation. From 2016 to 2019,<sup>7</sup> the number of Canadian firms that exported goods to the EU rose from 7,753 to 8,291. Small and medium-sized enterprises (SMEs) were the main driver of this growth, expanding from 7,295 SME exporters in 2016 to 7,787 in 2019. Moreover, 11.7 percent of Canadian firms exporting to the EU are majority-owned by women, making the EU one of the most important destinations for women-owned firms.<sup>8</sup> Over the same period, the number of Canadian firms that imported goods from the EU increased by 6.2 percent, from 45,472 in 2016 to 48,286 in 2019. It is broadly the case that there are far more firms that import than export, and this is no different for Canada's trade with the EU.

### Number of Canadian firms that export to the EU, 2016-2019



Data: Statistics Canada

## Trade by partner

The expansion in Canadian merchandise exports to the EU since CETA implementation was mainly due to increased exports to five EU member states: the Netherlands, Germany, Belgium, France, and Spain. These five members accounted for 85 percent of the total increase in Canadian exports to the EU. Germany is Canada's largest export destination in the region. Led by increased exports of Mineral ores (iron ores) and Precious stones and metals, Canadian exports to Germany increased by \$1.7 billion, or 36.4 percent, since 2016. Over the same period, Canadian exports to the Netherlands posted the largest growth among all EU members by far, advancing by 116.2 percent, or \$2.8 billion, since 2016, largely as a result of higher exports of Mineral ores, Aluminum, and Energy products. Canadian exports to Belgium and France also recorded impressive growth, primarily due to increased shipments of Precious stones and metals and Pharmaceutical products to Belgium and Mineral ores to France.

Despite the importance of these five members, growth in Canadian exports to the EU was widespread and a number of less traditional trade partners saw especially rapid expansion. Canadian exports to Latvia, the Czech Republic, Greece, Poland, Bulgaria, and Lithuania grew by more than 230 percent, or nearly \$1.5 billion.

At the sector level, three of the top five Canadian export sectors registered impressive growth since 2016. Ores, slag and ash was the top export sector for Canada, posting the largest growth at 163.2 percent, or \$4.1 billion. Precious stones and metals (+87.0 percent) and Mineral fuels and oils (+63.2 percent) also

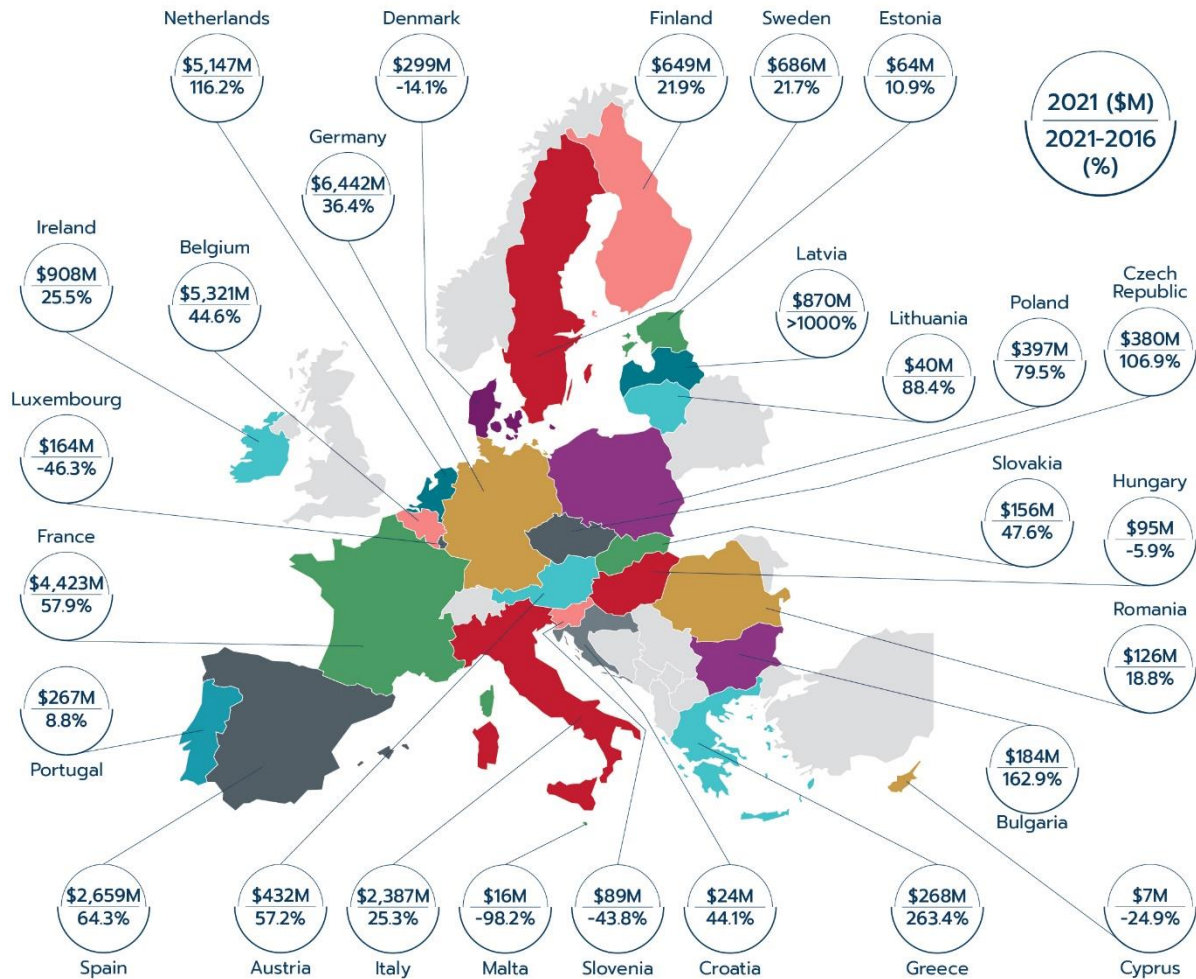
<sup>7</sup> Latest data available.

<sup>8</sup> As of 2018, the latest data available.



recorded strong growth over this period. On the other hand, Canadian exports of Aircraft and parts contracted by 18.7 percent, while Machinery exports fell by 9.3 percent from 2016 to 2021.

### Canadian merchandise exports to the EU by country, 2016 - 2021



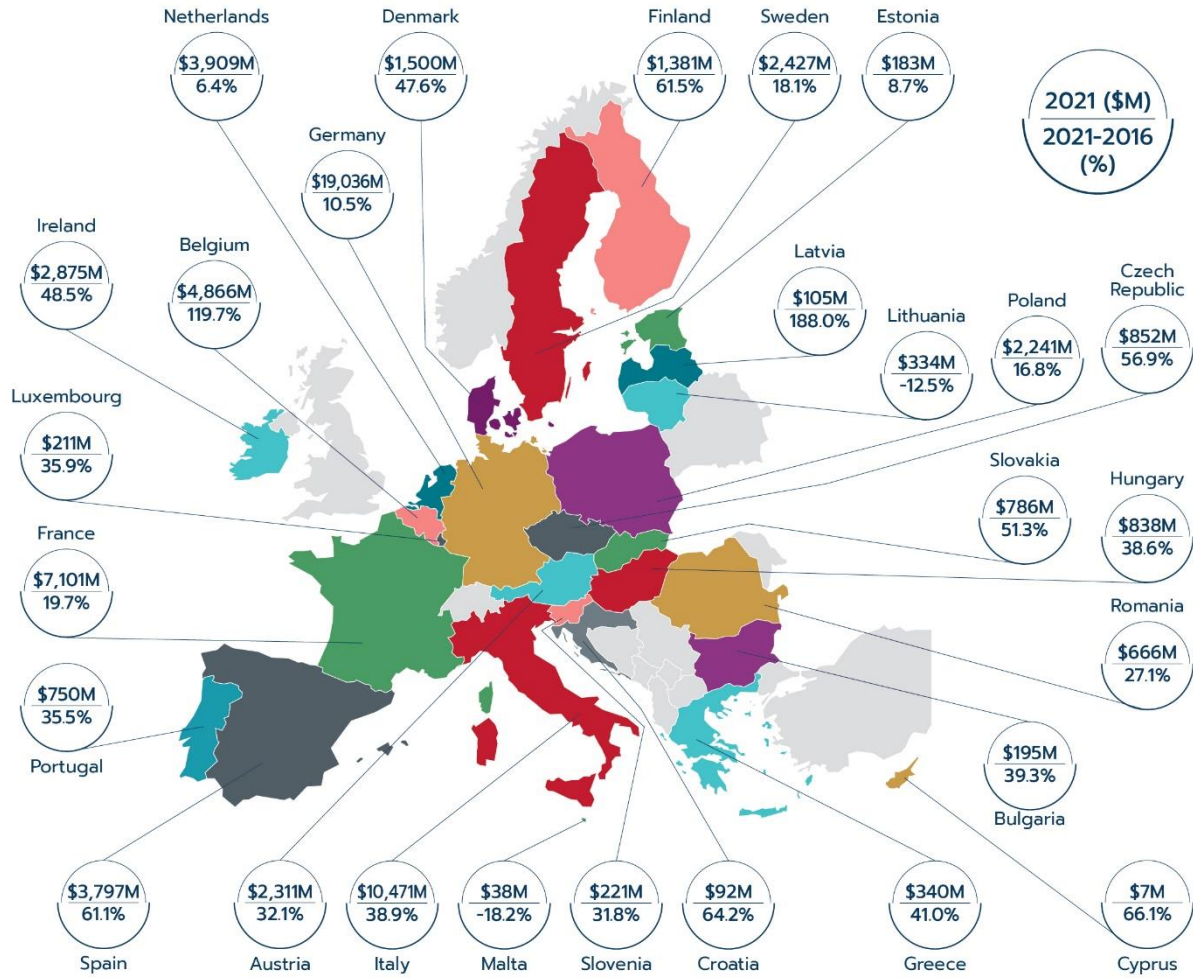
Data: Eurostat

At the same time, Canada also recorded a substantial growth in imports from the EU since CETA implementation. Imports from Italy registered the largest expansion, rising by \$2.9 billion, or 38.9 percent, mainly due to increased imports of Machinery and Precious stones and metals (platinum). Imports from Belgium (Automotive products and Pharmaceuticals), Germany (Pharmaceuticals), Spain (Machinery and Pharmaceuticals), and France (Aerospace products) also posted strong growth of over \$1 billion since 2016.

Four of the top five import sectors also registered growth since CETA implementation. Machinery, the largest sector, expanded by 23.8 percent, or \$2.4 billion, since 2016, as higher imports of a wide range of machinery and equipment were only partially offset by lower imports of turbojet and turbopropellers. Due to increased demand for essential medical goods since the onset of the global pandemic, Canadian imports of Pharmaceutical products from the EU posted the largest growth at \$3.1 billion, or 55.9 percent, when compared

to 2016. Blood products and Medicaments were the main drivers of this growth. Conversely, Canadian imports of Motor vehicles and parts, and Mineral fuels and oils registered single-digit growth over the same period, while imports of Electronics from the EU edged down 0.7 percent.

**Canadian merchandise imports from the EU by country, 2016 - 2021**



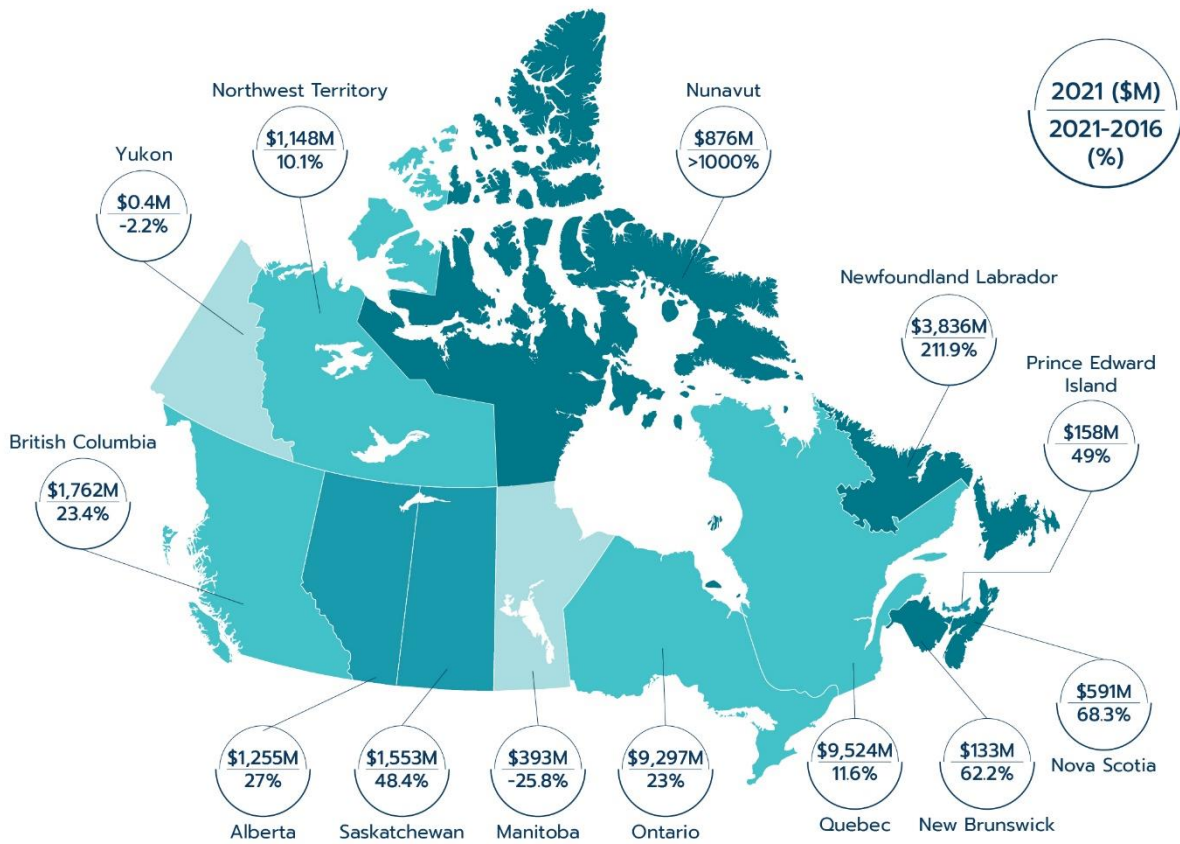
Data: Statistics Canada



## Trade by province and territory<sup>9</sup>

Eleven of the thirteen Canadian provinces and territories posted an increase in exports to the EU from 2016 to 2021. Newfoundland and Labrador led all regions as its exports to the EU more than tripled compared to the pre-CETA year, mainly from higher exports of Energy products and Mineral ores. Quebec (widespread growth) and Ontario (Precious stones and metals), the top two exporting provinces, also recorded substantial growth. In contrast, Manitoba's exports to the EU fell by 25.8 percent since 2016, as higher exports of Oil seeds and Vegetables were offset by lower shipments of Mineral ores and Nickel.

Growth in Canadian merchandise exports to the EU by province, 2016 - 2021



% growth, 2016-21

| ▲ <0%             | ▲ 0-25%  | ▲ 26-49%  | ▲ >50%   |
|-------------------|--|---|--|
| Yukon<br>Manitoba | Northwest Territory<br>British Columbia<br>Quebec<br>Ontario | Alberta<br>Saskatchewan<br>Prince Edward Island | New Brunswick<br>Nova Scotia<br>Newfoundland Labrador<br>Nunavut |

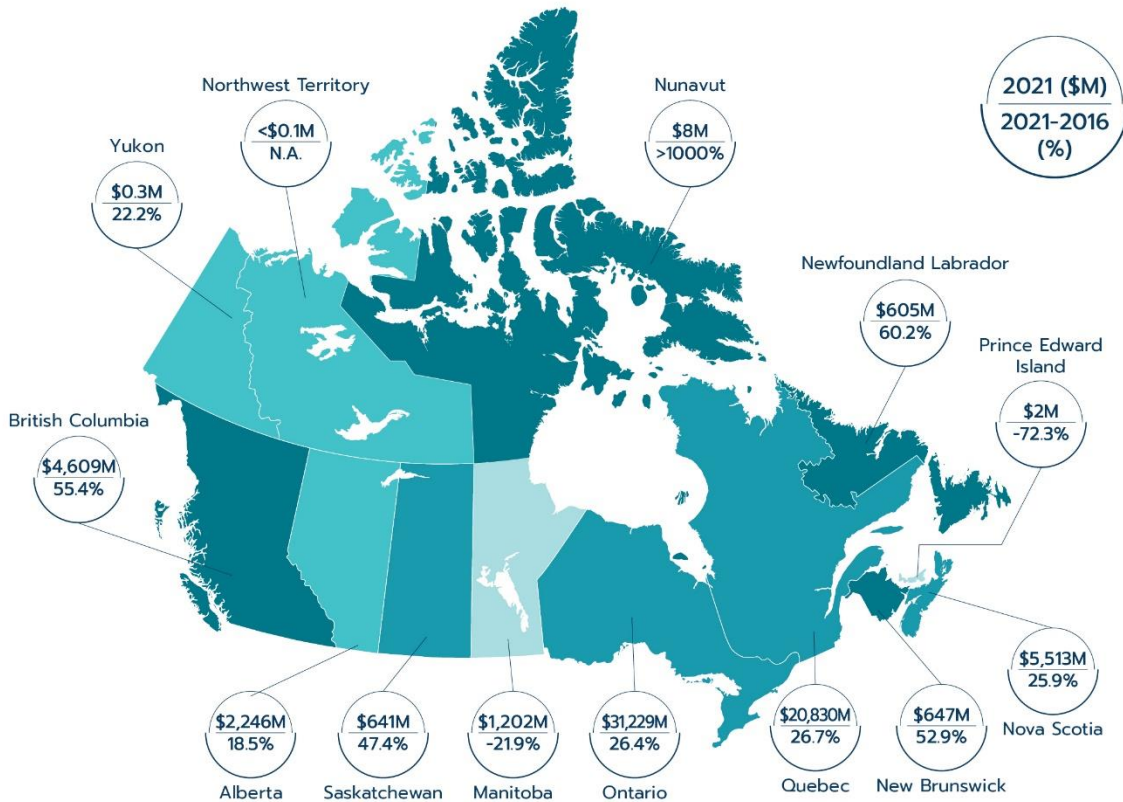
Data: Statistics Canada

<sup>9</sup> Canadian trade by province is based exclusively on data from Statistics Canada.



Similar to exports, nearly every Canadian province and territory reported growth in imports since CETA implementation. Ontario recorded the largest growth, with a rise of \$6.5 billion, mainly due to increased imports of Pharmaceuticals. Quebec (Machinery), Nova Scotia (Automotive products), and British Columbia (Machinery) also registered large growth in imports.

### Growth in Canadian merchandise imports from the EU by province, 2016 - 2021



#### % growth, 2016-21

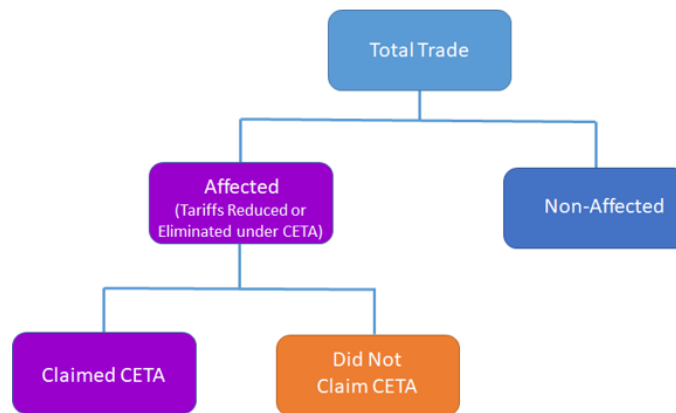
| ▲ <0%                            | ▲ 0-25%                                 | ▲ 26-49%   | ▲ >50%  |
|----------------------------------|---|--|---|
| Manitoba<br>Prince Edward Island | Northwest Territory<br>Yukon<br>Alberta | Saskatchewan<br>Ontario<br>Quebec<br>Nova Scotia | Nunavut<br>British Columbia<br>New Brunswick<br>Newfoundland Labrador |

Data: Statistics Canada

## Trade Growth by CETA Preferences<sup>10</sup>

Overall trade growth provides only a limited understanding of the effects of CETA as many factors can impact on trade expansion. For a more direct assessment of the effects of CETA, one can focus on trade in products that experienced tariff reductions under the agreement.<sup>11</sup> Approximately 25 percent of total Canadian exports to the EU in 2021 (\$8.2 billion, or €5.5 billion) would have been dutiable<sup>12</sup> (subject to duties) in the absence of CETA. From 2019 onward, the EU had unilaterally made more products duty-free for all countries including Canada. This resulted in fewer products being subject to CETA preferential tariff rates—which contributed largely to the 7.7 percent decrease in the value of Canada’s dutiable exports to the EU between 2016 and 2021.<sup>13</sup> Canada had also exported somewhat fewer dutiable products, mostly Aircrafts and parts, as well as Machinery. At the same time, duty-free exports to the EU increased 83.3 percent compared to 2016 as a result of increases in Ores, slag and ash, Aircraft and parts, and Precious stones and metals. Strong economic growth after the pandemic as economies rebounded drove commodity prices higher and contributed to the rapid increase in the value of Canadian exports in these sectors.<sup>14</sup>

### Classifying goods trade under CETA



Source: Global Affairs Canada

<sup>10</sup> For this section, only normal/non-processing trade (stat regime 1) is included for Canadian exports (EU imports from Canada). [https://ec.europa.eu/eurostat/estat-navtree-portlet-prod/BulkDownloadListing?sort=1&dir=comext%2FCOMEXT\\_DATA](https://ec.europa.eu/eurostat/estat-navtree-portlet-prod/BulkDownloadListing?sort=1&dir=comext%2FCOMEXT_DATA)

<sup>11</sup> The method involves concording different years of trade data into one reference year, thus the conversion process may result in some statistical discrepancies.

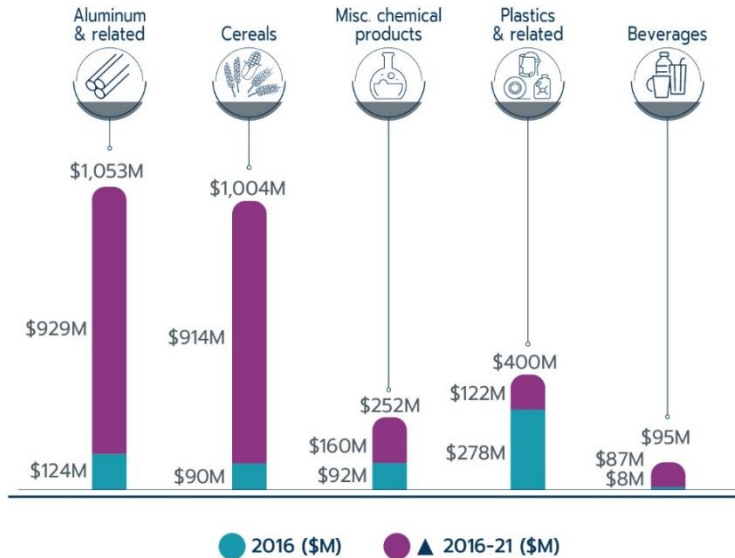
<sup>12</sup> Dutiable products are products that carry a positive Most Favoured Nation (MFN) rate. Duty-free and dutiable products are defined by the corresponding tariff schedule each year. Tariff schedules used are those first released each year as published on the European Commission CIRCABC website, <https://circabc.europa.eu/ui/group/0e5f18c2-4b2f-42e9-aed4-dfe50ae1263b>. Note that for Canadian exports to the EU, the publicly available trade data on Eurostat are classified at the HS 8-digit level, while tariff schedules from CIRCABC are classified at the HS 10-digit level. Therefore, trade data were matched with tariff rates as best as possible.

<sup>13</sup> Approximately \$1.5 billion worth of Canadian duty-free exports in 2021 were dutiable before 2019. If these exports had remained dutiable, the total dutiable exports in 2021 would have totaled \$9.6 billion, and the growth in dutiable exports from 2016 to 2021 would have been 9.1%.

<sup>14</sup> The latest data available are from 2021, and therefore any changes in trade discussed here are not related to the Russian invasion of Ukraine.

The figure below shows the sectors that experienced the largest growth in Canadian exports of dutiable products to the EU by value from 2016 to 2021.<sup>15</sup> Sectors that recorded the largest growth in their dutiable exports are Aluminum, Cereals, Miscellaneous chemical products, Plastics, and Beverages. Total growth in dutiable exports by these sectors represented 76.8 percent of the total positive growth in exports of dutiable products.

### Sectors with most growth in dutiable exports by Canada to the EU, 2016-2021

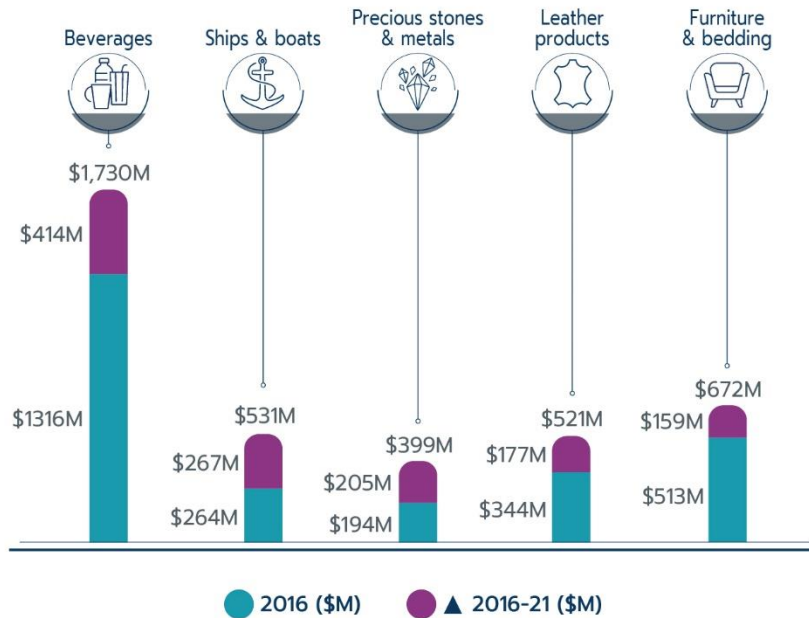


Data: Eurostat and EU Custom Tariff (TARIC)

Dutiable imports by Canada from the EU totalled \$16.7 billion in 2021, or 24.7 percent of all merchandise imports. This represents an increase of 15.1 percent compared to 2016. The increase came mostly from gains in Beverages, Ships and boats, and Precious stones and metals. Duty-free imports by Canada from the EU totalled \$50.3 billion in 2021, an increase of 34.2 percent compared to 2016, mostly due to large advances in Pharmaceutical products, Machinery, and Precious stones and metals. Canadian sectors that experienced the largest growth in imports of dutiable products from the EU by value from 2016 to 2021 are Beverages, Ships and boats, Precious stones and metals, Articles of leather, and Furniture and bedding. Total growth of dutiable imports in these sectors made up 36.8 percent of the total positive growth in imports of dutiable products.

<sup>15</sup> There are usually both dutiable and duty-free products in the same HS02 sector.

### Sectors with the most growth of dutiable imports by Canada from the EU, 2016-2021



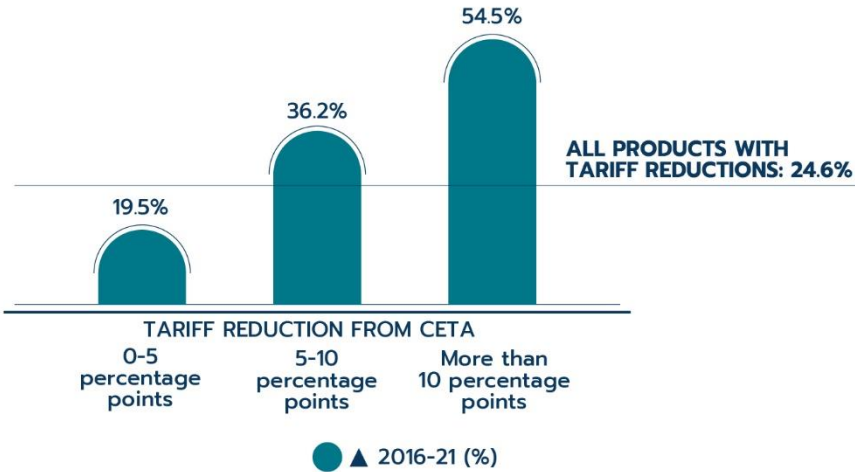
Data: Statistics Canada and Canada Border Services Agency

Trade can also be divided into categories based on preference margins<sup>16</sup> and grouped by CETA tariff reductions in percentage points. Canadian exports increased in all preference margin categories, but products that enjoy the largest tariff reductions also saw the largest growth. The group of products that received tariff reductions of more than 10 percentage points had the strongest growth at 54.5 percent. Products benefiting from tariff reductions of between 5 and 10 percentage points grew 36.2 percent, while those with between 0 and 5 percentage points of tariff reductions expanded 19.5 percent. In total, the entire group of products that received tariff reductions under CETA grew 24.6 percent from 2016 to 2021.

<sup>16</sup> The preference margin is the difference between the CETA preferential tariff rate (as of January 2021) and the MFN rate. Note that the total value of duty-free and affected products are calculated based on 2021 tariff schedules and not by the tariff schedule of the corresponding year.



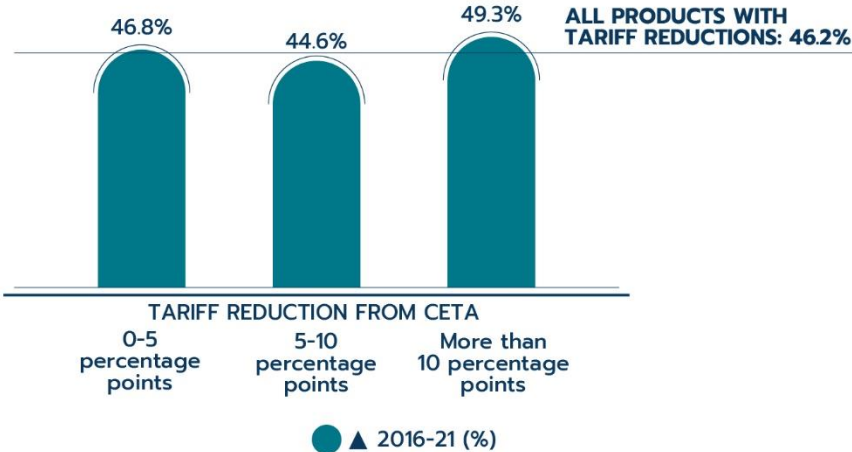
### Growth in Canadian merchandise exports to the EU by preference margin, 2016 - 2021



Data: Eurostat and EU Custom Tariff (TARIC)

Canadian imports from the EU show widespread gains in all categories of tariff reduction between 2016 and 2021. Products that received more than 10 percentage points of tariff reduction had the strongest growth at 49.3 percent. The group of products receiving between 0 to 5 percentage points of tariff reduction grew 46.8 percent, while those with between 5 to 10 percentage points of tariff reduction expanded by 44.6 percent.

### Growth in Canadian merchandise imports from the EU by preference margin, 2016 - 2021



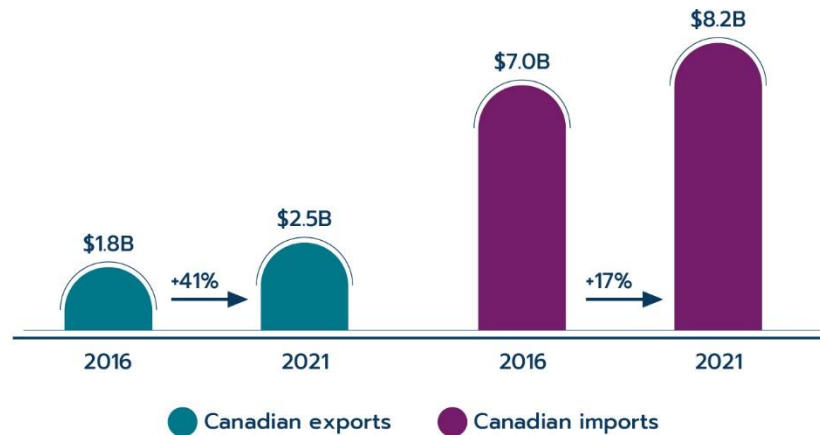
Data: Statistics Canada and Canada Border Services Agency



## Trade in environmental goods<sup>17</sup>

CETA additionally supports efforts by Canada and EU member states to fight climate change by making environmental goods less expensive and thus encouraging their adoption. Total bilateral trade in environmental goods between Canada and the EU amounted to \$10.7 billion in 2021, an increase of 21.8 percent compared to a total of \$8.8 billion in 2016.

### Trade in environmental goods, 2016-2021

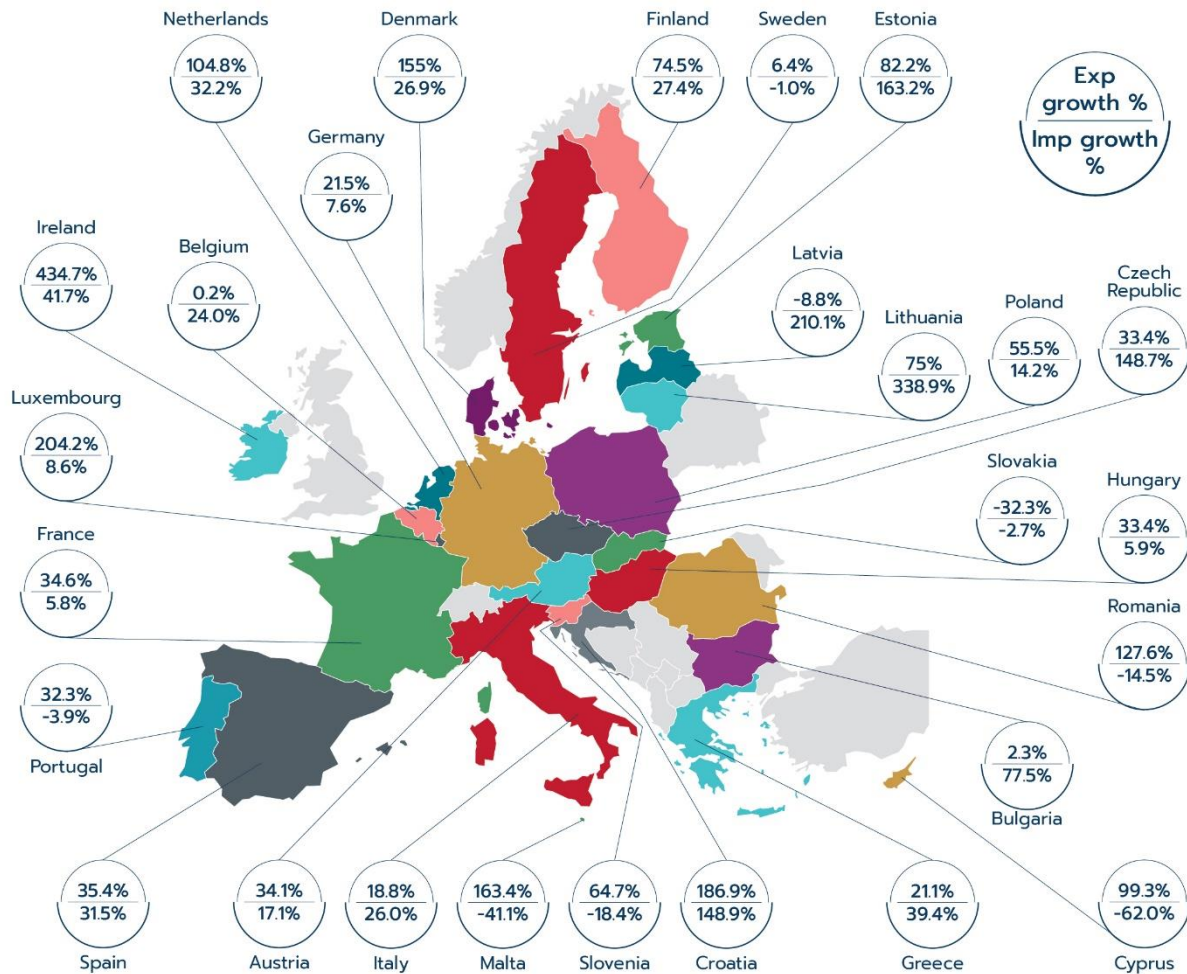


Data: Statistics Canada and Eurostat

Canadian exports of environmental goods to the EU are smaller than imports, but are growing more quickly. Canadian exports of environmental goods to the EU increased 40.9 percent, from \$1.8 billion in 2016 to \$2.5 billion in 2021. The largest increase by value comes from exports to the Netherlands with a gain of \$208 million; followed by Germany at \$124 million and Ireland at \$100 million. In total, Canadian exports of environmental goods increased at double-digit rates to 15 EU member states and at triple-digit rates to 7 EU member states since the implementation of CETA.

<sup>17</sup> Environmental goods are products that can help achieve environmental and climate protection goals as defined in the World Trade Organization's Environmental Goods Agreement.

### Growth in Canadian environmental goods exports to and imports from EU member states, 2016-2021



Data: Eurostat and Statistics Canada

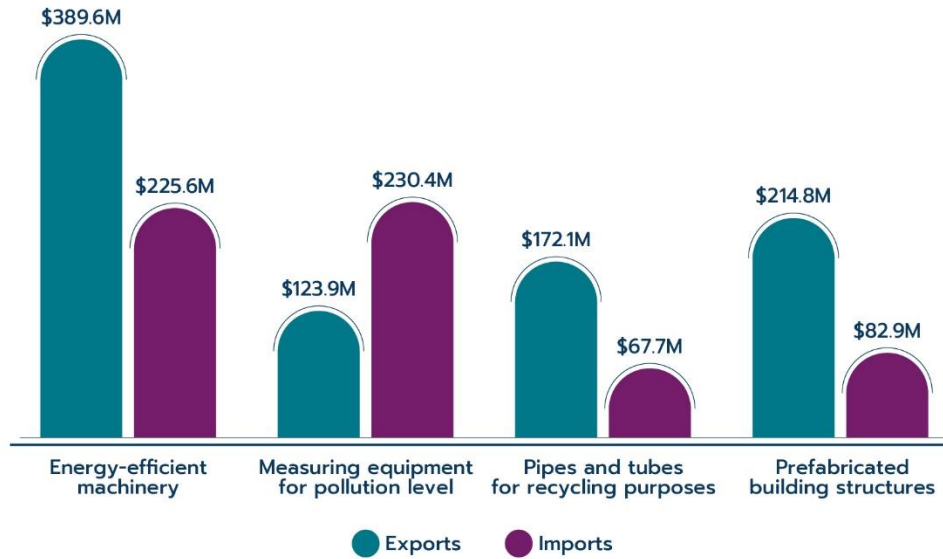
Canadian imports of environmental goods from the EU, on the other hand, increased \$1.2 billion (or 17.1 percent) from \$7.0 billion in 2016 to reach \$8.2 billion in 2021. The largest increase by value came from imports from Italy, which increased by \$256 million, followed by Germany at \$201 million, and the Czech Republic at \$142 million.

At the sector level, Canadian exports of energy-efficient machinery grew close to \$390 million between 2016 and 2021. It was also the single largest group of products traded between Canada and the EU, at \$6.1 billion in 2021. This is up considerably from the \$5.5 billion registered prior to CETA. Prefabricated building structures, and pipes and tubes for recycling purposes recorded strong growth post-CETA as well. Measuring equipment for pollution level and energy-efficient machinery were the two strongest performing sectors in imports from the EU in 2021 compared to 2016 as both grew over \$200 million.





### Growth in environmental goods trade between Canada and the EU, 2016-2021



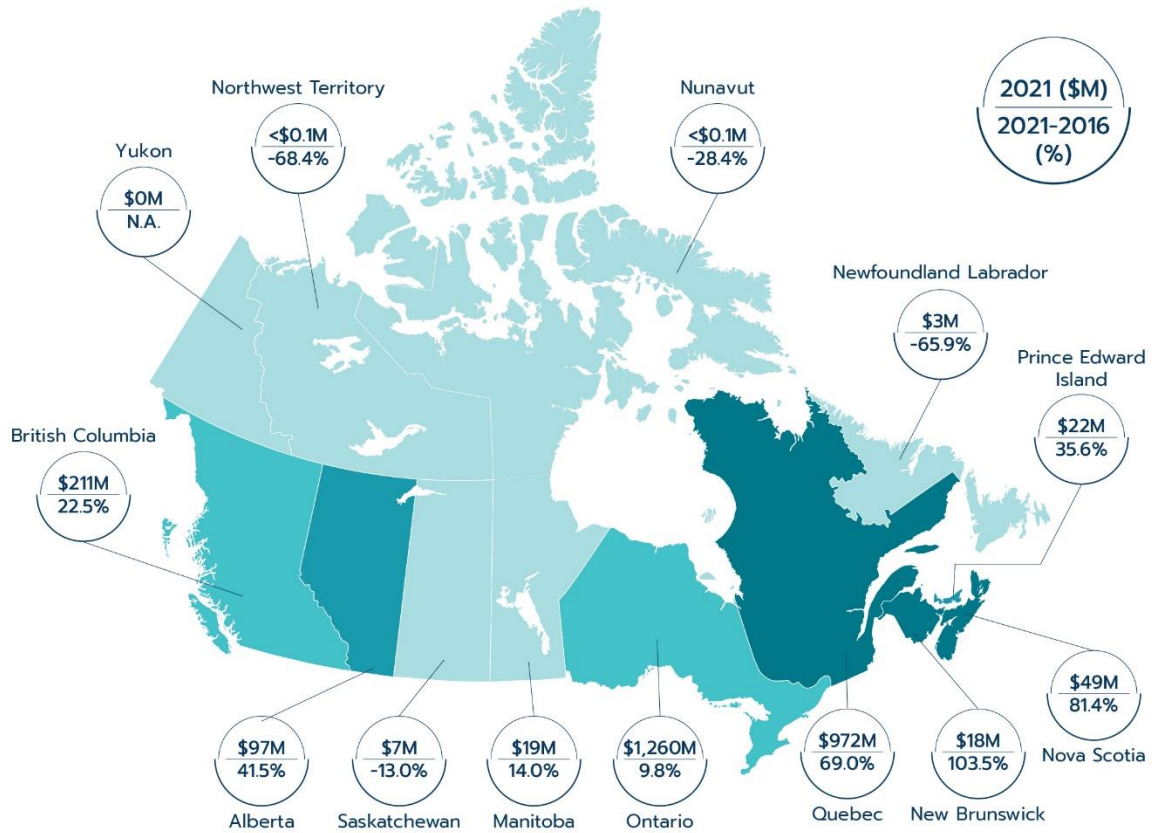
Data: Eurostat and Statistics Canada

By province<sup>18</sup>, Ontario and Quebec were the two largest suppliers of environmental goods to the EU, accounting for 84 percent of Canadian exports. Exports from Ontario to the EU rose nearly 10 percent from 2016 to 2021 to \$1.3 billion. This represented nearly 14 percent of the province's total merchandise exports to the EU in 2021. Quebec posted the largest increase in environmental goods exports to the EU since 2016, growing by 69 percent, or \$397 million, to reach \$972 million in 2021. British Columbia, Alberta and Nova Scotia also recorded strong growth in their environmental goods exports to the EU over this period.

<sup>18</sup> This section uses Statistics Canada's export data, so the sum does not equal the values presented in the previous section.



### Growth in Canadian environmental goods exports to the EU by province, 2016 - 2021



#### % growth, 2016-21

| ▲ <0%   | ▲ 0-25%  | ▲ 26-49%                        | ▲ >50%                                 |
|---|--|---------------------------------|--|
| Northwest Territory<br>Saskatchewan<br>Newfoundland Labrador<br>Nunavut | British Columbia<br>Ontario<br>Yukon<br>Manitoba | Alberta<br>Prince Edward Island | Quebec<br>New Brunswick<br>Nova Scotia |

Data: Statistics Canada

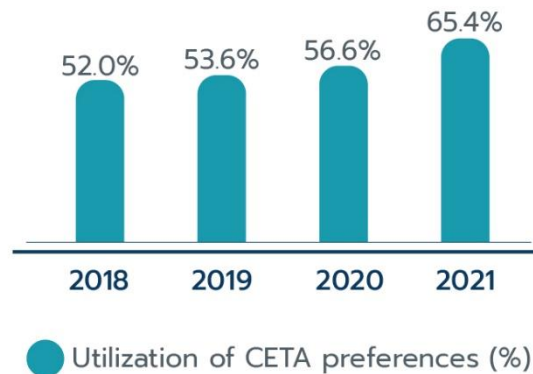
## Utilization of CETA Preferences

The CETA preference utilization rate (PUR) measures the extent to which products that are eligible for CETA preferential tariff rates actually claim those preferences when they enter the partner country.<sup>19</sup> Most tariff lines immediately became duty-free when CETA entered into force, with the remaining tariffs being phased out in stages after that. Each shipment entering the EU from Canada, and vice-versa, is accompanied by import declaration that includes information on the amount of imports that are claiming the CETA preferential tariff treatment.<sup>20</sup> The customs utilization data collected by the customs agency through import declarations provide an estimate of the extent to which importers and exporters are making use of the tariff reductions under CETA.

### Utilization of CETA preferences for Canadian exports to the EU

Of the total Canadian exports to the EU in 2021, \$6.0 billion (18.7 percent) were CETA-eligible. Among the CETA-eligible exports, approximately \$3.9 billion (65.4 percent of total CETA-eligible exports) entered the EU by claiming the CETA preferential treatment in 2021. This is a significant jump compared to the utilization rate of 56.6 percent in 2020, and a steady rise from the utilization rate of 52.0 percent in 2018 when full-year CETA customs utilization data are first available.

#### Utilization rates of CETA preferences in Canadian exports to the EU, 2018-2021



Data: Office of Chief Economist, DG Trade of the EU Commission

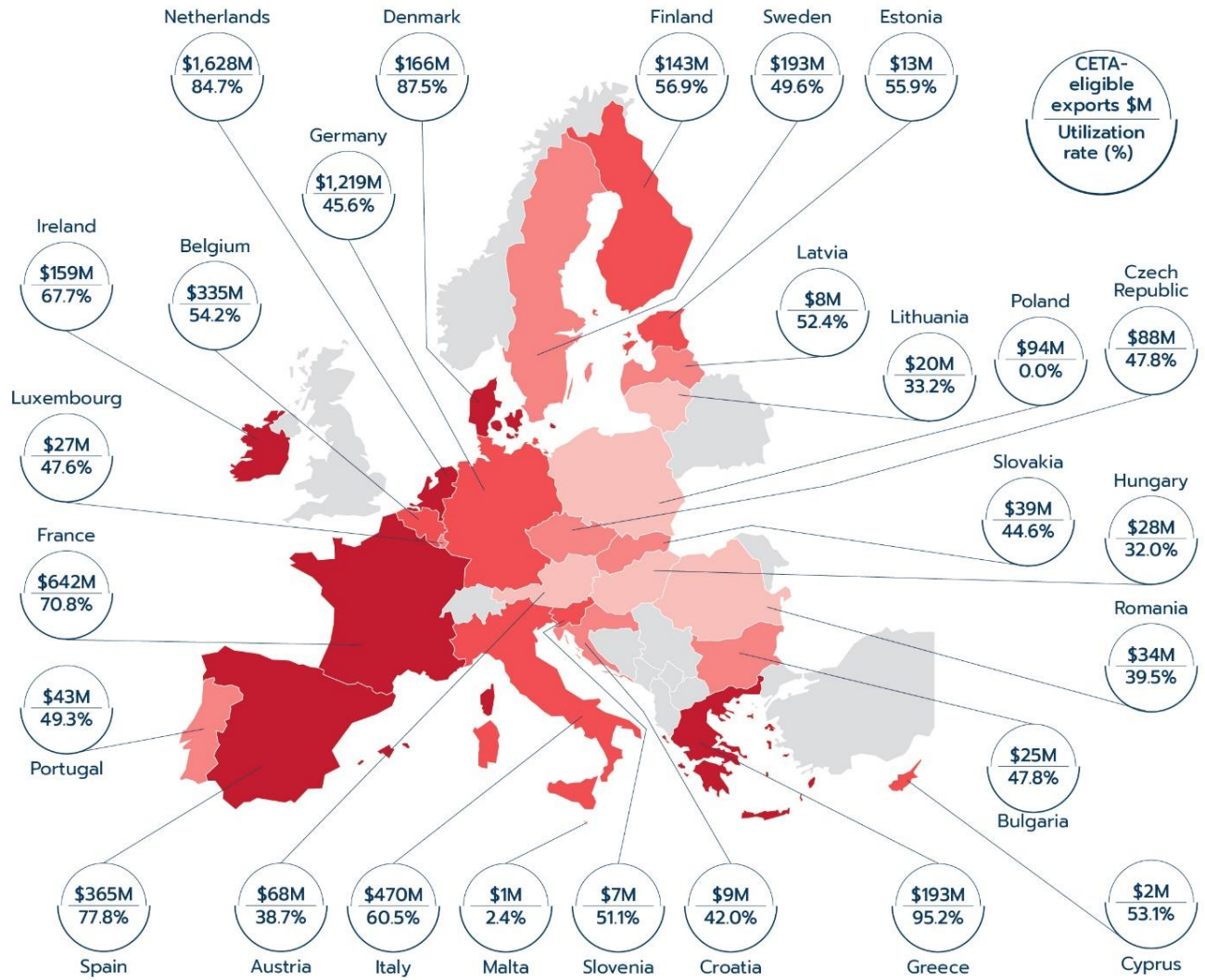
Utilization of CETA preferences for Canadian exports to the EU varies considerably across member states. In 2021, Greece, Denmark and the Netherlands had the highest rates of CETA preference utilization, with utilization rates of 95.2, 87.5 and 84.7 percent, respectively. At the opposite end are Poland and Malta with utilization rates of 0.0, and 2.4 percent, respectively.

<sup>19</sup> Defined as the value of imports that claimed preferential treatment divided by the value of imports that are eligible for CETA preferences. Any product that is not eligible for CETA preference must pay the Most Favoured Nation (MFN) duty at the border. Utilization data are provided by Office of Chief Economist, DG Trade of the EU Commission. Only normal trade (which excludes processing trade) is included in the calculation. HS Chapters 98 and 99, which are not covered by CETA, are also excluded from the calculation.

<sup>20</sup> It is the responsibility of importers (with support from exporters) to complete the declaration in order to benefit from preferential tariff rates; it is not automatic.



### Utilization rates of CETA preferences for Canadian exports to the EU, 2021



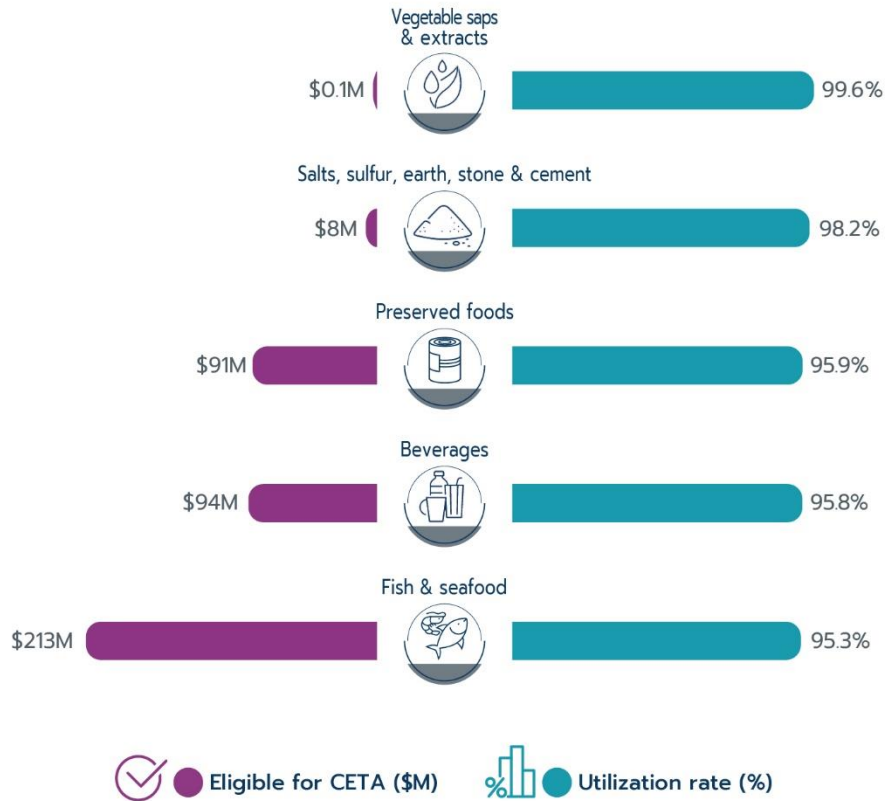
#### % utilization, 2021

| 0-40%   | 41-50%  | 51-70%  | +70%   |
|---|---|---|--|
| Austria; Malta;<br>Romania; Hungary;<br>Poland; Lithuania | Luxembourg; Portugal;<br>Croatia; Bulgaria;<br>Slovakia; Czech Rep;<br>Latvia; Sweden | Germany; Belgium;<br>Italy; Slovenia; Cyprus;<br>Estonia; Finland | Denmark; Netherlands;<br>Ireland; France;<br>Spain; Greece |

Data: Office of Chief Economist, DG Trade of the EU Commission

At the sector level, the utilization rate of CETA preferences for Canadian exports also varies significantly, from a high of 99.6 percent to a low of 0.0 percent. The figure below shows the sectors with the highest utilization of CETA preferences for Canadian exports to the EU. As can be seen, the Gum and resins sector has the highest utilization rate at 99.6 percent. Other sectors with high utilization rates include Sulphur and cement, Preparations of vegetables and fruits, Beverages, and Fish and crustaceans.

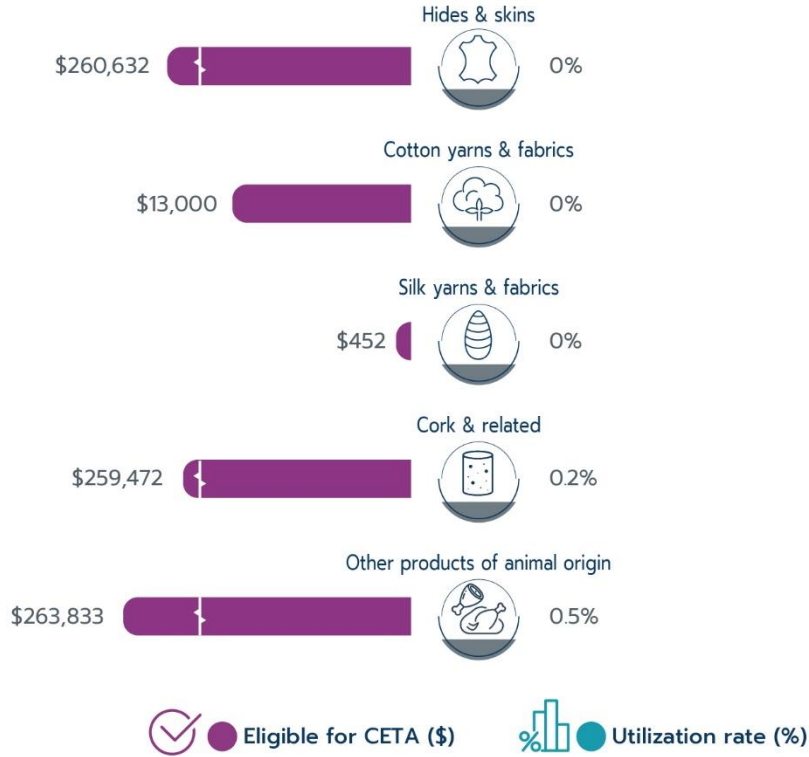
### EU product sectors with the highest CETA utilization in Canadian exports, 2021



Data: Office of Chief Economist, DG Trade of the EU Commission

The EU product sectors that have the lowest utilization rates of CETA preferences for Canadian exports are shown below. There are three sectors with utilization rates of 0.0 percent: Raw hides and leather, Silk, and Products of animal origin. It is notable that the dollar values for all product groups with exceptionally low utilization rates are rather small at less than \$300,000 eligible for CETA, and in a few cases are negligible.

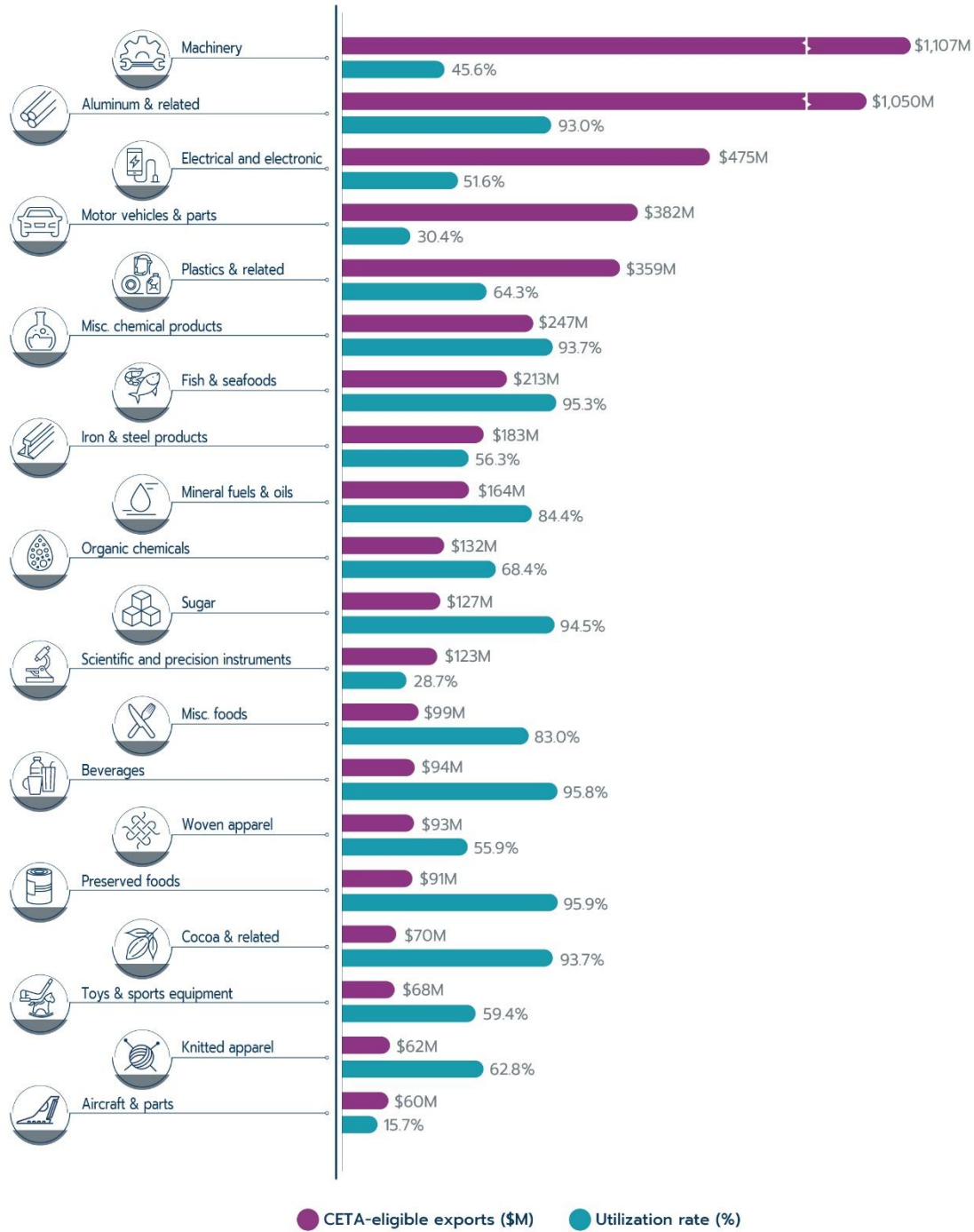
### EU product sector with the lowest CETA utilization in Canadian exports, 2021



Data: Office of Chief Economist, DG Trade of the EU Commission

While the low CETA utilization of Canadian exports for some product sectors can be explained by the low CETA-eligible amount, this is not broadly the case. The product sectors with the largest CETA-eligible amounts for Canadian exports to the EU are shown below. The eligible exports from these sectors made up 86.4 percent of all CETA-eligible exports originating from Canada but some of these sectors that had high values of CETA-eligible trade had rather low utilization rates. For example, the utilization rates for sectors such as Machinery, and Motor vehicles and parts were only 45.6 percent and 30.4 percent respectively.

### Sectors with the largest CETA-eligible amount of Canadian exports to the EU, 2021



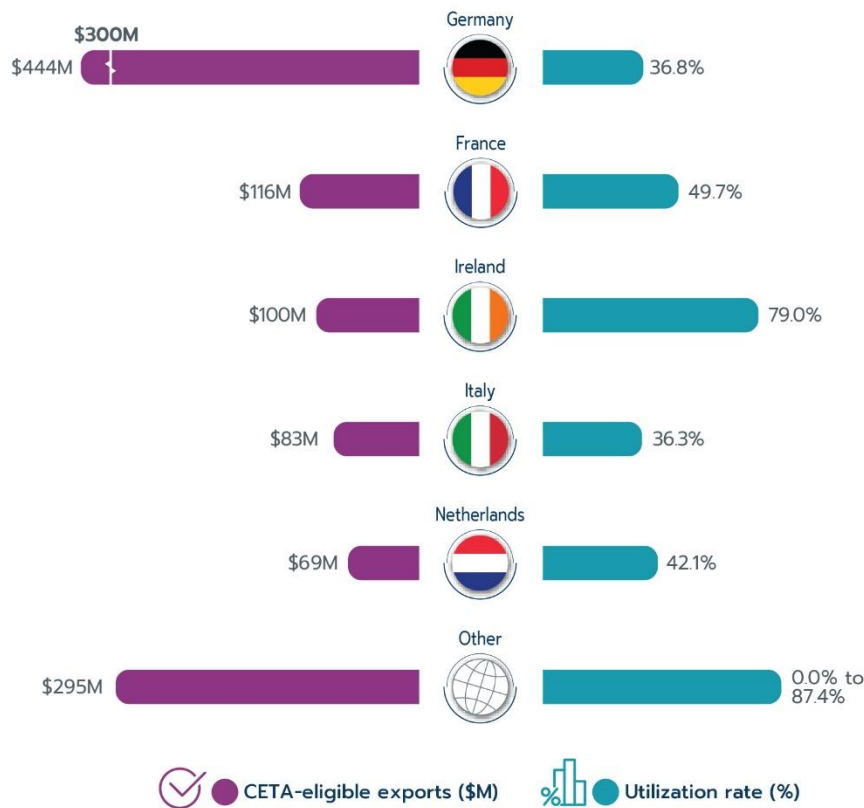
Data: Office of Chief Economist, DG Trade of the EU Commission

The top five product sectors in terms of amount of CETA-eligible exports had an average CETA utilization rate of 57.0 percent in 2021, even though their total CETA-eligible exports were close to \$3.4 billion. The total savings on tariffs if these product sectors had fully utilized CETA preferential rates could have been substantial even if the preference margin is only minimal.

The following focusses on three sectors that have large CETA-eligible Canadian exports but low CETA utilization: Machinery, Electrical machinery, and Motor vehicles and parts.

In the Machinery sector, the largest recipient of CETA-eligible exports from Canada was Germany which took in approximately 40.1 percent of the total, yet the utilization rate for CETA was only 36.8 percent. France also received 10.5 percent of the total CETA-eligible exports from Canada in this sector but the utilization rate was barely 50 percent. The average preference margin for CETA-eligible exports to the EU in this sector is approximately 2.3 percent.<sup>21</sup> If exports to these two member states fully utilized CETA, that is if all \$559.8 million of CETA-eligible exports to these two member states utilized the tariff savings of 2.3 percent, an additional \$7.8 million in savings could be realized<sup>22</sup>.

### Utilization of CETA preferences in the Canadian exports of Machinery sector, 2021



Data: Office of Chief Economist, DG Trade of the EU Commission

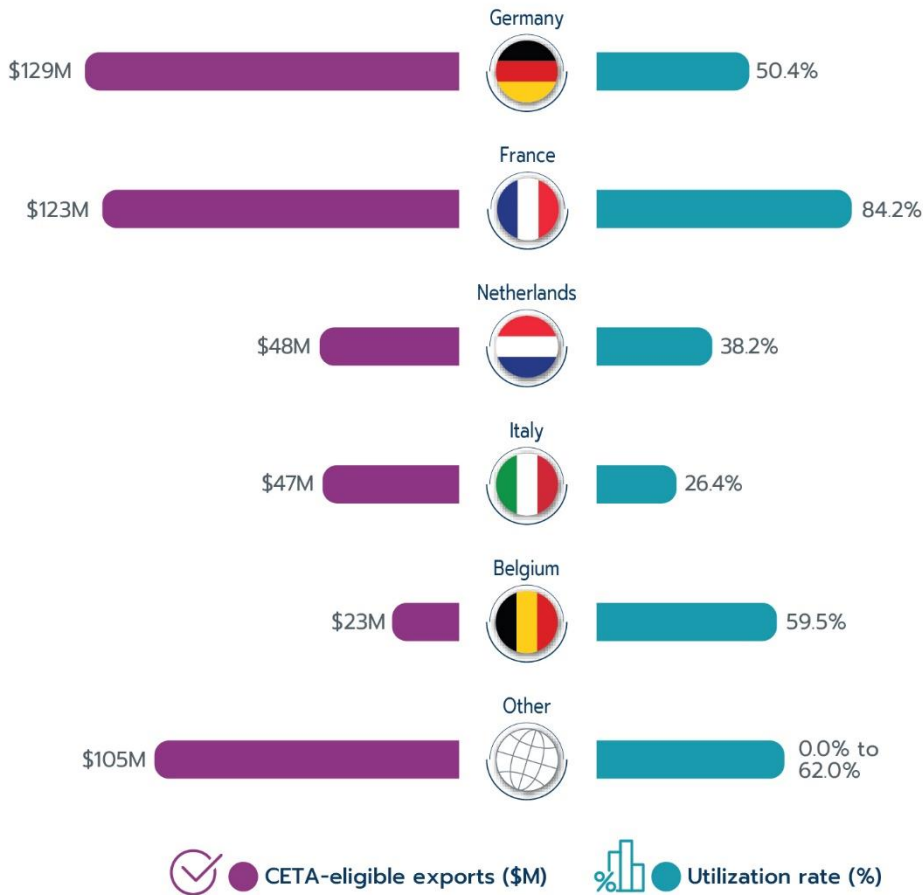
<sup>21</sup> The average preference margin is estimated based on EU tariff schedule 2021, on all HS 10-digit products in HS Chapter 84.

<sup>22</sup> Based on the assumption that all CETA-eligible exports qualify for the rule of origin and the CETA utilization rate is 100 percent.



In the Electrical machinery sector, Germany, France, the Netherlands and Italy accounted for 27.2, 26.0, 10.1 and 9.9 percent of total CETA-eligible exports from Canada, respectively. However, the utilization rates for Germany, the Netherlands and Italy are only 50.4, 38.2 and 26.4 percent. Considering the average preference margin on Canadian exports to the EU for this sector is approximately 2.2 percent,<sup>23</sup> if Germany, the Netherlands and Italy fully utilized CETA preferences; that is, if all \$223.7 million of CETA-eligible exports to these three member states utilized the tariff savings of 2.2 percent, total tariff savings could have been \$2.8 million larger.<sup>24</sup>

### Utilization of CETA preferences in the Canadian exports of Electrical machinery sector, 2021



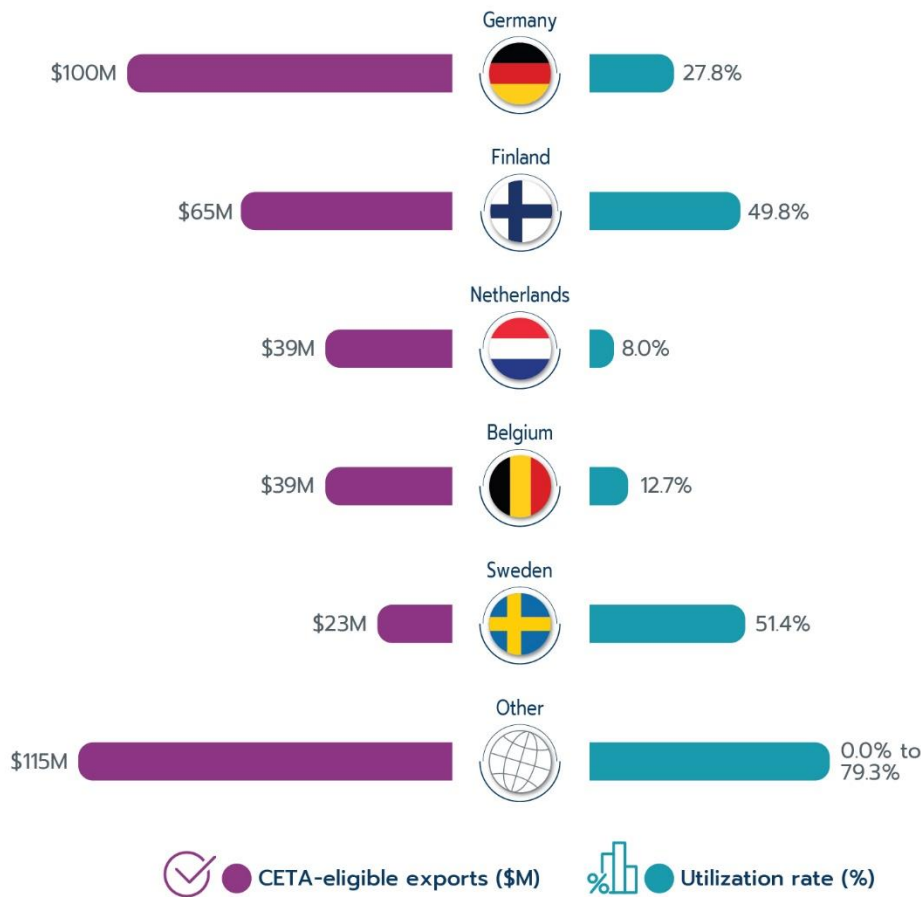
Data: Office of Chief Economist, DG Trade of the EU Commission

<sup>23</sup> The average preference margin is estimated based on the EU tariff schedule for 2021, on all HS 10-digit products in HS Chapter 85.

<sup>24</sup> Based on the assumption that all CETA-eligible exports qualify for the rule of origin and the CETA utilization rate is 100 percent.

In the Motor vehicles and parts sector, Germany, Finland, the Netherlands and Belgium took in 26.3, 17.0, 10.3 and 10.3 percent of total CETA-eligible Canadian exports, respectively. However, their utilizations of CETA preferences were all on the low side, at only 27.8 percent for Germany, 49.8 percent for Finland, 8.0 percent for the Netherlands, and 12.7 percent for Belgium. Given that the average preference margin on exports to the EU for this sector is approximately 7.4 percent,<sup>25</sup> if these four member states fully utilized CETA preferences on all \$244.0 million of CETA-eligible exports, the total tariff savings could have been \$13.0 million larger.<sup>26</sup>

### Utilization of CETA preferences in the Canadian exports of Motor vehicles and parts sector, 2021



Data: Office of Chief Economist, DG Trade of the EU Commission

<sup>25</sup> The average preference margin is estimated based on the EU tariff schedule for 2021, on all HS 10-digit products in HS Chapter 87.

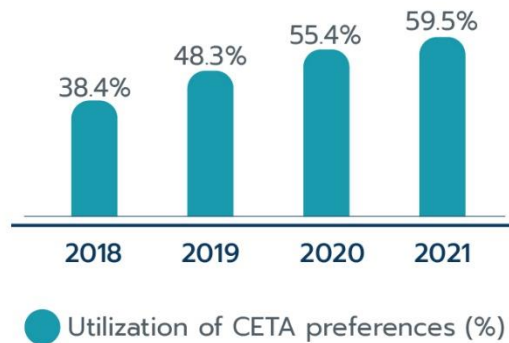
<sup>26</sup> Based on the assumption that all CETA-eligible exports qualify for the rule of origin and the CETA utilization is 100 percent.



## Utilization of CETA preferences for Canadian imports from the EU

The Canadian utilization data include information on what proportion of affected imports<sup>27</sup> entering Canada claimed CETA preferential treatment and what proportion used MFN rates. As of 2021, \$16.5 billion (24.7 percent) of Canadian imports were potentially eligible for lower tariffs under CETA. Among these affected imports, approximately \$9.8 billion (or 59.5 percent of total affected imports) claimed CETA preferential treatment<sup>28</sup>. The utilization rate of CETA preferences for Canadian imports in 2021 was therefore 59.5 percent; a small increase of 4.1 percentage points compared to the utilization rate of 55.4 percent in 2020 but a substantial jump from only 38.4 percent in 2018, the first year for which full-year CETA customs utilization data are available.

### Utilization rates of CETA preferences in Canadian imports from the EU, 2018-2021



Data: Statistics Canada

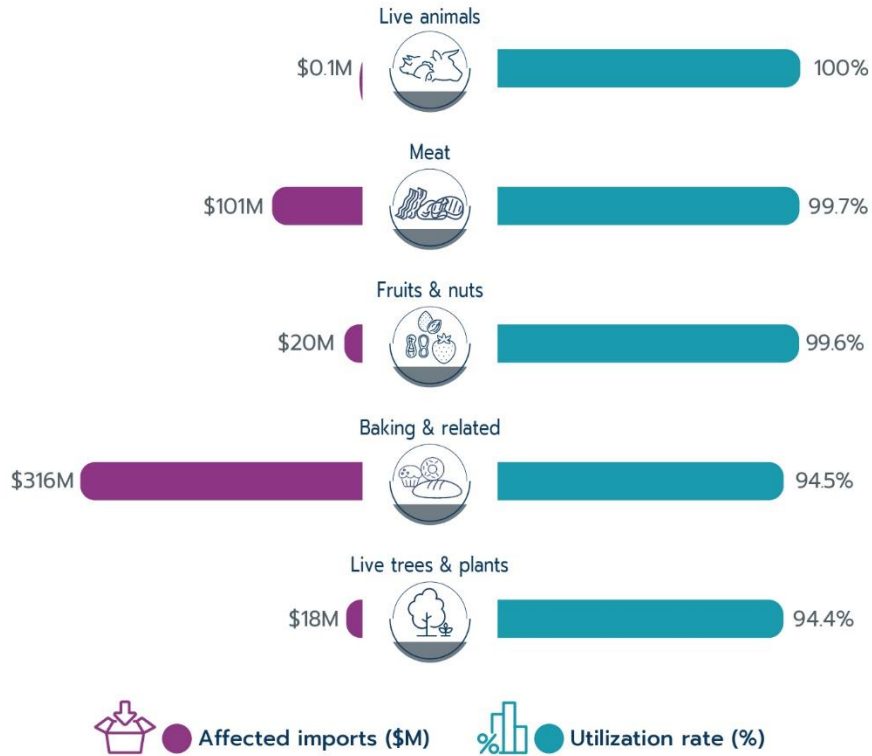
Canadian import sectors that have the highest utilization rates of CETA preferences are shown below. As can be seen, the Live animals sector has the highest utilization rate at 100 percent. The other sectors with high utilization rates are also in the agricultural sector.<sup>29</sup>

<sup>27</sup> Affected imports refer to imports of products covered by CETA. These include products that are subject to tariff reductions, but exclude products that are exempted from tariff reductions as well as HS Chapters 98 and 99.

<sup>28</sup> A small portion of non-affected imports, (\$4.0 billion, or 8.0 percent of total non-affected imports) also claimed CETA preferential treatment.

<sup>29</sup> The agricultural sector refers to products in HS Chapters 01 to 24.

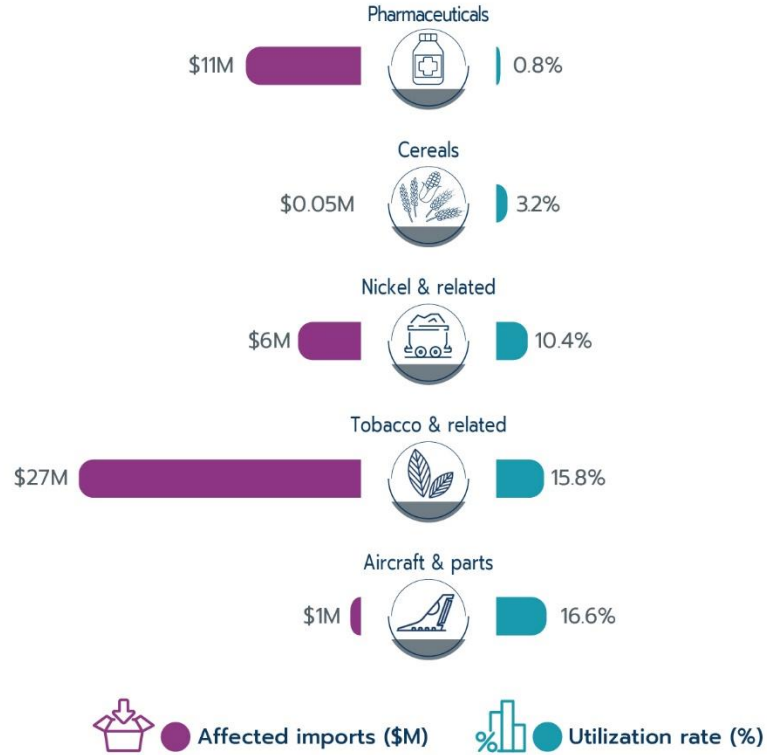
### Canadian product sectors with the highest CETA utilization in imports from the EU, 2021



Data: Statistics Canada

The figure below shows the Canadian import sectors that have the lowest utilization rates. They include Pharmaceutical products and Nickel. The actual reason why their utilization rate is low may not be apparent. One speculative explanation is that the amount of tariff savings may appear minor compared to the time and cost of claim processing since the affected imports for both product sectors only makes up minute proportions of total imports (0.1 percent for pharmaceutical products and 4.6 percent for nickel).

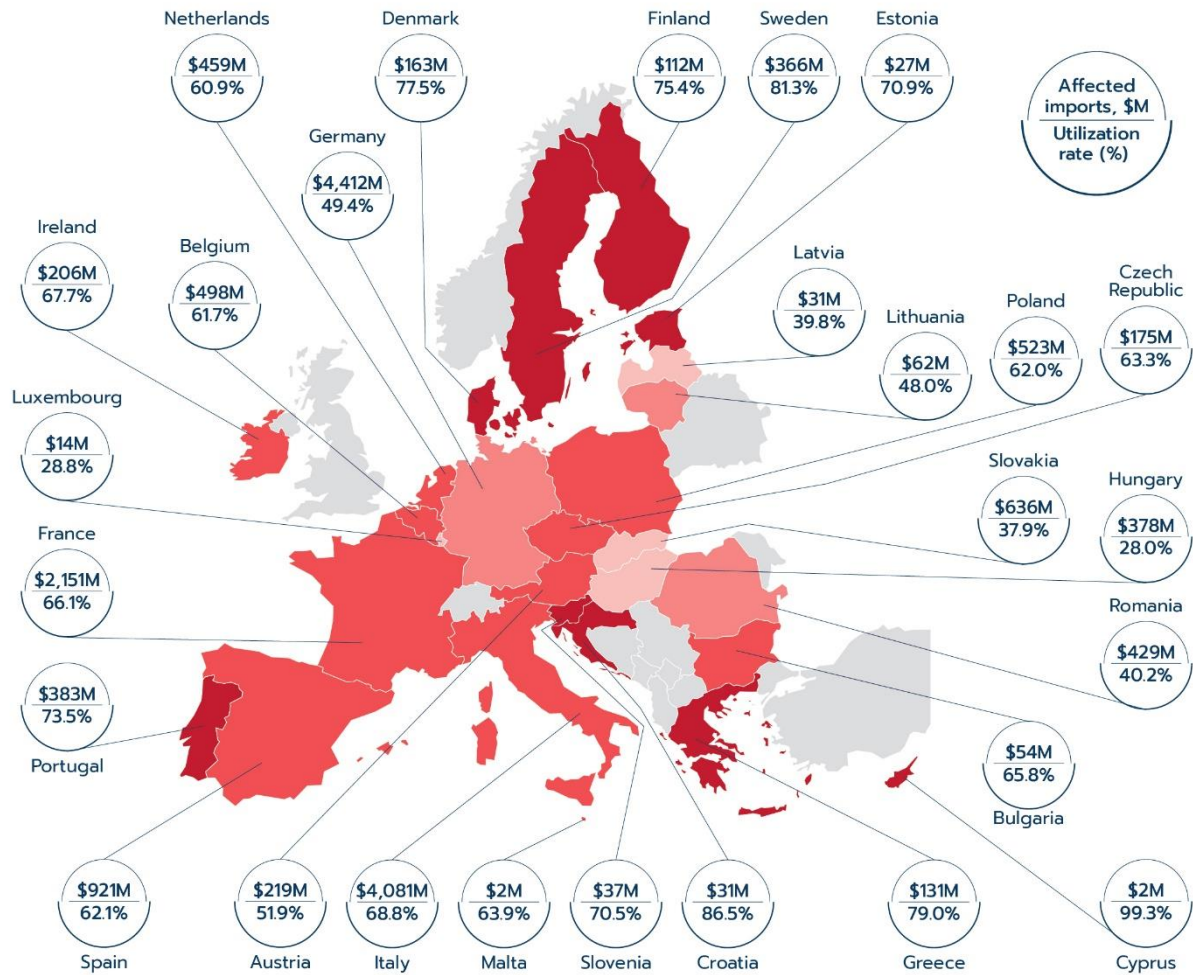
## Canadian product sectors with the lowest CETA utilization in imports from the EU, 2021



Data: Statistics Canada

Similar to Canadian exports, the utilization rates of CETA preferences for Canadian imports also vary greatly by the EU member states of origin. The imports from the following member states had the highest utilization of CETA preferences in 2021: Cyprus (99.3 percent), Croatia (86.5 percent), Sweden (81.3 percent), Greece (79.0 percent) and Denmark (77.5 percent). On the other hand, imports from Hungary, Luxembourg and Slovakia have the lowest utilization rates of 28.0 percent, 28.8 percent and 37.9 percent respectively.

### Utilization rates of CETA preferences for Canadian imports from the EU, 2021



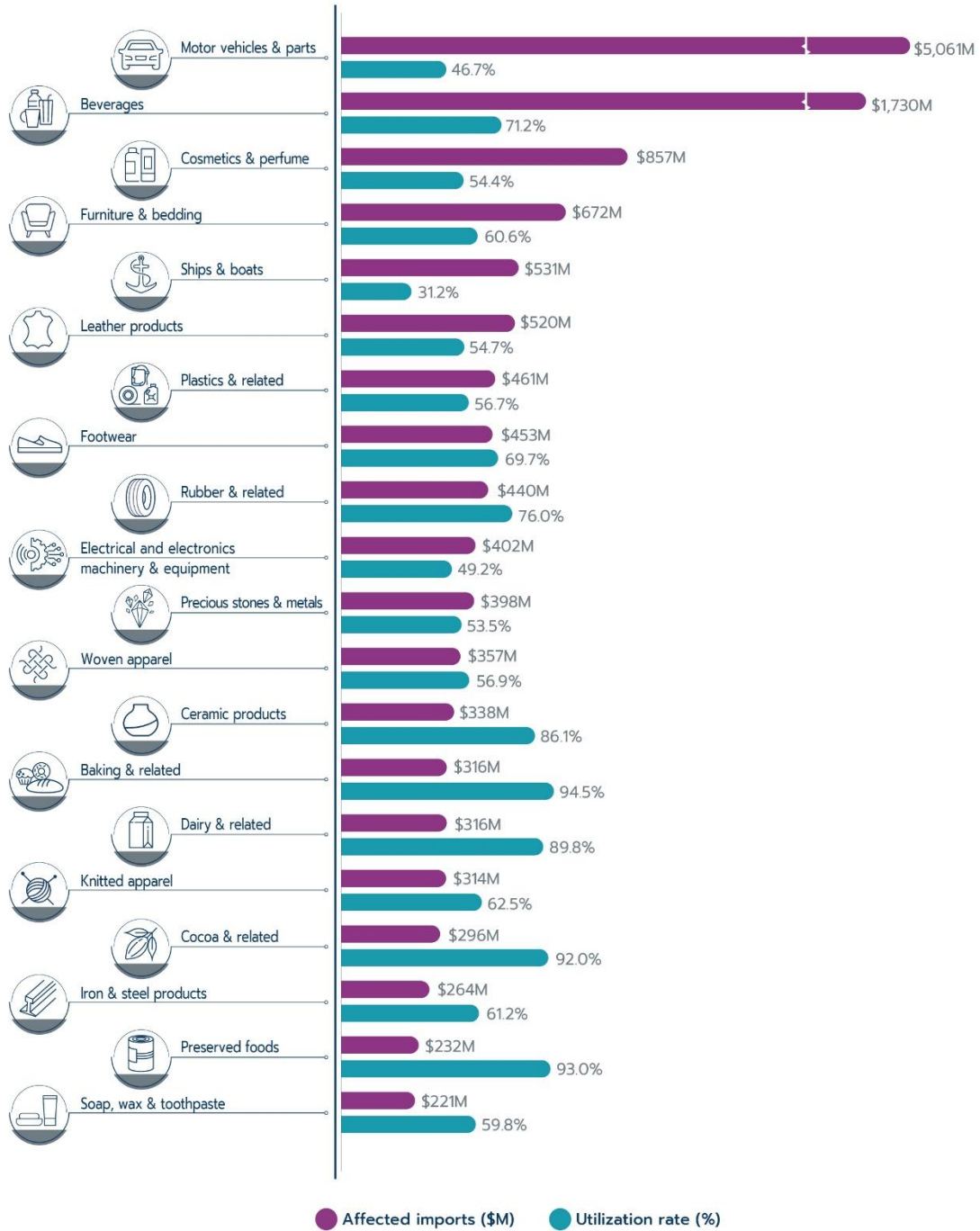
% utilization, 2021

| 0-40%                                 | 41-50%                      | 51-70%   | +70%   |
|---------------------------------------|-----------------------------|--|--|
| Luxembourg; Hungary; Slovakia; Latvia | Germany; Romania; Lithuania | Netherlands; Belgium; Ireland; France; Spain; Austria; Italy; Malta; Bulgaria; Czech Rep; Poland | Denmark; Portugal; Slovenia; Croatia; Greece; Cyprus; Estonia; Sweden; Finland |

Data: Statistics Canada

The sectors with the largest affected imports by Canada from the EU are shown below. Affected imports in these sectors made up 85.9 percent of all affected imports that entered Canada from the EU in 2021. The utilization rates of these sectors range widely, from a low of 31.2 percent to a high of 94.5 percent. The Motor vehicles and parts sector represented 30.7 percent of total affected imports in 2021 and yet has the second lowest CETA utilization rate among sectors with large affected imports.

### Product sectors with the largest affected imports by Canada from the EU, 2021



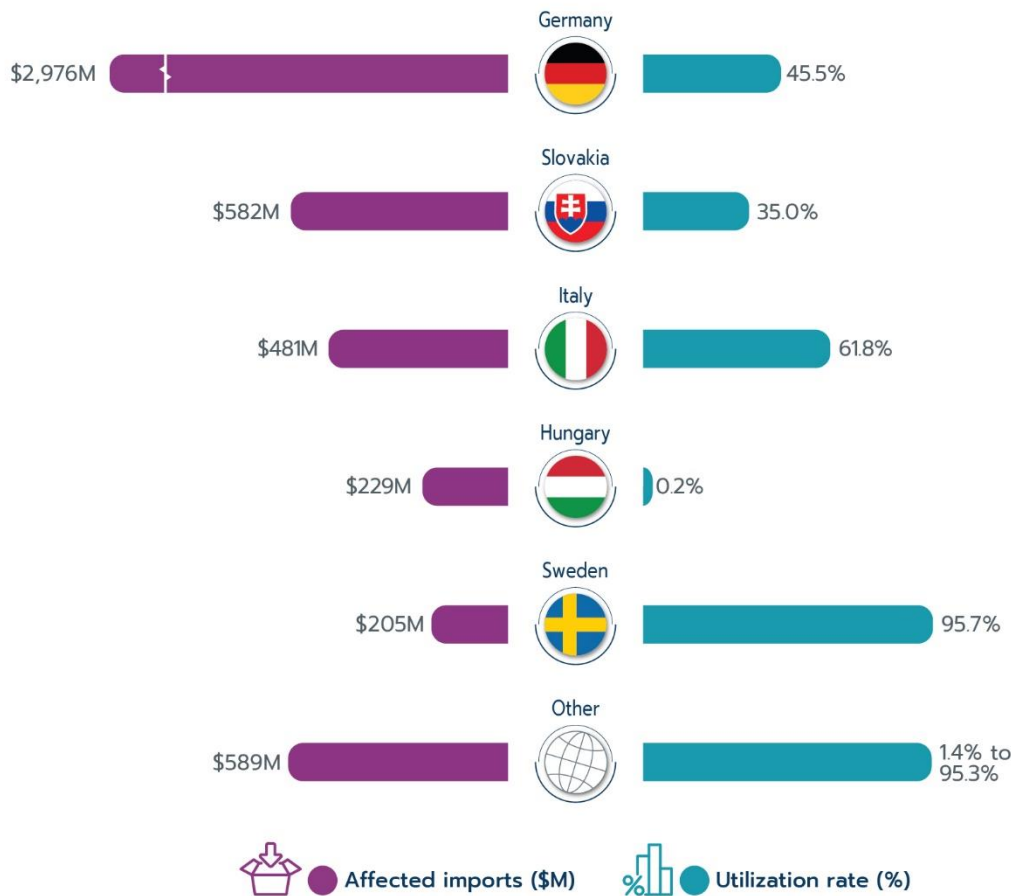
Data: Statistics Canada



The following focusses on three sectors that have large affected imports but low CETA utilization: Motor vehicles and parts, Essential oils and cosmetic preparations, and Ships and boats. As before, disaggregating CETA utilization by member state reveals a number of potential gaps.

In the Motor vehicles and parts sector, Canada imported from Germany 58.8 percent and from Slovakia 11.5 percent of total affected imports. The CETA utilization rates for imports from these two member states are only 45.5 percent and 35.0 percent, respectively. Considering that the average preference margin on imports from the EU for this sector is approximately 3.4 percent,<sup>30</sup> if imports from these two member states fully utilized CETA preferences on affected imports and that all \$3.6 billion affected imports claimed CETA preferential rates, then total tariff savings from these tariff reductions could have been \$68.0 million larger.<sup>31</sup>

### Utilization of CETA preferences in the imports of Motor vehicles and parts sector, 2021



Data: Statistics Canada

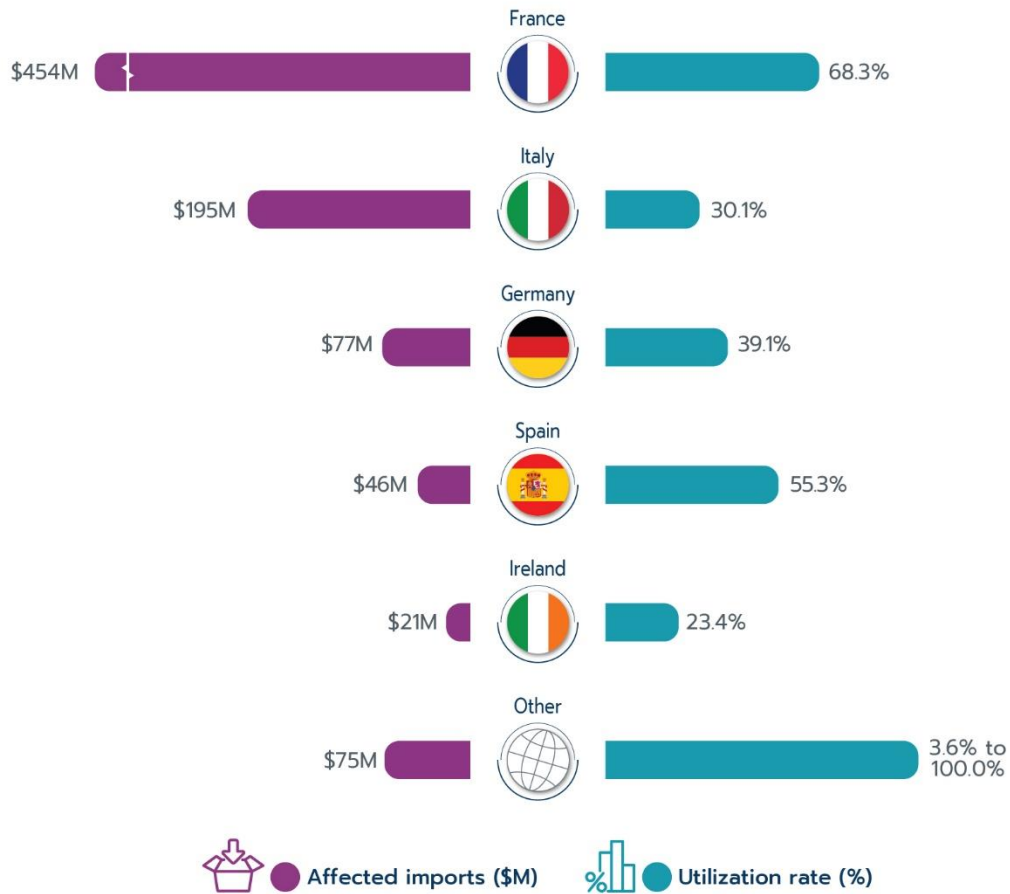
<sup>30</sup> The average preference margin is estimated based on the Canadian tariff schedule for 2021, averaged over all HS 8-digit products in HS Chapter 87.

<sup>31</sup> Based on the assumption that all imports qualify for the rule of origin and the CETA utilization rate is 100 percent. Actual savings will depend on product origin and type.



In the Essential oils and cosmetic preparations sector, Canada imported from France 51.8 percent and from Italy 22.7 percent of total affected imports. The utilization rates for these imports are 68.3 percent and 30.1 percent, respectively. The higher utilization rate for French products may be an indication that it is easier to fulfill the rule of origin requirement for imports from France. Given that the average preference margin on imports from the EU for this sector is approximately 4.3 percent,<sup>32</sup> if imports from these two member states fully utilized CETA preferences and that all \$639.2 million affected imports from these two member states claimed the CETA preferential rates, then total savings from tariff reductions would have been \$11.9 million larger.<sup>33</sup>

### Utilization of CETA preferences in the imports of Essential oils and cosmetic preparations sector, 2021



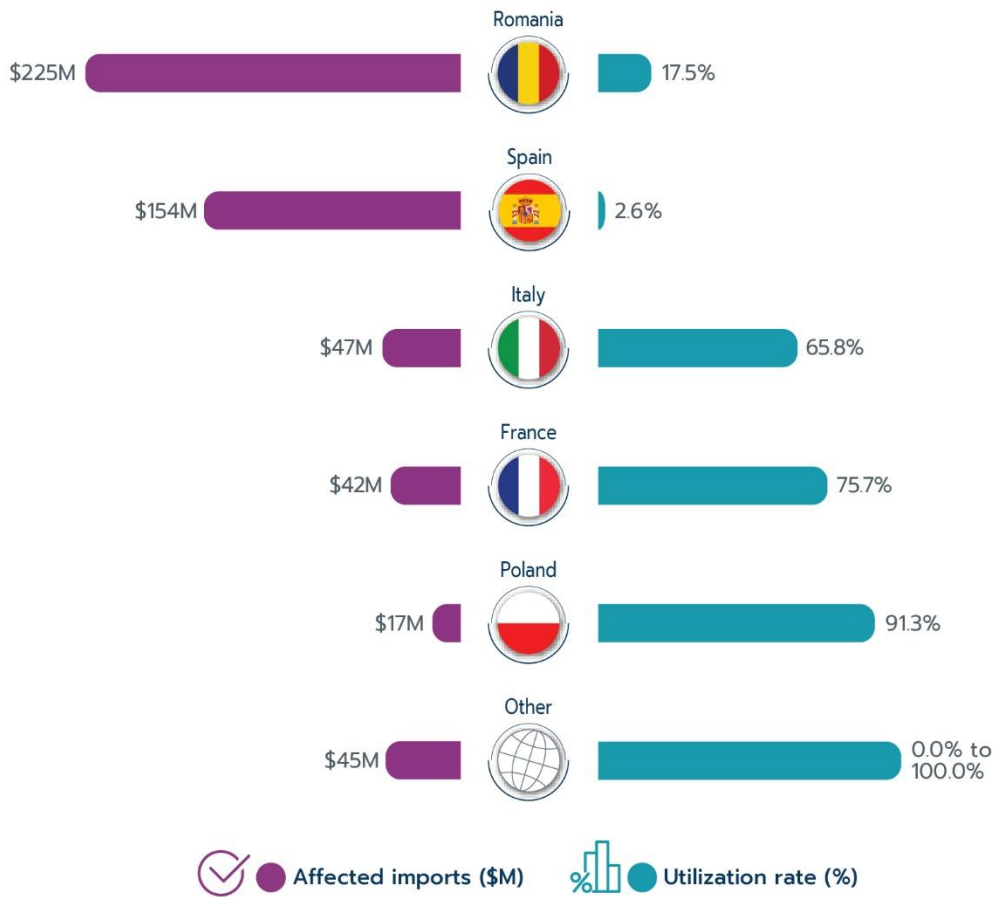
Data: Statistics Canada

<sup>32</sup> The average preference margin is estimated based on the Canadian tariff schedule for 2021, averaged over all HS 8-digit products in HS Chapter 33.

<sup>33</sup> Based on the assumption that all CETA-eligible exports qualify for the rule of origin and the CETA utilization rate is 100 percent. Actual savings will depend on product origin and type.

In the Ships and boats sector, Canada imported from Romania 42.5 percent and from Spain 29.0 percent of total affected imports, respectively. However, the utilization rates for these imports are only 17.5 percent and 2.6 percent. Given that the average preference margin on imports from the EU in this sector is approximately 14.0 percent,<sup>34</sup> if imports from these two member states fully utilized CETA preferences, and that all \$379.6 million of affected imports claimed CETA preferential rates, then total savings from tariff reductions would have been \$47.0 million larger.<sup>35</sup>

### Utilization of CETA preferences in the imports of Ships and boats sector, 2021



Data: Statistics Canada

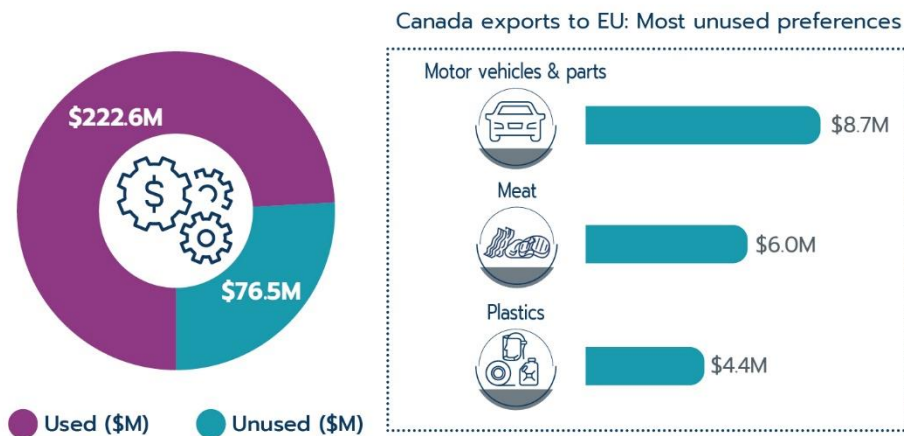
In 2021 alone, it is estimated that Canadian and EU companies saved approximately \$890.6 million in duties, thanks to CETA. However, the moderate level of CETA utilization also means there are still more savings that could be realized.

<sup>34</sup> The average preference margin is estimated based on the Canadian tariff schedule for 2021, averaged over all HS 8-digit products in HS Chapter 89.

<sup>35</sup> Based on the assumption that all CETA-eligible exports qualify for the rule of origin and the CETA utilization rate is 100 percent. Actual savings will depend on product origin and type.

Tariff reductions enjoyed by Canadian products exported to the EU can contribute to lower prices and in turn, improve competitiveness of Canadian firms in the EU market. Close to \$6.0 billion worth of Canadian exports were CETA-eligible in 2021, and Canadian companies saved an estimated \$222.6 million in duties. However, because CETA preferences have not been fully utilized, an additional \$76.5 million in potential savings have yet to be realized. These potential savings are estimated assuming the traded goods qualify for duty-free status under CETA. Some of the sectors with the most unused tariff savings are Motor vehicles and parts (approximately \$8.7 million), Meat (approximately \$6.0 million), and Plastics (approximately \$4.4 million)<sup>36</sup>. If all of these savings had been fully realised, total tariff savings for Canadian products entering the EU in 2021 could have been as high as \$299.1 million<sup>37</sup>.

## Tariff savings for Canadian exports to the EU, 2021



Data: DG Trade of the EU Commission

Benefits of tariff savings can also pass to Canadian consumers who may see lower prices for EU imports. In 2021, total EU imports covered by CETA amounted to almost \$16.0 billion and have garnered \$668.0 million in duties saved. Even so, as much as \$339.0 million in duties were paid that could have potentially been avoided if utilization was 100% and if all products qualified for CETA treatment. Some sectors with large amounts of unused tariff savings include Motor vehicles and parts (approximately \$93.3 million), Essential oils and cosmetic preparations (approximately \$23.9 million) and Apparel, not knitted (approximately \$23.9 million)<sup>38</sup>. If CETA preferences had been fully utilized, approximately \$1.1 billion in duties could have been saved<sup>39</sup>.

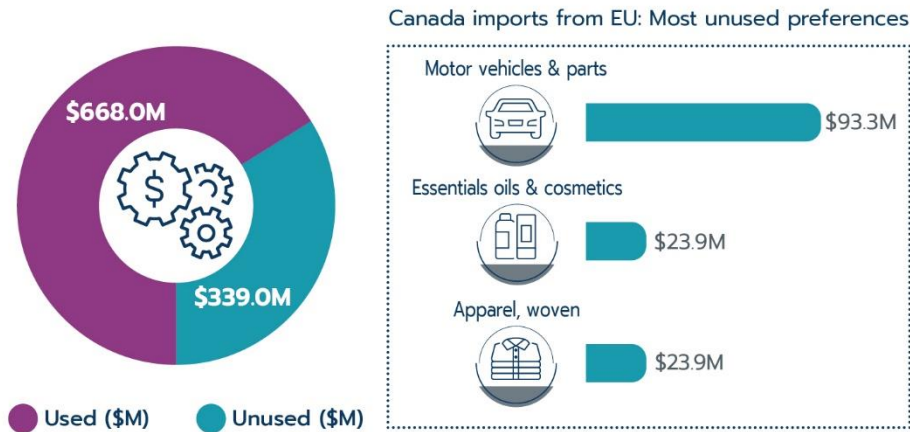
<sup>36</sup> These are estimated tariff savings using actual customs utilization data.

<sup>37</sup> The estimated amount of savings is calculated based on the preference margin between the MFN rate and the CETA preferential rate of the EU tariff schedule for 2021 at the HS 8-digit level. Only HS Chapters 1 to 97 are included.

<sup>38</sup> These are estimated tariff savings using actual customs utilization data.

<sup>39</sup> The estimated amount of savings is calculated based on the preference margin between the MFN rate and the CETA preferential rate of the Canada tariff schedule for 2021 at the HS 8-digit level. Only HS Chapters 1 to 97 are included.

## Tariff savings for Canadian imports from the EU, 2021



Data: Statistics Canada and Canada Border Services Agency

## Conclusion

Trade between Canada and the EU has seen impressive growth since the provisional implementation of CETA. Despite the COVID-19 pandemic, two-way trade grew to a record high of \$100 billion in 2021, an increase of 33.7 percent compared to the 2016 level, prior to the agreement coming into force. This expansion outpaced significantly the 18.6 percent growth of total Canadian merchandise trade over the same period.

Trade growth was broad-based, with most product sectors expanding. Canadian merchandise exports to the EU increased by 46.4 percent since 2016, and imports from EU rose 28.4 percent. Moreover, the gains from CETA were widespread as nearly every Canadian province and territory posted an increase in trade with the EU since CETA implementation.

Exports of products that received tariff reductions from CETA, grew 24.6 percent between 2016 and 2021, and the products that saw the largest tariff reductions also experienced the largest growth. Exports of products with a tariff reduction of more than 10 percentage points increased by 54.5 percent; those that received a reduction of between 5 and 10 percentage points grew by 36.2 percent, and those witnessing a reduction of between 0.1 and 5 percentage points expanded by 19.5 percent.

Utilization of CETA preferences showed a notable improvement in both trade directions in 2021. Canadian exports to the EU have a utilization rate of 65.4 percent, while imports by Canada from the EU have a CETA utilization rate of 59.5 percent. The increased but moderate level of CETA utilization indicates that businesses still stand to gain more from tariff savings by increasing their use of CETA preferences.