HOUSE OF COMMONS
CANADA

CROSSING THE ATLANTIC: EXPANDING THE ECONOMIC RELATIONSHIP BETWEEN CANADA AND EUROPE

Report of the Standing Committee on Foreign Affairs and International Trade

Report of the Sub-Committee on International Trade, Trade Disputes and Investment

Bill Graham, M.P.

Chair

Mac Harb, M.P.

Chair of the Sub-Committee

June 2001

Also available on the Parliamentary Internet Parlementaire: http://www.parl.gc.ca

Available from Public Works and Government Services Canada — Publishing, Ottawa, Canada K1A 0S9

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THE STANDING COMMITTEE ON FOREIGN AFFAIRS AND INTERNATIONAL TRADE

has the honour to present its

FIFTH REPORT

In accordance with its mandate under Standing Order 108(1), your Committee established a Sub-Committee and assigned it the responsibility of examining issues of Canada's economic relations with Europe.

The Sub-Committee submitted its Second Report to the Committee.

Your Committee adopted the report, which reads as follows:

CHAIR'S FOREWORD

It has become increasingly clear to the members of the International Trade Sub-Committee that economic relations between Canada and Europe are in dire need of a boost. On both sides of the Atlantic, trade has become more and more regional in nature, with Canada devoting an ever-growing share of its exports (87% in 2000) to the United States and intra-European Union (EU) trade now accounting for over 70% of member countries' exports. As a consequence, the EU's share of total Canadian exports has declined over the years.

Europe, however, represents the world's second largest economy whose long-term potential looks promising given the economic integration now occurring there. As our report clearly suggests, we ignore this potential at our peril. The key question then becomes, how can we turn the existing situation around and capture what is really a golden opportunity for both sides to expand trade and investment? This report offers what we believe is a useful blueprint for growing the bilateral relationship.

Most helpful would be a free trade agreement with Europe. Such a bold step would, overnight, alter the psychology of businesses on either side of the ocean to create interest in each other's markets. We urge the federal government to quickly complete free-trade negotiations with the European Free Trade Association (Switzerland, Norway, Iceland, Liechtenstein) as well as the necessary steps to launch similar negotiations with the EU.

Second, it is our view that the Government of Canada needs to give greater weighting to Europe in its trade and investment promotion. More resources should be given to day-to-day operations, a high-profile Team Canada trade and investment mission to Europe should be launched, and a national strategy established to promote foreign investment in Canada.

Finally, the Sub-Committee's productive meetings at the World Trade Organization (WTO) in Geneva have reinforced, in our minds, the urgency of a new round of multilateral trade liberalization negotiations. The launch of a new round in November would enable Canada to deal with important EU trade issues at the global level. In addition, we have come to the conclusion that the WTO should improve both its decision-making processes and dispute-resolution mechanism. Regarding the latter, the Canadian experience with WTO decisions shows that the international community needs to find a way to avoid both non-compliance with such decisions and the costly retaliation that can accompany them.

Our work would not have been possible without the excellent cooperation and insight of the private-sector witnesses and government officials who appeared before the Sub-Committee, both in Ottawa and in Europe. A special thanks goes out to the

Canadian ambassadors, and their thoughtful and capable employees, in each of the countries visited. The Sub-Committee was also extremely well served by its competent staff, including our clerk, Marie Danielle Vachon and the research team of Peter Berg and Blayne Haggart. To all these we express our appreciation.

Mac Harb
Sub-Committee Chair

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EXECUTIVE SUMMARY

ASSIGNING GREATER PRIORITY TO EUROPE

When Canadians reflect on the economic relationships that Canada enjoys with various countries and regions of the world, our gaze usually drifts toward our large trade and investment links with the United States. Europe, in contrast, remains somewhat of a mystery to Canadians, even though the European Union (EU) is our second largest trade and investment partner and the world's second largest economic power. Apart from tourist and cultural connections with the continent, few Canadians are generally aware of the EU's increasing economic importance. Typically, what is etched in the minds of the Canadian public are the long-standing transatlantic squabbles over fish (the so-called "fish war" between Canada and Spain), agricultural subsidies, genetically modified products, textiles, wine and other commodities.

These quantitatively minor (though individually important) disputes obscure the reality that Europe's sizeable market and potential are worth exploring. However, this large and sophisticated market has largely been neglected by the Canadian business community, which has primarily focused on the United States. While Europe remains Canada's primary export destination after the U.S., both the EU's share of total Canadian exports of both goods and services and Canada's share of EU imports (apart from intra-EU trade) have been declining. On the other hand, foreign direct investment has become the most dynamic element of the transatlantic economic relationship.

While it would be a mistake to abandon the lucrative U.S. market for the EU, it is still worthwhile for both business and government to remember this large market "across the pond." The Sub-Committee is requesting:

- **the assignment of considerably higher priority to Europe by the Government of Canada.**

KEY CHALLENGES TO BROADENING TRADE AND INVESTMENT WITH EUROPE

A. Rectifying Image Problems

Canada continues to suffer from Europeans' outdated image of Canada and its economy. While Europeans have an overwhelmingly favourable opinion of Canada, our image abroad has tended to revolve around this country's physical beauty and an ongoing perception within Europe that the Canadian economy is still overwhelmingly dependent on natural resources. Yet the reality is that approximately 70% of Canada's exports are now industrial products of one type or another.

The stereotypical image that is held across the Atlantic is impeding the promotion of Canadian trade opportunities within EU countries, as well as the attraction of European investment in Canada.

Likewise, Canadian companies continue to rely on an outdated image of the EU as "Fortress Europe." While the EU is a serious market in which to work, many misperceptions about current market conditions and policy developments in Europe continue to exist. There is a role for government to help communicate an accurate image of both the Canadian and EU markets. The Sub-Committee is calling for:

- **more effective promotion, within Europe, of the shift in Canada's economy towards knowledge-based industries.**
- **a reorientation of tourism promotion campaigns in Europe to place greater emphasis on the new Canadian economic reality.**
- **provision of accurate and timely information on Europe to Canadian businesses.**

B. Promoting Trade and Investment with Europe

Since the mid-1990s, the Department of Foreign Affairs and International Trade (DFAIT) has seen its International Business Development budget for Europe decline from $5.4 million in 1994-1995 to $1.9 million in 2000-2001, and that of the Program for Export Market Development from $1.7 million to $1.0 million. These cutbacks have led to a significant drop in the levels of direct trade and investment promotion undertaken by DFAIT, at a time when the demand for departmental assistance has skyrocketed. It has become increasingly clear that the mismatch between the need for greater trade and investment promotion (especially in critical areas such as participation in European trade fairs), and the Department's resources, is influencing the effectiveness of the federal government's promotional efforts in Europe. The Sub-Committee also notes a number of other concerns brought to our attention regarding current federal attempts to boost bilateral trade and investment, including the need for a national strategy on attracting foreign investment. The Sub-Committee is asking for:

- **an increase in the federal government's trade and investment promotion budget in Europe.**
- **greater expenditure of resources at home to prepare small- and medium-sized enterprises for the demanding EU market.**

- **The establishment of a national strategy (i.e., federal government, provinces and territories, private sector) to promote foreign investment in Canada.**

- **a Team Canada trade and investment mission to Europe.**

C. Achieving Free Trade With Europe

It is safe to say that at the official level, the transatlantic relationship between Canada and Europe is in dire need of a boost. A free trade agreement with the EU, a long-held interest of Canada, would be a tangible way of altering the psychology of Canadian businesses to get them to look across the Atlantic for business opportunities. While the EU has traditionally been skeptical of such a deal, the EU Trade Commissioner has stated the EU would consider a business case for such an agreement. Canada is presently conducting a study on the impacts of tariff elimination.

Canada is also in the midst of negotiating a free trade agreement with the European Free Trade Association, although it has been held up over the treatment of shipbuilding. Such a deal could serve as an important entry point in the continuing quest for a free trade arrangement with the EU. The Sub-Committee is seeking:

- **a rapid development of a Canadian business case for a free trade agreement with the EU and the promotion in Europe of its findings**.

- **the early conclusion of a free trade deal with the European Free Trade Association (Switzerland, Norway, Iceland, Liechtenstein)**.

D. Making Progress at the WTO

The upcoming World Trade Organization (WTO) talks in Qatar (November) will be an important opportunity for Canada to deal with a number of EU trade concerns in a multilateral context. While it is not yet clear whether there will be a new round of negotiations and there remain obstacles to overcome, it is in Canada's interest to work toward the successful launching of a new round, as well as to make progress toward reforming the WTO and other trade-related organizations to make them more effective and efficient. The Sub-Committee is requesting:

- **an acceleration of Canadian efforts to find the necessary WTO consensus to launch a new round of multilateral trade liberalization.**

- **the adoption of more efficient decision-making within the WTO.**

- **a major review of the relevance of the global network of trade and international development institutions.**

- **an assessment of alternatives to the current WTO dispute-resolution mechanism so as to deal with non-compliance with decisions and other concerns.**

E. Strengthening Official Transatlantic Links

Over the years, a number of attempts have been made to enhance bilateral economic cooperation. The most recent variant of these efforts is the December 1998 EU-Canada Trade Initiative (ECTI), which set a limited number of objectives aimed at improving market access and transatlantic economic cooperation. While generally lauded as an improvement over past bilateral initiatives, its success in realizing substantive short-term results has been limited; as currently envisaged, it is a far cry from a comprehensive free trade agreement. Other initiatives, such as the Canada-Europe Round Table for Business (CERT) and the Crossing the Pond initiative, could potentially provide a valuable way to improve Canada-EU economic relations. The Sub-Committee is calling for:

- **a redoubling of efforts to broaden the official Canada-EU bilateral relationship**.

- **more government support for the Canada-Europe Round Table For Business, which could serve as an effective pressure point to advance the bilateral economic relationship**.

F. Lowering European Trade Barriers

While the overall relationship is good, trade relations between Canada and Europe continues to be hampered by a number of long-standing irritants and disputes, affecting Canadian agricultural exports in general, wines, softwood lumber, fish and seafood, beef produced with growth hormones, wheat, and genetically modified organisms (GMOs). Many of these issues have remained unresolved over long periods of time, despite the expenditure of substantial effort to arrive at mutually acceptable solutions.

Needless to say, achieving progress in reducing trade barriers would be a welcome development. However, in many areas, such as those related to food safety (which includes GMOs and beef hormones), there is at present a lack of political will in the EU to address substantive trade concerns. While progress in reforming the EU's Common Agricultural Policy (CAP), which provides large production subsidies to farmers, remains slow, pressures such as EU enlargement, internal cleavages over the cost of the CAP, and multilateral pressure will likely eventually force a restructuring of trade-distorting farm subsidies. The Sub-Committee is asking for:

- **major reductions in trade-distorting EU agricultural subsidies.**

- **an international accord dealing with genetically modified products.**

- **enhanced cooperation between the EU and Canada on regulatory policy in the areas of health, safety, and the environment, as well as a sharing of the Canadian regulatory experience with Europeans.**

- **the development of a common understanding with the EU on the meaning and application on the precautionary approach to regulation.**

G. Dealing With EU Enlargement

Potential EU enlargement to include Central and Eastern European countries presents both challenges and opportunities for Canada. EU enlargement could lead to a diversion of trade away from Canada as the traditional bilateral access that we have enjoyed is eliminated. Should a net diminution of access to the European market for Canadian goods and services occur as a result of eventual EU expansion, Canada may opt to seek compensation from the EU through existing WTO channels. On the other hand, an expansion in the EU's membership could also provide business opportunities for Canadian producers of certain products. Because the bound tariff rates of the EU's Common External Tariff are often lower than the levels at which the new entrants are bound, accession to the EU could enhance market access for Canada's companies in certain product lines. The Sub-Committee is seeking:

- **an assessment of the potential economic effects on Canada of EU enlargement, and the development of a strategy to deal with this upcoming boost in EU membership.**

RECOMMENDATIONS

INTRODUCTION

Recommendation 1:

That the Government of Canada significantly elevate Europe's status in its global trade and investment list of priority regions. A concerted and effective initiative to augment our trade and investment with the countries comprising Europe and to deal more effectively with existing bilateral trade barriers and irritants is required as soon as possible.

RECTIFYING IMAGE PROBLEMS

Recommendation 2:

That the federal government, through the use of an effective information campaign, undertake a more concerted effort to communicate directly and effectively to European decision-makers that rapid change in the structure of the Canadian economy has occurred. Europeans need to be informed that Canada has now evolved from being primarily a resource-based economy to one that encompasses many modern, knowledge-based industries.

Recommendation 3:

That this revamped "rebranding" strategy, designed to reposition Canada's image abroad as a world leader in the new economy, make greater use of the resources of European companies having successful Canadian operations; Canadian firms with sizeable presence in Europe; incoming visits by journalists, especially those representing specialized newspapers and journals; student exchanges; images of the new Canadian reality displayed prominently at Canadian airports; and the Canadian flag.

Recommendation 4:

That, in collaboration with the provinces, Canadian tourism promotion campaigns in Europe be reassessed and modified, where applicable, to include information on the rapid transformation that has occurred in Canada's economic structure and the lifestyle and high quality of life that

Canadian knowledge workers enjoy. Greater targeting of Canada's cities as business and tourist destinations should be considered.

Recommendation 5:

That the federal government review the needs of Canadian business, especially those of small- and medium-sized firms, for accurate and up-to-date information about individual European country markets as well as the policies and practices of the integrated European Union. Remedial steps should be taken to respond to information deficiencies.

PROMOTING TRADE AND INVESTMENT WITH EUROPE

Recommendation 6:

That the federal government provide a boost to DFAIT's direct trade and investment promotion budget in Europe. These increased resources should be targeted towards expanding Canadian involvement in European trade fairs, thereby enhancing Canada's image and presence within the European business community, and to a broader, more extensive search for additional investment throughout Europe.

Recommendation 7:

That the Government of Canada rededicate itself at home to generating interest on the part of small- and medium-sized Canadian companies in participating in European markets, more adequately preparing "new to Europe" firms for European export opportunities, and following up on these corporations once they are established overseas. More funds and personnel should be allocated to meet these objectives.

Recommendation 8:

That the federal government review and modify its export promotion activities and resources to ensure that complementarity between its activities and those of the provinces is achieved, that closer links with Canadian business organizations are forged, and that adequate recruitment of foreign officers with the necessary private sector skills to help open up European markets to Canadian firms is undertaken.

Recommendation 9:

That an Investment Team Canada, integrating the resources of relevant federal departments and agencies, other governments in Canada, and the private sector, and equipped with a mandate to promote foreign investment in Canada, be established as soon as is feasible. A national strategy to attract investment from Europe and elsewhere should be developed with an eye to removing existing overlap and duplication between the various levels of government. As part of this strategy, emphasis should also be placed on encouraging and facilitating reinvestment once foreign companies have been established in Canada.

Recommendation 10:

That the federal government make every possible effort to ensure that Europe be reinstated as a priority destination for future Team Canada missions, and that both trade and investment promotion are designated as key objectives for such missions.

ACHIEVING FREE TRADE WITH EUROPE

Recommendation 11:

That the Government of Canada rapidly develop a business case for a free trade agreement with the EU and undertake an aggressive campaign both in Canada and in Europe to promote its findings to key decision-makers. In this promotional campaign, every effort should be made to seek out and utilize champions of transatlantic free trade.

Recommendation 12:

That the federal government rededicate itself to concluding a "first generation" free trade agreement with EFTA as soon as possible and then enter into further negotiation so as to finalize a broader "second generation" accord by the end of December 2002.

MAKING PROGRESS AT THE WTO

Recommendation 13:

That the Government of Canada accelerate efforts to seek consensus, both within the Quad group of countries and between developed and

developing countries, on a broadly based but manageable WTO negotiating agenda for the next round of multilateral trade liberalization.

Recommendation 14:

That Canada, in conjunction with like-minded countries such as those represented by the EU, encourage World Trade Organization members to create a more efficient decision-making procedure within the WTO while respecting individual countries' sovereignty, the need for transparency, and the need for consensus building within the institution.

Recommendation 15:

That Canada aggressively begin a global campaign to launch an in-depth examination of the world's trade and development organizations, with a view to fashioning a more effective, cohesive, and efficient network of global institutions. Where institutions have outlived their usefulness, they should be dismantled.

Recommendation 16:

That the Government of Canada encourage WTO member states to undertake an extensive examination of alternatives to the existing dispute settlement mechanism to render it more effective. Such issues as the need for time limits on WTO compliance and the usefulness of giving greater priority to compensation as opposed to retaliation as a form of settlement should be given serious consideration.

STRENGTHENING OFFICIAL TRANSATLANTIC LINKS

Recommendation 17:

That the federal government redouble its efforts to expand the Canada-EU bilateral relationship. Possible measures to be considered within the European Union-Canada Trade Initiative framework include: negotiating mutual recognition agreements in a larger number of industrial sectors, making progress in the area of trade facilitation, and establishing improved bilateral mechanisms to resolve trade irritants. The formation of a bilateral group under ECTI to systematically address regulatory barriers to Canada-EU trade should be considered.

Recommendation 18:

That the federal government increase its support of, and actively encourage business participation in, the Canada-Europe Round Table For Business (CERT) initiative. The government should also recommend to CERT that it review its membership fee structure in order to stimulate greater participation by small- and medium-sized companies.

LOWERING EUROPEAN TRADE BARRIERS

Recommendation 19:

That the Government of Canada attempt to ensure that any support provided by the EU to preserve the multifunctionality of agriculture not be trade distorting. The government should work with the EU to arrive at an international definition of the multifunctionality concept.

Recommendation 20:

That in the WTO negotiations on agriculture, Canada not deviate substantially from its initial negotiating objective of (a) removing EU agricultural export subsidies; (b) significantly enhancing access by Canadian agricultural producers to the European market; and (c) ensuring that the EU's production subsidies are not trade distorting.

Recommendation 21:

That the Government of Canada work diligently within the international community to achieve international agreement on the definitions of genetically modified (GM) or biotech products, science-based standards of producing GM products that the international community can recognize, and the labeling rules that are required.

Recommendation 22:

That the Government of Canada, in conjunction with the provinces, seize every possible opportunity to enhance cooperation between Canada and the EU on regulatory policy in the areas of health, safety, environment, and technical standards, and share Canada's regulatory experience with European decision-makers and, where appropriate, the public at large. These efforts should be directed through Canada's overseas posts, industry associations active in Europe, and Canadian participation in

international organizations in which standards are discussed, developed and monitored.

Recommendation 23:

That Canada and the EU seek common understanding on the meaning of the precautionary approach and the manner in which it is to be applied to regulatory practices. Ultimately, such an understanding should be arrived at within a multilateral setting.

DEALING WITH EU ENLARGEMENT

Recommendation 24:

That the federal government make public any assessment of the probable positive and negative effects of EU enlargement on the Canadian economy. On the basis of these findings, the government should formulate an effective initial strategy to deal with the upcoming enlargement. The issue of potential compensation for forgone market access should also be explored, and timely and targeted information on the enlarged European market provided to Canadian businesses.

Recommendation 25:

That in order to significantly strengthen bilateral economic relations between Central and Eastern European countries and Canada while assisting our high-technology community, the federal government, through multilateral organizations, encourage and assist these countries in developing and especially enforcing intellectual property rights in the region.

INTRODUCTION

When Canadians think of their country's trade and investment relations with other nations, the importance of the European Union is usually overshadowed by that of Canada's most important commercial partner, the United States. This should come as no surprise, given our southern neighbour's geographical proximity, the high-profile nature of the North American Free Trade Agreement (NAFTA) and the Canada-United States Free Trade Agreement that preceded it, and the fact that a combination of market forces and these agreements has led the overwhelming bulk of our trade and foreign investment flows to be concentrated on the United States.

Fully 87% of our traded goods were shipped to the U.S. in 2000. In contrast, the EU is the destination for a mere 5% of Canada's exported goods. The reality is that all of our economic relations with countries other than the U.S. — as significant as they appear to be to the nations involved — are dwarfed by the sheer magnitude of Canada-U.S. economic ties.

Canada faces a troubling dichotomy. On the one hand, our businesses have found it easiest to conduct their operations within NAFTA, and are largely choosing to concentrate on North America over Europe. As a number of witnesses told the Sub-Committee, it is only natural that Canada's economic priorities continue to be centred on its relationship with its largest trading partner. Private sector companies, it was pointed out by Robert Keyes (Senior Vice-President, International, Canadian Chamber of Commerce), are the ones making the business decisions, and if firms decide to undertake business in North America and not elsewhere, they should not have to apologize for their actions. These witnesses tended to support the federal government's positioning of the U.S. at the top of the trade priority list.

On the other hand, Canada has become quite dependent on its southern neighbour for its trade and investment, and the recent economic downturn in the U.S. demonstrates that there is a danger in continuing to rely so heavily on one trading partner for our well-being. The dominance of the U.S. market provides a rationale for Canada to diversify its exports. In this context, Europe could serve as a useful counterbalance to Canada's high degree of dependence on the United States.

That Europe, and within that the European Union (EU) specifically, has often been neglected when discussing Canada's trade and investment picture is perfectly easy to understand. Canada has, recently, expended considerable energy in helping to set up a Free Trade Area of the Americas (FTAA), and despite its recent financial crisis, Asia is still thought of by many as the new frontier, destined once again to enjoy impressive rates of economic growth.[1]

However, Canada-EU economic relations cannot be seen simply in the light of Canada's current 87% dependence on the U.S. export market. The declining importance of the European market and the increasing relevance of the U.S. market is part of a long-term trend. Since the 1940s, the importance of Europe (and the United Kingdom in particular) as an export market has been declining.

This realization has led, at different times, Canadian governments to try to diversify the country's exports away from too much dependence on the United States. Pierre Trudeau's "Third Option" of the 1970s is the most famous example, but the beginnings of this policy can be found in Canada's push for Article 2 in the North Atlantic Treaty Organization's charter, which called for the establishment of a North Atlantic Community. It was never implemented, and NATO instead grew to be a military organization.

Increased regional economic integration is not a purely Canadian phenomenon. According to WTO statistics, a rising amount of trade is now intraregional. In 1999, 48.1% of the U.S.'s merchandise exports stayed in North and Latin America. Likewise, in Asia, 46.6% of exports stayed in that region; and 71.3% of the EU's trade was among its members. While Canada is paying less attention to the rest of the world, so too are other regions, including the EU, paying less attention to any country outside its own region. It is thus not surprising that both Canada and the U.S. have lost export market shares in the EU as intra-EU trade has risen.

We ignore Europe's sizeable potential at our peril, however. Europe, in the words of William Clarke (Assistant Deputy Minister, International Business and Chief Trade Commissioner, DFAIT), is a "huge and sophisticated market" whose recent economic performance continues to be positive and whose future looks promising, given the economic integration now occurring. It is a key market for Canada, even if the bilateral trade and investment relationship is overshadowed by the existing economic link with the U.S.

1 It is worth noting that Europe's status in the eyes of business may finally be changing. According to a recent survey undertaken by the Canadian Chamber of Commerce, the group's members placed Europe second to the U.S. in terms of priority, followed by Asia and then Latin America.

Not only does the EU[2] give Canadian companies access to 376 million individuals, it is also the world's second largest economy, with its GDP of US$8.9 trillion accounting for 20% of global output (the U.S., with a GDP of US$10 trillion, is the world's largest economy). Moreover, with exports totalling an estimated $1.2 trillion and imports at $1.3 trillion, the EU is the world's largest trader. These are impressive numbers.

One should also not overlook the question of future membership in the EU, for it is widely expected that by 2010, the Union will have grown from its existing 15 members to almost 30 countries. Twelve (Poland, Hungary, the Czech Republic, Slovenia, Estonia, Cyprus, Latvia, Lithuania, the Slovak Republic, Malta, Bulgaria, and Romania)[3] are now undertaking to satisfy certain economic and social membership criteria, with the hope being that this task will be completed by 2004. The pace of accession negotiations varies according to the ease with which each country is absorbing the *acquis communautaire* (EU body of laws) into its own national law and practice. Managing this enlargement, which could result in a 33% increase in territory, a 30% gain in overall population to approximately 500 million, and a 100% increase in the EU's rural population, will undoubtedly prove to be the EU's most pressing challenge over the next decade. The implications of enlargement for European agricultural policy alone are enormous.

As was previously alluded to, the euro is now the official currency of 12 of the 15 EU member states having joined the Economic and Monetary Union (EMU). In 2002, euro notes and coins will begin to circulate. Information provided to the Sub-Committee by DFAIT reveals that the EMU is not expected to exert significant short-term direct trade and investment effects on Canada. Whether the Canadian economy will be aided (through an improved European market for Canada) or harmed (through increased EU competition with Canada for European and other markets) in the long run is still uncertain.

When considering Europe's exciting economic prospects, one must also not lose sight of the fact that the region also poses a variety of challenges for Canadian business. In many ways, the EU continues to be a collection of sovereign states, each with its particular laws and regulations. As David Paterson (Government Relations Officer, Canadian Advanced Technology Alliance) explained to the Sub-Committee, the EU is a collection of 15 markets "united under a single trade regime, but each having its own language, customs and business practices. Each must be addressed individually." This

2 The EU is made up of the 12 nations that make up the Euro zone, or EU-12 (Belgium, Germany, France, Italy, Luxembourg, Netherlands, Ireland, Spain, Portugal, Austria, Finland and Greece) and three other countries that have not yet adopted the euro as their currency (Denmark, the United Kingdom and Sweden). Members of the EU share a common market as well as foreign and security, trade, agricultural and competition policies. The EU negotiates trade agreements on behalf of its members.

3 Negotiations with Turkey will commence only after a number of political criteria for membership have been satisfied.

reality often results in a struggle for foreign companies to penetrate easily and fully the whole of the EU.[4]

On top of the perceived difficulty in penetrating European markets, the EU continues to employ market-restricting regulatory practices in certain economic sectors and, in the case of agriculture, the provision of costly subsidies. Trade barriers have, over the years, harmed many of Canada's natural resource exports and the Union's recent acceleration in the use of sanitary and phytosanitary regulatory measures has caused problems for Canadian exporters. In agriculture specifically, approximately 50% of the EU's budget is allocated to its Common Agricultural Policy (CAP), which provides a high level of trade-distorting subsidies to farmers. The CAP remains a concern for Canada and continues to be a key issue in the pursuit of a new multilateral round of trade liberalization.

Recognizing the interplay between the economic opportunities that Europe provides and the challenges that still need to be overcome, the Sub-Committee set out to explore Canada's economic relations with the European region. It held two phases of hearings in Ottawa, one in the 36th Parliament and the other in the 37th, and undertook a successful fact-finding mission to Europe (Paris, Berlin, Geneva, Brussels) in the spring of 2001.

After much reflection, we have concluded in this report that greater focus needs to be placed on Canada's commercial links with Europe and that Europe's status on Canada's trade and investment priority list requires elevation. Whereas the data suggest that Europe is far and away our second largest trade and investment partner, we were told by our Mission to the EU in Brussels that Europe was only ranked fourth on Canada's list of global priorities. A concerted effort to augment our trade with European countries and to deal more effectively with the trade barriers and disputes that continue to affect the relationship is warranted. While in the past there may have been a tendency to sometimes take Europe for granted, doing so is a mistake given the richness of the market and the opportunities for Canadian businesses. Canadians should not be complacent regarding the current transatlantic relationship. The Sub-Committee therefore recommends:

4 This view was not shared by all witnesses, however. In contrast to the testimony of various business association representatives, Danièle Smadja (Ambassador, Delegation of the European Commission in Canada) did not agree that the EU was a complicated bloc to deal with, arguing that a great deal of progress had been achieved in eliminating internal borders and controls, and in achieving harmonization of standards, procedures and policies. She noted that Canadian exporters and operators only have to face one external EU border.

Recommendation 1:

That, the Government of Canada significantly elevate Europe's status in its global trade and investment list of priority regions. A concerted and effective initiative to augment our trade and investment with the countries comprising Europe and to deal more effectively with existing bilateral trade barriers and irritants is required as soon as possible.

This report, based largely on the evidence received by the Sub-Committee, consists of two parts. The first describes the current state of transatlantic economic ties, with emphasis on trade and investment. There it is noted that while two-way trade is growing in absolute terms, the investment link has become the real "success story" of the bilateral relationship.

The second part of the Sub-Committee's report addresses a number of key challenges to broadening trade and investment with Europe. These include:

- Improving Canada's image in Europe, which has not always been optimal, as well as Europe's image in Canada;
- Rendering the federal government's trade and investment promotion activity more effective;
- Achieving free trade agreements with both the EU and the European Free Trade Association (EFTA);
- Making progress on the multilateral trade liberalization agenda at the World Trade Organization (WTO);
- Strengthening current official transatlantic links, which have historically been somewhat weak;
- Lowering European trade barriers, which continue to hamper the bilateral relationship; and
- Examining the effects of EU enlargement on Canada.

PART I: CURRENT TRANSATLANTIC ECONOMIC TIES

Trade and direct foreign investment are both key elements of the transatlantic economic relationship, even if the growth in investment flows has been far superior. Now that it has become accepted that trade increasingly follows from investment, one can only hope that existing trade patterns with Europe can, over time, be revitalized.

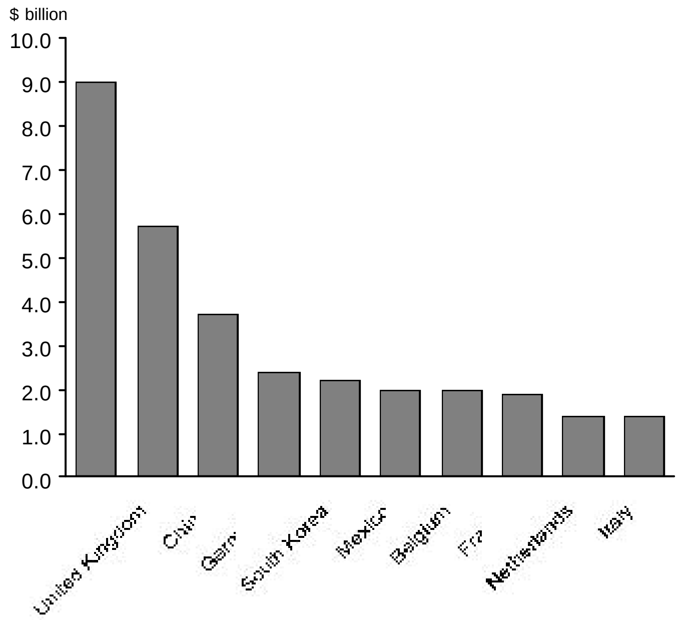
A. Trade

Canada's trade with the European Union continues to rise in absolute terms. Two-way trade in goods and services totalled $73.8 billion in 2000, up just over 100% from 1991. According to Statistics Canada, this country's $21.0 billion in merchandise exports to the EU accounted for 4.6% of our total goods exports, while our imports, which have grown markedly since 1991, stood at $33.6 billion. Exports of services in 2000, in the order of $8.9 billion (against imports of $10.3 billion), were also significant. Over the years, merchandise exports to Europe have displayed moderate growth: a 75% increase, in absolute terms, over the 1993-2000 period.

Europe is also the first destination for Canada's exports after the United States. Excluding our neighbour to the south, the EU accounted for 47% of export growth between 1990-98, double the growth of exports to the Asian Tigers over that period. Exports to Europe have risen, on average, by at least $1 billion per year over the past six years — a not insignificant amount, though as Bertin Côté (Assistant Deputy Minister, Europe, Middle-East and North Africa, DFAIT), remarked to the Sub-Committee, one year's growth in exports to the U.S. would exceed total Canadian exports to the EU. Set against our economic relationship with the U.S., the importance of Europe to Canada, both on the trade and investment side, is not always appreciated. Even so, the trade results should not be treated lightly, as they lead to considerable employment opportunities for Canadians.

Susan Cartwright (Acting Assistant Deputy Minister, Europe, Middle East and Africa, DFAIT) informed the Sub-Committee that six of Canada's top ten non-U.S. export markets are located in Europe. Within the EU, Canada's two biggest export markets are the United Kingdom ($6.4 billion in merchandise exports in 2000), and Germany ($3.1 billion); these two countries also account for Canada's largest sources of imports from the EU.

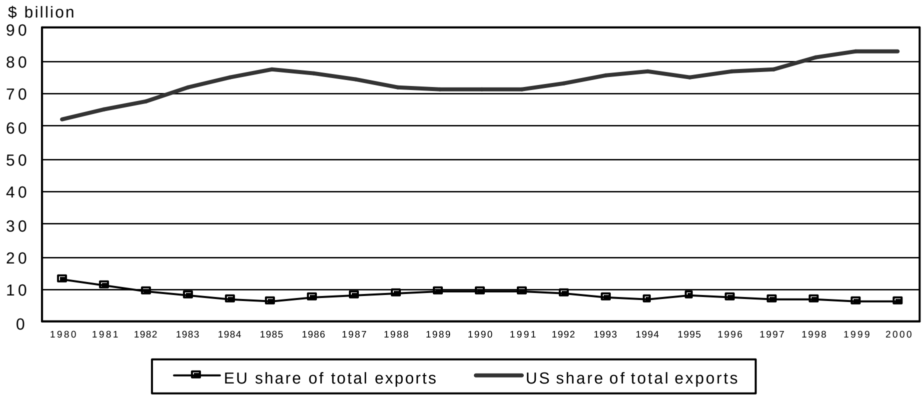
CHART 1
Canada's Top Ten Non-U.S.
Export Markets, 2000
customs basis



Source: Statistics Canada

While the trade numbers appear positive on the surface, several caveats need mentioning. First, the EU's share of total Canadian exports of both goods and services has been declining, having fallen from 13.2% in 1980 to 6.3% in 2000, as Canadian businesses have tended to concentrate on the United States market within the free trade environment. The U.S. share of our exports has grown steadily, by a full 20 percentage points in the 1980-2000 period. If one were to separate out the U.S. numbers, the EU's share of Canadian exports has actually been relatively stable over that period. A sluggish European economy (compared with the strong U.S. one) during most of the 1990s and the appreciation of the Canadian dollar, in tandem with the U.S. dollar, against the leading European currencies have contributed to existing trade patterns. Trade barriers in Europe have also held back Canadian exports.

CHART 2
U.S., EU Share of Canadian Exports



Source: Statistics Canada

Second, Canada's share of the European market itself has also been decreasing. The percentage of EU member-country imports originating in EU countries (i.e. intra-EU trade) has risen since 1980, displacing exports from countries such as Canada, the United States, Australia, and New Zealand. It would appear that the major development driving the above trade trends is the increased regional integration on both sides of the Atlantic in the form of NAFTA and the EU. Both the Canadians and the Europeans have become more oriented to their respective regional markets as the existence of the two free trade areas has concentrated trade within those zones (i.e. both intra-EU and intra-NAFTA trade have risen). European business people also now have many business opportunities at their disposal that were formerly unavailable to them (e.g. China, other Asian countries, the former Soviet Union).

Third, even if one only considers EU trade with the non-EU rest of the world (i.e. taking away imports from other EU countries), Canada's share of the net EU import market has also fallen, from just over 2.5% in 1980 to a little over 1.8% in 1999. In other words, Canada is losing markets in the EU to non-EU countries and has now become less important to Europe at a time when the EU market is expected to grow as a result of an expansion in membership, the establishment of a single currency, and the implementation of economic reforms. This reduction in Canada's relative economic presence has made it more difficult to advance Canadian interests on a range of important matters.

Despite these declining shares, there is some good news: Canada has significantly diversified its overseas export mix. Over the past 20 years, it has expanded the range of products delivered into the European market away from our traditional raw material exports. Though pulp and paper continues to be the largest export to the EU, natural resources have increasingly been displaced by higher value-added manufactured goods, including: high-tech goods such as aircraft and parts; industrial — primarily high-precision — machinery; telecommunications equipment and computers. The product displaying the highest recent growth (from $0.5 billion in 1994 to $1.5 billion in 1998) has, in fact, been aircraft and parts, especially regional jets.

The shift to greater value-added products in our export mix was generally well received by the Sub-Committee's witnesses. Mr. Paterson pointed to the huge European potential in the high-technology sector, with the European business-to-business market alone slated to grow to $2.3 trillion in the next five years. According to him, Canadian high-technology firms gear their marketing strategies almost exclusively to exports, with the U.S. market considered to be virtually the same as the domestic one.[5] Once these companies have become established south of the border, they then start broadening their marketing horizons, with Eastern Canadian firms looking to Europe and those in the west focusing on the Pacific Rim. Indeed, the future of the Canada-EU trade relationship may hold considerable promise, since the Sub-Committee heard indications that interest in engaging in trade with Europe was rising among Canadian companies, especially in the high-technology, informatics, and telecommunications industries.

According to Mr. Paterson, Canadian high-technology firms tend to employ one of two entry strategies when attempting to penetrate the European market: they establish a marketing and sales office in the targeted country; or they negotiate a strategic alliance with an already established company with the potential of eventually purchasing that company. The second option is less costly and therefore more popular, with the result that there is now considerably more emphasis being placed on forging alliances with European partners prior to attempting to exploit European markets. Among other things, these commercial links enable Canadian companies to bring new European technologies and products back into the NAFTA market for sale. Once established in Europe, the next step for Canadian firms is usually investment in local facilities, especially in manufacturing.

Turning to the import side of the ledger, the level of imports of goods and services from the EU has remained relatively stable since 1980, and in 2000 represented about 10% of total Canadian imports. If we exclude the U.S., however, then our imports from the EU actually rose from 30% of the non-U.S. total in 1980 to 37% in 2000. Canada's principal imports from the EU include industrial machinery, equipment and tools, automobiles, electronic tubes and semi-conductors, and crude oil. In recent years, aircraft imports (primarily Airbuses purchased as part of the replacement of the domestic fleet) have posted the fastest growth rate, from a level of $0.3 billion in 1994 to $2.5 billion in 1998.

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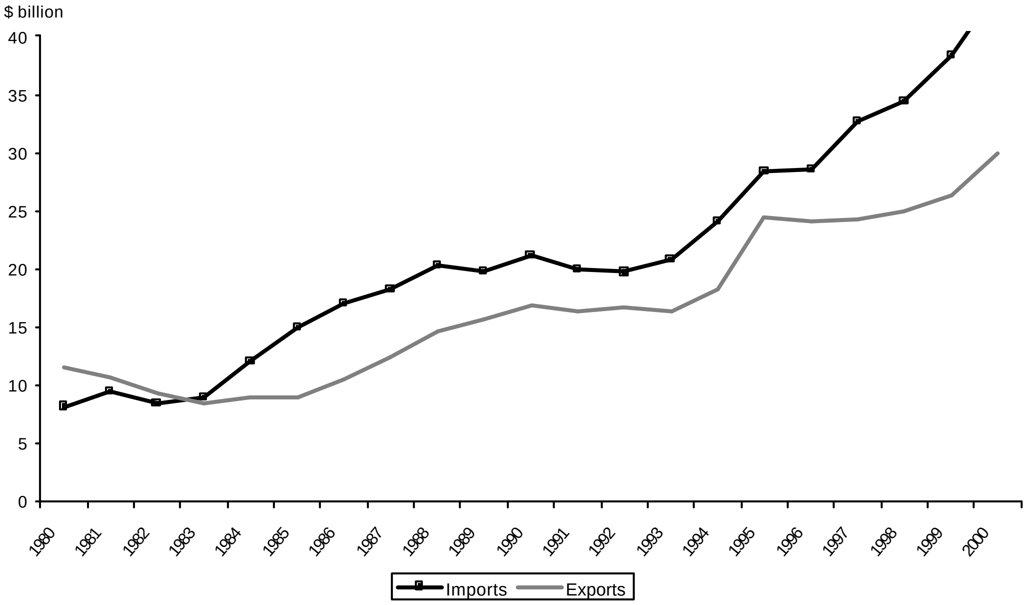
[5] The U.S. market offers strategic advantages, such as its large size, a high degree of innovation and a desire to attempt new approaches, the existence of a homogenous market, and proximity to Canada.

CHART 3
Canada-EU Trade in Goods and Services



Source: Statistics Canada

In 2000, the merchandise trade balance between Canada and the EU recorded a deficit of just under $14 billion.[6] This imbalance between exports and imports has grown steadily since the mid-1990s, reflecting to a large extent both the disparities in economic growth rates between Canada and Europe and the process of integration on the European continent. The services balance also remains in a deficit position.

6 In her appearances before the Sub-Committee, Ms. Smadja argued that the actual trade deficit between Canada and the EU using Eurostat (the EU's statistical office) data was much lower than the figures claimed by Canadian witnesses. Both Statistics Canada and Eurostat are, in fact, currently attempting to identify the cause of the divergences in the numbers.

CHART 4
Goods and services trade balance with the EU, 1980-2000

Source: Statistics Canada

B. Investment

While exports have not kept pace with EU economic growth, foreign direct investment (FDI) has become the most dynamic element of the transatlantic economic relationship. In 2000, the stock of Canada's cumulative direct investment in the EU amounted to $56.5 billion, with that of investment from the EU totalling $77.9 billion. The latter figure includes a substantial increase of $28.3[7] billion from the 1999 results, owing mainly to French company Alcatel's purchase of the Kanata, Ontario-based Newbridge Networks, and the sale of Seagram Co. to Vivendi SA, also of France. This increase in French investment in Canada meant that in 2000 they surpassed Canada's traditional number-two source of FDI, the United Kingdom.

Even if one recognizes that 2000's jump in FDI may have been atypical, Canada has enjoyed strong growth in investment with Europe during the past decade. Our investment in Europe rose by a more than healthy 174% over the 1990-2000 period, a rate of growth that exceeded the comparable figure for the U.S. (157%). In 2000, Europe accounted for almost 19% (up from 12% in 1983) of direct Canadian investment abroad. How this growth in investment will be affected by the bursting of the high-technology bubble

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7 It is worth noting that these data from Statistics Canada are preliminary in nature. The final 2000 figures are not yet available.

in late 2000 and early 2001 remains to be seen. It is worth noting in this context that Nortel, for instance, has laid off a large percentage of its staff in France.

According to Mr. Clarke, this FDI boom can be attributed to Canada's high-tech firms, whose activities have supplemented the existing large-scale operations and facilities of traditional Canadian investors such as Bombardier, Nortel, Alcan, and CAE. The largest sectors attracting Canadian direct investments have been finance and insurance; metals and metal products; communications; and food, beverage and tobacco industries.

Many Canadian firms have been strategically investing in certain European countries, which act as gateways into the European market as a whole or at least segments of it. The experience has been that Canadian firms have concentrated their activities on the United Kingdom — it is by far the number one destination for our investment in Europe, with over 350 Canadian firms established there — and Ireland. Together these two countries (United Kingdom $25.3 billion; Ireland $8.4 billion) accounted for 60% of Canadian investment in the EU in 2000. Our companies are also well represented in many western European cities outside of these two countries (e.g. Stockholm or Copenhagen serving the northern European market and Amsterdam or Brussels for mid-Europe).

Increasingly, it has become accepted that investment has overtaken trade as the most important market penetration strategy available to business. Typically, the motivation behind FDI has been either to service the target market more easily[8] or, in certain instances, to bypass trade barriers by setting up operations in that market. What has also become recognized is that, as a general rule, trade has tended to follow investment.

Regarding Europe specifically, two-way investment has been displaying strong growth despite the fact that tariff barriers have been in a state of decline for several decades. In other words, investment is not being driven by the presence of barriers to market access. Instead, as the Sub-Committee heard, companies like Bombardier have invested in Europe because they have found that a local presence is essential to serve that market. Robin Schweitzer (Vice-President, Strategic Initiatives, Bombardier Transportation) told the Committee that a significant proportion of his company's workforce is located in the EU, specifically in Germany. Investing in order to act like a local company decreases the likelihood that increased trade will result from investment (though, of course, strong sales to the EU will always help a firm's bottom line). What is

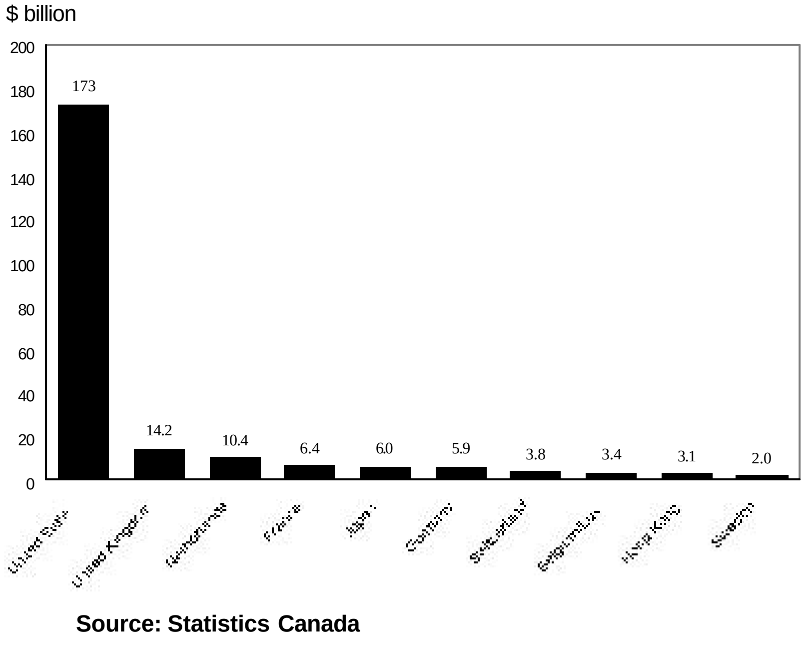
8 While in the EU, the Sub-Committee heard from many Canadian companies present in the EU that being perceived as a "local" company was essential to doing business in that market, e.g. in Germany.

important for Canada is the extent to which Canadian investments in Europe are facilitating the overseas exports of Canadian products, including parts and components to the production process, rather than simply contributing more to transactions of an intra-European nature.

The views of witnesses varied somewhat on this point. In addition to the already mentioned comments about Bombardier, Mr. Keyes remarked, “Europe is a very strong investment partner and while we hope that trade will follow investment, it's possible that at least some of that investment is made to facilitate intra-European trade rather than to increase the physical export of goods from Canada. It's really difficult to know.” Mr. Clarke, on the other hand, placed a decidedly more positive spin on the question by claiming that our companies’ (e.g. Bombardier) investments in Europe have generated important export spinoffs, with the result that the federal government is now fairly positive about Canadian firms investing abroad.

Canada’s investment in the EU has been roughly matched by the EU’s investment in this country. After the United States, the EU is Canada’s second largest source of foreign investment. Of all the non-U.S. investment in Canada, about a third originates in Europe; moreover, seven of the top ten investment source countries are European. EU investments in Canada are concentrated in the finance and insurance; food, beverage and tobacco; energy; chemical products and textiles industries. These investments benefit greatly the Canadian economy: some 3,500 European subsidiaries have been established in Canada, creating thousands of jobs.

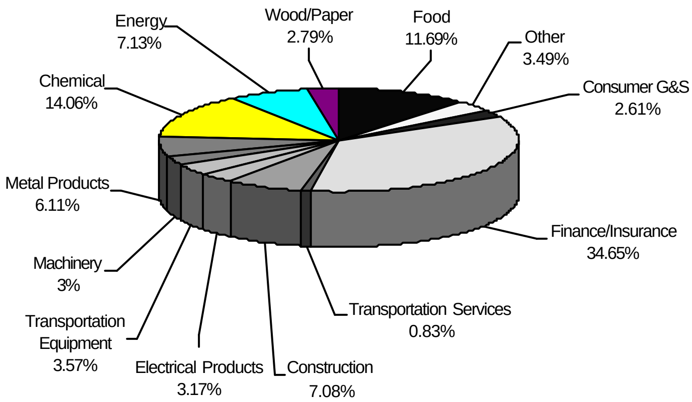
CHART 5
Ten Largest Foreign Direct Investors in Canada, 1999



Source: Statistics Canada

Europeans investing in Canada often do so in order to establish a beachhead for the NAFTA market. Success stories brought to the Committee's attention include investments made by Alcatel and Vivendi as well as Swedish companies such as Ericsson, Astra, and Stora. Canada provides foreign investors, especially smaller firms, with a number of competitive advantages, such as a low exchange rate, a loyal and high-quality labour force, favourable social services and legal systems, and comparatively low business costs. Yet while Canada has enjoyed an absolute increase in incoming investment (an almost 100% increase during the 1988-2000 period), its performance in attracting European investment has, up until just recently, been somewhat disappointing when compared to the trends on outflows. How this situation can be dealt with is addressed in the chapter that follows.

CHART 6
European Investment in Canada by Sector, 1998



Source: DFAIT

PART II: KEY CHALLENGES TO BROADENING TRADE AND INVESTMENT WITH EUROPE

A. Rectifying Image Problems

1. Enhancing the Image of Canada in Europe

It has become increasingly apparent that the perception that Europeans have of Canada poses a serious obstacle to the promotion of Canadian business in the EU. Our European fact-finding mission confirmed that Canada possesses an overwhelmingly positive image overseas. Abroad, the name Canada often conjures up images of pristine parks and wilderness areas, other tourist draws such as Niagara Falls, a peaceful, democratic and tolerant people, and an economy critically dependent for its performance on its natural resources. While the description of Canada's natural beauty is certainly apt and worthy of promotion, and generates invaluable goodwill, it misses the reality that in the economic arena Canada no longer relies solely on its natural resources. Some 70% of our exports are, in fact, now industrial products. For the first time in Canadian history, as the Sub-Committee was told by a senior Canadian embassy official in Paris, one can say that there is balance in the domestic economy between the resource-based industries and other sources of industrial output. In a number of high-technology areas (e.g. rapid access to the Internet, broadband access), Canada has become a powerhouse.

Still, the old vision of Canada dies hard. In 1997, the Conference Board of Canada concluded that the business communities on each side of the Atlantic were plagued by a major "information deficit" about each other's markets. A private survey of European executives undertaken for Foreign Affairs and International Trade Canada in 1998 also revealed gaps and inaccuracies in the overseas knowledge of Canada. In France, the Sub-Committee was informed of the findings of a survey that revealed perceptions of a complete lack of "high-performance" industries in this country. The image problems identified in the 1990s thus appear to continue to this day.

The fact remains that Europeans hold an outdated picture of Canada's economy, and that Canada is not on the radar screen of most EU companies. Remarked Mr. Keyes, "… we're seen as a satellite of the U.S. The U.S. gets the primary attention and we're sort of some snowbound northern end and the U.S. may be a launching pad into Canada. They could not identify Canadian products, companies or services that really stood out as a real must-have in the European context." In Europe, we even found out that our leading high-technology companies are often thought to be American owned. With the common European impression being that we are dominated by the U.S., it may be in Canada's best interests to differentiate itself from its southern neighbour.

Why do we continue to have an image problem overseas, in that Canada is not being correctly perceived as an important manufacturer of advanced industrial and high-technology products? Has accurate information been made readily available to European business? The Sub-Committee heard contrasting views on the information question. Mr. Keyes was convinced that no “information deficit” existed with respect to Canada, that in fact there was too much information available. Mr. Clarke agreed that while the quantity of information was not an issue, people on each side of the Atlantic nevertheless did not know very much about the other. For his part, Charles Barrett (Vice-President, Business Research, Conference Board of Canada) claimed that both sides suffered from a shortage of timely and targeted information on each other’s markets. In France, the Sub-Committee heard that French firms experienced a dearth of information on Canada, with even the well-known French company Alcatel (which purchased the Kanata-based Newbridge Networks in 2000) not having initially perceived Canada as a high-technology market.

The Sub-Committee can only conclude that Canada’s stereotypical image is harming its business prospects. With the depth of global competition for business that now exists, the challenge for Canada is to build on its positive “natural” image and its comparative advantage in natural resources and compete more effectively for business by promoting Canadian products, services and companies to the European market. This can be done by striving to modernize Canada’s image as a dynamic, open society with cutting-edge technology (e.g. information technology, telecommunications, aerospace and electronics) that can provide solutions to European business requirements and be a key partner for European business through the use of joint ventures in Europe and investment in Canada as the gateway into NAFTA.

We need to tell Europe what Canada is really about, and develop greater “Canada Brand” awareness there. We should enhance Canada’s overall profile in Europe as a means of advancing our strategic interests. To help present a more accurate and up-to-date portrait of Canada to Europeans, we recommend:

Recommendation 2:

That the federal government, through the use of an effective information campaign, undertake a more concerted effort to communicate directly and effectively to European decision-makers that rapid change in the structure of the Canadian economy has occurred. Europeans need to be informed that Canada has now evolved from being primarily a resource-based economy to one that encompasses many modern, knowledge-based industries.

Recommendation 3:

That this revamped “rebranding” strategy, designed to reposition Canada’s image abroad as a world leader in the new economy, make greater use of

the resources of European companies having successful Canadian operations; Canadian firms with sizeable presence in Europe; incoming visits by journalists, especially those representing specialized newspapers and journals; student exchanges; images of the new Canadian reality displayed prominently at Canadian airports; and the Canadian flag.

Witnesses both here and in Europe also raised the concern that Canada's efforts to promote tourism, through an emphasis on the country's natural beauty, may be running counter to the desired projected image of Canada as a high-technology, advanced manufacturing, and electronic economy. It appears that we may have been almost too successful in marketing ourselves as a wonderful, free, open-air country, in the sense that our desired business image as a high-technology provider of goods and services is being overshadowed. As a result, companies in Europe may be avoiding Canadian suppliers and European investors may be considering U.S. investment locations as opposed to Canadian ones. To rectify this problem, the Sub-Committee recommends:

Recommendation 4:

That, in collaboration with the provinces, Canadian tourism promotion campaigns in Europe be reassessed and modified, where applicable, to include information on the rapid transformation that has occurred in Canada's economic structure and the lifestyle and high quality of life that Canadian knowledge workers enjoy. Greater targeting of Canada's cities as business and tourist destinations should be considered.

2. Canada's Image of the EU

A parallel EU image problem exists among Canadian companies, who have not taken a strong interest in what is the second largest economy in the world. Opinions as to why this is differ, although a reasonable explanation is that the pull of Canada's southern neighbour (especially in the context of its protracted economic boom of the 1990s) has historically provided a sound business case for continued concentration on the U.S. What may also be causing potential traders and investors to look the other way when it comes to Europe is the long-lasting perception that "European markets are hard to crack, old world, protectionist, bureaucratic, full of barriers." The Sub-Committee certainly heard evidence in Europe that Canadian companies perceived these markets to be difficult to penetrate.

Mr. Keyes felt that it was the proper role of both the EU and Canadian governments to counter these perceptions, otherwise firms were going to go elsewhere. Apart from obtaining information on the individual European country markets themselves, Canadian businesses may need to be more aware of the policies and practices of the EU for them to develop strategies targeted at the increasingly integrated European market. The key, therefore, is to raise awareness and disseminate information about the EU and its member states in Canada. The Sub-Committee was told that while large Canadian multinational corporations appear to understand Europe and are well represented there, smaller businesses were confused about the purpose and policies of the EU. To address this shortcoming, we recommend:

Recommendation 5:

That the federal government review the needs of Canadian business, especially those of small- and medium-sized firms, for accurate and up-to-date information about individual European country markets as well as the policies and practices of the integrated European Union. Remedial steps should be taken to respond to information deficiencies.

B. Promoting Trade and Investment with Europe

The federal government has an important role to play in providing information that companies and investors need for decision making, and in encouraging trade and investment. These responsibilities are especially important in Europe, where a full 55% of DFAIT's clients in European posts are novices in the market. This figure represents the highest rate of all foreign markets and a significantly higher share than DFAIT had initially anticipated. A 1999 survey of over 2,000 firms undertaken for DFAIT on the level of client satisfaction with Canadian trade commissioners found that the above firms tended to be small- and medium-sized enterprises (SMEs), many of whom had carved out key niche markets in the U.S. before turning their sights on Europe, Asia and Latin America.

1. The Need for More Resources

Although the DFAIT survey revealed an overall 81% rate of satisfaction with the Canadian Trade Commissioner Service, the Sub-Committee received evidence that the federal government's promotional resources in Europe may have become stretched. For example, Mr. Paterson pointed out that "…some of the trade people in Europe are run right off their feet. They're overwhelmed by the number of companies that are calling on them for help. This is one of the difficult issues DFAIT has had to face in managing their resources: keeping up with the demand for partnering information and market intelligence in the fast-growing markets."

An unfortunate development has been the sharp decline in DFAIT's European budget in recent years. Funding for the Program for International Business Development has gone down from $5.4 million in 1994-95 to $1.9 million in 2000-01 and that for the Program for Export Market Development from $1.7 million to $1.0 million. Government cutbacks in the 1990s led to a sharp decrease in the amount of direct trade promotion (trade fairs, missions, Program for Export Market Development support to the Canadian business community) undertaken by the Department. According to Mr. Keyes, this reduction definitely exerted a negative impact on Canadian presence and visibility and on the ability of Canada's posts to provide information and project commercial opportunities. In Europe, the message was very much the same, that the expenditure reductions had been counterproductive and that there was a need to augment financial resources.

In response to the above-mentioned cutbacks, DFAIT developed a strategy to guide its transatlantic trade and investment promotion efforts. Mr. Clarke noted that while the 1990s saw cutbacks in the number of Canadian trade commissioners abroad, these were replaced with much less expensive local commercial officers. The net result is that the total number of DFAIT staff throughout the world promoting trade and investment has remained approximately constant. In Europe, the number of employees actually rose, from 137 in 1990 to 175 in 2000. The Committee was informed that 27% of DFAIT's trade commissioners and locally engaged commercial officers were based in Europe. According to Mr. Clarke, DFAIT's resources in Europe are in "a decent balance," with excellent representation in the commercial centres of western Europe and good representation now in most of the eastern European region.

The government's existing strategy to increase trade and investment with the EU is essentially a business plan designed to identify products and outlets in Europe. Increasingly, emphasis in our overseas embassies is now being placed on cost sharing with the private sector and on concentrating promotional efforts on activities providing high value-added, core services (e.g. provision of accurate information on local markets and hard leads, provision of advice on how to do business in European markets, and problem solving as opposed to offering logistical services). Mr. Paterson informed the Sub-Committee that the greatest value added that DFAIT can provide is by developing a sound knowledge of the local industry, in his case the high-technology industries, and searching for suitable partners for new Canadian entrants into the European market. It also bears mentioning that, for trade purposes, 12 high-priority sectors have been identified by DFAIT's partners in Team Canada Inc., which comprises the departments and agencies involved in trade. The majority of funds are now directed to these priority sectors in priority markets.

While the DFAIT officials cited believe that the Department is functioning effectively in operational terms, the Sub-Committee is concerned that a mismatch between needs and resources may be eroding the effectiveness of the government's trade and investment promotion activity. In Europe, embassy officials bemoaned the lack of sufficient human and/or financial resources with which to realize the region's full trade and investment potential. Departmental officials in Ottawa also stated that they would welcome additional resources. The federal government's former senior trade commissioner told the Sub-Committee that follow-through on the government's plans to increase the amount of resources devoted to direct trade promotion (especially in high-growth industries such as information technologies, biotechnology and environmental industries), as announced in the October 1999 Throne Speech, would be greatly appreciated.

Two specific areas where the greatest immediate need for additional spending was felt included involvement in sector-specific European trade fairs as well as in the hiring of new personnel to solicit European direct foreign investment (i.e. investment counsellors). DFAIT believes that attendance at all of the major international trade shows and events in Europe is vital, as this is where most European business is done. Since the EU is an integrated market, each embassy should have enough funds to be involved in trade fairs; funds should not be targeted exclusively to embassies in the countries in which the majority of trade fairs take place. The Sub-Committee also heard of the value of embassy officials making visits to the local regions of the countries in which they reside and to more European SMEs, in order to drum up investment business. We see merit in significantly augmenting the resources devoted to direct trade support and investment development and recommend:

Recommendation 6:

That the federal government provide a boost to DFAIT's direct trade and investment promotion budget in Europe. These increased resources should be targeted towards expanding Canadian involvement in European trade fairs, thereby enhancing Canada's image and presence within the European business community, and to a broader, more extensive search for additional investment throughout Europe.

2. Encouraging Exports

A number of witnesses in Europe spoke of the lack of interest on the part of Canadian companies, particularly SMEs, in doing business with Europe. We were informed that encouraging businesses to come over for the first time was a valid role for the federal government, even if subsidizing their involvement in trade fairs was less appropriate. The Committee was also told that design standards, quality standards, environmental standards, and various other product and service standards can be higher overseas. A key area to focus on, therefore, is building the capacity of small companies in Canada, in particular, to trade (and to invest) in the European market. The concern expressed to us in Europe was that too many of Canada's SMEs were ill-prepared for the highly competitive European market and the many exciting niche-market prospects that it provides. Once over there, they were too quick to return to North America when performance began to suffer.

We are of the view that the Government of Canada should be doing a better job in the area of export promotion. It is indeed telling that embassy officials spoke to us of the fact that they had often been wasting their time on the export side and, given their limited resources, that they had switched to concentrating on attracting investment to Canada where the returns were often greater. More needs to be done in Canada to spark the interest of smaller Canadian firms in the European market, prepare them fully for the task, and once established overseas, to follow up on their performance. The Sub-Committee therefore recommends:

Recommendation 7:

That the Government of Canada rededicate itself at home to generating interest on the part of small- and medium-sized Canadian companies in participating in European markets, more adequately preparing "new to Europe" firms for European export opportunities, and following up on these corporations once they are established overseas. More funds and personnel should be allocated to meet these objectives.

Finally, witnesses in Europe told the Sub-Committee that the Government of Canada's export services suffered from an overlap of effort between itself and the provinces, a lack of integration with domestic business organizations (e.g. Chamber of Commerce, Alliance of Manufacturers and Exporters) and a lack of human resources with private sector skills. To rectify these perceived shortcomings, we recommend:

Recommendation 8:

That the federal government review and modify its export promotion activities and resources to ensure that complementarity between its activities and those of the provinces is achieved, that closer links with Canadian business organizations are forged, and that adequate recruitment of foreign officers with the necessary private sector skills to help open up European markets to Canadian firms is undertaken.

3. Promoting Investment

Turning to the investment side, attracting European investment into Canada can be quite challenging, given the strength and potential of the U.S. economy and the stiff competition for foreign investment that exists from certain aggressive American States and municipalities. It is important to show that the Canadian market is a dynamic and competitive one, embodying an attractive environment for productive investment.

DFAIT pointed out to the Sub-Committee that it is placing considerable importance on developing “Canada Brand” investment awareness in Europe. The message to potential European investors is that Canada is the preferred location for companies to achieve access to the NAFTA market. Canadian advantages include favourable macroeconomic conditions, lower business costs than the U.S. in many instances, less labour turnover than in the U.S. (i.e. more employee loyalty), the existence of social programs appealing to European investors and a less litigious society. We do have a favourable message to provide to potential investors. In Germany, the Sub-Committee was told of the importance of ensuring that the proper economic fundamentals stay in place in order to maintain these investment advantages.

To generate European investment in Canada, DFAIT has developed an aggressive and active program in Europe involving investment counsellors, Canadian ambassadors, heads of missions throughout Europe and trade commissioners. Instead of utilizing a broad information campaign to attract investment in Canada, the approach has been to target the investors that are desired, for example, companies that source internationally. The number of resulting “corporate calls” has more than doubled in the past five years. The Sub-Committee found support for this approach in Europe.

The federal government also operates a country-champion program, under which deputy ministers call on foreign companies in a given country once a year and attempt to resolve any investor concerns at a high level. The program, run by Investment Partnerships Canada (a joint venture of DFAIT and Industry Canada), has been repeated in most of Canada’s major investor partners, and has generated tangible results in terms of investment inflows (e.g. over $2 billion in new Swedish investment from companies such as Ericsson, Astra, and Stora).

In Brussels, the Sub-Committee was told by a senior official in the Canadian High Commission in London that the trade and investment mandates of DFAIT are quite distinctive in nature and that the federal government had essentially taken the Trade Commissioners Service and layered upon that the new investment mandate. However, there was no comprehensive mechanism underpinning investment promotion. The October 1999 Throne Speech included a reference to a possible launch of Investment Team Canada, designed to bring together a wide array of federal departments and agencies, other governments in Canada, and the private sector to invigorate and promote foreign investment in Canada (thereby serving as a replacement to the existing Investment Partnerships Canada).

We believe that the introduction of such a complement to the existing Team Canada Inc. trade vehicle is long overdue. It is important to coordinate federal and provincial approaches in attracting investment to North America, in the process establishing a complementary relationship between the two levels of government. Moreover, the Sub-Committee heard (while overseas) of the need to devote DFAIT resources in Canada to “after-investment” service. Since a full 60% of investment in Canada comes from firms that have already invested in Canada, it was felt that more needed to be done to encourage and facilitate this additional investment spending. We therefore recommend:

Recommendation 9:

That an Investment Team Canada, integrating the resources of relevant federal departments and agencies, other governments in Canada, and the private sector, and equipped with a mandate to promote foreign investment in Canada, be established as soon as is feasible. A national strategy to attract investment from Europe and elsewhere should be developed with an eye to removing existing overlap and duplication between the various levels of government. As part of this strategy, emphasis should also be placed on encouraging and facilitating reinvestment once foreign companies have been established in Canada.

Finally, plans to send a Team Canada trade and investment mission to Europe had been previously derailed in favour of one seeking out new opportunities in China. We find this decision to be regrettable, and would hope that Europe could be reconsidered as a priority Team Canada destination. To this end, we are encouraged by the inclusion, in the January 2001 Throne Speech, of a commitment to send a Team Canada investment mission to Europe. At the same time, it would be most advantageous if the focus of such a mission could also include the broadening of transatlantic trade ties. The Sub-Committee recommends:

Recommendation 10:

That the federal government make every possible effort to ensure that Europe be reinstated as a priority destination for future Team Canada missions, and that both trade and investment promotion are designated as key objectives for such missions.

C. Achieving Free Trade with Europe

1. Canada-EU

It is safe to say that at the official level, the transatlantic relationship between Canada is in dire need of a boost. As Pascal Lamy (EU Trade Commissioner) informed the Sub-Committee in Brussels, while the good news surrounding the relationship is that there does not appear to be any major problem, the bad news is that the potential for greater ties has not been met and that much more needs to be done. Other witnesses in Brussels echoed these observations. Rod Abbott (Deputy Director General for Trade, EU Commission) called for a new impetus to improve Canada-EU relations, but was not sure if free trade was the answer. A German parliamentarian at the EU suggested that Canada was an important country for Europe and that the existing bilateral relationship needed to be redefined in the next five to ten years. For his part, James Bartleman (Canada's Ambassador to the EU) stressed the need for a "magic bullet" to alter the current transatlantic psychology.

We believe that this "bullet" could well take the form of a free trade agreement(s) with Europe. Ever since Canada first supported the concept of a North Atlantic Community in 1948 as part of NATO, free trade with Europe has been the Holy Grail of transatlantic trade relations. In the fall of 1994, Canada's International Trade Minister made a number of speeches advocating a Canada-EU free trade agreement. Taking up this idea in a December 1994 address to the French Senate, our Prime Minister called for the joining of the NAFTA and EU trade regimes in a Transatlantic Free Trade Zone. He reiterated this proposal in a speech delivered in London, England, in October 1997.

Since then, Canada has abandoned its pursuit of an EU-NAFTA deal in favour of a Canada-EU bilateral one. During the December 1999 Canada-EU Summit, proponents of a comprehensive Canada-EU free trade agreement were given some hope that such an undertaking could be realized. At that summit, EU Trade Commissioner, Pascal Lamy, told Canadian authorities that while the EU prefers to establish free trade deals with economies less developed than Canada's[9] and while certain EU member states (perhaps France and Spain) may have strong reservations, he would be prepared to examine a sound business case for a free trade agreement.

Several points in favour of a free trade deal with Europe are worth noting. First, DFAIT officials informed us that Canada is one of only eight geographical entities (Australia, Hong Kong/China, Japan, the Republic of Korea, New Zealand, Singapore, and the U.S. being the others) without a preferential trade agreement with the EU. Not being part of such an arrangement has no doubt hurt Canada since trade tends to be diverted towards countries enjoying the favourable treatment.

Second, free trade results in a lowering of both tariffs and non-tariff barriers, the latter of which have proven difficult to remove. The completion of a free trade initiative would alter the dynamics of our relationship, thereby making progress on trade barriers more possible.

A third rationale for free trade involves the psychological boost that such an accord would give to the transatlantic business relationship. Just like the Canada-U.S. Free Trade Agreement altered the interest that the Canadian business community had in the United States, the Sub-Committee frequently heard while in Europe that a Canada-EU deal would substantially improve Canada's visibility in Europe and that it would lead to significantly greater trade with EU countries. Moreover, free trade agreements typically prompt an entirely new business perspective on investment. When asked by the

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[9] In fact, the EU has never negotiated a free trade agreement with an industrialized country outside the European continent.

Sub-Committee for their views on such a free trade agreement, a group of round table participants from German industry and government delivered a unanimous and clear yes.

In its hearings, however, the Sub-Committee also detected a certain sense of skepticism regarding the prospects for such an agreement. We were informed that, apart from the EU's more liberal northern-tier states, there was little enthusiasm within Europe for a comprehensive free trade pact. Canada is viewed in certain quarters as simply not important enough to warrant the expenditure of time and resources that such an agreement would entail. According to Mr. Abbott, there is limited administrative capacity in EU offices in Brussels to take on an additional set of bilateral negotiations with Canada, especially at a time when so much attention is being focused on the launch of a new multilateral trade liberalization round at the WTO.

On a more substantive note, the initial view of the European Commission on this question is that since tariffs between developed countries are already at low levels, there may not be much to gain from a free trade agreement with a developed nation such as ours. Instead, what ought to be dealt with are the non-tariff barriers which, at any rate, can be handled more appropriately in a multilateral setting.

Kathleen Macmillan (President, International Trade Policy Consultants Inc.) concurred with this assessment, pointing out that the economic benefits of free trade would not be significant and that it would only provide a temporary leg-up on the other non-aligned EU trading partners. She pointed out that the real impediments to transatlantic trade are found on the regulatory side and that Canada would not be any more successful in having these dismantled than others who have already failed. Finally, she argued that little would be gained in terms of investment because relatively few barriers currently exist. With respect to investment inflows, drawing in greater quantities of investment would require "made-in-Canada solutions."

Gauging the reaction of the European business community to a potential bilateral trade deal is another matter. While the Sub-Committee was told that certain members of that community were not supportive, it is premature for us to consider this sentiment as an accurate reflection of the business view on this issue. Certainly, the views expressed to us by the round table participants in Berlin give us some hope that European business leaders and other decision-makers have begun to give the free trade question a more favourable look.

A key question in this discussion is whether the Europeans would be interested in free trade negotiations (bilateral or plurilateral) with Canada over agriculture. Europe's agricultural sector remains highly protected and dependent on the use of export subsidies and generous levels of domestic support. Immediate changes in its agricultural policy would have to be made, which would not be politically popular. Any success in the area of agricultural trade liberalization would likely either have to be modest in nature (if undertaken bilaterally), or arise out of multilateral negotiations, in which trade-offs in other areas important to the Europeans could occur. However, a free trade agreement with modest progress in agriculture is still considerably better than no agreement at all, especially since agriculture represents less than 10% of total bilateral trade.

As was noted, it appears that the EU is reluctant to negotiate free trade arrangements with developed countries outside of Europe such as Canada, choosing instead to strike deals with other countries for strategic, geographical reasons. When asked why Europe undertook a free trade agreement with Mexico and not Canada, Mr. Lamy stated that the EU's share of the Mexican market had dropped considerably after NAFTA's implementation in 1995 and that since the focus of bilateral trade was on goods and not services, it was a relatively easy agreement to conclude. Indeed, the relationships between Mexico and the EU, and between Canada and the EU, are quite different in that the average tariff level in EU trade with Mexico was substantially higher (roughly five times higher) than that with Canada and that the links between the EU and Canada are at a much more advanced stage. In addition, European companies saw Mexico as a useful launching pad for accessing Central and South American markets, and there was a certain complementarity between the Mexican and European agricultural sectors that simply did not exist between Canada and the EU. Finally, Mr. Lamy expressed concern that any negotiation with Canada over services could potentially violate NAFTA rules although, as was pointed out to the Sub-Committee, one would really only find out once the negotiations were started.

Given these points of view, if Canada is to have any success in achieving a bilateral trade deal, it remains likely that it will be up to Canadians to heighten European's attention on the issue and prove the free trade case to them. DFAIT is currently completing a macroeconomic study on the effects of tariff elimination on Canada-EU merchandise trade. Notwithstanding the fact that further review of the impacts of non-tariff barriers and other issues such as investment, trade in services and rules of origin is still required, the initial results of the tariff-removal study are positive.[10] For his part, Mr. Lamy noted that he needs to see a clear economic and political return from free trade with Canada before proceeding.

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10 According to an April 17 *National Post* article (Ian Jack, "Canada pushes for trade deal with Europe"), the DFAIT study has already concluded that a free trade deal with the EU could generate up to $6 billion per year in additional bilateral trade. In 1999, if tariffs had been entirely eliminated, exports to the EU would have increased by 15%, while the growth of imports into Canada would have totalled 12%.

The Committee believes that the concept of a free trade agreement should be pursued if such an arrangement could improve market access and generate additional trade between Canada and Europe. The study that DFAIT is attempting to finalize needs to be made public as soon as possible and then broadened to include the effects of a liberalization of non-tariff barriers. Once that is completed, the results of the entire business-case analysis should be published and pursued with the Europeans and with Canadian business at every opportunity. Mr. Lamy informed the Sub-Committee that the Canadian business-case study would give the EU Commission a starting point for their own development of a similar business case. The Sub-Committee recommends:

Recommendation 11:

That the Government of Canada rapidly develop a business case for a free trade agreement with the EU and undertake an aggressive campaign both in Canada and in Europe to promote its findings to key decision-makers. In this promotional campaign, every effort should be made to seek out and utilize champions of transatlantic free trade.

2. Canada-EFTA

Canada also has strong trade relations with the European Free Trade Association (EFTA) set of countries, comprised of Switzerland, Norway, Iceland and Liechtenstein. Two-way trade amounted to approximately $7.2 billion in 2000, of which $1.3 billion could be attributed to Canadian exports. Also of great significance, companies in EFTA countries have invested a total of $4.6 billion (1999) in the Canadian economy, in such industries as finance, insurance, chemicals, fish processing, and oil and gas development.

Negotiations to achieve a free trade agreement with EFTA, this country's first transatlantic arrangement ever, were launched in October 1998. Three unfortunate developments have occurred since that point. First, the coverage of the agreement has been reduced from original intentions.[11] The text of the agreement that remains under discussion now focuses primarily on industrial tariff elimination,[12] a small amount of liberalization for agriculture, and new cooperation with respect to trade facilitation and competition. If a bilateral deal is to be signed, it will consequently be of the "first

11 The free trade pact was originally intended to include measures for agriculture, services, investment, competition, government procurement, intellectual property, trade remedies and the reduction of industrial tariffs. The decision was jointly made that services, investment, government procurement, and intellectual property issues were better dealt with within the WTO.

12 Canada is hoping for a deal that will reduce or remove duties on the following items: wheat, fish, aluminum, potatoes, mustard seed, soy beans, processed foods and machinery parts.

generation" type, with no new commitments in the areas of services, investment, government procurement or intellectual property.[13]

Second, while the framework for a deal continues to exist, negotiations broke down in May 2000 primarily over the issue of the treatment of ships and industrial marine products. Immediately prior to that negotiating session, the Canadian shipbuilding industry decided to remove its previous support for the trade-off of a gradual elimination of the domestic tariff on the above-mentioned products in exchange for an immediate end to the Norwegian 9% direct subsidy program. It was the Canadian industry's contention at the time that implementation of this arrangement would still tilt the "playing field" in Norway's favour, given the forms of protection available to Norwegian shipbuilders that would continue to remain in place outside of the above-mentioned subsidy program. Since then (December 2000), Norway has agreed to eliminate its direct subsidies although the Sub-Committee was informed that it also signed a number of shipbuilding contracts benefiting from three years of subsidies (under the old subsidy program) just before year-end.

From Norway's perspective, a Canada-EFTA agreement without liberalization in shipbuilding would be of little economic benefit. To help accelerate the negotiations, Norway tabled a proposal in March designed to give greater flexibility to Canada to phase out tariffs for ships and industrial marine products.

A final complicating development was the April 5 publication of the report of an industrial task force on Canadian shipbuilding. One of its key recommendations was to "resist any requests from other countries to change provisions of the Canadian shipbuilding policy until such time as the Canadian industry has been able to overcome the long-term effects of the subsidy and unfair pricing policies of other countries." While this report has now become an impediment to progress on the European free trade front, both sides are reflecting on the best approach to move the negotiations forward. However, no date has been established for the next set of negotiations.

The Sub-Committee is disappointed in the current state of play with respect to Canada's relationship with EFTA, and hopes that the thorny shipbuilding issue can somehow be resolved. We believe that the successful completion of the negotiations would be of large symbolic value and as William Rossier (Secretary General, EFTA) noted, would be viewed with great interest by the EU. We realize that free trade with EFTA is worthwhile on its own, but also anticipate that it could serve as a useful entry point in our quest for free trade with Europe. We therefore recommend:

Recommendation 12:

That the federal government rededicate itself to concluding a "first generation" free trade agreement with EFTA as soon as possible and then

[13] These latter commitments are typically found in free trade agreements of the "second generation" variety.

enter into further negotiation so as to finalize a broader "second generation" accord by the end of December 2002.

D. Making Progress at the WTO

1. The Prospects for a New Round

While Canada has been placing considerable emphasis on bilateral trade liberalization, while also thinking multilaterally, the EU has been concentrating squarely on the launch of a new, comprehensive round of multilateral trade liberalization at the World Trade Organization (WTO) in Geneva. There is no question, as Mr. Abbott remarked to the Committee, that the WTO leads to "trade liberalization with maximum effect." Many of the issues impeding the bilateral Canada-EU relationship could be addressed if a new round were to be launched. While negotiations on the "built-in agenda" (i.e. agriculture and services) have begun, a broadening of negotiations will likely be required to generate true progress in these two areas.

The trouble is that it is not at all certain at this point in time if a launch will take place this year. Considerable differences of opinion between key players remain and decision making within the WTO is notoriously inefficient. There is thus no agreement yet on a realistic framework negotiating agenda that meets the need of WTO members.[14]Even if the decision to launch is formally agreed to at Doha, Qatar (the location of the Fourth WTO Ministerial Conference) in November, negotiations would take years.

What are the key stumbling blocks to the start of negotiations? The first hurdle to consider is the lack of an agreement within the Quad set of countries (Canada, the U.S., the EU and Japan) on a realistic core agenda. No doubt, the fact that the new U.S. Administration has had to get itself installed has caused some delay. The lack of a trade promotion authority (i.e. fast track) for the U.S. President and the existence of a Congress that is, on balance, not free trade oriented, have led to uncertainty regarding the precise U.S. position going into the new round. As Mr. Abbott remarked to the Sub-Committee, many countries would commit to a new round of negotiations if a positive signal from the Americans were to emerge.

14 It is anticipated that an assessment of whether a new round is possible will be made by the end of July.

The relationship between the EU and U.S. is critical. In Geneva, the Sub-Committee heard that while the personal rapport between the U.S. Trade Representative and the EU Trade Commissioner was favourable, differences remained on the scope of the negotiating agenda. The Europeans continue to seek a comprehensive round, incorporating elements such as competition, investment and sustainable development. As Carlo Trojan (European Commission Ambassador to the WTO) noted, a comprehensive round is the best recipe to ensure that market access is attained. If the WTO does not achieve a comprehensive round, he stressed, it will lose relevancy. For their part, the Americans are intent on crafting a more limited, but still wide-ranging agenda. They are reluctant to include such issues as competition and investment in the negotiations. Given the desire on the part of the WTO to make a decision on the new round by mid-summer, there is an urgent need to encourage both sides to narrow their differences.

Quad agreement on a core negotiating agenda could serve as a magnet for other developed and developing countries to gravitate towards, but for a new round to be realistically struck there will have to be an effective response in place to the concerns of developing countries. Mike Moore's (Director General, WTO) four-point confidence plan (improved market access, flexibility on implementing existing WTO obligations, greater input in WTO decision making, provision of trade-related technical assistance) has not generated the necessary confidence, since most developed countries have not been prepared to offer significant new market openings or flexibility on implementation outside of new negotiations. Instead, they are attempting to generate confidence that these concerns will be addressed in the next round.

Sergio Marchi (Canadian Ambassador to the WTO) told Sub-Committee members that developing countries now have "a loud voice at the table" and that they are more united than the developed countries. Many of these countries have a wide variety of concerns related to "implementation." For example, they have yet to fully digest the obligations stemming from the previous WTO Round (Uruguay Round) and, on the other side of the ledger, they have not yet realized the market access (e.g. in textiles) that had been promised. The fact that their expectations from the previous round of trade liberalization were not met has made them reluctant to enter into new commitments this time around.

Not all is negative on this front, however. According to Mr. Lamy, most developing countries have come to realize that a world without a new round would be worse than one with, since the expected ensuing acceleration of regional arrangements would not necessarily include them and since not dealing with the issues now on the table at the WTO is leading to trade hostilities (e.g. agriculture). Developing countries are the largest beneficiaries of a rules-based multilateral trading system. Another positive factor is that developing countries are not a totally homogenous group, and even the small number of hard-line countries from this group are not uniformly opposed on every point. According to a senior Canadian official in Geneva, the key will be to integrate the implementation issue into the Qatar Framework and establish the next round as a key development round.

The Sub-Committee is cognizant of the concern that the WTO not be perceived to have failed again in launching a new round (as it did in the run-up to Seattle). It is therefore struck by the urgency of achieving movement towards a negotiating agenda. We are hopeful that Canada can play a useful role in bridging the gap with respect to both the existing differences within the Quad and the willingness of developing countries to sign on to a negotiating framework. We therefore recommend:

Recommendation 13:

That the Government of Canada accelerate efforts to seek consensus, both within the Quad group of countries and between developed and developing countries, on a broadly based but manageable WTO negotiating agenda for the next round of multilateral trade liberalization.

2. Other WTO Concerns

Three other WTO-related concerns were brought to our attention in Geneva. The first was the need for more efficient decision making within the organization. Currently, decisions are taken by consensus among the member countries and are subsequently ratified by members' Parliaments. Under this consensus model, several witnesses in Europe pointed out, decision making moves at an incredibly slow speed. Once a decision is made, however, then everyone is bound by it and it is virtually impossible to reverse, giving decisions a strong legitimacy. As Andrew Stoler (Deputy Director General, WTO) remarked, the WTO is the international organization that places the most emphasis on country sovereignty. Mr. Moore echoed this sentiment, observing that "the WTO is imprisoned by its culture" and "no one has the vote and everyone has the veto."

According to Mr. Trojan, the consensus-building WTO is not a prime model of an efficient organization. The institution should be more management driven and marry the need to be transparent and inclusive with the need for efficient decision making. Recognizing the difficulties inherent in changing the current system, he nevertheless supported the establishment of a smaller but representative decision-making body within the organization. One of the reasons the Seattle negotiations failed in November 1999 was because many developing countries felt shut out of the substantive negotiations. Having a representative "G-20" type of coordinating group within the WTO that would communicate well with other countries could simplify the decision-making process. The Sub-Committee recommends:

Recommendation 14:

That Canada, in conjunction with like-minded countries such as those represented by the EU, encourage World Trade Organization members to create a more efficient decision-making procedure within the WTO while respecting individual countries' sovereignty, the need for transparency and the need for consensus building within the institution.

Second, the need for improved policy coordination between international institutions such as the WTO, the World Bank, the IMF, the ILO and other multilateral and regional organizations on international trade and development was brought to our attention. Both the U.S. and EU ambassadors to the WTO shared the view that not enough is done to coordinate these international organizations. No less an authority than Mr. Moore launched a challenge to parliamentarians to keep a vigilant eye on global institutions and to call for their restructuring. Several witnesses questioned the usefulness of a number of these institutions, calling for additional steps to rationalize the existing network. Sharing these two concerns, the Sub-Committee recommends:

Recommendation 15:

That Canada aggressively begin a global campaign to launch an in-depth examination of the world's trade and development organizations, with a view to fashioning a more effective, cohesive, and efficient network of global institutions. Where institutions have outlived their usefulness, they should be dismantled.

Finally, the Sub-Committee was struck by the concerns expressed by a number of ambassadors to the WTO of the need for a more streamlined dispute settlement mechanism in Geneva. More effort needs to be made to avoid litigation, and ways to reduce the still small but increasing tendency towards non-compliance of WTO decisions (e.g. Canada's beef hormones case brought against the EU) need to be explored. Such issues as the provision of compensation as an alternative to the use of retaliation also need to be examined. We thus recommend:

Recommendation 16:

That the Government of Canada encourage WTO member states to undertake an extensive examination of alternatives to the existing dispute settlement mechanism to render it more effective. Such issues as the need for time limits on WTO compliance and the usefulness of giving greater priority to compensation as opposed to retaliation as a form of settlement should be given serious consideration.

E. Strengthening Official Transatlantic Links

Canada has a variety of links with the European Union, encompassing both government initiatives and a business-led but government-supported undertaking. The primary bilateral instrument governing economic relations is the 1976 Framework Agreement for Commercial and Economic Cooperation, which gave birth to a number of consultative committees. In 1990, a Transatlantic Declaration was also signed. More recently, the 1996 Joint Political Declaration and Action Plan set goals for broadening the bilateral relationship, and agreements in the areas of customs cooperation, veterinary equivalency, competition law and mutual recognition of conformity assessment of regulated products have been achieved. Ongoing official ties now consist of semi-annual summits, involving the Prime Minister and the ministers of Foreign Affairs and International Trade, as well as a joint cooperation committee that meets once a year. This committee includes a trade and investment sub-committee that meets once or twice per year.

While we were told that past efforts to negotiate closer EU-Canada trade ties have not always been particularly successful, a number of more recent moves at the bilateral level may hold more promise. These include the EU-Canada trade initiative (ECTI), the establishment of a Canada-Europe Round Table for Business (CERT), and the Crossing the Pond program.

1. European Union-Canada Trade Initiative (ECTI)

ECTI was launched in December 1998 to formalize the trade portion of the Joint Action Plan, with its primary objective being to enhance market access (e.g. access of Canadian companies to the EU market) and bilateral economic cooperation. ECTI's objectives include: regulatory cooperation; services; government procurement; intellectual property; competition issues; cultural cooperation; business-to-business contacts; and electronic commerce. It also calls for regular consultations on multilateral trade issues. However, given the Most Favoured Nation (MFN) disciplines that both Canada and the EU are subject to — for example, we cannot bilaterally negotiate tariff concessions with the EU without having to extend the same treatment to all WTO members — ECTI cannot serve as a vehicle for deeper trade liberalization.[15] In scope, ECTI closely mirrors the bilateral trade initiative (Transatlantic Economic Partnership) between the EU and the United States.

Some progress, albeit limited, has been achieved with respect to ECTI. The Canada-EU Agreement regarding the application of their competition laws was signed in June 1999. CERT, an organization of Canadian and European businesses, has met twice and efforts are being made to increase corporate membership. Bilateral discussions on exports of wine and spirits have led to enhanced access to the European market for Canadian icewine and other quality-certified wines. Implementation of the May 1998 Canada-European Union Mutual Recognition Agreement (Conformity Assessment)[16] continues, although progress has been slow. Establishment of a Working Group on Further Equivalence could eventually result in the harmonization of standards in certain areas. Further movement towards a professional services mutual recognition agreement would certainly be useful, as would continued dialogue on biotechnology issues.

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[15] Only a WTO-consistent regional free trade agreement with the EU or successful liberalization in a new multilateral round at the WTO will aid Canada in overcoming its market access disadvantages.

[16] This Mutual Recognition Agreement, when negotiated, will lower regulatory burdens and transaction costs in the following regulated sectors: telecommunications equipment and electromagnetic compatibility; recreational boats; medical devices and pharmaceutical good manufacturing practices; and electrical safety. The agreement aims to ensure that product approvals prepared in the exporter's jurisdiction are accepted by the importing party's regulatory system.

The major knock against ECTI that the Sub-Committee heard in Europe is that it is active in only certain sectors. Moreover, Claude Carrière (Director General, General Trade Policy, DFAIT) stated that the issues involved under ECTI are complex and require considerable transatlantic dialogue. For example, the implementation of sectoral mutual recognition agreements (MRAs) can be both resource intensive and time consuming. Often, the problem simply relates to the different regulatory systems in existence on both sides of the Atlantic. Thus, according to Mr. Carrière, results will be at a premium in the short term. On the other hand, greater cooperation should prevent the emergence of future irritants to bilateral trade relations.

We believe that efforts should be made to reduce barriers and increase European market access, in parallel with the quest for a free trade agreement. Definitely, more work needs to be done on MRAs at the Canada-EU level, to achieve broader coverage in the mutual recognition of standards. Additional mechanisms could be achieved in the area of customs facilitation, and improved bilateral mechanisms established to solve trade problems. According to Mr. Keyes, non-tariff barriers (e.g. complex technical requirements and standards) need to be examined constantly since they are more of a barrier for business than tariffs. The Sub-Committee thus recommends:

Recommendation 17:

That the federal government redouble its efforts to expand the Canada-EU bilateral relationship. Possible measures to be considered within the European Union-Canada Trade Initiative framework include: negotiating mutual recognition agreements in a larger number of industrial sectors, making progress in the area of trade facilitation, and establishing improved bilateral mechanisms to resolve trade irritants. The formation of a bilateral group under ECTI to systematically address regulatory barriers to Canada-EU trade should be considered.

2. Canada-Europe Round Table for Business (CERT)

Another recently announced bilateral link is the above-mentioned CERT, which was established in June 1999 with some support from DFAIT and from the EU Commission. This organization is essentially an advisory group of business people from both sides of the Atlantic keen on developing and enhancing transatlantic links and intent on proposing advice to both the EU and Canada on trade and investment issues. Over the longer term, the organization hopes to be a key advocate for trade liberalization between Canada and the EU.

CERT arose out of an initiative of several Canadian and European firms based in Brussels, whose intention was to promote a business-to-business dialogue on a Canada-EU basis, after discussions to trilateralize the U.S. — EU Transatlantic Business Dialogue did not bear fruit. Roy MacLaren, a former Minister of International Trade, recently agreed to become CERT's Canadian co-chair and a part-time Canadian Executive Director (André Bouchard) is also now in place.

To date, the round table has been a somewhat more modest counterpart to the established EU-US Transatlantic Business Dialogue. Even though CERT has held two meetings since its founding, it has experienced relatively slow progress and both the Canadian and European sides are only now beginning the recruitment and fundraising challenge. This lack of progress is unfortunate, given the comments heard in Europe that much more in the way of pressure from business needs to placed on policy-makers to achieve the desired progress in the areas of MRAs, trade facilitation and the like.

To ensure CERT's effectiveness in advancing policy interests and ultimately trade liberalization, it is vital that more business involvement in the round table be encouraged on both sides of the Atlantic. Jayson Myers (Senior Vice-President and Chief Economist, Alliance of Manufacturers & Exporters Canada) suggested that it might be worthwhile for CERT to establish formal interaction between a group of Canadian companies operating in Europe and a group of European companies operating in Canada to discuss trade and investment challenges and opportunities, and to build up personal contacts.

In addition, CERT has been primarily aimed at larger firms up to now. It is important that small- and medium-sized companies be active participants, given their increasingly important contribution to transatlantic economic relations. One measure that could be contemplated is a lowering of the US $6,000 membership fee since the size of this charge may be impeding involvement on the part of smaller businesses.

Finally, CERT's May 2001 written submission to the Sub-Committee calls for increased funding of the organization's activities in 2002 and 2003. We believe that the federal government can play a helpful role to ensure that CERT's momentum is maintained. The Sub-Committee recommends:

Recommendation 18:

That the federal government increase its support of, and actively encourage business participation in, the Canada-Europe Round Table For Business (CERT) initiative. The government should also recommend to CERT that it review its membership fee structure in order to stimulate greater participation by small- and medium-sized companies.

3. Crossing the Pond

Yet another bilateral mechanism is the Crossing the Pond initiative, which attempts to stimulate new trade opportunities for small business. This initiative incorporates a set of programs designed to help new exporting companies, particularly those of a high-technology nature, enter into the European marketplace. The aim is for business people who have been successful in the marketplace to impart specific knowledge to new exporters in key areas of business preparation, through a vehicle known as a “knowledge café.”

4. Other Links

Canada also has various bilateral mechanisms with individual EU countries in place (e.g. action plans with France, the United Kingdom and Italy), in addition to various economic commissions with non-EU nations such as Russia and Ukraine. These latter commissions provide for regular meetings among ministers of trade and senior officials.

To conclude, there has been a tendency in the past for Canada-EU declarations of intent to result in little in the way of concrete action. While we believe that ECTI reflects an improvement in the type of bilateral mechanism being developed, the pace of the work currently taking place under that arrangement should be accelerated. Evidence received by the Sub-Committee indicated a keen desire to have the federal government expend greater effort towards re-energizing Canada-EU trade relations.

F. Lowering European Trade Barriers

Overall, Canada enjoys a reasonable, if unspectacular, trade relationship with the EU. Two-way trade in goods and services between Canada and the European Union now exceeds $60 billion. Even though our access to the European market is relatively favourable, as with any other large trading relationship there are always concerns. Specifically, the EU’s tariff and non-tariff barriers can make Europe a difficult place in which to do business.

While most trade flows barrier free, there is no question that Canadian firms have encountered real barriers in Europe, such as differences in the manner in which tariffs are calculated, customs procedures, labelling requirements, registration requirements, sanitary and phytosanitary requirements, regulatory requirements, and the structure of distribution systems. These impediments can both restrict actual entry by Canadian firms and deter companies from even considering the European market. The Sub-Committee has already recommended that the federal government place priority on addressing these barriers.

Given the scale of our bilateral economic relationship, one should not be surprised that a number of bilateral irritants have arisen. In recent years, Canada-EU trade relations have been dominated by a list of quantitatively minor, though individually important, longstanding trade tiffs concerning tariffs and non-tariff barriers, affecting wines, softwood lumber, fish and seafood, beef produced with growth hormones, wheat, and genetically modified products such as canola. Other issues, influencing such products as asbestos, pharmaceutical products and automobiles, have recently been settled at the WTO.

Progress on many of these issues has been slow, owing to the failure to launch a new round of multilateral trade negotiations and because bilateral progress has been hampered by both insufficient political will and by political realities in the EU's agricultural sector (discussed below). What is troublesome is that certain of these trade issues have remained unresolved over lengthy time periods and that the considerable effort required to obtain solutions has, no doubt, distracted government officials from the loftier pursuit of enhancing the overall trade relationship.

Concentrating on these relatively minor disputes clouds our overall positive economic relationship with the EU. In some cases, however, it can be observed that the trade irritants in question have been, or are being, examined in an orderly manner. In several of these — regulatory standards come to mind — Canada and the EU are working bilaterally to resolve these issues. Resolution of these issues can also be achieved within the Dispute Settlement System at the World Trade Organization (WTO). In the end, it is vital to explore both options: to have efficient bilateral mechanisms for resolving disputes, or agree on the effective use of WTO mechanisms.

The Sub-Committee shares Mr. Paterson's view that it would be far preferable if dealing with trade barriers were not to interfere with the development of trade and investment opportunities. He felt that greater effort ought to be expended on trade and investment in the new economy, the high-technology sector, in which there are almost no trade barriers except possibly telecommunications equipment standards, for which standardization across Europe is desired. European policies in areas like electronic commerce, trade in services, deregulation and privatization, intellectual property rights and competition rules are central to the growth prospects of the EU market for Canada's high-technology businesses.

1. Barriers to Agricultural Trade

That the agriculture and agri-food sector accounts for a disproportional number of Canada-EU trade disputes should not be surprising. Agriculture has been a sticking point for over 40 years of trade talks. The Uruguay Round of multilateral trade talks that led to the creation of the WTO, for example, contained relatively fewer concessions on agriculture than in other sectors.

Despite these issues, Canada has enjoyed several success stories in the EU. Canada is one of only three countries to have a Veterinary Agreement with the EU, which governs trade in live animal products, fish and fish products. The agreement establishes a mechanism for achieving recognition of equivalent sanitary measures between Canada and the European Union aimed at improving bilateral trade. Furthermore, Canada enjoys strong exports to the EU of bison meat, horsemeat and vegetables such as lentils and mustard seed (including the ingredient in Dijon mustard).

In the case of Canada-EU relations, agricultural trade irritants stem from three main sources: the EU's Common Agricultural Policy and Europeans' long-standing concern over food safety, borne from a series of successive public-health disasters, as well as more traditional trade irritants.

(a) Common Agricultural Policy

A key bilateral trade concern for Canada involves the EU's Common Agricultural Policy (CAP), and the protection it provides for European agricultural producers. By subsidizing farm production, the CAP has shifted Europe from being a net food importer into occupying the status of a major net exporter.[17]The average agricultural tariff of the EU is four times as high as that of Canada, and its high support prices and network of subsidies make EU farmers the most heavily subsidized in the world.

The CAP, through its use of production-linked subsidies, results in overproduction of farm commodities. This excess production is purchased at the EU's intervention price, which is considerably higher than the world prices. The EU then subsidizes exports of these agricultural products enabling them to be sold at competitive prices in world markets. This action tends to depress world market prices and lower access of Canadian producers to third-country markets. According to Mike Gifford (Special Trade Policy Adviser to the Deputy Minister, Agriculture and Agri-Food Canada), the EU accounted for a full 85% of the world's agricultural export subsidies. Conventional tariff barriers, along with the EU's domestic support measures and adopted regulations, are restricting Canadian access to the European agricultural market. From the Sub-Committee's perspective, the CAP is a costly deterrent to trade.

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17 Since the CAP grew out of the European desire to be self-sufficient in food production (owing to the post-World War II famines), this is not a surprising result.

Already, the EU's Agenda 2000 has resulted in some minor declines in agricultural price supports, but no elimination in the use of direct production-linked subsidies.[18] While it is in Canada's best interests to continue to pressure the EU on CAP, both EU and non-EU witnesses — including EU Trade Commissioner Pascal Lamy — told the Sub-Committee that the EU itself is already under extreme internal and external pressure to reform the CAP, and that reform — possibly substantial — is inevitable.

The Sub-Committee heard that many Europeans are questioning why farmers — and not other groups — should be subsidized so heavily. However, the most intense source of pressure will likely come from the planned EU enlargement. To take only one example, about 15-20% of Poland's GDP comes from the agricultural sector, which also employs 25% of the population (versus 3% in Germany). If the CAP were extended unchanged to the rest of relatively underdeveloped Eastern Europe, as some enlargement candidates are demanding, it would actually increase the percentage of the population engaged in agriculture. This in turn would eat up even more of the 50% of the EU budget that the CAP currently accounts for, a stress that the EU budget cannot handle. Furthermore, in France, the country most in support of the CAP, finances are tight. It is not likely, therefore, that France, or any EU member for that matter, will support an increase in CAP funding.

Externally, the WTO and the prospect of a new round remain important pressures on the CAP. In 2003, the "peace clause" in the WTO Agreement on Agriculture will expire and the EU's subsidies will be open to challenge. However, witnesses told the Sub-Committee that while this could be a useful prod, the drawn-out nature of the WTO's dispute-settling mechanism limited its usefulness.

Change is coming to the CAP. The progress of Agenda 2000 is scheduled to be reviewed in 2002. Agriculture Commissioner Franz Fischler has indicated that he expects additional changes to support levels will be necessary following this mid-term review unless commodity prices move markedly higher. Pascal Lamy, the EU Trade Commissioner, told the Sub-Committee that he has no problem with committing the EU to lower export subsidies and domestic support, and improved market access. In its European hearings, the Sub-Committee was told repeatedly that the most likely scenario involves no change in the overall funding, but a move to support farmers' income rather than prices, thus "decoupling" subsidies from production and reducing market distortions.

This is in line with the EU's championing of "multi-functionality," which stresses the non-economic benefits of agriculture (e.g. recreation, retention of a pleasant rural landscape, tourism, preservation of rural life, environmental benefits of agriculture). This

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18 The Ambassador of the European Commission in Canada argued that the direction of EU financial support for agriculture had been steadily downward and that it would continue to remain so. Moreover, the EU had remained well within its Uruguay Round commitments, both in the quantity of subsidized exports and in the level of expenditures on subsidies. However, the fact remains that, according to a June 2000 OECD Report on agricultural assistance, support for farmers in the EU, as measured on a total farm receipts basis, is more than double that given to North American producers (49% of income versus 24% for the U.S. and 20% for Canada).

would allow the EU to shift its subsidies toward environmental, landscape and regional support. While EU Commission witnesses told the Sub-Committee that this shift should reduce market distortions, multi-functionality is seen by some to be a way for Europe to continue to justify high protection and export subsidies. The Sub-Committee believes that Canada, through the WTO, should continue to exert pressure on the EU to assure that multi-functionality is not protectionism by another name. We therefore recommend:

Recommendation 19:

That the Government of Canada attempt to ensure that any support provided by the EU to preserve the multifunctionality of agriculture not be trade distorting. The government should work with the EU to arrive at an international definition of the multifunctionality concept.

Regarding CAP, the key question is: how quickly will the next stage of reforms be implemented, given that the politics of agriculture in Europe are extremely sensitive and complex? According to Mr. Gifford, a 2002-03 timeframe is considered reasonable. More action before that is unlikely due to the scheduling of elections in France and Germany, the two key players in the EU.

While sheer economics and external pressure are significant, substantial CAP reform is not a done deal. Though it is often thought of in purely economic terms, the CAP is of vital importance, both economically and culturally, to the EU (especially France, which along with Germany, is the heart of the EU.) The Sub-Committee heard that the current structure of the CAP means that France gets more money out of Brussels than it puts in. Rita Hayes, the U.S. Ambassador to the WTO, suggested that it is better to be active in pushing the EU to change its course.

The Sub-Committee agrees with this assessment: while CAP reform seems inevitable, Canada should push to assure that reforms go as far as possible to address Canada's concerns. Current conditions present Canada (and the EU) with a window of opportunity. As Mr. Lamy told us, current reflections on CAP in Europe and on the enlargement of EU will make it easier for him to realize change, and these changes are most likely in a multilateral round of trade negotiations.

Based on its hearings both in Canada and in Europe, the Sub-Committee believes that ongoing WTO negotiations on agriculture, coupled with a new round of WTO talks, represent Canada's best opportunity to influence positively the reform of the CAP. Several witnesses stressed that progress on agriculture was most likely in a broad-based negotiating round, which by allowing greater scope for deal making, will make it easier to reach an agreement on agriculture. Even given this opening, however, agricultural reform will be a long-term process requiring diligent work.

In the WTO's negotiations on agriculture, Canada, in conjunction with countries such as the United States and members of the Cairns group of agricultural exporting countries, has been pushing hard for the Europeans to make substantive changes in three core areas: eliminate export subsidies, significantly improve their terms of market access, and significantly reduce or eliminate their production- and trade-distorting domestic support (i.e. production subsidies). Canada has also called for an overall cap on all forms of domestic support.[19] The Sub-Committee strongly supports these general negotiating objectives. We hope that any changes that are negotiated can help move toward a level playing field for Canadian agricultural producers, and be of help to them. The Sub-Committee therefore recommends:

Recommendation 20:

That in the WTO negotiations on agriculture, Canada not deviate substantially from its initial negotiating objective of (a) removing EU agricultural export subsidies; (b) significantly enhancing access by Canadian agricultural producers to the European market; and (c) ensuring that the EU's production subsidies are not trade-distorting.

(b) Food Safety

One of the most difficult challenges Canadian producers face in selling to the EU market is Europeans' concern about food safety. For Europeans, the past decade has brought one food-related disaster after another. Failures of the EU regulatory system in everything from mad cow disease (BSE) to the recent outbreak of foot-and-mouth disease has left the public extremely fearful and mistrustful of their own regulatory systems. As WTO Director General Mike Moore bluntly told the Sub-Committee (echoing many other witnesses), European consumers simply do not trust their governments when it comes to food safety. As a result of this and the European public's extreme fear for the safety of their food supply, everything from beef hormones to all genetically modified organisms (GMOs) are seen in the same light.

[19] The EU presently has a cap – albeit at a very high level – on agricultural subsidies (i.e. the CAP). The United States (the other major player in agriculture) and Canada do not.

In attempting to correct possible deficiencies in food safety control measures, to regain consumer confidence and to maintain public health, the EU has increasingly adopted a precautionary approach in formulating the Union's regulatory decisions.[20] From Canada's point of view, the "precautionary principle," which holds that if there is the possibility of harm from a product (even if the science is inconclusive), it should be banned, functions as a trade barrier. Instead, Canada favours a process of evaluating products at each stage that they are used, giving more of a role to science.

The Sub-Committee, while recognizing the concept of precaution as inherent in all stages of the risk analysis process, supports the position that regulatory decision making in this area must continue to be based on scientific risk assessment. The precautionary approach should not be applied at the risk management level as an additional level of protection without necessarily seeking a scientific assessment first. The concern is that inappropriate employment of the precautionary approach may have contributed to the European paralysis in approving biotech foods.

However, after talking to EU representatives and business people, and our ambassadors abroad, the Sub-Committee is pessimistic about prospects for advancement on food safety. Time and again the Sub-Committee was told that the political reality of a fearful public have made it almost impossible to inject proper science into the approval process.

(i) Example 1: Canola

The linking in the public's mind of food safety and GMOs has waylaid Canadian food exports in several areas, the most notable being genetically modified canola.[21] Canadian exports of this product into the European market, while having been approved by the EU Commission, are the victim of public sentiment, strong consumer and producer resistance and the ability of a minority of EU members to block regulatory approval of new, genetically enhanced varieties of agricultural products. These developments have caused a de facto EU moratorium on additional GMO approvals.

In an effort to unblock the approval process and gain public confidence in GMOs, the EU Commission proposed an unblocking strategy in July 2000, which included revised EU legislation for GMO approvals. This was formally approved by the European Parliament on 14 February 2001 and then moved to member states who were given 18 months to pass the directive into national law. However, within 24 hours of the approval, the blocking member states demanded additional concessions such as amendments to

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20 The Biosafety Protocol, signed in Montreal in January 2000, provided support to the European position. On top of requiring exporters to label shipments that "may contain" bio-engineered commodities, the agreement enables countries to block imports of GMOs on a "precautionary" basis in the absence of sufficient scientific evidence about their safety.

21 It should be noted that where there is crisis, there is also opportunity. For example, Alberta exports hormone-free beef to Belgium, while Ontario farmers sell non-GMO soya to the UK.

the EU GM labelling regime and a GM traceability system requiring special documentation for shipments of GM grains and oilseeds to the EU. At a minimum it is expected the EU GMO approval regime will remain blocked until the fall of 2002.

In 1995, Canadian exports of genetically modified canola peaked at $425 million. Owing to the current regulatory situation in Europe, Canadian canola exports to the EU were effectively eliminated as of 1997. The federal government is obviously concerned about the loss that domestic producers of canola have experienced.

The Canadian government's position, confirmed by favourable European Commission scientific reports, is that those canolas produced in Canada do not pose a health or environmental risk. However, as one witness noted, decisions being taken are now based 80% on perception and 20% on science, making it exceedingly difficult to argue what the Sub-Committee believes is Canada's strong case. Consequently, as Mr. Lamy remarked to the Sub-Committee, the GMO problem is more political than technical.

Making progress on labelling issues will, eventually, go far to address these problems. However, even this will prove to be contentious. Because of the negative perception of GMOs, European producers worry that by labelling their products they will be hurt by a consumer backlash, ruining their brands. Groups like Greenpeace, who are against GMOs, enjoy more credibility than do European governments on ecological issues, thus solidifying the opposition to GMOs. Furthermore, in several areas in Europe there is an ideological opposition to GMOs, e.g. herbicide-resistant plants.

Canada has entered into dialogue with the European Commission at the technical and regulatory level (i.e. among scientists and experts) over this issue, with the ultimate objective being to attain greater compatibility of the respective approval systems. The federal government will continue to seek market access for exports of GM canola from Canada, even if Mr. Carrière did suggest that obtaining results would take time. On the positive side, the Sub-Committee did hear that Europeans are beginning to discuss GMOs: more receptive attitudes are emerging in the European Parliament, and some sectors of European society, such as German business groups, favour more science in the food-approval process.

In dealing with this issue, Don Knoerr (Co-Chair, Agriculture, Food and Beverage Sectoral Advisory Group on International Trade) observed that there needed to be harmony between the international response to the issue (i.e. what other countries do) and the domestic one, which is currently being developed. Decisions were necessary on the definitions of genetically modified (GM) or biotech products, the labelling rules that are established, and the realistic, effective and scientifically sound procedure for determining the risks associated with the use of modern biotechnology.

While advancement in this area could best be helped, as one EU agribusiness witness remarked, if the EU were not to suffer another food catastrophe in the next decade, Canada should continue to work to adopt internationally accepted standards. In the long run, the logical solution is to adopt international science-based standards that all countries can live with. The Sub-Committee recommends:

Recommendation 21:

That the Government of Canada work diligently within the international community to achieve international agreement on the definitions of genetically modified (GM) or biotech products, science-based standards of producing GM products that the international community can recognize, and the labelling rules that are required.

The Sub-Committee recognizes that much of the difference between Canada and the EU on the precautionary principle stems from the failure of their regulatory regime. As Mr. Lamy told the Sub-Committee, Europeans are against GMOs (for example), not Canada. Still, there has been a tendency for the Europeans to disparage our production methods in certain instances and to use this criticism as a basis for imposing restrictions on trade. While this failure to recognize Canada's standards is as much a political problem as a scientific one, it remains vital that Canada and the EU keep this dialogue open. In order to promote greater understanding, such a dialogue should include regular exchanges between representatives of non-trade departments, such as Environment, Labour, and Industry. The Sub-Committee echoes the views of Ms. Macmillan that Canada needs to better champion its excellent standards in health, safety, environment, and technical areas with European decision-makers.

Recommendation 22:

That the Government of Canada, in conjunction with the provinces, seize every possible opportunity to enhance cooperation between Canada and the EU on regulatory policy in the areas of health, safety, environment, and technical standards, and share Canada's regulatory experience with European decision-makers and, where appropriate, the public at large. These efforts should be directed through Canada's overseas posts, industry associations active in Europe, and Canadian participation in international organizations in which standards are discussed, developed and monitored.

As was previously mentioned, the Canadian and European perspective on biotechnology and the use of the precautionary approach differs. On the latter issue, there appears to be differences between the two sides in the way this approach is interpreted. The publication by the EU of a paper on this issue (“Communication on the Precautionary Principle”), while not providing insights on key elements (e.g. providing for “zero risk” and determining the appropriate level of protection), does nevertheless provide both sides with an opportunity to better define the meaning and application of the precautionary approach and to seek out convergence on these points. This will prove especially important as both countries prepare for the WTO summit in Qatar, where the precautionary principle promises to be a contentious issue.[22] We therefore recommend:

Recommendation 23:

That Canada and the EU seek common understanding on the meaning of the precautionary approach and the manner in which it is to be applied to regulatory practices. Ultimately, such an understanding should be arrived at within a multilateral setting.

(ii) Example 2: Beef Hormones

The EU’s contentious 1989 decision to ban the use of growth-promoting hormones in livestock as well as imports of beef produced with such hormones is also tightly linked with Europeans’ mistrust of their regulatory regime. Canada, along with the United States, has consistently opposed the ban on the basis that it does not believe it can be supported from a scientific basis. The federal government, therefore, believes that the ban represents an unjustified use of a non-tariff trade barrier. In addition, the safety of growth-promoting hormones has been endorsed by the international organization that establishes food-safety standards (*Codex Alimentarius*).

Canada and the U.S. challenged the EU’s ban on imports of beef produced with growth hormones and obtained a favourable WTO ruling on the issue. After direct consultations with the EU failed to resolve the dispute, Canada requested a WTO dispute-settlement panel in 1996. Reports issued by both the panel (August 1997) and the WTO Appellate Body (January 1998), set up in response to an appeal of the initial panel’s decision, were favourable to Canadian interests. However, with the failure of the EU to comply with the WTO ruling by altering its regulations, the Canadian government was forced to implement retaliatory measures against the Union. These, consisting of $11.3 million in tariffs placed on European beef, pork, cucumbers, and gherkins, were approved by the WTO in July 1999. The EU continues to claim that their ban is promoted by science and is not a protectionist measure, a view they claim is backed up by the WTO ruling that critiqued their assessment process and that stated their position was based on science.

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22 The WTO already allows countries elements of the precautionary principle; what is important is that this principle is not widened to act as a barrier to trade.

In May 2000, the European Commission announced plans to make its temporary ban on one beef hormone permanent within a year, and to continue a provisional ban on five others. This action was taken after a EU scientific advisory committee reaffirmed its opinion of last year. According to Mr. Lamy, the ban has nothing to do with protectionism, but rather with risk aversion in the EU. While in Europe, several witnesses told the Sub-Committee that, in the public's mind, the question of beef hormones is tied up with the negative images of mad cow disease. As a result, the EU would rather face the tariffs than lift the ban.

2. Market Access Issues

Canada also faces several more traditional market-access issues when dealing with the EU, some of which have already been mentioned. Two of the most contentious, involving what Canada believes are non-tariff barriers, are wine and softwood lumber.

(a) Wine

The trade situation with respect to wine has, up until just recently, been extremely one-sided, with Canada importing $545 million worth of European production in 2000 and exporting a mere $350,000. Historically, Canadian quality wines had faced difficult hurdles in getting into the EU, while the EU had enjoyed favourable access to the Canadian market without any special agreement. Canada's principal objective in resolving this bilateral dispute had always been to obtain secure and predictable access to European markets for quality Canadian wines. Roger Randolph (President, Canadian Wine Institute) told the Sub-Committee in the spring of 2000 that Canadian wine producers could export roughly $20 million in wine products per year to Europe if the market was open; of these revenues, sales of icewine in Europe would generate the vast majority.

Fortunately, access to the European wine market has now improved significantly. In April 2001, Canada realized its long-sought goal of convincing the European Union to allow (through the use of a derogation, or exemption) the sale of Canadian icewine, the showpiece and key export of the Canadian wine industry, in the EU. (Canada is the world's leading producer of icewine.) According to DFAIT officials speaking to the *National Post*, the lifting of the 20-year ban was agreed to after Canada implemented a series of quality controls related to the wine's sugar and acidity levels.[23]

The EU derogation also covers imports of quality-certified wines from two Canadian provinces (Ontario and British Columbia) since their certification processes (and accompanying legislation) either meet or exceed EU standards. Now,

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23 Agence France-Presse, "Canadian icewines bound for Europe: Ottawa wants to close the wine, spirits trade gap," *National Post*, 18 May 2001, p. C7.

quality-designated Canadian wines can enter the European market without limitations other than the demand for the product.

In exchange, Canada also agreed to discuss with the EU all outstanding wine and spirit-related issues, including the use of geographic indicators (i.e. the EU wants Canada to require its wine producers to refrain from using certain EU-origin names, such as champagne, port and sherry, something the Canadian industry has now agreed to do), descriptive names and the structure of provincial liquor control boards. These discussions are ongoing.

(b) Softwood Lumber (Pinewood Nematode)

To prevent the introduction into Europe of the pinewood nematode (PWN) worm, the EU has, since July 1993, insisted that all softwood lumber exports from Canada, with the exception of cedar, be heat treated. This regulation has effectively eliminated Canadian exports of the product by substantially raising the costs of production to Canadian firms. Prior to 1993, exports of untreated wood to Europe had attained an annual value of some $400 million. From October 1, 2001, this ban has been expanded to include wood packing material (from Canada, the United States, China and Japan); given that wood packing material can accompany almost any type of manufactured goods, estimates suggest that up to 70% of Canadian exports to the EU could be affected. Under a "gentleman's agreement," the Commission has agreed that the ban will be applied "proportionately and prudently" in return for Canadian reports on how Canada is advancing towards compliance. DFAIT is awaiting a reply to its letter outlining its understanding of the "agreement" and recommending an official exchange of letters to clarify how the gradual enforcement of the measures would work.

Canada has had extensive consultations with the EU on this issue. According to Mr. Claudio Valle (Director, Technical Barriers and Regulations, DFAIT), "We pointed out that we've had the longest trial period — the 350 years of trade — with little effect or anything to show in European forests. That should be clear evidence that this little bug doesn't move unless carried substantially into a perfect environment where you require high heat conditions and so on. It has been a war of scientists up until now."

Canada continues to believe that it has become a victim of excessive regulation of untreated softwood lumber in order to control the PWN worm. The Canadian government has consistently opposed the regulatory requirement, arguing that there is a miniscule risk of transmission of the insect to European forests.

Canada is currently considering challenging the European ban. According to Mr. Valle, "We have put the Europeans on warning that we would like to resolve it amicably. But if we can't come to an understanding, we feel science is on our side. … We're talking to each other across the bow, but nothing seems to sink in. We might have to go to the WTO to basically get a resolution of this issue."

G. Dealing With EU Enlargement

As was previously mentioned, EU enlargement in this decade may boost the organization's membership to as many as 30 countries. There are now at least a dozen countries that have been identified as potential candidates, on top of the 15 that already exist.

In addition to the already mentioned stresses this will place on the EU's budget (i.e. through the Common Agriculture Policy), EU enlargement, which will take in Central and Eastern European countries, should provide certain business opportunities for Canadian companies, and a more predictable and stable commercial environment in those countries. For instance, Canada undertakes agricultural trade with Central and Eastern Europe and, as Martin Rice (Executive Director, Canadian Pork Council) remarked, certain sectors (e.g. pork) believe that this trade can be augmented. These countries will also need help in bringing their economies up to EU specifications, generating openings for Canadian companies to provide for investment and clean environmental technology. As well, the bound tariff rates of the EU's Common External Tariffs are, in many instances, lower than the levels at which the new entrants are bound. In these cases, accession to the EU could improve market access for Canadian firms.

Furthermore, enlargement offers the countries of Central and Eastern Europe the opportunity to raise their citizens' incomes, thus making them a more attractive market for Canadian investors and exporters. As John Murray (Adviser, Bank of Canada), told the Sub-Committee, "There may be a little trade diversion associated with that as they come into the EU fold, but there may also be some encouragement for faster development. … It benefits everyone, because if they become richer, their ability to purchase our products expands. Again, I think we could have a win-win situation."

The anticipated growth in the EU's membership to include these countries could also have adverse economic consequences for Canada. While Canada has always supported the integration process in Europe as a way to foster stability and economic prosperity, previous enlargements have, regrettably, resulted in the displacement of certain Canadian exports to Europe. In other words, EU enlargement has led to trade diversion away from Canada and to a displacement of economic activity as the traditional bilateral access that Canada had enjoyed was altered.

Future EU enlargement could prove no different, in that tariffs will be raised against some of our exports, thereby lowering the market access enjoyed for those products. In these situations, Canada is entitled to negotiate compensation for the loss of markets; this is done under existing WTO rules on the basis of trade levels in specified products during the three-year period immediately prior to a country's accession. Historically, however, the negotiation of compensation for enlargement has been long and arduous. Moreover, compensation in the form of increased access often is provided in a different commodity, or even in a sector entirely different from the one in which the trade diversion occurred.

It is extremely important that Canada attempt to ensure that its overall economic interests not be adversely affected by enlargement. The hope is that further EU expansion not result in a net diminution of access to the European market for Canadian products.

The Government of Canada is currently examining the possible economic impact of EU enlargement on this country's trade and investment interests. In the Sub-Committee's view, federal officials should analyze the existing experience with previous enlargements, to see what lessons can be learned. The government should also develop an effective strategy to deal with the upcoming EU enlargement, one which would incorporate possible measures to promote closer trade links with Central European countries in order to help offset the diversionary effects of the enlargement. We therefore recommend:

Recommendation 24:

That the federal government make public any assessment of the probable positive and negative effects of EU enlargement on the Canadian economy. On the basis of these findings, the government should formulate an effective initial strategy to deal with the upcoming enlargement. The issue of potential compensation for forgone market access should also be explored, and timely and targeted information on the enlarged European market provided to Canadian businesses.

While responding to the potential costs of enlargement represents the most vital public policy consideration, the Sub-Committee would like to raise another concern that was identified in the Committee's hearings. According to Mr. Paterson, attention must be devoted to strengthening the protection of intellectual property rights in Central and Eastern European countries, which can serve as a major barrier to trade with these countries. These property rights are either non-existent or not enforced in many of the nations in question, yet companies doing business there do not want essentially to give away the ideas behind the products that they have developed. To help strengthen the protection of intellectual property rights in this part of the world, the Sub-Committee recommends:

Recommendation 25:

That in order to significantly strengthen bilateral economic relations between Central and Eastern European countries and Canada while assisting our high-technology community, the federal government, through multilateral organizations, encourage and assist these countries in developing and especially enforcing intellectual property rights in the region.

A FINAL WORD

A key consideration for the Committee throughout the course of its hearings has been whether or not the federal government has been placing sufficient priority on Canada's trade and investment relationship with Europe. At a time when the U.S. economy has experienced turbulence, is it not worthwhile to attempt to diversify our trade towards other viable economic regions such as Europe? We believe that while trade and investment with America should, in no way be discouraged, it behooves the federal government to take every step imaginable to find new approaches to strengthening our transatlantic economic relationship.

APPENDIX A
LIST OF WITNESSES

Associations and Individuals	Date	Meeting
36th Parliament, 2nd Session		
Alliance of Manufacturers & Exporters Canada	2000/02/16	6
Jayson Myers, Senior Vice-President and Chief Economist		
Canadian Chamber of Commerce (The)		
Robert Keyes, Senior Vice-President, International		
Department of Foreign Affairs and International Trade		
William Clarke, Assistant Deputy Minister		
Gary Scott, Director, Northern Europe Division		
Cameron Siles, Trade Relations Advisor, Europe Union Division		
Agriculture, Food and Beverage Sectoral Advisory Group on International Trade	2000/02/23	7
Don Knoerr, Co-Chair		
Canadian Advanced Technology Alliance		
David Paterson, Executive Director		
The Asbestos Institute		
Denis Hamel, Director		
Agriculture and Agri-Food Canada	2000/03/01	8
Mike Gifford, Special Trade Policy Advisory (retired) to the Deputy Minister		
Susanne Vinet, Acting Director General, International Trade Policy Directorate		
Canadian Federation of Agriculture		
Jennifer Higginson, Trade Policy Analyst		
Sally Rutherford, Executive Director		

Associations and Individuals	Date	Meeting
Canadian Pork Council	2000/03/01	8
Martin Rice, Executive Director		
Sierra Club of Canada		
Christine Elwell, Senior Policy Analyst		
Canadian Chamber of Commerce (The)	2000/03/22	9
Robert Keyes, Senior Vice-President, International		
Canadian Wine Institute		
Roger Randolph, President		
Alliance of Manufacturers & Exporters Canada	2000/03/29	10
Jayson Myers, Senior Vice-President and Chief Economist		
Department of Foreign Affairs and International Trade		
Susan Cartwright, Director General, European Union, North and West Europe Bureau		
William Clark, Assistant Deputy Minister		
Gary Scott, Director, Northern Europe Division		
Cameron Siles, Trade Relations Advisory, Europe Union Division		
Conference Board of Canada	2000/05/03	11
Charles Barrett, Vice-President, Business Research		
International Trade Policy Consultants Inc.		
Kathleen Macmillan, President		
European Union – Delegation of the European Commission in Canada	20/05/10	12
Frank Deeg, Principal Adviser		
Danièle Smadja, Ambassador		

Associations and Individuals	Date	Meeting
Global Economics Ltd.	2000/05/10	12
Patrick Grady, Consultant		

37th Parliament, 1st Session

Associations and Individuals	Date	Meeting
Bank of Canada	2001/03/14	2
John Murray, Advisor		
Department of Foreign Affairs and International Trade	2001/03/28	5
Susan Cartwright, Acting Assistant Deputy Minister		
John Curtis, Senior Policy Advisor and Coordinator, Trade and Economic Analysis Division		
Serge Marcoux, Director, Baltic, Central European and EFTA Countries Division		
Ross Miller, A/Director, European Union Division		
Brian Oak, Director, Policy and Strategic Planning Division		
Claudio Valle, Director, Technical Barriers and Regulations		
Department of Industry		
Alan Virtue, Director General, Campaigns and Services		

Associations and Individuals	Date	Meeting

Meetings in Paris, Berlin, Geneva and Brussels

Paris, France

Canadian Embassy	2001/04/24	
John Broadbent, Commercial Counsellor		
Robert Catellier, Counsellor (Investments)		
Louis De Lorimier, Counsellor (Press and Information)		
Terrence Lonergan, Minister-Counsellor (Political Affairs)		
Ian McLean, Minister		
John McNab, Minister-Counsellor (Economic and Commercial)		
Jean Prévost, Commercial Counsellor		
Denis Robert, Commercial Counsellor		
Alcatel	2001/04/25	
Patrick Bourrié, International Director		
Axtel		
Jean-Claude Tisseyre, Director		
“Direction Relations économiques extérieures, Ministère de l’Économie, des Finances et de l’Industrie”		
Hervé Ochsenbein, Bureau Chief, Agricultural Policy		
“Fondation Sciences politiques”		
Denis Lacorne, Professor and Director of Research		
“Groupe Lapeyre”		
M. Chevreton, Director of Purchases and Imports		
MDS Pharmaceuticals		
Anne-Marie Masquelier, President and Director General		
MEDEF		
Jacques Pelletier, President of the Canada-MEDEF Committee		

Associations and Individuals	Date	Meeting
Nortel Networks	2001/04/25	
Jean-Claude Aymard, Vice-President		
Berlin, Germany		
Canadian Embassy	2001/04/26	
Norbert Kalisch, Minister Counsellor		
Leslie Reissner, First Secretary		
Philip Somerville, “Chargé d’Affaires”		
Association of German Aerospace Industries (BDLI)	2001/04/27	
Herr Dr. Hans Birke, Managing Director		
Bombardier Transportation		
Robin Schweitzer, Vice-President, Strategic Initiatives		
Bundesverband der Deutschen Industrien e.V. (BDI)		
Herr Guido Glania, WTO Relations		
DaimlerChrysler AG		
Herr Dr. Peter-Rüdiger Puf, Director, Economic Research		
Deutscher Industrie – und Handelstag (DIHT)		
Herr Dipl. –Vw. Rainer Perau, Head of the North American Section		
Siemens AG		
Herr Jörg Völker, Public Affairs, Berlin Representative Office		
Federal Ministry of Economics and Industry		
Herr Lehmann-Stanislowksi		
Foreign Ministry of the Federal Republic of Germany		
Herr. Dr. Martin Hanz		

Associations and Individuals	Date	Meeting
Geneva, Switzerland		
Canadian Mission	2001/04/30	
Sven Blake, Counsellor		
Terry Collins-Williams, Deputy Permanent Representative, Canadian Mission		
Martin Loken, First Secretary		
Sergio Marchi, Ambassador to the WTO		
European Commission Ambassador to the WTO		
H.E. Carlo Trojan, Ambassador		
Indian Ambassador/Permanent Representative to the WTO		
H.E. Srinivasan Narayanan, Ambassador		
United States Ambassador to the WTO		
H.E. Rita Hayes, Ambassador		
World Trade Organization		
Alain Frank, Director, External Relations Division		
David Hartridge, Director, Trade in Services Division		
Patrick Low, Director, Office of the Director General		
Mike Moore, Director General, WTO		
Jan-Eirik Sorenson, Director, Trade and Environment Division		
Andrew Stoler, Deputy Director General		
Frank Wolter, Director, Agriculture and Commodities Division		
BMO Nesbitt Burns, Geneva	2001/05/01	
Claude Oberson, General Manager		
Canadian Embassy to Switzerland		
John Noble, Ambassador		
Charles Larabie, Commercial Counsellor		
Darier Hentsch & Cie, Geneva		
Frédéric Weber, Director		

Associations and Individuals	Date	Meeting
European Free Trade Association (EFTA)	2001/05/01	
William Rossier, Ambassador		
Mirabaud & Cie, Genève		
Yves Mirabaud, Partner		
Monticello Trust, Geneva		
Michael Moquette, Partner		
Pictet & Cie, Geneva		
Richard Joller, Senior Vice-President		
RBC Dominion Securities, Geneva		
Mario Castracane, Vice-President		
Royal Bank of Canada (Suisse)		
Matt Varey, Vice-President and General Manager		
U.N. Economic Commission for Europe		
Danuta Hübner, Executive Secretary		
Brussels, Belgium		
Akin, Gump, Strauss and Associates	2001/05/02	
Jacques J.J. Bourgeois		
Canadian Mission to the European Union		
James K. Bartleman, Ambassador		
Rambod Behboodi, Second Secretary (Trade Standards and Regulatory Affairs)		
Douglas George, Counsellor (Trade Policy)		
Laurette Glasgow, Minister-Counsellor and Deputy Head of Mission		
Viktor Jarjour, Counsellor (Agriculture)		
COPA		
Shelby Matthews		
COSERAL		
Chantal Fauth, Executive Director		

Associations and Individuals	Date	Meeting
EADS	2001/05/02	
Michel Troubetzkoy		
EPPA		
Martina Garcia		
Europa Bio		
Simon Barber, Director, Plant Biotechnology Unit		
European Commission		
Pascal Lamy, Commissioner for Trade		
FEDIOL		
Pascal Cogels, Director General		
Falconbridge Europe S.A.		
John Smilie, President		
Government Policy Consultants		
Maria Laptes		
Members of the European Parliament		
Frau Erika Mann, Federal Republic of Germany		
Mrs. Eryl Margaret McNally, United Kingdom		
Mrs. Mel Read, United Kingdom		
Mr. Robert William Sturdy, United Kingdom		
Novartis		
Gassan Zok		
Bombardier Transport Brussels	2001/05/03	
Hélène Deslauriers, Vice-President, Law Dept. Europe		
Canada-Belgium-Luxembourg Chamber of Commerce		
Marc Capelle, President		
Canadian Embassy to Belgium		
Jacques Bilodeau, Ambassador		
Paul Desbiens, Counsellor (Commercial and Economic)		

Associations and Individuals	Date	Meeting
Canadian High Commission in London	2001/05/03	
Tom MacDonald, Minister (Commercial, Economic)		
European Commission		
Rod Abbott, Deputy Director General, DG Trade		
Export Vlaanderen		
Dhr Marc Van Craen, General Manager		
Exporter S.A.		
Etienne Knoops, President and Secretary of the Canada-Belgium Committee		
Glavinfo		
Gilles Dauphinais, Chairman		
MDS Nordion S.A.		
Hélène Guilmette, Managing Director		
Office for Foreign Investors in Wallonia		
Bernard Hanin, Managing Director		
"Secrétariat d'État au Commerce Extérieur"		
Marc Mullie, Counsellor		
Wallonne Region (External Relations — AWEX)		
Christian Saelens, Attaché		
Wallonne Region		
Bernard Falmagne, Economic and Commercial Attaché, Representative of the Walloon Region, Montreal		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this report.

A copy of the relevant Minutes of Proceedings (*Meeting No. 26 which includes this report*) is tabled.

Respectfully submitted,

Bill Graham, M.P.
Chair

MINUTES OF PROCEEDINGS

Thursday, May 31, 2001
(*Meeting No. 26*)

The Standing Committee on Foreign Affairs and International Trade met *in camera* at 9:12 a.m. this day, in Room 307, West Block, the Chair, Bill Graham, presiding.

Members of the Committee present: Jean Augustine, Bill Casey, Rick Casson, Bill Graham, John Harvard, Stan Keyes, Francine Lalonde, Diane Marleau, Pat O'Brien, Pierre Paquette, Bernard Patry.

Acting Members present: Mac Harb for Denis Paradis; John Finlay for Colleen Beaumier; Yves Rocheleau for Pierre Paquette; Gurmant Grewal for Monte Solberg; Judy Sgro for Jean Augustine; Raymond Bonin for John Harvard; Walt Lastewka for Bernard Patry.

In attendance: *From the Library of Parliament*: James Lee; John M. Wright; Peter Berg, Blayne Haggart.

Consideration of Committee reports.

The Committee began consideration of a draft report on the issue of the Quebec Summit and the Free Trade Agreement of the Americas.

It was agreed — That the draft report be adopted on division as the Committee's Fourth Report to the House and that the Chair be instructed to present it to the House.

It was agreed — That the Chair be authorized to make such typographical and editorial changes as may be necessary without changing the substance of the report.

It was agreed — That, pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response within 150 days to this report.

The Committee began consideration of a draft report on the issue of Canada's economic relations with Europe.

It was agreed — That the draft report, as amended, be adopted as the Committee's Fifth Report to the House and that the Chair be instructed to present it to the House.

It was agreed — That the Chair be authorized to make such typographical and editorial changes as may be necessary without changing the substance of the report.

It was agreed — That, pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response within 150 days to this report.

The Committee began consideration of a draft report on Canada's foreign policy interests in the South Caucasus and Central Asia.

At 11:40 a.m., the sitting was suspended.

At 12:05 p.m., the sitting resumed.

The Committee resumed consideration of a draft report on Canada's foreign policy interests in the South Caucasus and Central Asia.

It was agreed — That pursuant to Standing Order 108(1)(*a*), the evidence taken by the Committee on Canada's foreign policy interest in the South Caucasus and Central Asia during the last Session of the previous Parliament, be deemed adduced by the Committee in the current session.

It was agreed — That the draft report, as amended, be adopted as the Committee's Sixth Report to the House and that the Chair be instructed to present it to the House.

It was agreed — That the Chair be authorized to make such typographical and editorial changes as may be necessary without changing the substance of the report.

It was agreed — That, pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response within 150 days to this report.

At 12:10 p.m., the Committee adjourned to the call of the Chair.

Marie Danielle Vachon
Clerk of the Committee