

CANADA'S TRADE WITH EUROPE

Then and Now

Canada has had strong trade relations with Europe for hundreds of years. The early settlers who emigrated to Canada usually came from Europe. Canadian fish, furs, lumber, and farm goods were shipped across the Atlantic Ocean to Europe in return for manufactured goods and specialty items. As you learned last year, this kind of trade was to the advantage of countries that imported raw materials and exported manufactured goods. Indeed, many European countries colonized other countries in the world to gain just such advantages.

By the early years of the twentieth century, these European **imperialist** empires needed more and more cheap raw products for their factories. Industrialization had spread around the world, and mass production drew more people into rapidly expanding North American and European cities. As the decades passed, manufactured products became more complex—and the world became more interconnected. Raw products were shipped from many parts of the world, including Canada, to manufacturing centres, usually in Europe. The automobile, for example, first became popular in

imperialist: the domination of another country

Figure 10–28 Map of Europe, 1999



**ormation of the
uropean Union**

1957 France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg form the European Community (EC)

1962 EC countries adopt a Common Agricultural Policy

1968 EC nations remove all tariffs and adopt a common external trade policy

1973 Denmark, the Irish Republic, and the United Kingdom join the EC

1979 The first elections for the European Parliament are held.

1981 Greece joins the EC

1986 Portugal and Spain join the EC

1990 East and West Germany reunify

1991 EC negotiations begin for economic union

1993 The Treaty of European Union is proclaimed

1995 Austria, Finland, and Sweden join the EU

1996 Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia start the process to join the EU

1998 11 EU countries join the European Monetary Union (EMU)

1999 The euro becomes an accepted currency

the early years of the century. It required iron and steel, leather, rubber, and oil products, which came from many different countries. Many British capitalists also invested money in Canada, and European investment money helped to build the Canadian Pacific Railway. These investors also took money out of Canada, in profits and dividends. Because the majority of Canadians were of British or European descent, most did not object to these trade arrangements. Many saw Europe as their cultural homeland.

This historic relationship between Canada and Europe remained very important until after World War II. During the two world wars, Canada went to the aid of Britain and its allies to fight Germany and its allies. Canada also provided many essential products—food and war supplies—to Britain.

Canada’s merchant sailors also faced grave dangers as enemy submarines tried to sink supply ships in the cold North Atlantic. After World War II, however, Europe became more self-contained and self-sufficient. Preferential trade relations with Canada slipped in importance. As Canada’s trade with Europe declined, foreign investment in Canada was far more likely to be from the US than Europe.

By the last decades of the twentieth century, groups of countries in different regions of the world had formed trade alliances and trading blocs. In Chapter 8, you learned about the 1989 Canada-US Free Trade Agreement and its renegotiation to include Mexico in the North American Free Trade Agreement in 1994. In this chapter you have learned of many trade organizations, such as the World Trade

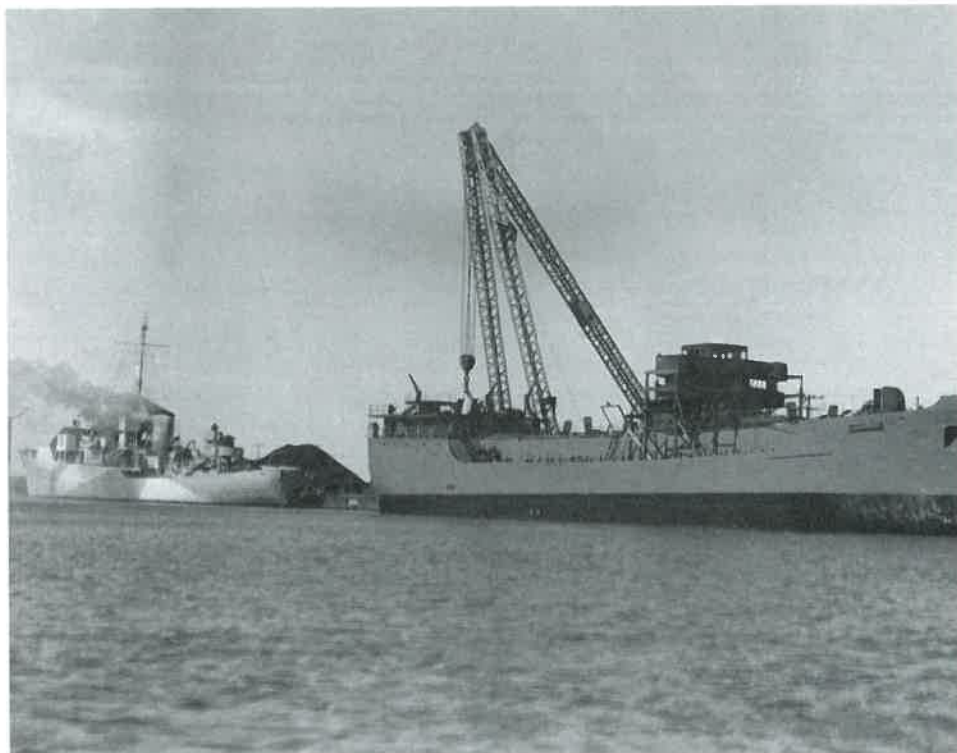


Figure 10-29 Canada’s merchant marines took supplies to Europe during World War II.

Organization, which promote global trade and investment.

The technological revolution that was reshaping the global economy was also fuelling massive political change in Europe. Computerized communications systems and satellites linked pro-democracy movements in Eastern Europe to supporters around the world. No borders could stop this flow. Eastern Europe had been dominated by the Soviet Union since the end of World War II, but by the late 1980s that control was crumbling.

The world watched—live, on television—as the Berlin Wall was torn down in 1989 (see the photograph on page 394). Soon other communist governments toppled throughout Europe. The Soviet Union itself collapsed as the pro-democracy movement took power there in 1991. As Marshall McLuhan had predicted, the world was becoming a “global village.”

The European Union

After World War II, Europeans looked for ways to enhance national security and improve trade. The countries of Europe had been devastated by the economic and human cost of the war. If they joined together, they could trade more economically with one another. They could also compete in what was becoming a global economy.

The first countries to move in this direction were Belgium, the Netherlands, and Luxembourg. In 1948, they eliminated trade barriers among their three countries. This meant that goods could be made and sold within these countries without any duties or tariffs being added to the price of those goods. In 1952,

France, West Germany, and Italy joined with them to form the European Coal and Steel Community. The move towards today's European Union (EU) had started. The Time Line 10–2 details the entry of countries into the European Community and, later, the European Union.

By 1999, the EU was made up of fifteen countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

The EU has a complex structure, and the negotiations for membership are also complex. The goal was to create a strong economic union where citizens could move freely across the borders of member countries. First, labour and environmental laws had to be harmonized. Next, all countries in the EU had to agree to quality standards for manufactured products that could be imported and exported among the countries. An automobile manufactured in Italy had to have the same fuel-emission standards as one manufactured in France. Common agricultural policies also had to be accepted among all of the countries. These policies sometimes hurt countries that export food to the EU, even those who are members. For example, in 1996 it was discovered that the deadly “mad cow” disease, which had infected British cattle, could be passed on to humans who ate contaminated beef. In response, the European Commission banned British beef and insisted that Britain take drastic measures to get rid of the diseased cattle. Finally, many financial and currency issues had to be resolved (see The Euro on page 433).

Table 10-3 The Structure the European Union

Institutions	The People	Functions and Powers
European Commission	19 commissioners and the president Appointed by the governments of the countries that make up the EU Serve for 5 years	Proposes laws Ensures that policies are put in place and treaties are honoured Represents the EU in international trade negotiations Is independent of the national governments of member countries and must be committed to EU interests
European Parliament	626 members elected by the people of the 15 countries of the EU Sit according to political party rather than according to nationality	Debates issues and offers advice to the Commission Questions the decisions and laws proposed by the European Commission Can dismiss the Commission Approves or rejects the Commission's budget Cannot make laws, but can veto actions of any other branch of the EU
Council of the European Union	The elected ministers of the governments of the 15 member countries	Has the final decision-making power on the Commission's proposals Represent the interests of their countries
European Council	The heads of state of the 15 member countries and the Commission president	Writes conclusions that guide the EU Makes decisions about how the EU's treaties will be put into place
Court of Justice	15 judges and 9 advocates-general Appointed for 6 years by mutual consent of the countries of the EU	The "supreme court" of the EU Interprets the laws of the EU Rules on legal matters

Some nationalists in Europe feared that the European Union would erode their cultural sovereignty. After all, member countries have different cultures, histories, and languages, as well as different currencies and investment procedures. Also, through the centuries, wars had been fought between and among these countries. Other citizens of the European countries, however, believed that they could retain their cultural sovereignty and language even within the European Union.

The European Union and Trade with Canada

After the United States, Europe is Canada's most important trading partner. In 1998, Canada exported almost \$18 billion worth of goods to the EU and imported more than \$25 billion worth of goods. Investors from EU countries also invest heavily in Canadian businesses, and Canadian investors invest heavily in EU businesses. Anything that creates a barrier for Canadian companies trading in Europe is bad news

The Euro

One of the biggest challenges facing the European Union was (and is) the creation of a common monetary policy and a standard currency. The members of the European Union want a single currency. They believe this will help create a single market, simplify trade and business among the countries of the European Union, and make European products more attractive on the world market because of consistent and stable pricing policies.

On January 1, 1999, eleven of the fifteen countries that are members of the European Union adopted the euro as their common currency. The changeover from their national

currencies will take place over a three-year period which will end on January 1, 2002. Between 1999 and 2002, the participating countries will have their own currency and the euro. During this time, for daily buying of goods and services, the countries will use their own national currency. However, the value of their currencies will be permanently based on the euro. On January 1, 2002, euro notes and coins will go into circulation; people will carry them in their pockets and wallets and will use them for all their daily purchases.

Businesses in participating countries will also have to use the euro to buy and sell their products and pay their



Figure 10-30 The euro coin

employees, and they will also have to keep their accounts in euros. This means that by January 1, 2002, these companies will have to change their accounting systems. Canadian companies who do business with European countries will need to do business in euros, and they will need to be able to calculate rates of exchange for contracts.

for Canada. So, the Canadian government has developed a strategy to maintain and improve relationships with the EU.

Canada's global trade and business strategy for the twenty-first century has to include Europe because Europe has such a large concentration of wealthy consumers who could buy Canadian goods. Also, with Eastern European countries trying to join the EU, it is quite likely that the European Union will expand.

Because the EU is a united trade bloc, it can exclude Canadian products. At the end of the 1990s, the EU was the world's wealthiest consumer market—so much of Canada's future prosperity depends on maintaining friendly trade relations. This has not always been easily done, as a

number of trade and environmental conflicts have shown.

In 1995, for example, the "Turbot War" broke out between Canada and Spain. It was really only a trade war, but shots were fired and threats were made. In March 1995, a Canadian Fisheries patrol ship fired shots across the bow of the *Estai*, a Spanish trawler fishing for turbot, a flatfish very popular in Europe. Brian Tobin, Canada's Minister of Fisheries, had ordered the action. As the Canadian crews tried to board the *Estai*, its crew members cut their nets and tried to escape into the night. Finally, the Canadian ship caught up, seized the ship, and arrested the crew. The incident made front-page news around the world. Government reaction in Spain—and from the EU—was immediate outrage.

DID YOU KNOW?

A factory freezer trawler (such as the *Estai*) can catch in two 32-minute tows the same amount of fish that were caught in one whole year by the entire French fishing fleet of the 1500s.

In the following months, Tobin used the explosive situation to publicize overfishing by European fleets off Newfoundland. In press conferences outside the United Nations in New York, he displayed the seized nets, saying the openings were so small that all fish would be picked up in their path. Eventually, with British support, trade retaliation from the EU did not happen and Canada was in a stronger position to

enforce fishing quotas and restrictions in the international waters off its coast.

In 1997, the EU stepped up its campaign against the fur-trapping business in Canada by signing the Agreement on International Humane Trapping Standards. If Canadian fur trappers did not follow EU regulations, then Canadian furs would be banned from the EU market. In 1998, there were three disputes between Canada and the EU: an EU initiated complaint about Canadian restrictions on auto parts imports, an EU complaint about Canadian patent protection, and a Canadian concern regarding the European ban on Canadian asbestos products. In each case, the disputes were taken to the World Trade Organization for resolution.

The most important aspect of these disputes was that Canada and the EU were able to reach agreements. Canada's tactic of firm but fair negotiation was working without further jeopardizing Canada's fragile trade relationship with Europe. As a result, Canadian companies continued to find opportunities for investment and sales in the new Europe.



Figure 10-31 Brian Tobin said: "We're down now finally to one last, lonely, attractive little turbot clinging on by its fingertips to the Grand Banks, saying meone reach out and save me in this eleventh hour."

ACTIVITIES

1. **a)** Provide three reasons why European countries wanted closer trade relationships with one another.
- b)** Why would nationalists resist the movement towards economic union?
2. Examine Table 10-3.
 - a)** Which of the five EU institutions has the most power? Why?
 - b)** Which institution is the most democratic? Why?
 - c)** Can members of the European Commission place the interests of their country above those of the European Union? Why?
3. Design a poster or brochure either a) promoting or b) opposing the euro as the common currency for members of the European Union.
4. Write down one word that describes the trading relationship between Canada and the EU. Volunteer your word, or write it down on the chalkboard. Identify one development in Canada-EU trade to support your word choice.