



## **TRANSATLANTIC RELATIONS: USA AND CANADA**

The EU, the US and Canada share the values of democracy, human rights, and economic and political freedom, and overlapping foreign policy and security concerns. The EU-Canada Comprehensive Economic and Trade Agreement and Strategic Partnership Agreement were signed on 30 October 2016, receiving the European Parliament's consent on 15 February 2017. Negotiations on an EU-US Transatlantic Trade and Investment Partnership, launched on 8 July 2013, have been halted since President Trump was elected.

### **EU-US FOREIGN POLICY RELATIONS**

While the EU and the US do not speak in unison on all foreign policy issues, they remain each other's most important and reliable allies. Their foreign policy bonds have endured over many decades, despite shifting political configurations and geostrategic changes on both sides. The partners have cooperated closely over the years, consulting each other on their international priorities and often working to advance their overlapping interests in multilateral forums.

However, following the US presidential election of 8 November 2016, many questions and concerns have arisen as regards EU-US foreign policy relations. The EU and the US still cooperate on a number of issues and geographical contexts; nevertheless, a change in the US attitude towards the EU and the transatlantic alliance has occurred since President Donald Trump took office.

This shift can be seen in the strongly divergent views expressed by the US and the EU on key issues (such as climate change, multilateralism and fake news) and by the US Administration's very recent decisions to move the US Embassy from Tel Aviv to Jerusalem, withdraw from the Joint Comprehensive Plan of Action (JCPOA), and impose tariffs on steel and aluminium imports that will impact the EU.

Despite these changing relations, the US continues to be a reliable security partner for a number of EU Member States, as demonstrated by the cooperation among the North Atlantic Treaty Organisation (NATO) allies. For example, effective practical cooperation has been developed between NATO and missions deployed under the EU's Common Security and Defence Policy (CSDP) in theatres such as Afghanistan, Iraq, Kosovo, Bosnia and Herzegovina, and the Horn of Africa.

### **EU-US POLITICAL RELATIONS WITHIN THE TRANSATLANTIC LEGISLATORS' DIALOGUE (TLD) PROCESS**

Contacts between Parliament and the US Congress date back to 1972. In 1999, their relations were upgraded and institutionalised with the establishment of the Transatlantic Legislators' Dialogue (TLD). The TLD brings together Members of the European Parliament and members of the US House of Representatives at twice-yearly interparliamentary meetings alternating between the US and Europe.

Legislators attending these biannual meetings exchange views on key political issues of mutual concern, ranging from the rise of the so-called Islamic State group in the Middle East and North Africa to the coordination of international punitive sanctions. While transatlantic views converge in a number of areas, the legislators’ exchanges have also exposed divergences on key political issues. The importance of this transatlantic political dialogue should not be underestimated, particularly given the power wielded by the US Congress, for example in authorising US intervention in global crises and shaping US participation in global governance institutions. EU-US trade relations are also discussed as part of the TLD.

Global financial challenges are also discussed regularly in the TLD, with exchanges of views on how to ensure the long-term sustainability of public finances and how to strengthen coordination in the field of financial regulation. Cyber security and internet freedom are also major concerns and are addressed in EU-US discussions.

**EU-US ECONOMIC RELATIONS**

Until 2017, EU-US trade relations were dominated by the negotiation of a Transatlantic Trade and Investment Partnership (TTIP). Despite modest progress made during the negotiation rounds, important differences remained and the negotiations could not be concluded under the Obama Administration.

The Trump Administration has taken a fundamentally different approach to EU-US trade relations. Putting its national interests first and trying to rebalance trade deficits with other countries, the US is putting pressure on partners by imposing high tariffs on certain products in order to protect its own industries and gain more market access in partner countries. Tariffs on steel and aluminium were imposed on the EU on 1 June 2018 and the US Administration is investigating possible tariffs on cars. At the same time, the US is turning away from a multilateral approach within the framework of the World Trade Organisation (WTO). This new attitude has strained US trade relations with the EU and other partners. The EU has filed a complaint at the WTO against the tariffs on steel and aluminium and in return is preparing tariffs on US products to rebalance overall EU-US trade. While the EU prefers to avoid any further escalation of the trade conflict, it cannot leave the US measures without a response.

In spite of the rhetoric, the combined economies of the EU and the US still account for almost 50% of global gross domestic product (GDP) and one third of world trade. In 2017, the EU maintained its position as the US’s largest merchandise trade partner — ahead of China and Canada, the US’s North American Free Trade Agreement (NAFTA) partner.

The US was the Union’s primary export destination in 2017, absorbing 20.0% of total EU goods exports (compared with China’s 10.5%). The US ranked second among the EU’s import partners, and still supplied 13.8% of the EU’s imported goods. In this respect, the US lagged behind China, which supplied 20.2% of the EU’s total imports, but was ahead of Russia and Switzerland, which supplied 7.8% and 5.9% respectively.

EU-US trade in goods 2015-2017 (EUR billion)

| <b>Year</b> | <b>EU goods imports from US</b> | <b>EU goods exports to US</b> | <b>EU balance (goods)</b> |
|-------------|---------------------------------|-------------------------------|---------------------------|
| <b>2015</b> | 249.4                           | 371.3                         | +122.0                    |
| <b>2016</b> | 250.5                           | 363.7                         | +113.2                    |
| <b>2017</b> | 256.2                           | 375.8                         | +119.7                    |

Source: European Commission, DG TRADE

The EU's service exports to the US increased between 2014 and 2016, as did its service imports from the US. However, a fall in EU service exports in 2016 led to a EUR 1.3 billion US service trade surplus with the EU.

EU-US trade in services 2014-2016 (EUR billion)

| Year | EU service imports from US | EU service exports to US | EU balance (services) |
|------|----------------------------|--------------------------|-----------------------|
| 2014 | 190.4                      | 196.2                    | +5.9                  |
| 2015 | 205.5                      | 223.4                    | +17.9                 |
| 2016 | 219.3                      | 218.0                    | -1.3                  |

Source: European Commission, DG TRADE

The EU and the US are one another's largest investors. In 2016, investment stocks increased for the EU and declined for the US. This resulted in the further enhancement of the EU positive stock balance, which amounted to EUR 352.9 billion. It could be argued that bilateral direct investment — which is by nature a long-term commitment — is the driving force behind transatlantic commercial relations. This is reinforced by the fact that trade between parent companies and affiliates in the EU and the US accounts for more than one third of all transatlantic trade. Estimates indicate that EU and US companies operating on one another's territory provide jobs for more than 14 million people.

EU-US bilateral investment stocks (EUR billion)

| Year | US FDI stocks in the EU | EU FDI stocks in the US | Balance |
|------|-------------------------|-------------------------|---------|
| 2016 | 2 391.1                 | 2 744.0                 | +352.9  |

Source: European Commission, DG TRADE

## EU-CANADA POLITICAL DIALOGUE

Canada is one of the European Union's oldest and closest partners. Bilateral relations started in the 1950s on a purely economic basis and have since evolved over the years into a close strategic partnership. The EU and Canada work closely together on global challenges such as the environment, climate change, energy security and regional stability. Canada is a regular contributor to the EU's CSDP missions (such as the EU police missions in Afghanistan and in the Palestinian territories) and also participates in the [EU's election observation missions](#).

The 1976 EU-Canada Framework Agreement for Commercial and Economic Cooperation was the first formal agreement of its kind that the EU signed with an industrialised country. This was followed by a Declaration on Transatlantic Relations adopted in 1990, which extended the scope of their contacts and established regular meetings at summit and ministerial level.

Since then, European and Canadian representatives have met regularly to exchange views at all levels, from bilateral summits of leaders to meetings between officials on specific issues, including in various multilateral fora. In 2013-2014, negotiations were conducted with the aim of upgrading EU-Canada relations under a Comprehensive Economic and Trade Agreement (CETA) and a Strategic Partnership Agreement (SPA).

The SPA is a political agreement aimed at strengthening bilateral cooperation in a number of foreign policy and sectoral fields, including international peace and security, counter-

terrorism, crisis management, maritime security, global governance, energy, transport, research and development, health, the environment and climate change. The SPA is intended to enhance the forms of cooperation that impact directly on individual citizens, including youth, education and culture programmes, consular protection and various people-to-people exchanges.

The SPA was signed by Canada and the EU on 30 October 2016 at the EU-Canada Summit and received the European Parliament's consent in February 2017. Large parts of the SPA agreement have been provisionally applied since 1 April 2017 and it is now going through the respective parliamentary approval procedures with a view to its full entry into force.

In addition to the dialogue between the EU and Canadian executive branches, Members of the European Parliament and their Canadian counterparts meet regularly. Interparliamentary meetings are held annually, supplemented by other interparliamentary exchanges in working groups and between delegations.

As well as being a forum for discussing ongoing negotiations, these meetings allow controversial issues — such as the environmental impact of tar sands and shale gas exploitation, fisheries policies and animal welfare issues (including seal hunting) — to be aired. These areas of discord do not detract from the excellent overall quality of relations between the two sides, which have led to important results, such as the achievement of full visa reciprocity between Canada and the EU in December 2017.

Parliament's Delegation for relations with Canada meets regularly throughout the year to prepare the interparliamentary meetings. This involves detailed exchanges with other EU institutions, including the Commission and the European External Action Service (EEAS), as well as with Canada's Mission to the EU and the Canadian Department for Foreign Affairs and International Trade.

## **EU-CANADA ECONOMIC RELATIONS**

The Comprehensive Economic and Trade Agreement (CETA) marks positive developments in EU-Canada trade relations in the past decade. The negotiations between the EU and Canada on CETA, launched on 6 May 2009, were concluded on 26 September 2014. The text was signed at the EU-Canada Summit on 30 October 2016 and the European Parliament gave its consent on 15 February 2017. It now needs to be ratified by the Member States in accordance with their internal constitutional provisions. Provisional application of the parts falling within the EU's competence began on 21 September 2017.

This is the EU's first comprehensive economic agreement with a highly industrialised country. The EU and Canada have opened their markets to one another's goods, services and investments, including public procurement. An ex-ante impact assessment carried out in 2008 estimated annual real income gains of approximately EUR 11.6 billion for the EU, and EUR 8.2 billion for Canada, within the seven years following the agreement's implementation. Liberalising trade in services was projected to contribute substantially to the GDP gains (50% of the total gains for the EU, and 45.5% of the gains for Canada).

CETA is also the first of the EU's bilateral economic agreements to incorporate a special Investment Court System (ICS) for the settlement of investment disputes between investors and states. Because of its innovative nature and the fact that the public debate on it has not finished in many countries, the ICS will be beyond the scope of the provisional application of CETA. Moreover, CETA contains a clear statement on the government's right to regulate for public purposes as regards public health, safety, the environment, public morals, and social and consumer protection.

Canada and the EU have both been hit by the new US tariffs on steel and aluminium, and they share the opinion that these tariffs are neither justified economically nor compatible with WTO rules. As a consequence, the EU and Canada, together with other defenders of the rules-based trade order, have intensified their dialogue on trade issues.

In 2017, the EU was Canada's second-largest trading partner, after the US, accounting for 9.6% of Canada's total combined exports and imports of goods. In 2017, the EU exported goods worth EUR 37.7 billion to Canada and absorbed Canadian goods valued at EUR 31.4 billion. In 2017, Canada ranked 10th among the EU's international trading partners. Machinery, transport equipment and chemicals are among the main goods traded between the two partners.

EU-Canada trade in goods 2015-2017 (EUR billion)

| Year | EU goods imports from Canada | EU goods exports to Canada | EU balance (goods) |
|------|------------------------------|----------------------------|--------------------|
| 2015 | 28.0                         | 35.1                       | +7.1               |
| 2016 | 29.2                         | 35.2                       | +6.1               |
| 2017 | 31.4                         | 37.7                       | +6.3               |

Source: European Commission, DG TRADE

Trade in services is an important part of the EU-Canada trade relationship. In 2016, the value of EU exports of services to Canada increased, compared with 2014, to EUR 18.5 billion, and the Union's imports of services from Canada increased to EUR 11.8 billion. Transport, travel, insurance and communication are some examples of services traded frequently between the EU and Canada.

EU-Canada trade in services 2014-2016 (EUR billion)

| Year | EU service imports from Canada | EU service exports to Canada | EU balance (services) |
|------|--------------------------------|------------------------------|-----------------------|
| 2014 | 11.0                           | 16.6                         | 5.5                   |
| 2015 | 11.6                           | 18.0                         | 6.4                   |
| 2016 | 11.8                           | 18.5                         | 6.7                   |

Source: European Commission, DG TRADE

In terms of foreign direct investment (FDI), the EU has invested more in Canada than Canada has in the EU. In 2016, the EU's outward FDI stocks in Canada amounted to EUR 264.6 billion. Canadian stocks in the EU were valued at EUR 250.1 billion.

EU-Canada bilateral investment stocks (EUR billion)

| Year | Canadian FDI stocks in the EU | EU FDI stocks in Canada | Balance |
|------|-------------------------------|-------------------------|---------|
| 2016 | 250.1                         | 264.6                   | +14.5   |

Source: European Commission, DG TRADE

Mario Damen / Tuula Turunen  
06/2018