

RESEARCH REPORT

A Brief Profile of the EU: Key Considerations for Atlantic Exporters

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The Atlantic Provinces Economic Council (APEC) is a policy research organization whose mandate is to further economic progress in Atlantic Canada and build synergies among its stakeholders to strengthen the region's position in a rapidly changing world. It accomplishes its mandate by: monitoring and analysing current and emerging economic trends and policies; consulting widely on research findings and building consensus around policy solutions; communicating its research and policy analysis to business, government and the community at large; and advocating the appropriate public and private sector policy responses. APEC is an independent, non-government, not-for-profit organization supported by its members and guided by a board of governors from across the Atlantic region. Our membership includes individuals, small and large companies, labour groups, academic institutions, municipalities and government agencies.

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Abbreviations

APTA: Asia-Pacific Trade Agreement

BTI: Binding Tariff Information

CE: CE marking indicates a product's compliance with EU legislation

CETA: Canada-EU Comprehensive Economic and Trade Agreement

CME: Canadian Manufacturers and Exporters

EEC: European Economic Community

EEN: Enterprise Europe Network

EU: European Union

ECB: European Central Bank

EDC: Export Development Canada

ENS: Entry summary declaration

EORI: Economic Operator Registration and Identification

FDI: Foreign Direct Investment

GBP: Pound sterling

MEP: Member of European Parliament

MRA: Mutual Recognition Agreement

NAFTA: North American Free Trade Agreement

NES: Not elsewhere specified

REACH: Registration, Evaluation, Authorization and Restriction of Chemicals

SAD: Single Administrative Document

UK: United Kingdom

VAT: Value-Added Tax

Country Abbreviations

EU-15 Members:

AUT: Austria

BEL: Belgium

DNK: Denmark

FIN: Finland

FRA: France

DEU: Germany

GRC: Greece

IRL: Ireland

ITA: Italy

LUX: Luxembourg

NLD: Netherlands

PRT: Portugal

ESP: Spain

SWE: Sweden

GBR: United Kingdom

New Entrants (2004-)

BGR: Bulgaria

HRV: Croatia

CYP: Cyprus

CZE: Czech Republic

EST: Estonia

HUN: Hungary

LVA: Latvia

LTU: Lithuania

MLT: Malta

POL: Poland

ROU: Romania

SVK: Slovakia

SVN: Slovenia

Country Classifications & Currency Conversions

Member states: The countries of the European Union (the terms member state, member and country are used interchangeably throughout this report): Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK.

Founding members: The original six members of the European Coal and Steel Community, a precursor to the EU: Germany, France, Italy, the Netherlands, Belgium and Luxembourg.

EU-15: The 15 EU member states that joined prior to 2004: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the UK.

New members: Countries that joined the EU during or after 2004: Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

Central and eastern European countries: The EU member states that are included in the OECD definition of Central and Eastern Europe: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

Currency Conversions: Unless noted, all monetary values are in Canadian dollars (\$). Conversion of data from euros (€) to Canadian dollars are done using annual average exchange rates for the appropriate year.

Average annual exchange rate, noon.

2012	€1=CAN\$1.2850
2013	€1=CAN\$1.3681
2014	€1=CAN\$1.4671

Source: Bank of Canada

Executive Summary

This report provides a brief overview of the EU from the perspective of Atlantic exporters, and specifically Atlantic manufacturers. It is intended to provide a high level introduction to the key features and characteristics of the EU market that have been identified by APEC's research and interviews with Atlantic firms operating in the EU. The profile of country and sector prospects in the EU will support the preparation of detailed market analysis by individual businesses and industry associations.

When choosing to pursue the EU market Atlantic firms must consider both market potential and the cost of market entry and development. Expanding into a new market takes time and resources. It may involve, among other activities, conducting market research, establishing business contacts and obtaining new approvals. Several Atlantic firms have expressed the need to prioritize, choosing to focus their resources on the markets which offer the greatest potential. Other firms will follow the most promising business leads, regardless of geography or borders.

The EU is a large market, the largest in the world by most measures. Gaining access to this market means over 500 million consumers with, on average, relatively high incomes. The wealth and stability of the EU as a whole make it an attractive place to do business. It follows that the EU is also a mature market that is not seeing the rapid growth that characterizes the emerging economies in Asia. The EU was hit hard by the recession and the sovereign debt crisis and is forecast to average a modest 1.9% annual real GDP growth out to 2019. The EU may be an ideal market for producers selling premium products to high income consumers, those which require modern social or physical infrastructure to deliver, or those with niche products that can benefit from capturing even a small share of the EU market.

The EU market is complex. While the EU is a single market, in practise firms may face various national regulations, political systems and business practises. The movement towards harmonization at the EU level means that for firms that must invest in certifications and approvals, the EU has the potential to provide a high return to a single approval process. However, for exports that face both EU and national regulations, this layered system can be an added cost. In general, businesses will need to monitor legal and policy developments at the EU level and in the individual countries they operate in because laws, regulations and strategies may originate at the EU level, the member state level, or may be shared between the two.

The EU is a diverse market in terms of the size, prosperity and growth prospects of its member countries. It includes a mix of large, affluent countries as well as many smaller,

lower-income, but rapidly growing economies. High income countries tend to have better infrastructure, are easier to do business in, are less likely to have issues with corruption and are generally viewed as more competitive. Less wealthy countries, by contrast, may be more open to lower cost solutions. Technology standards may also vary by country. Member states differ not only on economic measures which characterize the size, stability and attractiveness of their markets, but also in language, culture and tastes. While some products may be in demand across the EU, some may be more successful in specific markets or may require adjustments to reflect customer requirements in a given region. Atlantic firms need to consider the best entry market for their product or service; for some exporters this will be determined by the location of their key customers.

The EU is a net energy importer, creating opportunities for Atlantic energy suppliers. It is also looking for green energy solutions to support its environmental goals.

The EU is a large producer and exporter of manufactured goods, with 15% of GDP coming from manufacturing compared to just 7% in the Atlantic provinces. Manufacturing is particularly strong in Germany, Ireland, and several central and eastern European countries such as the Czech Republic, Hungary, Slovakia and Slovenia. A large base in manufacturing provides big opportunities to be part of EU value chains, but also means exporters face strong competition from local firms, some of which may benefit from lower labour costs. This is highlighted by the fact that 60% of total EU trade takes place among member states. So for many Atlantic firms, such as those selling food products into EU value chains, the final manufactured goods may be destined for the EU market; but for others, such as those supplying the EU machinery and equipment industry, the final market may include customers around the world. Atlantic firms need to understand the EU value chain for their particular industry.

There are also manufacturing industry specializations that are important considerations for Atlantic exporters. Germany produces a large share of machinery and equipment as well as transportation equipment. Ireland, Denmark and Slovenia specialize in pharmaceuticals. Germany, Austria and Slovakia specialise in electronics and electrical equipment. In Greece, Croatia and Cyprus food and beverage production accounts for the largest share of manufacturing. Overall, future growth is expected to be focused on high-value added sectors where the EU has a comparative advantage such as pharmaceuticals and transport equipment.

An important key to success in the EU for many Atlantic firms has been to find a partner such as an agent, broker, or distributor located in their target markets. These intermediaries may provide market research, identify potential clients, and help navigate local regulatory regimes. Atlantic firms have employed various strategies to find clients and

partners in the EU, including trade shows, research partnerships and referrals from existing clients. The Canadian Trade Commissioner Service also has a network of trade commissioners in the EU that can provide practical advice and on-the-ground intelligence. Commissioners in the local market can help businesses connect with qualified and reputable agents, distributors and potential clients in the region. In addition, Atlantic firms can use new tools such as the Enterprise Canada Network or Horizon 2020.

Atlantic Canada is closely linked to the EU through air cargo service from Halifax and Moncton airports and marine services from the Port of Halifax. Direct flights to the EU are available from Halifax and St. John's. These transportation linkages help facilitate both business travel and the movement of cargo.

Some Atlantic firms have emphasized the importance of having an on-the-ground presence in the EU both to facilitate exports from Canada and to provide services in the EU. A local presence may be important in selling into an EU value chain and when selling directly to customers. It can help show the firm is invested in the EU and can improve access to large contracts, especially if there is a preference to purchase from local suppliers. It can also make it easier to respond to customers' requirements, facilitate the provision of after sales service, and help overcome logistical and regulatory barriers. Firms can establish a local presence by locating employees in the EU, opening a sales office, forming a joint venture or establishing a foreign affiliate.

To do business in the EU, Atlantic firms should ensure that they fully understand all of the import procedures and regulations that apply to their product. The EU has some distinct regulatory systems, such as REACH and CE marking, as well as unique regulations on certain product categories (e.g., genetically modified food) and products aimed at specific populations (e.g., foods for young children).

CETA has the broadest scope of any trade agreement Canada has been a party to. Once it is fully implemented it will eliminate 99% of all tariffs on goods moving between Canada and the EU. CETA also addresses non-tariff barriers, with agreements on integration measures for technical, compliance, marketing and labelling regulations. Key provisions to increase labour mobility and investment will make it easier for Canadian firms to effectively market their products in the EU, whether that be by investing in local manufacturing facilities, or having local staff available for after-sale service.

Overall, the EU offers lots of market opportunities for firms that have products and services that can meet the requirements of EU consumers and businesses. However, Atlantic firms must ensure they do their own market research and many are likely to benefit from finding EU partners to help them succeed in the EU.

Chapter 1

Introduction

This report provides a brief overview of the EU from the perspective of Atlantic exporters, and specifically Atlantic manufacturers. It is intended to provide a high level introduction to the key features and characteristics of the EU market that have been identified by APEC's research and interviews with Atlantic firms operating in the EU. The profile of country and sector prospects in the EU will support the preparation of detailed market analysis by individual businesses and industry associations.

Overview

Chapter 2 provides a brief history of the EU, noting the expansion of the EU both geographically and in terms of scope as it developed from pure trade cooperation to broader policy coordination. The basic structure of the EU is explained and its key institutions identified. The nature of the single European market is also discussed. As the membership of the EU has expanded, the diversity of countries within it has increased. Business leaders need to understand this diversity as it may influence how or where they enter the EU market.

Chapter 3 discusses the size and potential growth within the EU. The EU is the largest market in the world in terms of GDP and global imports – surpassing the US in size. Gaining even a small share of this market represents a significant opportunity. However, economic growth in the EU as a whole has lagged countries such as the US in recent years with the sovereign debt crisis (following the global recession of 2009) having serious economic consequences. Although the EU is returning to growth, the pace of expansion remains muted in a number of large, high-income countries which face limited population growth and aging populations. However, a number of relatively small, central and eastern European economies, are expected to continue to expand at a robust pace.

Expanding on the overall diversity within the EU, Chapter 4 examines similarities and differences in economic structure between the EU and North America and between countries within the EU. This analysis helps to identify national specializations within the EU and highlights the important role of trade between member nations.

As this research is specifically focused on Atlantic manufacturing, Chapter 5 examines in more detail the size, growth and nature of manufacturing in the EU. Germany is the manufacturing powerhouse of the EU. Along with Italy, France, the UK and Spain, these

five countries account for 70% of manufacturing output in the EU. However, several small central and eastern European economies are manufacturing intensive, often as manufacturing locations for firms based in Germany and other EU countries. Specialization varies by country. For example, Germany produces a large share of machinery and equipment, while France and Spain focus more on food processing and beverages. The pharmaceuticals, transportation and equipment and food manufacturing are expected to be among the fastest growing industries.

Chapter 6 highlights some important topics of a more practical nature on doing business in the EU, including the importance of making connections and meeting EU import and other regulatory requirements, such as the need to obtain a CE marking for some products. An overview of the relevant aspects of the Canada-EU Comprehensive Economic and Trade Agreement (CETA) is provided.

The final chapter provides a brief summary of the key findings along with some concluding thoughts.

Chapter 2

A Brief Overview of the EU

Chapter Summary

- The EU expanded from its initial six to current 28 member states and broadened in scope from economic cooperation to include policy areas from development aid to the environment.
- Businesses need to monitor legal and policy developments at the EU and national level because laws, regulations and strategies may originate at the EU or member state level, or they may be a shared responsibility.
- While the EU has made substantial progress in creating a single market for the free movement of goods, services, labour and capital there are still differences in national regulation and practises that impede higher levels of economic integration.
- As the EU expanded, its diversity has increased from a cluster of large, mature, high-income countries in northwestern Europe, to include a large group of small, lower-income, but faster-growing economies in central and eastern Europe.

This chapter provides a brief overview of EU history, structure and institutions (including the euro) to help businesses appreciate the nature of the EU and to understand how laws are made.¹ The nature of the single market is discussed and the diversity within the EU in terms of market size, income and growth potential is highlighted.

2.1 A Brief History of the EU

The EU is an economic and political partnership between European countries that together cover much of the continent. The EU began after the Second World War with the intent to foster economic cooperation as a means of reducing the likelihood of conflict between trade-dependent countries. The European Economic Community (EEC) was created in 1958 with six member countries (Belgium, Germany, France, Italy, Luxembourg and the Netherlands). Today, the EU has grown to include 28 countries with additional countries still seeking membership.

¹ Sections 2.1 and 2.2 draw heavily upon europa.eu and Fontaine, Pascal (2014). *The European Union Explained: Europe in 12 Lessons*. Luxembourg: European Commission.
<http://bookshop.europa.eu/en/europe-in-12-lessons-pbNA0213714/>

Table 2.1 A Select History of the EU

Year	Event
1951	The European Coal and Steel Community is formed with six founders (Belgium, France, Germany, Italy, Luxembourg and the Netherlands).
1958	The 1957 Treaty of Rome comes into effect creating the European Economic Community (EEC) or 'Common Market' with six member nations.
1962	The Common Agricultural Policy is instituted, ensuring common prices but eventually overproduction of food.
1968	Custom duties are removed on imports from member EU countries (creating a free trade zone) with common duties imposed on imports from outside.
1973	First expansion: Denmark, Ireland and the UK and join the EU.
1975	EU regional policy established (through the European Regional Development Fund) to transfer money from richer to poorer regions to improve infrastructure, attract investment and create jobs. This spending eventually accounts for one third of EU spending.
1979	Citizens directly elect members of the European Parliament for the first time.
1981	Greece joins the EU, beginning an expansion into southern Europe.
1986	Spain and Portugal join the EU. Single European Act established to harmonize national regulations.
1992	The Treaty on European Union is signed in Maastricht, officially replacing the 'European Community' with the 'European Union.' The treaty sets rules for the future single currency, foreign and security policy, and closer cooperation in justice and home affairs. It entered into force in 1993.
1993	The single market comes into effect with free movement of goods, services, people and money (although free movement of some services is delayed).
1995	Austria, Finland and Sweden join the EU. The Schengen Agreement establishes a passport-free zone allowing travellers of any nationality to travel between the member countries without any passport control at the border. The agreement begins with seven countries but now includes all EU member states except the UK and Ireland; Bulgaria, Cyprus and Romania are not yet fully-fledged members of the Schengen area.
1997	The Treaty of Amsterdam is signed, laying down plans to reform EU institutions, to give Europe a stronger voice in the world and to concentrate more resources on employment and the rights of citizens. It entered into force in 1999.
1999	The euro is introduced in 11 countries, initially for commercial and financial transactions only. The euro is currently used by 19 EU member nations.
2004	Eight countries of central and eastern Europe (the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovenia and Slovakia) join the EU, along with Cyprus and Malta .
2007	Bulgaria and Romania join the EU. The Treaty of Lisbon is signed, which amends the previous Treaties. It is designed to make the EU more democratic, efficient and transparent, and thereby able to tackle global challenges such as climate change, security and sustainable development. It entered into force in December 2009, also making the Charter of Fundamental Rights (which was proclaimed in 2000) legally binding.
2013	Croatia joins the EU.

Source: European Commission (http://europa.eu/about-eu/eu-history/index_en.htm)

Potential EU Members

EU enlargement is viewed as making Europe a safer place (by promoting democracy, fundamental freedoms and the rule of law across the aspirant countries); helping to improve the quality of people's lives (through integration and cooperation); and boosting prosperity ("a bigger Europe is a stronger Europe"). The current enlargement agenda focuses on the Western Balkans and Turkey.

Candidate countries include Montenegro (accession negotiations began in 2012); Serbia (accession negotiations started in 2014); Albania (candidate status granted in 2014); the former Yugoslav Republic of Macedonia (accession discussions began in 2012 but as of 2014 were at an impasse); and Turkey (accession negotiations started in 2005 but negotiations cannot be completed until a number of issues are resolved).

Potential candidates include Kosovo and Bosnia and Herzegovina.

Figure 2.1 EU Countries, 2015



Source: European Commission (http://europa.eu/about-eu/countries/index_en.htm) and European Commission (2014a). *Enlargement Strategy and Main Challenges 2014-15*, Brussels: European Commission. http://ec.europa.eu/enlargement/pdf/key_documents/2014/20141008-strategy-paper_en.pdf

The single or 'internal' market enables most goods, services, money and people to move freely. People can also travel freely throughout most of the continent due to the abolition of border controls between EU countries. And the majority of EU countries use a single European currency, the euro. However, the EU is no longer just an economic union but has evolved into an organisation spanning policy areas from development aid to the environment.

Europe 2020

Europe 2020, launched in 2010, is the EU's ten-year jobs and growth strategy. The stated objective is to create the conditions for smart, sustainable and inclusive growth. The strategy is focused on five goals in the areas of employment, innovation, education, poverty reduction and climate/energy.

1. Employment
 - 75% of 20 to 64-year-olds to be employed
2. Research and development
 - 3% of the EU's GDP to be invested in R&D
3. Climate change and energy sustainability
 - Greenhouse gas emissions 20% lower than 1990 (or even 30% if the conditions are right)
 - 20% of energy from renewables
 - 20% increase in energy efficiency
4. Education
 - Reducing rates of early school leaving below 10%
 - At least 40% of 30 to 34-year-olds completing third level education
5. Fighting poverty and social exclusion
 - At least 20 million fewer people in or at risk of poverty and social exclusion

Each EU country has adopted its own national targets in each of these areas and EU leaders have agreed to a number of concrete actions at EU and national levels.

2.2 EU Structure and Institutions

The EU is based on the rule of law: everything that it does is founded on the Treaties (known as primary legislation) which are voluntarily agreed to by the presidents and/or prime ministers of all EU countries and ratified by their parliaments. These binding agreements set out the EU's goals in its many areas of activity and provide the basis for a large body of secondary legislation, including regulations, directives and recommendations adopted by EU institutions and which have a direct or indirect effect on EU member states. EU law has equal force with national law and confers rights and obligations on the authorities, individuals and businesses in each member country.

Businesses will need to monitor legal and policy developments at the EU level and in the individual countries they operate in because laws, regulations and strategies within the EU may originate at the EU level, the member state level, or may be shared between the two (Table 2.2).

Table 2.2 Responsibilities in the EU by Jurisdiction

Jurisdiction	Responsibility
EU alone	
	Customs union
	Rules governing competition with the single market
	Monetary policy for countries using the euro
	Conservation of marine biological resources under the common fisheries policy
	Common commercial policy
	Concluding an international agreement (when this is provided for in EU legislation)
Shared between EU and member states	
	Single market
	Consumer protection
	Transport
	Trans-European networks
	Energy
	Environment
	Research, technological development and space
	Agriculture and fisheries (except the conservation of marine biological resources)
	Economic and social cohesion
	Aspects of social policy (as defined in the Lisbon Treaty)
	Development, cooperation and humanitarian aid
	Aspects of common security challenges relating to public health (as defined in the Lisbon Treaty)
	Creating an area of freedom, security and justice
Member states (but EU may play a supporting or coordinating role)	
	Industry
	Tourism
	Education, vocational training, youth and sport
	Culture
	Protection and improvement of human health
	Civil protection
	Administrative cooperation

Source: Fontaine (2014)

The five key institutions in EU law are the European Council, the European Commission, the Council of the European Union, the European Parliament and the Court of Justice.

The **European Council** is the EU's top political institution. It consists of the Heads of State or Government (Presidents and/or Prime Ministers) of all EU member countries, along with the President of the European Commission and its own President. In 2014, Donald Tusk became President. The European Council sets the EU's overall political direction and goals, but has no powers to pass laws. It normally meets four times a year. The European Council makes most decisions by consensus, but in certain cases, by unanimity or by qualified majority. If a vote is taken, neither the European Council President nor the Commission President take part. The President represents the EU externally on foreign and security issues.

The **European Commission** represents the interests of the EU as a whole. It consists of members (Commissioners) from each EU country, including the Commission President, appointed for a five-year term by agreement of the member states and subject to approval by the European Parliament. The current president of the European Commission is Jean-Claude Juncker. The Commission alone has the right to draw up proposals for new EU legislation to be discussed and adopted by the Council and Parliament. The Commission and member countries implement the new laws and the Commission ensures that regulations and directives adopted by the Council and Parliament are properly applied and implemented by member states.

Types of EU Legislation

A **regulation** is a law that is applicable and binding in all member states directly. It does not need to be passed into national law by the member states although national laws may need to be changed to avoid conflicting with the regulation.

A **directive** is a law that binds the member states, or a group of member states, to achieve a particular objective. Usually, directives must be transposed into national law to become effective. Significantly, a directive specifies the result to be achieved: it is up to the member states individually to decide how this is done.

A **decision** can be addressed to member states, groups of people, or even individuals. It is binding in its entirety. Decisions are used, for example, to rule on proposed mergers between companies.

Source: European Commission (2014b). *The European Union Explained: How the EU Works*. European Commission: Luxembourg. <http://bookshop.europa.eu/en/how-the-european-union-works-pbNA0414810/?CatalogCategoryID=sciep2OwkgkAAAE.xjhtLxIz>

The **Council of the European Union** (also referred to as the Council or the Council of Ministers) represents national governments and is made up of ministers from the EU's national governments. Each Council meeting is attended by one minister from each EU country with the minister attending depending upon which topic is on the agenda. The Presidency of the Council rotates among member states every six months. The Council must vote unanimously on key issues (such as taxation, amending the Treaties, launching a new common policy or allowing a new country to join the EU) and by qualified voting majority (based on the number of states and their population) for most other topics. The Council's main job is to pass EU laws (in conjunction with the European Parliament). It also shares responsibility with the European Parliament for adopting the EU budget. The Council also signs international agreements (negotiated by the Commission).

The **European Parliament** represents the EU citizens with its 750+ members of the European Parliament (MEPs) directly elected every five years. It holds major debates at monthly gatherings (plenary sessions). The European Parliament supervises the EU's activities and can approve or reject the European Council's nominee for the Commission President and can approve and dismiss the whole Commission. It shares responsibility with the Council for enacting EU legislation and approving (or rejecting) the EU budget (proposed by the Commission). Parliament must ratify EU international agreements (negotiated by the Commission). Martin Schulz is the current president of the European Parliament.

Figure 2.2 How EU Laws are Made



Source: European Commission. (http://europa.eu/publications/slide-presentations/index_en.htm)

The **Court of Justice**, which is made up of one judge from each EU country, ensures that EU law is complied with and that the Treaties are correctly interpreted and applied.

As it continues to grow, the EU remains focused on making its governing institutions more transparent and democratic. More powers are being given to the directly elected European Parliament, while national parliaments are being given a greater role, working alongside the European institutions. In turn, European citizens have more ways to take part in the political process.

EU Budget

The EU budget in 2014 amounted to more than €142 billion (CAN\$208 billion), just over 1% of the total gross national income of the member states combined. The ultimate responsibility for allocating the budget lies with the Commission but national governments manage about 80% of EU funds.

Revenues come from three main sources:

- the largest source is contributions from member states (usually about 0.7% of national income), reflecting the wealth of each country;
- a large share of the custom duties on products imported into the EU (with the importing country keeping the rest); and
- a percentage (usually about 0.3%) of the standardised value added tax (VAT) levied on goods and services by member states throughout the EU.

The budget is spent in two main areas:

- smart and inclusive growth (€64 billion in 2014), including Structural Funds (such as the European Regional Development Fund which is used to finance development projects in lagging regions, the European Social Fund, which is used to finance vocational training and help people find work); the Cohesion Fund (to finance transport infrastructure and environmental projects in EU countries with below average per capita income); research programs and trans-European transport and energy networks
- natural resources (€60 billion in 2014), mainly for farming, rural development and the environment
- the EU as a global partner (€8 billion), including aid, trade, etc.
- security and citizenship (€2 billion)
- administrative expenses (€8 billion)

Source: Fontaine (2014), European Commission (http://ec.europa.eu/budget/index_en.cfm)

2.3 The Single Market

In 1968 all customs barriers between EU member countries (then European Economic Community members) were abolished, and since this time the EU has undertaken significant work to further enhance trade mobility within the economic union. The Single European Act, signed in 1986 and implemented in 1993, formally created the single market with the intent of having a territory without any internal borders or other regulatory obstacles to the free movement of goods, services, persons and capital.

Huge benefits have been realized from the creation of the single market, benefitting both consumers and businesses. Between 1992 and 2009, the early EU entrants (the member states that joined prior to the 1990s) saw the proportion of GDP accounted for by trade grow by an average of 1.6% per year.² In contrast, between 1994 and 2009, after the signing of the North American Free Trade Agreement, trade between Mexico, the US and Canada, only grew by 0.7% per year as a proportion of GDP.

However, concerns have been expressed regarding the “incomplete implementation” of the single market.³ As a result the EU has taken many steps to strengthen the single market. A wide range of issues were addressed by the Single Market Act (2011) and the Single Market Act II (2012) by setting out key actions to further integrate the EU and boost growth.

Many of the obstacles that remain relate to differential treatment of suppliers from other EU countries, lack of mutual recognition or harmonization of standards, and discriminatory procedures.⁴ Products for which harmonized EU standards do exist may also face additional national standards. Some of the gaps in the single market arise primarily from countries improperly translating EU directives into national law or delays in national implementation. A recent estimate found that the removal of existing trade barriers (including barriers to foreign direct investment) could boost total intra-EU merchandise exports up to 7% in the long term.⁵ Aside from regulatory barriers, some market fragmentation is expected to persist due to variations in national and regional tastes and preferences.

² Springford, John (2012). *How to Build European Services Markets*. London: Centre for European Reform. http://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2012/js_markets_sept12-6206.pdf

³ Hafner, Marco, Robin, Enora., and Hoorens, Stijn (2014). *The Cost of Non-Europe in the Single Market: The Free Movement of Goods*. Brussels: European Parliamentary Research Service.

http://www.europarl.europa.eu/EPRS/EPRS_STUDY_536353_CoNE_Single_Market_L.pdf

⁴ Hafner, Robin, and Hoorens (2014).

⁵ Hafner, Robin, and Hoorens (2014).

EU trade integration, measured by the average of share of imports and exports relative to GDP, stands at around 5% in services, compared with goods at approximately 22%.⁶ In 2006 the EU adopted a new Services Directive, which has increased transparency and made it easier for businesses and consumers to provide or use services in the single market. The directive left national governments with significant discretion to decide what constitutes a barrier to establishment or to the provision of services across borders. For example, in professional services, many member states require a partnership model where the firm's partners must hold a minimum level of capital in the business. Foreign companies that do not have this structure are denied access. As of 2012, the EU services markets were still mostly national: citizens of the EU-15 bought 94% of their services from firms based in their home country.⁷

Any person who holds the nationality of an EU country is automatically also an EU citizen and has the right to move freely around the EU. In general EU citizens are able to work anywhere in the EU without a work permit and are entitled to equal treatment with nationals of the host EU country.⁸ However, despite the increase in labour mobility after the 2004 and 2007 enlargements, the annual mobility rate between EU countries in 2011-12 was only around 0.2% of the total EU population, while in the US the annual mobility rate between the 50 states is around 2.7%.⁹ There are many reasons why the level of cross-country labour mobility within Europe is rather low, including social and cultural factors, as well as labour market frictions such as differences in social security and taxation systems and a lack of harmonisation of professional qualifications among EU countries. In the past it has been difficult to obtain recognition of qualifications in certain regulated professions such as doctors or architects. A new directive agreed upon in late 2013 was designed to update the common rules facilitating the process of recognition and work towards making it easier for professionals to move around the EU.

The freedom of capital movements was guaranteed by the Maastricht Treaty. Since January 1, 1994 all restrictions on capital movements and payments between EU member states are prohibited, as are restrictions between EU member states and non-EU countries. In subsequent EU enlargements, exchange controls have been progressively eliminated in the period before EU membership. In general all capital movements have now been fully liberalised across the EU.¹⁰ However, the EU capital market remains

⁶ European Commission (2013a). *A Single Market for Growth and Jobs: An Analysis of Progress Made and Remaining Obstacles in the Member States*. Brussels: European Commission. http://ec.europa.eu/europe2020/pdf/2014/smr2014_en.pdf

⁷ Springford, John (2012).

⁸ Restrictions on the free movement of workers may apply to workers from EU member countries for a transitional period of up to 7 years after they join the EU. At this time, this applies to Croatia.

⁹ Andor, László (2014). *Labour mobility in the EU: Challenges and Perspectives for a Genuine European Labour Market*. Florence: European Commission. http://europa.eu/rapid/press-release_SPEECH-14-491_en.htm

¹⁰ Some transitional periods have been granted to some newer Member States for certain capital operations involving the purchase of real estate (second homes or agricultural land).

fragmented. While Europe as a whole has traditionally relied more on bank finance than capital markets, there is wide variation in capital market development: in 2013, domestic stock market capitalisation exceeded 121% of GDP in the UK, compared to less than 10% in Latvia, Cyprus and Lithuania.¹¹ Further, within the EU there are different national rules and market practices for products like securitised instruments or private placements. As a result shareholders and buyers of corporate debt rarely go beyond their national borders when they invest.¹² In late 2014 the European Commission announced a planned Capital Markets Union with the goal of reducing fragmentation in financial markets, diversifying financing sources, strengthening cross border capital flows and improving access to finance for businesses.

Public contracts in any EU country are open to bidders from anywhere in the EU, yet between 2006 and 2010 only 3.4% of public tenders were awarded to foreign bidders.¹³ The area of public procurement has some of the highest rate of infringements, i.e., delayed implementation of directives or directives improperly translated into national law. Currently, public sector procurement is covered by two directives: the Sector Directive covers public procurement in water, energy, transport and postal services, while the Classical Directive apply to contracts for public works, public supply and public service. Revisions to the current directives were agreed upon in 2014, but member states have until April 2016 to transpose the new rules into their national law. Under the new rules public procurement procedures will be simpler (including requiring less documentation); there will be improved access for small and medium sized businesses; new measures to reduce conflicts of interest; and a defined role for environmental and social factors in the decision process.

The European Commission has stated its belief that there is no need for an across-the-board harmonisation of member states' tax systems.¹⁴ Provided that they respect EU rules, countries are free to choose the tax systems that they consider most appropriate and according to their preferences. However, the Commission continues to focus on the elimination of tax obstacles to all forms of cross-border economic activity. Tax barriers have been reduced by partially aligning national VAT rates, which must be agreed upon by member states. In July 2005, an agreement came into force between the EU member states and some other countries on taxing investment income.

¹¹ European Commission (2015). *Initial Reflections on the Obstacles to the Development of Deep and Integrated EU Capital Markets*. Brussels: European Commission. <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015SC0013&from=EN>

¹² European Commission (http://ec.europa.eu/finance/capital-markets-union/index_en.htm).

¹³ Hafner, Robin, and Hoorens (2014).

¹⁴ European Commission (2001). *Tax Policy in the European Union - Priorities for the Years Ahead*. Official Journal of the European Communities. <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52001DC0260&from=EN>

The Euro

The euro is the common currency of the EU. The euro was launched in 1999 with banknotes and coins introduced in 2002. The euro has become a major international currency, used for corporate and government debt, bank loans, international trade, and as a reserve currency. It is the second most actively traded currency in foreign exchange markets. The euro is managed by the European Central Bank (ECB) whose main goal is to ensure price stability through EU monetary policy.

Figure 2.3 Eurozone Members



The euro is currently used as the official currency by 19 of the 28 EU countries. All EU Member States have to join the euro area once they have fulfilled the necessary conditions (which include five criteria for economic convergence along with legal requirements such as an independent central bank). Some recent EU entrants (e.g., the Czech Republic, Hungary, Romania and Croatia) have not yet met the conditions to join the euro, but their currencies still tend to fluctuate in narrow bands with the euro, with Bulgaria's currency officially pegged to the euro. The UK and Denmark have an 'opt-out' clause that allows them to remain outside the euro area but the Danish krone is still tied to the euro. Although Sweden is formally required to adopt the euro it has yet to take the necessary steps to do so.

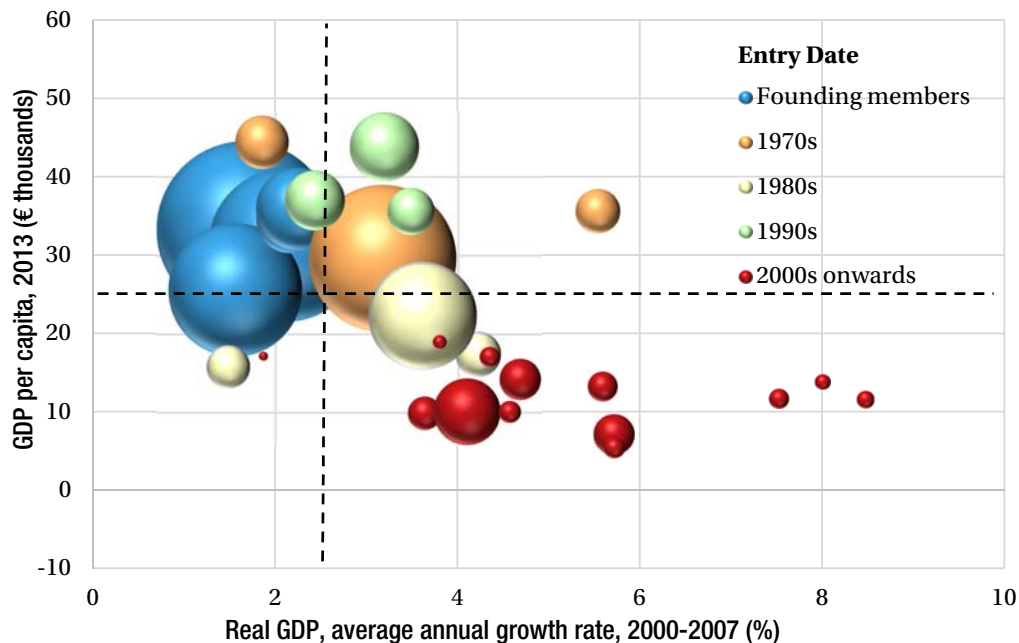
Source: European Commission (http://europa.eu/about-eu/countries/index_en.htm).

2.4 The Diversity of the EU

The expansion of the EU from the initial core group in northwestern Europe to include countries to the south and east, has increased the diversity within the EU in terms of common economic metrics such as the size, prosperity and growth prospects of its members. The founding countries and those who joined in the 1970s were large, relatively wealthy countries that had mature markets and only moderate growth. In the 1980s, the EU expanded to include the Mediterranean countries of Spain, Greece and Portugal that were, on average, smaller economies with lower per capita incomes. Since 2000, the EU has added 13 new members. The new members are characterized by small economies and low incomes, but many are experiencing rapid growth. However, the original members still account for the majority of EU output. In addition to diversity among EU nations, there is a large range of incomes and growth prospects across sub-national regions.

Figure 2.4 There is Great Diversity Among EU Countries

GDP per capita and recent GDP growth by size of GDP



Source: IMF, EuroStat

Note: Size of the circle indicates size of GDP, 2013

For firms seeking opportunities in the EU, there may be a trade-off between countries that are experiencing rapid growth and those that provide a more stable business environment. High income countries tend to have better infrastructure, are easier to do business in, are less likely to have issues with corruption and are generally viewed as more competitive. Businesses looking to enter the EU market should take into account business costs and risks as well as growth potential. Exporters must also consider the best market for their individual product. The lower income countries have been a focus for

some Atlantic firms that specialize in low cost options in their industry. For firms supplying technology, differences in incomes and regulation be important. For example, many northern European countries are moving from analog radio to digital audio broadcasting with some governments considering “shutting off” analog broadcasting. By contrast, digital radio has yet to gain ground in central and eastern Europe.

Table 2.3 EU Countries have Diverse Business Environments

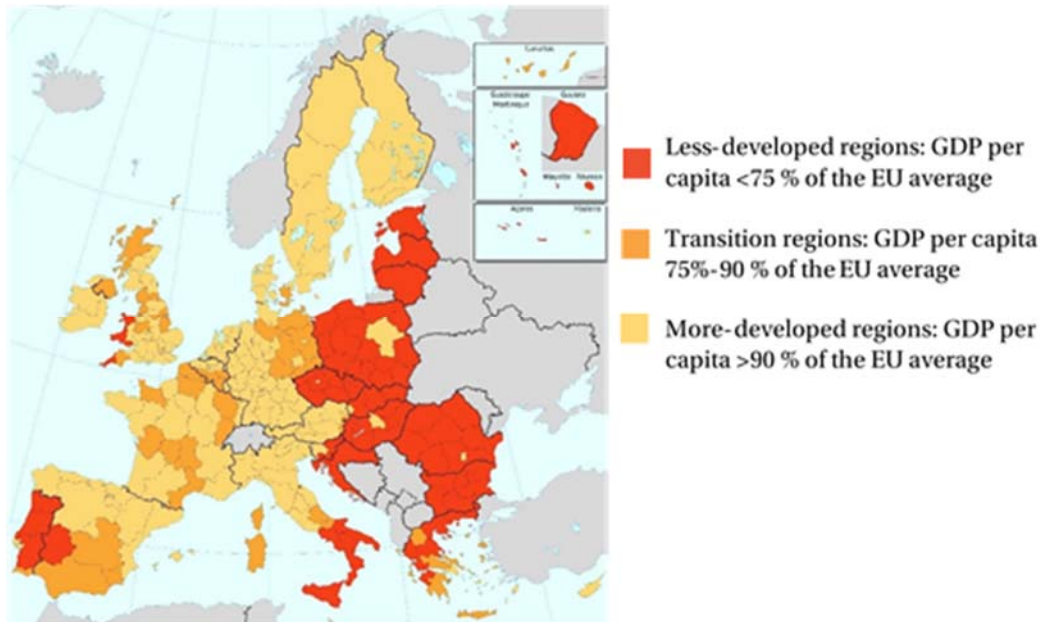
Global ranking, unless noted

	GDP per capita 2013 (€)	Ease of doing business ¹	Infrastructure index ²	Risk rating ³	Control of corruption ⁴	Competitiveness index ⁵
Luxembourg	83,400	59	15	Low	7	19
Denmark	44,400	4	17	Low	1	13
Sweden	43,800	11	9	Low	3	10
Austria	37,000	21	25	Low	22	21
Netherlands	35,900	27	3	Low	9	8
Finland	35,600	9	28	Low	5	4
Ireland	35,600	13	16	Low	20	25
Belgium	34,500	42	8	Low	18	18
Germany	33,300	14	1	Low	13	5
France	31,300	31	13	Low	26	23
UK	29,600	8	6	Low	15	9
Italy	25,600	56	19	Medium	90	49
Spain	22,300	33	20	Medium	53	35
Cyprus	19,000	64	59	High	34	58
Greece	17,400	61	42	High	94	81
Malta	17,200	94	47	Low	41	47
Slovenia	17,100	51	32	Medium	56	70
Portugal	15,800	25	31	Medium	45	36
Czech Rep.	14,200	44	36	Low	79	37
Estonia	13,900	17	35	Medium	40	29
Slovakia	13,300	37	37	Low	85	75
Lithuania	11,700	24	39	Medium	70	41
Latvia	11,600	23	51	Medium	76	42
Poland	10,100	32	46	Medium	62	43
Croatia	10,100	65	55	Medium	82	77
Hungary	9,900	54	40	Medium	75	60
Romania	7,100	48	64	Medium	100	59
Bulgaria	5,500	38	53	Medium	106	54

Source: World Bank, World Economic Forum, Export Development Canada (Fall 2014)

Notes: 1. This ranking aggregates countries scores on several metrics including ease of starting a business, getting credit, paying taxes, trading and enforcing contracts. 2. This index reflects the quality of trade and transport-related infrastructure (e.g. ports, roads and information technology). 3. Risk rating is based on the average default rate on credit commitments of 1 year or less on the part of commercial obligors in a country. 4. This ranking reflects perceptions of the extent to which public power is exercised for private gain, as well as “capture” of the state by elites and private interests. 5. The Competitiveness Index aggregates measures of the institutions, policies, and factors that determine the level of productivity of a country.

Figure 2.5 There Are Large Variations in Prosperity Across EU Regions



Source: European Commission. (http://europa.eu/publications/slide-presentations/index_en.htm)

The EU has 24 official languages (Table 2.4) along with wide variations in national and regional customer preferences. Many exporters, especially when exporting consumer products, have experienced a need to customize their product for different market segments within the EU, either by making changes to the branding or packaging of the product, or altering the product itself. This can include using different colour schemes or images that will be more attractive, or not offensive, given the regional culture.

Differences in taste are perhaps most obvious in the consumption of food. Diets are very diverse and often historically determined by the availability of certain products.¹⁵ Despite the modern ability to transport foods, diets are slow to adapt.

Exporters interested in dealing with the public sector need to recognize how government structures and policies vary across the EU. For example, firms selling health care products must understand the differences in healthcare reimbursement systems. In Italy, there are 21 local health authorities with a great deal of autonomy, whereas Belgium has one centralized system and in Germany many decisions are made at the hospital level. In most EU countries prices are negotiated between the hospital and supplying company, but Belgium and France have national pricing decisions for some technologies.

¹⁵ Head, Keith and Mayer, Thierry (2013). *What separates us? Sources of Resistance to Globalization*. CEPII Working Paper. http://www.cepii.fr/PDF_PUB/wp/2013/wp2013-26.pdf

Table 2.4 The EU Encompasses 24 Languages and 10 Currencies

Country	Capital	Currency	Official EU Languages	
Austria	Vienna	euro	German	Deutsch
Belgium	Brussels	euro	Dutch, French, German	Nederlands, français, Deutsch
Bulgaria	Sofia	Bulgarian lev	Bulgarian	Български
Croatia	Zagreb	Croatian Kuna	Croatian	hrvatski
Cyprus	Nicosia	euro	Greek ¹	Ελληνικά
Czech Republic	Prague	Czech koruna	Czech	Čeština
Denmark	Copenhagen	Danish krone	Danish	dansk
Estonia	Tallinn	euro	Estonian	eesti keel
Finland	Helsinki	euro	Finnish, Swedish	suomi, svenska
France	Paris	euro	French	français
Germany	Berlin	euro	German	Deutsch
Greece	Athens	euro	Greek	Ελληνικά
Hungary	Budapest	Hungarian Forint	Hungarian	magyar
Ireland	Dublin	euro	English, Irish	English, Gaeilge
Italy	Rome	euro	Italian	Italiano
Latvia	Riga	euro	Latvian	latviešu valoda
Lithuania	Vilnius	euro	Lithuanian	lietuvių kalba
Luxembourg	Luxembourg	euro	French, German ²	français, Deutsch
Malta	Valletta	euro	Maltese, English	Malti, English
Netherlands	Amsterdam	euro	Dutch	Nederlands
Poland	Warsaw	Polish Zloty	Polish	polski
Portugal	Lisbon	euro	Portuguese	português
Romania	Bucharest	Romanian Leu	Romanian	Română
Slovakia	Bratislava	euro	Slovak	slovenčina
Slovenia	Ljubljana	euro	Slovenian	slovenščina
Spain	Madrid	euro	Spanish	español
Sweden	Stockholm	Swedish krona	Swedish	svenska
UK	London	pound sterling	English	English

Notes: 1. Turkish is an official language of Cyprus but not an official EU language

2. Luxembourgish is an official language of Luxembourg, but not an official EU language

Source: European Commission, Eurostat and CIA World Factbook

Table 2.5 Wealth and Population are Concentrated in a Few Countries**GDP, population and land cover, 2013**

EU Country	Nominal GDP (€ billions)	Cumulative share (%)	EU Country	Population (millions)	Cumulative share (%)	Land cover (‘000 km ²)
Germany	2,737.6	20.9	Germany	80.524	15.9	357.1
France	2,059.9	36.7	France	65.579	28.9	544.0
UK	1,899.1	51.2	UK	63.905	41.5	248.5
Italy	1,560.0	63.2	Italy	59.685	53.3	301.3
Spain	1,023.0	71.0	Spain	46.728	62.6	498.5
Netherlands	602.7	75.6	Poland	38.533	70.2	312.7
Sweden	420.8	78.8	Romania	20.020	74.2	238.4
Poland	389.7	81.8	Netherlands	16.780	77.5	41.5
Belgium	382.7	84.7	Belgium	11.162	79.7	30.5
Austria	313.1	87.1	Greece	11.063	81.9	132.0
Denmark	249.0	89.0	Czech Republic	10.516	83.9	78.9
Finland	193.4	90.5	Portugal	10.487	86.0	89.1
Greece	182.1	91.9	Hungary	9.909	88.0	93.0
Portugal	165.7	93.2	Sweden	9.556	89.9	438.6
Ireland	164.0	94.4	Austria	8.452	91.5	83.9
Czech Republic	149.5	95.6	Bulgaria	7.285	93.0	110.9
Romania	142.2	96.7	Denmark	5.603	94.1	42.9
Hungary	97.9	97.4	Finland	5.427	95.2	338.4
Slovakia	72.1	98.0	Slovakia	5.411	96.2	49.0
Luxembourg	45.5	98.3	Ireland	4.591	97.1	69.8
Croatia	43.0	98.7	Croatia	4.262	98.0	-
Bulgaria	39.9	99.0	Lithuania	2.972	98.6	65.3
Slovenia	35.3	99.2	Slovenia	2.059	99.0	20.3
Lithuania	34.6	99.5	Latvia	2.024	99.4	64.6
Latvia	23.4	99.7	Estonia	1.320	99.6	45.2
Estonia	18.6	99.8	Cyprus	0.866	99.8	9.3
Cyprus	16.5	99.9	Luxembourg	0.537	99.9	2.6
Malta	7.3	100.0	Malta	0.421	100.0	0.3
EU	13,068.6		EU	506		

Source: Eurostat

Chapter 3

EU Market Size and Potential

Chapter Summary

- The EU is the largest single market, exceeding the US in both GDP and global imports. Even if viewed as a trading zone, the EU ranks alongside the North American Free Trade Agreement and the Asia-Pacific Trade Agreement trading zones.
- The EU experienced moderate growth of 2.4% per year in the decades leading up to the 2008 recession, but has struggled since then, with its recovery impeded by the sovereign debt crisis. Real GDP increased just 0.1% per year between 2009 and 2014, but annual growth of 1.9% is forecast to 2019.
- Diversity in economic performance in the EU is expected to continue with faster growth among many of the new entrants, along with the UK and Sweden, and slower growth in Germany, Italy and France.

This chapter discusses the size of the EU in a global context and examines its recent economic performance and growth potential.

3.1 The EU in a Global Context

As a single market, the EU is the largest in the world, accounting for about 20% of world GDP (in US\$) in 2013. It is larger than the US in terms of both GDP and global imports from the rest of the world, with imports of US\$2.4 trillion in 2013. It is about 10 times bigger than the Canadian economy.

Several of the largest countries within the EU, such as Germany, France, the UK, and Italy also rank among the top 10 largest markets and importers in the world.

Even if viewed simply as a trading zone, the EU ranks alongside other major trading zones, with imports from the rest of the world comparable in size to those of the North American Free Trade Agreement (NAFTA) and the Asia-Pacific Trade Agreement (APTA) countries.

Table 3.1 EU is One of the Most Important Global Markets**Imports and market size, 2013**

	Imports (US\$ billions)	Share of world imports (%)	GDP (US\$ billions)	Share of world GDP in US\$ (%)	GDP at PPP ¹ (billions international dollars)	Share of world GDP at PPP (%)
Select Leading Markets						
EU	2,433	13	17,512	23	17,578	17
US	2,328	12	16,768	22	16,768	16
China	1,950	10	9,469	13	16,149	16
Japan	833	4.5	4,899	6.6	4,668	4.6
Germany	1,194	6.4	3,636	4.9	3,513	3.4
France	669	3.6	2,807	3.8	2,535	2.5
UK	657	3.5	2,523	3.4	2,320	2.3
Brazil	240	1.3	2,246	3.0	3,013	3.0
Italy	476	2.5	2,072	2.8	2,035	2.0
India	466	2.5	1,877	2.5	6,776	6.6
Canada	462	2.5	1,827	2.4	1,518	1.5
Korea	516	2.8	1,304	1.7	1,697	1.7
Trade Zones						
NAFTA ²	2,084	11	19,856	27	20,345	20
EU	2,433	13	17,512	23	17,578	17
APTA ³	2,449	13	12,890	17	25,349	25
World	18,703	100	74,699	100	101,934	100

Notes: 1. Purchasing power parity 2. North American Free Trade Agreement 3. Asia-Pacific Trade Agreement

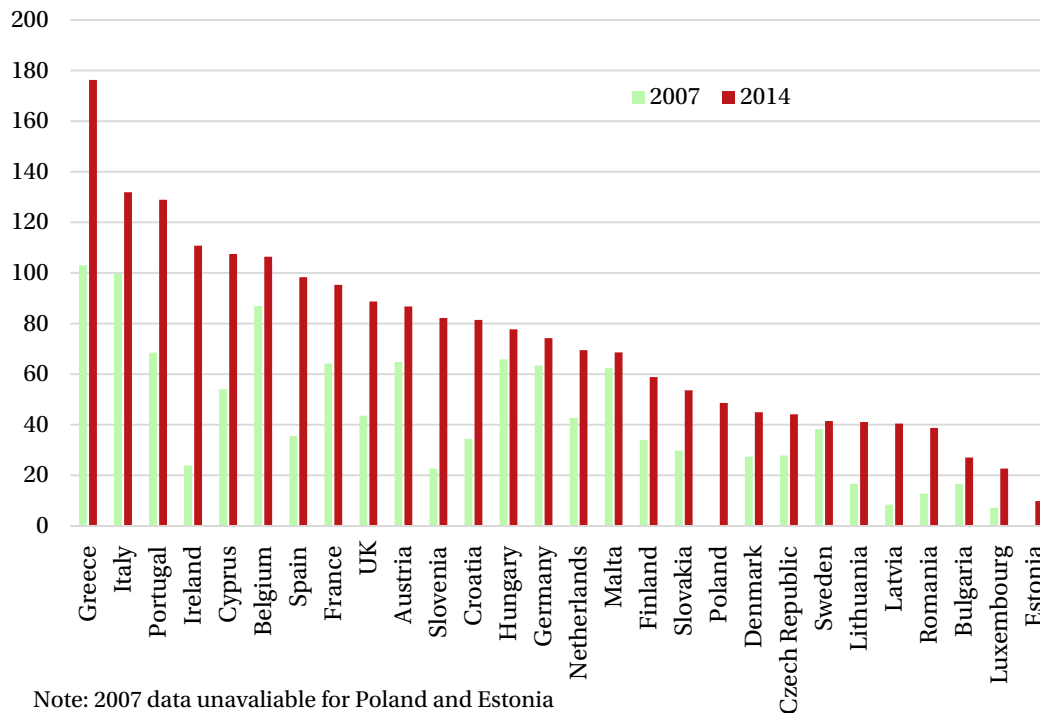
Source: IMF, International Trade Centre (Trade Map)

3.2 Recent Economic Performance

The EU market grew at a moderate pace in the two decades prior to the 2008 financial crisis and global recession, with average annual real GDP growth of 2.4%. It lagged behind Canada (2.5%), the US (2.8%) and emerging and developing markets (5.0%) but outpaced Japan (1.6%). The EU has struggled to recover from the recession, with real GDP growth averaging just 0.1% per year between 2009 and 2014, compared to 1.5% in Canada and 1.3% in the US. This slowdown occurred in every EU country. While the financial crisis was global, many countries, including Canada and the US, quickly began to recover, while the sovereign debt crisis in the EU prolonged the contraction. In North America, unemployment peaked in 2010 and began to fall. In the EU, unemployment continued to climb until 2013, peaking at 11%.

Figure 3.1 Debt Loads have Increased Across the EU

Government debt-to-GDP ratio (%)



Debt-to-GDP ratios have jumped across the EU since the recession, most notably in Greece, Italy, Portugal, Ireland and Spain. Some countries, including Ireland, Germany and Poland are already seeing debt-to-GDP ratios begin to recede. However, debt-to-GDP ratios are forecast to continue to increase into 2016 in the UK, Spain and Finland, with gross debt anticipated to increase more than 10% in each of these countries. Greece, Italy, Portugal, Cyprus, Ireland, Belgium and Spain will continue to have gross debt-to-GDP ratios above 100% out to 2016. The EU's aggregate gross debt-to-GDP ratio is forecast to remain stable at 88.3% in 2015, based on a neutral fiscal policy stance in 2014 and 2015, before declining marginally to 87.6% in 2016.

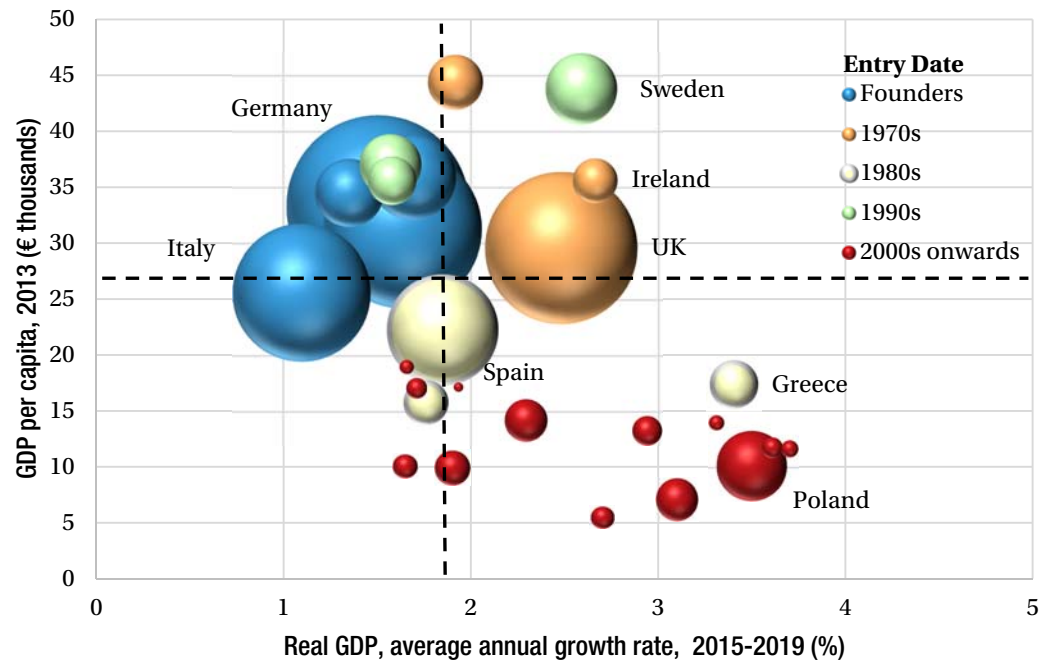
3.3 Projected Growth

EU output grew 1.4% in 2014 and is forecast to average 1.9% growth out to 2019, a full percentage point slower than the US and behind Canada's expected 2.2% growth. While the EU outlook is for relatively slow economic growth, lower energy prices combined with a depreciating euro exchange rate, as the ECB continues to expand its asset purchases, are expected to benefit EU economic growth in the medium- to long-term.

The New Member countries as well as the UK, Ireland, Sweden and Luxembourg led growth in 2014. The other large western economies of Germany, France and Italy, saw only moderate gains. This pattern is expected to continue out to 2019, with the fastest growth among the smaller, recent entrant countries: the five countries that are expected to have the most rapid gains (Latvia, Lithuania, Poland, Greece and Estonia) together account for just 5% of EU GDP, although the performance of Greece will depend upon how its debt issues are resolved.

Figure 3.2 Smaller EU Countries will Lead Growth to 2019

GDP per capita and forecast GDP growth by size of GDP



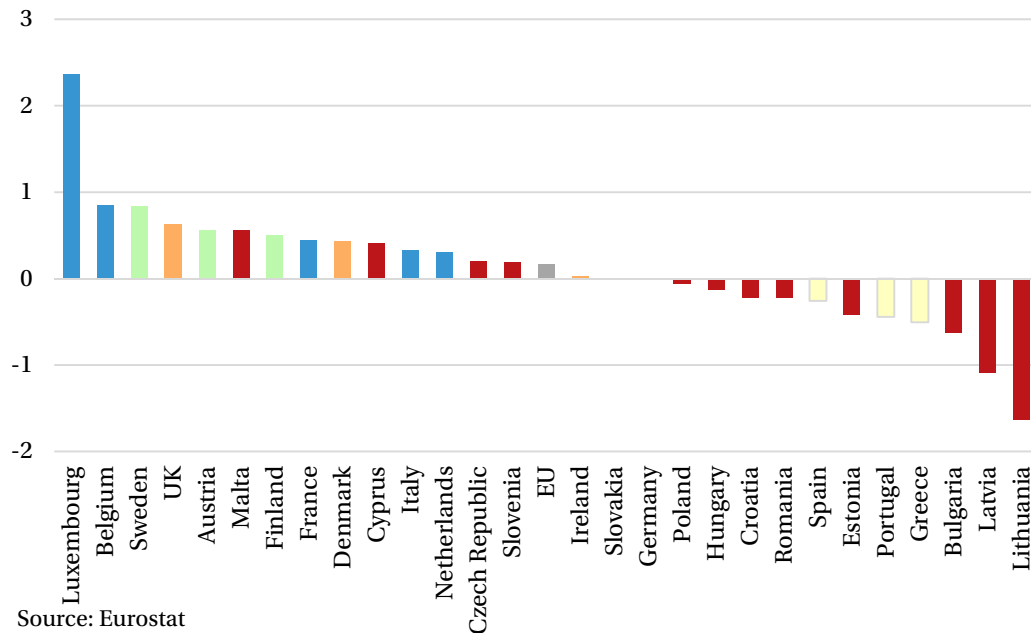
Source: IMF, Eurostat

Note: Bubble size indicates total GDP, 2013

The EU population grew on average 0.3% annually over the last decade, and is forecast to continue expanding at just 0.2% annually to 2020. The countries with the fastest population growth include Luxembourg, Belgium, Sweden, the UK and Austria, boosted by immigration. Luxembourg, for example, is forecast to have 2.4% annual population growth, a full 2% of which will be the result of immigration. Germany is expected to have a flat population, with declines predicted after 2019, leading the UK to surpass Germany and become the largest population center in the EU by 2050. The Baltic States, such as Latvia and Lithuania, are projected to lose population over the next 5 years, exacerbated by out-migration.

Figure 3.3 Wealthy Countries Drive Population Growth Across the EU

Forecast average annual population growth, 2015-2020 (%)



Eight of the 10 EU countries forecast to see the greatest improvements in per capita income are new member countries: only Greece and Spain joined the EU before 2000 (Table 3.2). In Latvia and Lithuania, rapid real GDP growth is forecast to translate into even greater gains in per capita incomes as their populations decline. The UK and Sweden are expected to have the strongest growth in per capita income among the high income, northwestern economies, though their relatively strong population growth is muting the effects of aggregate gains. Luxembourg, forecast to see annual real GDP growth of 2.1%, is expected to have the slowest growth in per capita incomes due to a quickly expanding population.

Population aging will be the dominant demographic trend with the proportion of the EU population aged 65 years and over forecast to increase from 18.6% in 2014 to 20.4% in 2020, and further to 28.1% by 2050.¹⁶ The total working age population will fall by over 5 million people over the next five years, with Germany and Poland each losing over a million working age individuals. The decline in the working-age population in a number of EU countries will likely place a drag on household disposable income and consumption growth, but will also create pressures to increase productivity or outsource production.

¹⁶ The share of the Canadian population 65 and over was 15.7% in 2014 and is forecast to climb to 18.2% in 2020.

Table 3.2 Smaller Markets to Lead Income Growth**Forecast average annual per capita real GDP growth, 2015-2019 (%)**

New members		EU-15	
Lithuania	4.2	Greece	3.6
Latvia	4.1	Spain	2.1
Romania	3.8	Sweden	1.9
Estonia	3.6	UK	1.7
Poland	3.6	Portugal	1.7
Bulgaria	3.4	Ireland	1.7
Slovakia	2.9	Denmark	1.6
Czech Republic	2.1	Germany	1.5
Hungary	2.0	Netherlands	1.5
Croatia	1.9	Finland	1.4
Slovenia	1.6	France	1.3
Malta	1.4	Austria	1.1
Cyprus	1.0	Italy	0.8
		Belgium	0.7
		Luxembourg	0.2

Source: IMF (October 2014)

Unemployment is forecast to decline across the EU as the tepid recovery continues. However, unemployment remains elevated in several regions, with rates above 10% expected to persist to 2019 in some of the most highly indebted countries including Cyprus, Greece, Portugal and Spain. These countries have experienced wide ranging public spending cuts that have played a role in suppressing employment growth.

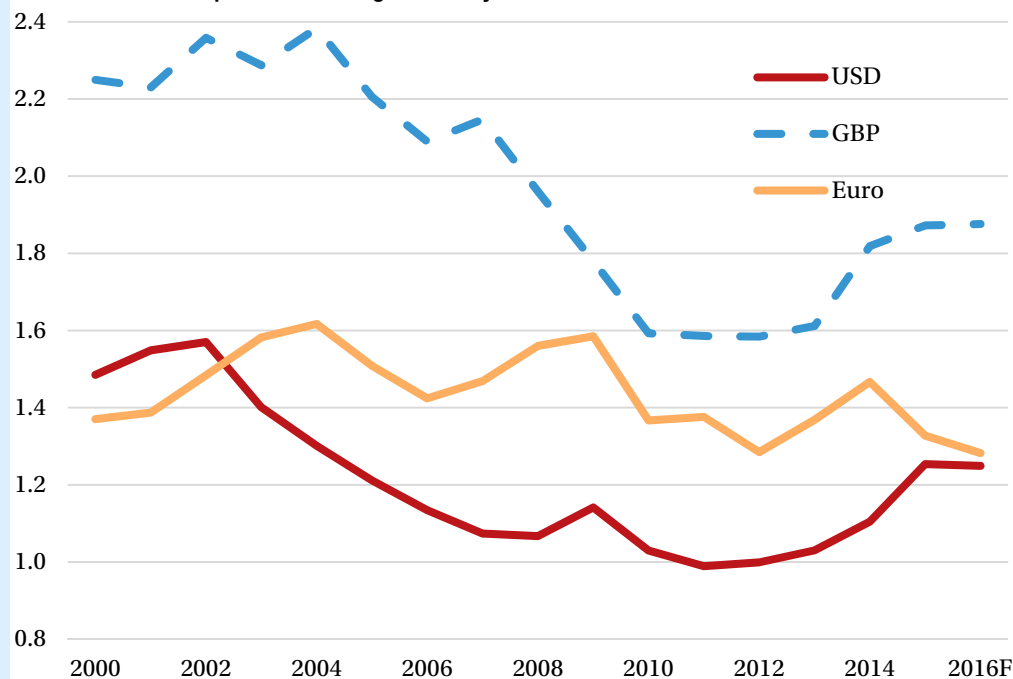
Canada's Exchange Rate Could Appreciate Against the Euro

Between 2002 and 2008, the Canadian dollar appreciated 47% against the US dollar (USD) and 20% against the UK pound sterling (GBP), while remaining relatively stable against the euro.

However, between 2008 and 2012, the euro and the pound sterling depreciated (18% and 19% respectively) relative to the Canadian dollar. This was significant enough for some Canadian firms to lose their competitive advantage in the EU. Between early 2012 and early 2014, the Canadian dollar depreciated against the euro and the US dollar, offsetting some of the competitive losses since 2008. Through most of 2014 and early 2015 the Canadian dollar was again appreciating against the euro.

Figure 3.4 Euro has Been Quite Stable Relative to the Canadian Dollar

Canadian dollar per unit of foreign currency



Note: A decline represents an appreciation of the Canadian dollar, implying higher export prices and lower import prices (or offsetting changes in profit margins).

Source: Bank of Canada, TD Bank (June 2015), Scotiabank (June 2015), APEC

In the first quarter of 2015 the Canadian dollar was valued at US\$0.79, £0.53 and €0.74. Recent forecasts suggest it will be relatively stable over the next 21 months against the US dollar and the pound sterling, landing at US\$0.83 and £0.54 at the end of 2016. Relative to the euro, the Canadian dollar is expected to appreciate slightly to €0.81 by the end of 2016.

Chapter 4

EU Industry Structure and Trade Flows

Chapter Summary

- **Canada and the EU have broadly similar industrial structures, but the EU is more focused on manufacturing, while Canada, and Atlantic Canada in particular, stand out for their large mining, oil and gas sector.**
- **EU members have different industry specializations, although the larger countries tend to dominate individual industries.**
- **The EU is a net energy importer and a net exporter of manufactured goods. However, 60% of total EU trade takes place among member states, making it important for businesses to understand the EU value chain in their industry.**

This chapter highlights the industry specialization and trade structure within the EU.

4.1 Industry Structure

As mature, industrialized countries, Canada, the EU and the US have broadly similar industry structures, with agriculture contributing less than 2%, business, finance and information services accounting for about a third, and public services about 20% of GDP (Table 4.1). Canada, and especially Atlantic Canada, stands out for its large mining, oil and gas industry: 8.4% in Canada and 15% in the Atlantic provinces, compared to 0.9% in the EU. By contrast, the EU has a larger base in manufacturing, at 15% of GDP compared to 11% in Canada and 7% in Atlantic Canada. While this implies big opportunities for Atlantic manufacturing firms to be part of EU value chains, it also means they face strong competition from local European firms.

Industrial structure varies across the EU (Table 4.2). Manufacturing's share of value added is over 20% in Germany, Ireland, Czech Republic, Hungary, Slovakia and Slovenia, but less than 10% in the UK, Greece, Cyprus and Luxembourg. In the UK, Belgium and France, professional services account for a large share (12-13%) of GDP. The UK accounts for the largest share of financial services in the EU, but Luxembourg, Cyprus and Ireland are also focused on finance, with financial services accounting for more than 10% of their GDP. Denmark, Sweden, Finland and France have large public sectors including public health and education. Spain has a relatively large share of GDP in the wholesale and retail trade sector.

Table 4.1 Canada, the US and the EU have Similar Industrial Structures**Gross value added by sector, share of total (%)**

Sector	EU (2012)	Canada (2011)	Atlantic Canada (2011)	US (2013)
Agriculture, forestry and fishing	1.7	1.8	2.2	1.4
Mining, oil and gas	0.9	8.4	14.6	2.6
Manufacturing	15.2	10.6	6.9	12.1
Utilities	3.0	2.7	2.4	1.6
Construction	5.9	7.2	6.5	3.7
Wholesale and retail trade	11.2	10.3	8.9	11.8
Transportation and storage	4.9	4.1	3.3	2.9
Accommodation and food service	2.9	2.0	2.0	2.7
Information and communication	4.7	3.2	2.9	4.6
Financial and insurance activities	5.5	6.4	4.7	7.2
Real estate activities	11.1	12.1	11.5	13.0
Professional, scientific and technical activities	6.0	5.6	3.1	6.9
Administrative and support service	4.3	2.4	2.3	3.0
Public administration and defence	6.5	7.3	11.2	13.2
Education	5.3	5.3	6.0	1.1
Human health and social work activities	7.6	7.1	8.7	7.1
Arts, entertainment and recreation	1.4	0.8	0.5	1.0
Other service activities	2.2	2.7	2.2	4.1

Source: Eurostat, Statistics Canada, Bureau of Economic Analysis

Table 4.2 Industry Structure Varies Across the EU**Share of gross value added, 2013 (%)**

EU-15	AUT	BEL	DNK	FIN	FRA	DEU	GRC	IRL	ITA	LUX	NLD	PRT	ESP	SWE	GBR
Agriculture, forestry and fishing	1.5	0.8	1.3	2.8	1.8	0.8	3.7	1.9	2.1	0.3	1.6	2.4	2.6	1.5	0.6
Mining, oil and gas; and utilities	3.4	3.1	5	3.8	2.6	3.7	4.8	3	2.8	1.4	6.9	4.9	4.1	4	4.5
Manufacturing	18.3	12.5	11.9	14.9	10.2	21.8	9.8	23.3	15.5	4.5	12.8	14	13.4	14.8	9.8
Construction	6.9	5.7	4.6	6.8	6	4.7	1.8	1.7	5.6	6.3	4.7	4.3	7.8	5.4	6.1
Wholesale and retail trade; transport; accommodation and food service	21.9	19.8	19.7	17	18.2	14.5	22.7	15.6	20.8	17.6	18.6	25.4	25.9	17.5	18.5
Information and communication	3.2	4.1	4.2	5.2	4.2	3.9	4.5	9	3.9	6.2	4.5	3.6	4	5.4	6.6
Financial and insurance activities	5	6.5	6.5	2.5	5	4.1	4.8	10.1	5.5	25.4	8.7	5.8	3.9	4.9	7.8
Real estate activities	10	8.9	10.8	13.1	13.3	12.2	16.7	6.9	14.3	9.6	6.1	10.2	8.4	9.2	10.9
Professional, scientific and technical activities; administrative and support service activities	9.1	13.2	8.9	8.4	12.4	11.4	4.6	8.7	8.8	10.9	10.9	6.5	7.8	9.9	12.5
Public administration, defence; education; human health and social work activities	17.6	23.3	23.7	22.2	22.9	18.4	21.6	17.8	16.8	15.8	22.5	20.1	18.3	24.3	19.3
Arts, entertainment and recreation; other service activities	2.9	2.1	3.5	3.3	3.4	4.6	4.9	2.1	3.8	2	2.6	2.9	3.8	3.1	3.5
New members	BGR	HRV	CYP	CZE	EST	HUN	LVA	LTU	MLT	POL	ROU	SVK	SVN	EU	
Agriculture, forestry and fishing	4.9	4.4	2.7	2.4	3.6	4.8	4.9	3.8	1.7	3.8	6.4	3	2.9	1.7	
Mining and quarrying and utilities	-	4.9	3.1	6.7	5.6	3.4	4.7	3.9	1.6	7	-	4.8	4.4	4.0	
Manufacturing	-	16.1	5.6	25.1	15.9	22.6	14	20.6	11.2	17.7	-	21.9	21.3	15.1	
Construction	5.6	5.3	4	6	7.6	4.1	6.4	6.5	4.1	6.5	9.2	7.6	5.7	5.7	
Wholesale and retail trade, transport, accommodation and food service	19.5	20.7	24.3	19.2	23.2	17.6	29.1	33.2	21	27.3	12.5	22.8	20.6	19.0	
Information and communication	5.4	4.8	4.5	4.7	4.9	5.1	4.4	3.1	6.4	3.5	3.9	4.5	4.5	4.5	
Financial and insurance activities	7.2	6.7	10.2	4.4	3.2	4.9	3.7	2.4	8.1	4.3	2.5	4.1	4.1	5.5	
Real estate activities	9.7	11.1	11.6	7.1	11	8.6	9.9	5.5	5.7	5.9	9	6.8	7.5	11.2	
Professional, scientific and technical activities; administrative and support service activities	5.6	7.5	7.6	6.8	8	8.4	7	5.6	10.8	7.2	7	7.7	9	10.4	
Public administration, defence, education, human health and social work activities	14.4	15.8	22.1	15.3	14.7	17.6	13.4	13.5	19.4	13.7	11.9	13.5	17.4	19.4	
Arts, entertainment and recreation; other service activities	2.4	2.7	4.2	2.4	2.4	2.9	2.6	1.8	9.9	3.1	3.4	3.4	2.7	3.6	

Source: Eurostat

4.2 Trade Flows

The EU does not have the extensive natural resource base that characterizes Canada's economy. As a result, a large share of EU imports are dedicated to energy products, especially refined petroleum, and other raw materials. By contrast, the EU is a net exporter of manufactured goods, with manufactured products accounting for 81% of its exports. Machinery and transportation equipment account for the majority of manufacturing exports, while the EU is also a large exporter of chemical products.

Figure 4.1 The EU is a Net Energy Importer and a Net Manufacturing Exporter

EU trade balance, 2014 (€ billions)

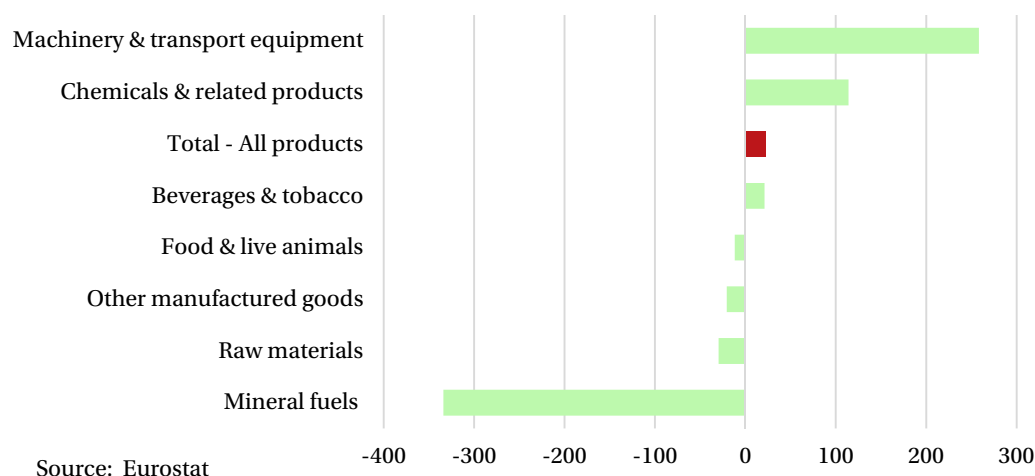


Table 4.3 The EU is Importing Fuel and Exporting Manufactured Goods

Trade value, 2014 (€ billions, unless noted)

	Imports	Exports	Trade balance	Import share (%)	Export share (%)
Food, drinks and tobacco	98	108	9	5.8	6.3
Food and live animals	91	79	-12	5.4	4.6
Beverages and tobacco	8	29	21	0.5	1.7
Raw materials	73	43	-30	4.3	2.5
Crude materials, inedible, except fuels	64	39	-25	3.8	2.3
Mineral fuels, lubricants and related materials	444	110	-334	26.4	6.4
Petroleum, petroleum products and related	351	101	-250	20.9	5.9
Animal and vegetable oils, fats and waxes	8	4	-4	0.5	0.3
Manufactured goods	1,022	1,377	352	60.8	80.7
Chemicals and related products, n.e.s.	165	279	114	9.8	16.4
Other manufactured goods	407	387	-21	24.2	22.7
Machinery and transport equipment	450	710	258	26.7	41.6
Commodities and transactions n.e.s.	45	68	25	2.7	4.0
Total - All products	1,681	1,705	22	100	100

Source: Eurostat, APEC

A substantial amount of trade takes place within the EU. EU countries imported goods valued at €4.6 trillion in 2014, but only €1.7 trillion, or 38% originated outside of the EU. The same share, 38% of exports from EU countries, leave the EU. As a result, over 60% of exports and imports of EU states are with other EU countries. For many Atlantic firms therefore, such as those selling food products into EU value chains, the final manufactured goods may be destined for the EU market; but for those supplying the EU machinery and equipment industry, the final market may include customers around the world. Atlantic firms need to understand the EU value chain for their particular industry.

Individual EU countries have specific roles to play. Germany is by far the largest importer and exporter within the EU, importing fuel and raw materials from other EU countries and supplying them with manufactured goods, while maintaining a positive trade balance both within the EU and with the rest of the world. Central and eastern European countries such as the Czech Republic, Hungary, Poland, Slovenia and Slovakia, focus on manufacturing, exporting manufactured goods to other EU countries, feeding into EU supply chains. Spain imports manufactured goods from its fellow EU members, while supplying them with food. Belgium and the Netherlands, with important ports, serve as gateways to the EU, with large net imports from the rest of the world and large net exports to other EU members. The UK and Greece are the only two countries that did more than half of their trade with countries outside of the EU in 2014, both are net importers from the EU and the rest of the world.

Table 4.4 Each EU Country has a Unique Balance of Intra- and Extra-EU Activity
Goods trade balance, 2014 (€ billions)

EU Country	Extra EU	Intra EU	EU Country	Extra EU	Intra EU
Netherlands	-119	180	Cyprus	-0.7	-2.6
Spain	-28.5	2.2	Malta	0.0	-2.0
Poland	-10.8	9.7	Lithuania	0.5	-2.8
Belgium	-9.3	25.0	Latvia	1.0	-3.5
Greece	-8.8	-11.3	Estonia	1.1	-2.6
UK	-6.0	-85.6	Romania	1.1	-6.5
Slovakia	-5.4	9.2	Finland	5.0	-6.5
Hungary	-3.1	8.1	Denmark	7.5	1.8
Czech Republic	-2.6	18.8	Austria	8.0	-10.2
Bulgaria	-2.0	-2.5	France	12.7	-83.7
Croatia	-1.7	-5.3	Sweden	14.6	-11.6
Portugal	-1.6	-7.9	Ireland	27.5	12.0
Slovenia	-1.5	3.1	Italy	28.1	14.5
Luxembourg	-1.5	-4.2	Germany	161	54.1

Source: European Commission, APEC

In Germany, with a large and diverse economy, 80% of the value of all goods and services consumed in Germany are produced in Germany. By contrast, in Malta, Slovakia and

Bulgaria, foreign value added accounts for 40-50% of final demand. Countries with a high share of foreign value added in their exports may be importing high quantities of raw materials and intermediate goods for their production processes. Many of the smaller central and eastern European countries, such as Slovakia, Hungary and Czech Republic display this trait.

Table 4.5 Smaller Countries More Dependent on Foreign Imports

Imports and foreign value-added share of final demand and gross exports, 2009

EU Country	Imports, 2014 (€ billions)	Final demand (%)	Gross exports (%)
Cyprus	5.1	-	82
Malta	4.9	47	37
Slovakia	61.8	39	44
Bulgaria	26.2	39	32
Hungary	79.0	37	40
Estonia	13.7	36	33
Slovenia	25.7	35	34
Ireland	53.1	35	42
Lithuania	26.5	35	36
Latvia	13.2	33	25
Belgium	340.6	32	35
Luxembourg	20.1	31	59
Czech Republic	114.7	30	39
Romania	58.5	28	24
Poland	165.5	27	28
Greece	47.8	26	23
Portugal	58.8	25	32
Denmark	74.7	25	32
Austria	136.9	25	32
Sweden	122.4	23	34
UK	514.6	23	17
Finland	57.7	22	34
Netherlands	442.4	22	36
Germany	915.1	20	27
Italy	355.1	19	20
Spain	269.7	19	21
France	510.1	18	25

Note: Data for Croatia unavailable.

Source: OECD-WTO Trade in Value Added, Eurostat, APEC

Chapter 5

EU Manufacturing

Chapter Summary

- **Germany remains the core of manufacturing in the EU, accounting for over 30% of EU manufacturing GDP. However, manufacturing has been growing rapidly in many of the small central and eastern European countries.**
- **EU countries specialize in specific types of manufacturing. Germany specializes in machinery and equipment, while France and Spain are focused on food and beverage processing.**
- **Pharmaceuticals, food and transportation equipment have shown strong growth over the past 15 years and reports suggest the EU continues to have a comparative advantage in these industries going forward.**

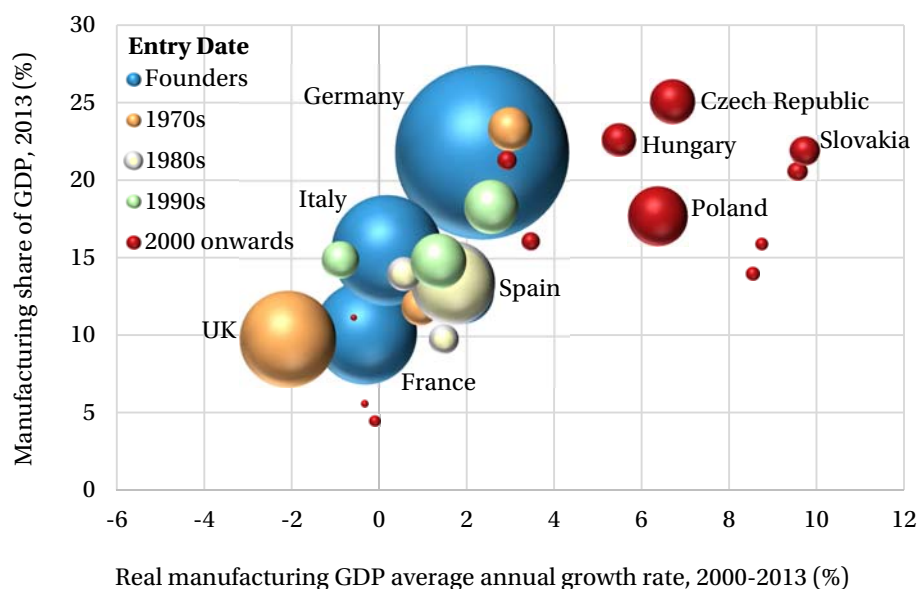
This chapter highlights the structure of manufacturing in the EU, noting the manufacturing industries that are growing the fastest.

5.1 Manufacturing Specialization

Germany is the core of manufacturing in the EU, accounting for over 30% of value-added. With Italy, France, the UK and Spain, these 5 states represent 70% of EU manufacturing. Though the Czech Republic, Ireland, Hungary, Slovakia and Slovenia have a very large percentage of their economy in manufacturing, these countries are relatively small players and each contribute less than 2% to the EU total. The largest manufacturing countries also accounted for the largest share of goods and services purchased by the EU manufacturing sector: Germany (27%), Italy (14%), France (13%), the UK (8%) and Spain (7%). These countries are important purchasers of inputs.

Figure 5.1 Germany is the Manufacturing Centre of the EU

Manufacturing intensity and recent growth, by size of GDP



Source: Eurostat

Note: Size of circle indicates size of manufacturing GDP

There is specialization within EU manufacturing (Tables 5.1-5.2). Portugal, Italy, Greece and several central and eastern European countries specialize in textiles. Belgium, Greece and the Netherlands specialise in chemicals (excluding pharmaceuticals). In Ireland, 40% of manufacturing GDP comes from pharmaceutical products. Sweden, Belgium, Denmark and Slovenia also specialize in pharmaceuticals.

Many of the northern EU countries produce forestry products: wood products account for the largest share of manufacturing in Latvia (22%) and Estonia (15%), while Sweden and Finland manufacture paper and paper products. Food and beverage products are important to some economies in the south. In Greece, Croatia and Cyprus, food and beverage production accounts for the largest share of manufacturing. Food and beverages are also a focus in Italy, France and Spain.

In Germany, Italy, Denmark, Finland and Hungary machinery accounts for over 15% of manufacturing output. Germany, Austria and Slovakia specialise in electronics and electrical equipment. Germany, the Czech Republic and Slovakia specialise in transport equipment. In general, large economies tend to be quite diverse. Germany, Italy, France, the UK and Spain rank among the least specialized.¹⁷

¹⁷ European Commission (2013b). *Competing in Global Value Chains*. Luxembourg: European Commission. http://ec.europa.eu/enterprise/policies/industrial-competitiveness/competitiveness-analysis/eu-industrial-structure/files/eu_ind_struct_report_2013_en.pdf

Table 5.1 Manufacturing Specialization in the EU**Value added as a share of total manufacturing (%), 2012**

EU-15	AUT	BEL	DNK	FIN	FRA	DEU	GRC	IRL	ITA	LUX	NLD	PRT	ESP	SWE	GBR
Food, beverages and tobacco	10.6	15.3	15	10.3	18.4	7.5	30.9	21.8	11.1	10.6	18	16.4	20.4	7.3	17.7
Textiles, wearing apparel and leather products	2	2.8	-	1.3	3	1.4	5.2	0.3	9.3	-	1.7	14.5	3.9	0.8	2.3
Wood, paper, and printing	9.6	6.5	4.6	18.6	5.5	4.8	5.6	1.9	6.1	-	6.4	11.4	7.6	11.6	7.7
Petroleum and chemical products	5	18.2	-	-	8	7.9	14.9	-	5.6	2.4	14.1	5.4	10	-	7.1
Basic pharmaceutical products and preparations	2.8	10.4	15.9	3.9	4.9	3.3	3.6	40.4	3.9	-	5.6	2.4	4.1	8.9	4.7
Rubber and plastic products and other non-metallic mineral products	8.8	9.0	8.7	8.8	9.3	7.7	10.4	2	9.5	-	6.6	13.2	10.4	6.1	8
Basic metals and fabricated metal products	18	13.1	9.1	14.2	12	13.6	14.2	1.2	16.0	-	13.2	12.6	14.3	14.8	12.1
Computer, electronic and optical products	4.3	2.5	6	1.6	5.5	4.8	1.3	7.9	3.4	-	5.5	1.9	1.6	7.9	5.4
Electrical equipment	9	3.1	3.1	5.8	4	7.7	2.8	0.6	5.0	1.8	2.9	3.7	3.6	3.9	3.4
Machinery and equipment	13.7	7.2	17.2	16.3	6.6	16.3	3.6	2.5	15.2	13.9	12.5	4.4	6	13.5	8.8
Transport equipment	7.7	7.2	1.6	3.5	13	18.0	1.6	-	6.9	-	4.9	6.9	11.6	12.1	13.9
Other manufacturing and repair	8.6	4.9	10.9	6.6	9.8	7.1	5.8	-	8.2	3.0	8.6	7.2	6.6	6.3	9.0
New members	BGR	HRV	CYP	CZE	EST	HUN	LVA	LTU	MLT	POL	ROU	SVN	SVK	EU	
Food, beverages and tobacco	20.2	27.4	37.9	8.6	13.1	9.9	17.6	21.6	0	17.9	14.3	7.3	7.9	13.2	
Textiles, wearing apparel and leather products	12.8	6.9	1.7	2.5	6.5	2.3	5.1	8.8	-	3	11.3	3.8	3.6	3.2	
Wood, paper, and printing	5.9	9.2	11.1	5.7	19.7	4	26.6	11.5	-	8.1	7.3	7.4	6.3	6.4	
Petroleum and chemical products	6.9	3	2.7	4.3	8.9	10.3	1.9	6.9	-	8.9	4.2	5.5	-	8.1	
Basic pharmaceutical products and preparations	3	5.5	6.8	1.3	0.4	7.3	-	0.8	-	1.8	1.9	11.3	1.4	5.2	
Rubber and plastic products and other non-metallic mineral products	10.2	9.7	13.8	12.7	8.8	9.5	8.4	9.8	-	13.6	11.7	10.7	13.1	8.7	
Basic metals and fabricated metal products	15.4	12.9	13.7	14.9	11.4	8.5	12.7	6.4	3.7	14.1	11	17.6	18.1	13.5	
Computer, electronic and optical products	2.5	1.7	-	4.1	6.2	9.3	2.9	2.5	-	2.4	3.2	2.8	7.1	4.6	
Electrical equipment	4.9	4.9	-	7.8	5.9	4.3	3	2.2	-	4.7	3.7	10.9	5.1	5.3	
Machinery and equipment	7	4.8	2.9	10.2	4.1	15.1	3.1	3.6	-	5.3	6.6	7.3	8.9	11.8	
Transport equipment	3.7	4.1	0.4	19.2	4.6	14.7	-	1.5	-	11.3	17.4	7.9	20.7	12.4	
Other manufacturing and repair	7.5	9.8	7.2	3.5	10.5	4.9	9.1	16.7	-	9.2	6.0	7.5	6.4	8.0	

Source: Eurostat

Table 5.2 Size of Manufacturing Industries by EU Country**Value added at factor cost (€ billions), 2012**

EU-15	AUT	BEL	DNK	FIN	FRA	DEU	GRC	IRL	ITA	LUX	NLD	PRT	ESP	SWE	GBR
Food, beverages and tobacco	5.1	7.2	4.3	2.4	35.5	36.1	3.7	7.1	22.2	0.3	10.8	2.6	19.6	3.9	31.8
Textiles, wearing apparel and leather products	1.0	1.3	-	0.3	5.7	6.7	0.6	0.1	18.6	-	1.0	2.3	3.8	0.4	4.1
Wood, paper, and printing	4.6	3.0	1.3	4.4	10.6	23.1	0.7	0.6	12.1	-	3.8	1.8	7.2	6.2	13.8
Petroleum and chemical products	2.4	8.6	-	-	15.6	38.1	1.8	-	11.1	0.1	8.4	0.9	9.5	-	12.6
Basic pharmaceutical products and preparations	1.4	4.9	4.6	0.9	9.4	16.0	0.4	13.2	7.7	:	3.3	0.4	3.9	4.8	8.5
Rubber and plastic products and other non-metallic mineral products	4.2	4.2	2.5	2.1	18.1	37.2	1.2	0.7	18.8	-	4.0	2.1	9.9	3.2	14.4
Basic metals and fabricated metal products	8.7	6.2	2.6	3.4	23.1	65.3	1.7	0.4	31.8	-	7.9	2.0	13.6	7.9	21.7
Computer, electronic and optical products	2.1	1.2	1.7	0.4	10.7	22.9	0.2	2.6	6.8	:	3.3	0.3	1.5	4.2	9.7
Electrical equipment	4.3	1.4	0.9	1.4	7.8	36.9	0.3	0.2	9.9	0.0	1.7	0.6	3.4	2.1	6.1
Machinery and equipment	6.6	3.4	5.0	3.9	12.8	78.6	0.4	0.8	30.2	0.3	7.5	0.7	5.7	7.2	15.8
Transport equipment	3.7	3.3	0.4	0.8	25.2	86.9	0.2	-	13.7	-	2.9	1.1	11.1	6.4	25.0
Other manufacturing and repair	4.1	2.4	3.1	1.6	18.9	34.1	0.7	3.7	16.3	0.1	5.1	1.1	6.2	3.3	16.2
Manufacturing	48.3	47.1	28.8	23.8	193.4	481.8	11.9	32.7	199.3	2.4	59.9	16.0	95.7	53.2	179.8
New members	BGR	HRV	CYP	CZE	EST	HUN	LVA	LTU	MLT	POL	ROU	SVK	SVN	EU	
Food, beverages and tobacco	0.9	1.3	0.4	2.7	0.3	1.8	0.3	0.6	-	9.3	1.9	0.8	0.4	214.0	
Textiles, wearing apparel and leather products	0.6	0.3	0.0	0.8	0.2	0.4	0.1	0.3	-	1.5	1.5	0.4	0.2	52.5	
Wood, paper, and printing	0.3	0.4	0.1	1.8	0.5	0.7	0.5	0.3	-	4.2	1.0	0.6	0.5	104.4	
Petroleum and chemical products	0.3	0.1	-	1.4	0.2	1.8	0.0	-	-	4.7	-	-	0.3	131.2	
Basic pharmaceutical products and preparations	0.1	0.3	0.1	0.4	0.0	1.3	:	0.0	-	1.0	0.3	0.1	0.7	83.8	
Rubber and plastic products and other non-metallic mineral products	0.5	0.4	0.1	4.0	0.2	1.7	0.2	0.3	-	7.1	1.6	1.3	0.7	140.6	
Basic metals and fabricated metal products	0.7	0.6	0.1	4.7	0.3	1.5	0.2	0.2	0.0	7.4	1.5	1.8	1.1	219.2	
Computer, electronic and optical products	0.1	0.1	:	1.3	0.1	1.7	0.1	0.1	-	1.3	0.4	0.7	0.2	73.8	
Electrical equipment	0.2	0.2	:	2.5	0.1	0.8	0.1	0.1	-	2.4	0.5	0.5	0.7	85.2	
Machinery and equipment	0.3	0.2	0.0	3.2	0.1	2.7	0.1	0.1	-	2.8	0.9	0.9	0.5	191.0	
Transport equipment	0.2	0.2	0.0	6.0	0.1	2.7	-	0.0	-	5.9	2.3	2.0	0.5	201.4	
Other manufacturing and repair	0.3	0.4	0.1	1.1	0.2	0.9	-	0.5	-	4.8	0.8	0.6	0.5	129.4	
Manufacturing	4.7	4.6	1.0	31.5	2.3	18.0	1.9	2.9	-	52.4	13.4	9.9	6.2	1,620.0	

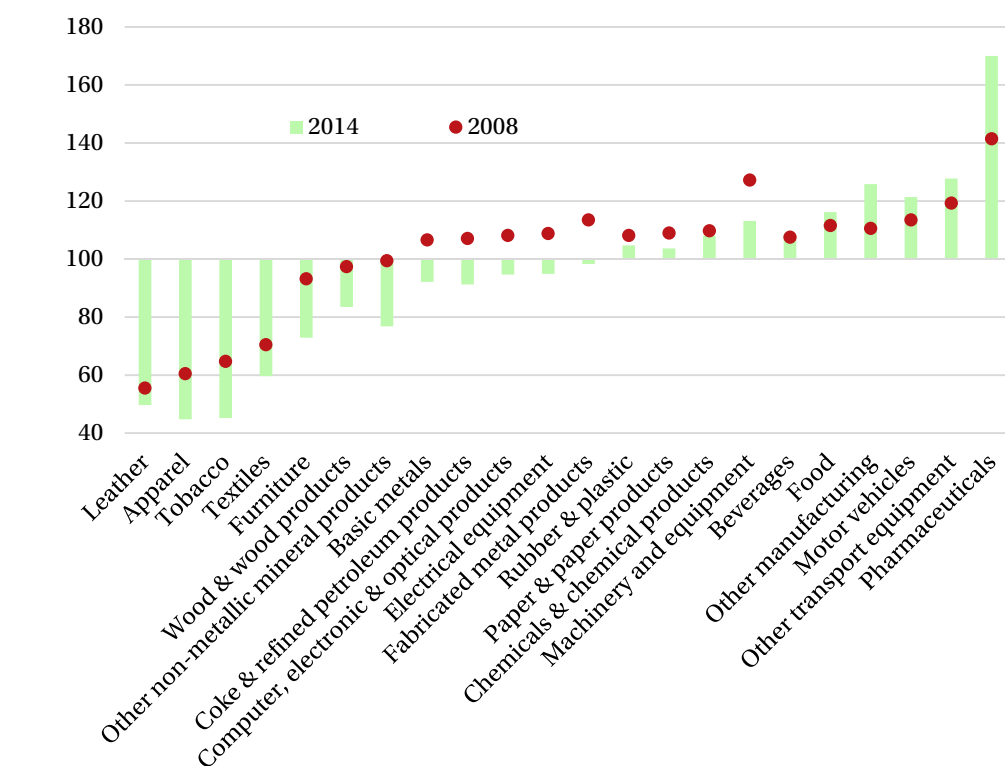
Source: Eurostat

5.2 Recent Performance and Prospects

Germany is the only EU country that increased the share of manufacturing in its economy during both the pre- and post-crisis period.¹⁸ Finland, Austria and the Netherlands have had a stable share of GDP in manufacturing since the mid-1990s. The most drastic declines in manufacturing employment and GDP pre-crisis were in Portugal and Spain, with reductions of over four percentage points. From 2008-12, the fall in manufacturing employment was about 1.5% in Belgium, France and the countries of Southern Europe (Greece, Italy, Portugal, Spain).

Figure 5.2: Pharmaceuticals, Food and Transport Equipment Lead Growth

Production by industry, EU (index, 2000=100)



Source: Eurostat

A breakdown by industry shows that only a small number of manufacturing industries (including pharmaceuticals, transport equipment and food) had strong growth in the years leading up to the recession and are now producing at or above pre-recession levels (Figure 5.2). Other sectors such as wood products, textiles and tobacco, were already seeing declines when the recession hit and have contracted further since then.

¹⁸ Veugelers, Reinhilde (ed.) (2013). *Manufacturing Europe's Future*. Brussels: Bruegel. [http://aei.pitt.edu/52429/1/Manufacturing_Europe%E2%80%99s_future_\(English\).pdf](http://aei.pitt.edu/52429/1/Manufacturing_Europe%E2%80%99s_future_(English).pdf)

EU Food Demand

France is the largest market for food products in the EU. In Germany, consumers spend only €1,700 per capita on food, 30% less than consumers in Luxembourg. In 2013, food spending per capita was 2,000 euros or more in Luxembourg, Finland, Sweden, Italy, Belgium, Denmark, France, Greece and Cyprus. Consumers in Portugal, Italy, France, Belgium and Finland all spent 11% or more of consumer expenditures on food in 2013.

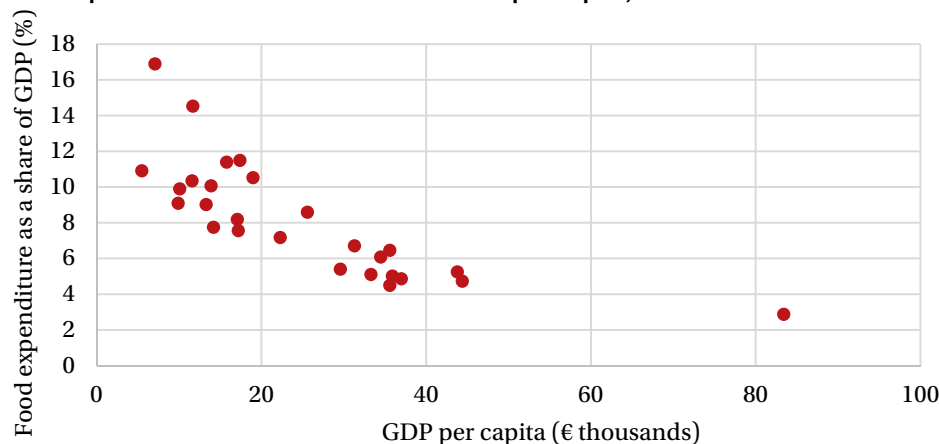
Table 5.3 Top Ten EU Markets for Food
Final consumption expenditure on food, 2013

	Total (€ billions)		Per capita (€)
France	140	Luxembourg	2,400
Germany	138	Finland	2,300
Italy	131	Sweden	2,300
UK	100	Italy	2,200
Spain	76	Belgium	2,100
Poland	39	Denmark	2,100
Netherlands	30	France	2,100
Romania	23	Greece	2,000
Belgium	23	Cyprus	2,000
Sweden	22	Netherlands	1,800

Note: Data for Romania is from 2012
Source: Eurostat

The role of food in the economy is influenced by economic and social trends. As incomes rise, individuals spend a lower share of their incomes on food. This trend is clearly visible in the EU (Figure 5.3). In recent years, a number of EU states have implemented, or have considered implementing, taxes on food and drinks with a high fat, sugar or salt content. This is part of a larger focus on healthy eating in the EU.

Figure 5.3 Share of Income Spent of Food Declines as Incomes Rise
Food expenditure as a share of GDP and GDP per capita, 2013



Source: Eurostat

In its 2012 Industrial Policy Communication Update the European Commission called for Europe to reverse the declining role of industry in Europe for the 21st century, and to raise the contribution of industry to GDP to 20% by 2020 (the aggregate proportion fell from 18.5% in 2000 to just over 15 % in 2013).¹⁹ Looking ahead, EU exporters continue to have a comparative advantage in a number of manufacturing industries, including those characterised by high technology intensity, such as pharmaceutical products, and by medium-high technology intensity, such as chemical products, machinery and equipment, motor vehicles and other transport equipment. The EU is also a leader in aerospace and engineering.

In the short term, the outlook for manufacturing in the EU is muted, with some signs of weakening, partially as a result of weak global demand. On the upside, lower energy prices and a depreciating euro exchange rate should reduce manufacturing costs and boost exports.²⁰ In terms of specific industries, food manufacturing is benefitting from low agricultural commodity prices; pharmaceuticals will be impacted by limited growth in health spending due to sovereign public debt levels; chemical products orders are flat due to competition from energy-rich countries; and the outlook for basic metals and fabricated metals is neutral to slightly positive, partially due to low metal commodity prices. Russian sanctions have reduced EU exports to Russia for agriculture and food processing and energy-related equipment and technology.

¹⁹ European Commission (2014c). *Helping Firms Grow*. Luxembourg: European Commission. http://ec.europa.eu/enterprise/policies/industrial-competitiveness/competitiveness-analysis/european-competitiveness-report/index_en.htm

²⁰ DG Enterprise and Industry (2015). *Short-Term Industrial Outlook*. European Commission. <http://ec.europa.eu/DocsRoom/documents/8787/attachments/1/translations/en/renditions/native>

Chapter 6

Getting Started in the EU

Chapter Summary

- **Atlantic Canadian firms can establish connections in the EU through existing business contacts, tradeshows and the Trade Commissioner Service or through new tools such as the Enterprise Canada Network or Horizon 2020.**
- **Atlantic Canada is closely linked to the EU through air cargo service from Halifax and Moncton airports and marine services from the Port of Halifax. Direct flights to the EU are available from Halifax and St. John's.**
- **It is important for business to fully understand EU import procedures and product specific regulations, such as CE marking, when selling to the EU.**
- **Establishing a local presence in the EU can also be an important step to help secure sales and to manage relationships with clients.**
- **CETA will eliminate 99% of existing tariffs on Canadian sales into the EU. In addition to tariff relief there are provisions to eliminate non-tariff barriers and facilitate investment and labour mobility.**

Atlantic firms are actively participating in global value chains and the EU has proven to be a stable source of demand for a number of Atlantic businesses. In most sectors that APEC has examined, Atlantic firms are doing business not with consumers, but with other businesses, by providing intermediate goods, as when frozen blueberries are sold to European food processors and bakeries; providing services, such as the maintenance, repair and overhaul of aircraft engines; or providing goods that will be used in the provision of services, as when a firm sells a diagnostic device to an EU hospital. These are just a few examples of the ways that Atlantic firms participate in EU value chains.

Participating in value chains provides important opportunities for Atlantic firms, including increased revenue through access to global markets; enhanced corporate reputation from working with partners and multinational enterprises; and productivity gains (occurring through various channels such as increased economies of scale; improved efficiency by focusing on core activities; and learning opportunities and knowledge transfer from partners).²¹ However, it also comes with its own sets of

²¹ APEC (2011). *Taking on the World: Atlantic Canada's Role in Global Value Chains*. Halifax: APEC. <https://www.apec-econ.ca/publications/view/?do-load=1&publication.id=194&site.page.id=51005>

challenges. Challenges identified by Atlantic firms include the need to increase capacity (including the need to be able to take on larger and more complex tasks); developing and maintaining relationships (including establishing trust with large multinational partners and dealing with bureaucracy); compliance with product and quality standards; and the need to invest in innovation and productivity improvements.

Compliance is a special consideration when participating in global value chains, as many suppliers have their own standards apart from and on top EU laws and regulations. Aerospace is a particular example of this. To be part of the supply chain for a large original equipment manufacturer such as Airbus, a firm must go through an extensive process to become an approved supplier.

The remainder of this chapter discusses some of the practical aspects of connecting to EU value chains including transportation linkages, exporting basics and establishing an on-the-ground presence. It also provides a brief summary of some of the key features Canada-EU Comprehensive Economic and Trade Agreement (CETA) that will be relevant for Atlantic firms.

6.1 Making Connections in the EU

The EU is a large but diverse market consisting of 28 member countries with 24 official languages and 9 national currencies in addition to the euro. It includes a mix of large, affluent countries as well as many smaller, lower-income countries that are experiencing rapid growth. Exporters need to consider the best entry market for their product or service as income levels, growth potential, technological standards, infrastructure, business risk, and consumer preferences vary across the EU. The analysis in earlier chapters is intended to help businesses in beginning this market assessment. For some exporters the best market will be determined by the location of key customers.

An important key to success for many Atlantic firms has been to find a local partner such as an agent, broker, or distributor located in their target markets. These intermediaries may provide market research, identify potential clients, and help navigate local regulatory regimes.

Atlantic firms have employed various strategies to find clients and partners in the EU, including trade shows, research partnerships and referrals from existing clients. The Canadian Federation of Independent Businesses (CFIB) recently surveyed small businesses on the way in which they found opportunities to do business in the EU: 40% did so using existing business contacts, 20% did market research or sought out their own contacts; 16% were contacted by a EU firm and 16% made their connections by

participating in trade shows. There are also unique opportunities currently available for Atlantic firms to establish a presence in the EU market:

Enterprise Europe Network (EEN)²²

In 2014, Canadian Manufacturers & Exporters (CME), in partnership with Export Development Canada (EDC), launched the Enterprise Canada Network, a website that allows Canadian companies to access the European Enterprise Network (EEN), including one of the world's largest business coordination databases. The database allows small and medium sized enterprises and researchers in Canada to search for a business or technology partner amongst more than 30,000 opportunity profiles posted through the EEN. For example if a European firm needs a supplier for a particular input or a technology solution, they can submit a request or search existing offers on the EEN database. This tool helps firms find buyers and opportunities suited to their specific interests and abilities.

Horizon 2020²³

Horizon 2020 is the EU's Common Strategic Programme for Research and Innovation. From 2014 to 2020, it will provide €80 billion for peer-reviewed research in all sectors and at all points in the value chain, from fundamental research, training and infrastructure, to experimental emerging technologies, advanced scientific developments, demonstration projects and valorization of results. Horizon 2020 is also expected to attract significant private investment. Two year 'work programmes' announce the specific areas that will be funded by Horizon 2020. Calls for proposals are published throughout the year. Each call gives more precise information on the questions must be addressed in submitted proposals.

Horizon 2020 is open to participation from around the world, meaning that European researchers can cooperate with their counterparts in non-EU countries on any topic of their choice. Within Horizon 2020, certain topics have been flagged as being particularly suitable for international cooperation. Consortia working on these topics are encouraged to include international partners. Canadian organizations can always take part in a Horizon 2020 collaborative project. The ERA-Can+ project has been established to help Canadians access Horizon 2020 funding. Canadian organizations can receive funding only in specific cases: when their participation is expressly requested in the call; in case of a joint call (funded by both the EU and Canada); or when their participation is deemed essential for the achievement of the project objectives. For example, in 2014 a joint call was issued between Canada and the EU in aerospace, with the Canadian Aerospace Research and Innovation Consortium providing funding.

²² Access the EEN and the Enterprise Canada Network at <https://www.enterprisecanadanetwork.ca/>

²³ Information for Canadian businesses can be found at: <http://www.era-can.net/>

The Horizon 2020 focus on 'Blue Growth' i.e., growth in the marine and maritime sectors, is an opportunity for Atlantic Canada. The program dedicated €145 million to marine and maritime research for 2014 to 2015 and the Commission's work program for 2016 to 2017 will invest even further, particularly in bringing marine research closer to market. Under the Blue Growth agenda, participation with Canadian research will be prioritized in several of the calls for proposal. These calls cover a range of areas including: food security, sustainable agriculture and forestry, marine and maritime and inland water research and the bio-economy.²⁴

Canadian Trade Commissioner Service

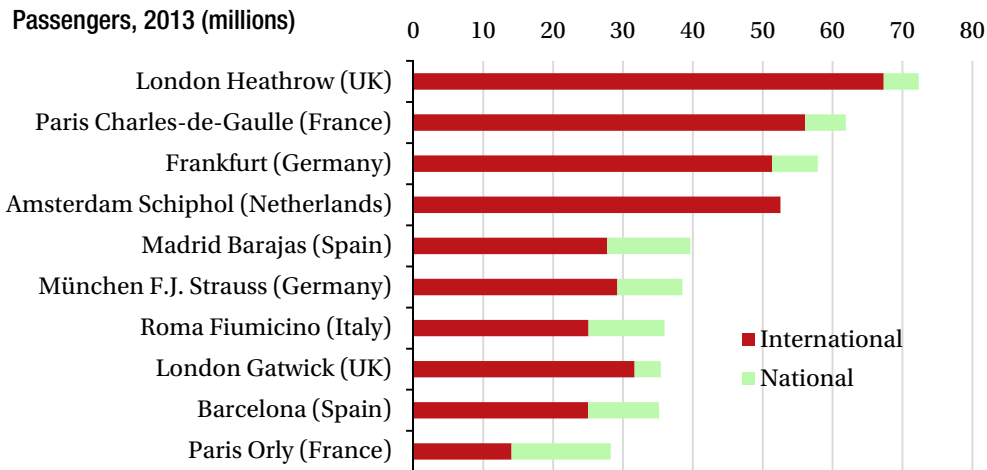
The Canadian Trade Commissioner Service has a network of trade commissioners in the EU that can provide practical advice and on-the-ground intelligence. Commissioners in the local market can help businesses connect with qualified and reputable agents, distributors and potential clients in the region.

6.2 Atlantic-EU Transportation Linkages

Atlantic Canada and the EU are connected by well-developed transportation infrastructure, both by air and water. Halifax Stanfield International Airport and St. John's International Airport offer direct passenger flights year round to London, the busiest passenger airport in the EU. Seasonal service is currently available to Gatwick, Frankfurt, Dublin, Glasgow and Charles-de-Gaulle (Paris). These connections allow firms and professionals to maintain close ties to their European clients and customers.

²⁴ In May 2013, Canada, the EU and the US signed the Galway Statement on Atlantic Ocean Cooperation establishing the Canada-EU-US Trans-Atlantic Marine Research Alliance. This initiative helps position Canadian researchers for enhanced collaboration under Horizon 2020 in the areas of marine and arctic research.

Figure 6.1 Heathrow is the Busiest Passenger Airport in the EU

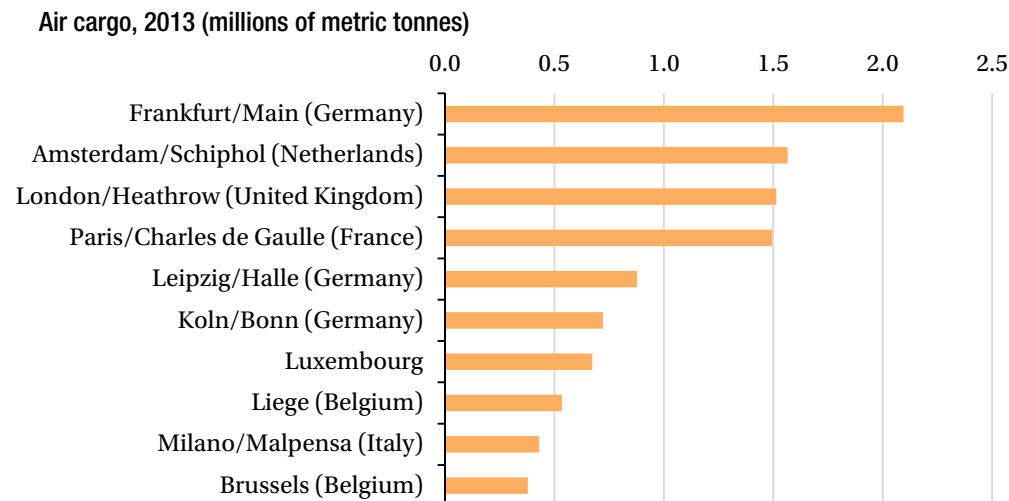


Source: European Commission

In 2013, EU airports handled a total of 13.4 million metric tonnes of air cargo. Approximately 82% of the EU's air cargo originated from or is destined for Germany (almost one-third), the UK, France, the Netherlands or Belgium.

All four Atlantic provinces have air cargo services that facilitate international trade relationships, through direct or indirect routes. Halifax International Airport has a significant role in the export of fresh seafood. Moncton airport has recently added new service to Brussels.

Figure 6.2 Frankfurt Handles the Most Air Cargo of Any EU Airport

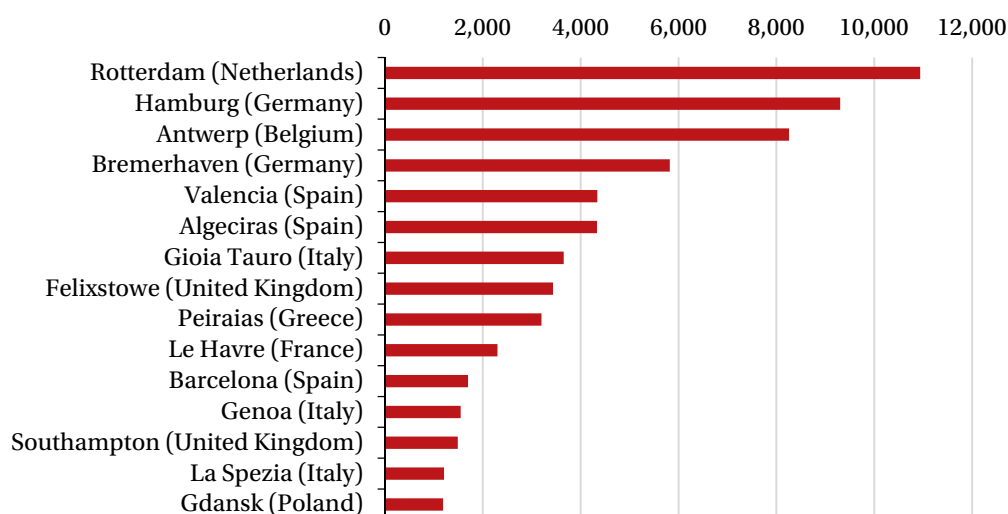


Source: European Commission

Rotterdam, Antwerp and Hamburg are the three largest EU ports, based on both gross cargo tonnage and the number of container TEUs (twenty-foot equivalent units). Rotterdam accounted for more than 9% of the total gross cargo tonnage. Germany and Spain accounted for largest tonnage of containerized cargo in 2013.

Figure 6.3 Rotterdam is the Busiest Port in the EU

Containerized goods handled, 2013 (thousands of twenty-foot equivalent units)



Source: Eurostat

The Port of Halifax has weekly service to nineteen ports in the EU including the top three EU ports located at Rotterdam, Antwerp and Hamburg and six more of the top fifteen major ports in the EU. Approximately 43% of the Port of Halifax's 2014 total containerized trade (imports and exports) originated or was destined from/to Europe. Based on the Port of Halifax Transit Time Calculator, the major ports of the EU can be reached in 10-12 days.

Table 6.1 EU Ports Served by Lines from the Port of Halifax

EU port

Rotterdam (Netherlands)	Genoa (Italy)	Cagliari (Italy)
Hamburg (Germany)	Southampton (UK)	Livorno/Leghorn (Italy)
Antwerp (Belgium)	Bilbao (Spain)	Valencia (Spain)
Bremerhaven (Germany)	Gothenburg (Sweden)	Salerno (Italy)
Peiraias (Greece)	Liverpool (UK)	Tarragona (Spain)
Barcelona (Spain)	Lisbon (Portugal)	

Source: Port of Halifax

6.3 Exporting Basics

To export into the EU there are import procedures to follow and regulations that must be met. This section highlights some of the important requirements that exporters may need to be aware of. A comprehensive guide to exporting to the EU has been prepared by the Department of Foreign Affairs, Trade and Development Canada which businesses are encouraged to consult for more detailed information.²⁵ CETA contains provisions for increased mutual recognition and harmonization of standards which may influence these requirements going forward.

Import Procedures²⁶

An exporting firm should become familiar with the EU customs code and import procedures. The EU customs code is the set of all the rules covering customs matters in trade with non-EU countries. Import procedures include registering as an economic operator, lodging an entry summary declaration and presenting a single administrative document.

To buy or sell products or services in the EU a company or individual must first register as an economic operator by obtaining an **Economic Operator Registration and Identification (EORI)** number. An EORI is a unique identifier, assigned by a customs authority in an EU country to all economic operators engaging in activities covered by EU customs legislation. Operators use this number in all communications with any EU customs authorities where an EU-based identifier is required, for example in customs declarations.

An **entry summary declaration (ENS)** must be lodged at the first customs office of entry to the EU by the carrier of the goods. It contains advance cargo information about consignments entering the EU. The deadline for lodging the ENS depends on the mode of transport carrying the goods.

When goods arrive at the customs office of entry to the EU they are either released for free circulation or assigned to another customs approved treatment, for which customs requirements are temporarily suspended for various reasons (transit procedure, customs warehousing, inward processing, temporary importation, or entry into a free zone or warehouse). To be released for free circulation all import requirements must be met: all applicable tariff duties, value-added tax (VAT) and excise duties have been paid; and all

²⁵ <http://www.enterprisecanadanetwork.ca/download.php?id=169>

²⁶ For more information see:

http://exporthelp.europa.eu/thdapp/display.htm?page=rt%2ftr_UnderstandingTheEUMarket.html&docType=main&languageId=en

applicable authorisations and certificates (e.g., for quotas, health requirements, etc.) have been presented.

All goods imported into the EU must be declared to the customs authorities of the respective EU country using the **Single Administrative Document (SAD)**, which is the common import declaration form for all EU countries. The declaration must be drawn up in one of the official languages of the EU that is acceptable to the customs authorities of the EU country where the formalities are carried out.

For some exporters it may be beneficial to apply for a **Binding Tariff Information (BTI)** ruling. A BTI provides certainty on the correct classification of goods intended for export or import. This helps to work out customs duties, export refunds, licensing requirements, quotas or other restrictions in advance. A BTI is issued on request to economic operators by the customs authorities of the member states and is valid throughout the EU. A BTI is generally valid for 6 years.²⁷

Sanitary and Phytosanitary Requirements²⁸

Goods imported into the EU must meet the EU sanitary and phytosanitary requirements to protect human and animal health. The main requirements can be classified in the sectors: food and feed safety, animal health, plant health and public health.

Imports of food must comply with general conditions (including traceability and hygiene), as well as specific rules on residues, pesticides, veterinary medicines, and contaminants in and on food. There are further rules specific to genetically modified food, bio proteins and novel foods; certain groups of food products; and products aimed at specific populations (e.g., foods for young children).

Imports of animals and animal products must meet the applicable health standards and international obligations. The exporting country must be on a list of countries authorised to export the category of products concerned to the EU and products must come from approved processing establishments. Products in this category must be accompanied by a health certificate and every consignment is subject to health checks at the border inspection post in the EU country of arrival.

Exports of plants and plants products (including fruit, vegetables and wood products) must comply with phytosanitary requirements laid down to prevent the introduction and

²⁷ For more information see:

http://ec.europa.eu/taxation_customs/customs/customs_duties/tariff_aspects/classification_goods/index_en.htm

²⁸ For more information see:

http://exporthelp.europa.eu/thdapp/display.htm?page=rt%2ft_SanitaryAndPhytosanitaryRequirements.html&docType=main&languageId=en

spread of organisms harmful to plants.²⁹ Specified plants and plant products must be accompanied by a plant health certificate, undergo customs and phytosanitary inspections at the point of entry into the EU, be imported by a registered importer and be announced before arrival to the customs office. Some plants and plant products, including certain species of wild flora are prohibited to be imported into the EU. There are additional requirements for seeds and plant propagating material, oil and fibre plants, cereals, vegetables, seed potatoes, beet, vines, fruit plants, fodder plants, ornamental plants, and forests.

The EU's public health rules are designed to protect the EU's population from major health threats. Public health measures include monitoring of trade in drug precursors (to prevent the illicit use of certain chemicals to manufacture drugs like ecstasy and amphetamines).

Environmental Requirements³⁰

EU environmental requirements can be classified in the sectors: chemicals, ozone-depleting substances, fluorinated greenhouse gases, endangered species and waste. In many cases the EU and Canada are bound by the same international agreements.³¹

EU specific legislation includes REACH, the Registration, evaluation, authorisation and restriction of chemicals. REACH, which came into force in 2007, establishes a new system for existing and new substances and sets requirements for manufacturers and importers of chemicals and products containing chemicals. The system covers all chemicals: those used in industrial processes and those found in consumer goods such as cleaning products, paints, clothing and electrical appliances. REACH can be relevant for exporters of chemical substances and it may also be relevant for other producers, because REACH sets restrictions on the use of dangerous substances that may be released from the certain articles (e.g. office and school supplies or electronic components). Certain product groups, such as food ingredients and pharmaceuticals, are exempted from REACH. The obligations under REACH for some products may depend on the eventual use.

²⁹ Phytosanitary requirements also apply to wood packaging material, regardless of the product shipped in the packaging. Processed plant products such as furniture do not fall under the scope of these requirements. Fruits and vegetables are covered except when preserved by deep freezing.

³⁰ For more information see:

<http://exporthelp.europa.eu/thdapp/display.htm?page=rt%2ft EnvironmentalRequirements.html&docType=main&languageId=en>

³¹ Canada and the EU are signatories to the Rotterdam Convention, the Stockholm Convention; the Protocol on Persistent Organic Pollutants (POPs); the United Nations Globally Harmonized System of Classification and Labelling of Chemicals; the Montreal Protocol on Ozone Depleting Substances; and the Convention on International Trade in Endangered Species of Wild Flora and Fauna.

The EU has additional requirements for plant protection products, biocides, detergents and fertilizers. Plant protection products and biocides are subject to a list of allowed substances and authorisation of the product. The requirements for the sale of biocidal products are not yet completely harmonised in all EU countries. Detergents and surfactants must meet the biodegradability and labelling specific requirements and restriction on the use of Nonyl Phenols and Nonyl Phenol Ethoxylates. Labelling and packaging requirements apply to all types of fertilizers and only fertilizers that meet certain requirements can be recognised as 'EC fertilisers' and traded freely in the EU market.

To export refrigerating products, air-conditioning and heat-pump equipment, high voltage switchgear, footwear, tyres, aerosols or fire protection systems to the EU, these products must meet the requirements related to the use of fluorinated greenhouse gases. EU policy is to reduce emissions of fluorinated greenhouse gases covered by the Kyoto Protocol (hydro fluorocarbons, perfluorocarbons and sulphur hexafluoride).

The EU has further requirements on the shipment of waste, the handling of hazardous materials associated with the sale and disposal of electrical and electronic materials and batteries. The EU also regulates waste from packaging.

Technical Requirements³²

Goods imported into the EU must meet technical requirements to protect consumers. For technical standardization the EU employs CE marking. The CE marking enables free movement of products within EU market. It states that the product has been assessed and meets EU safety, health and environmental protection requirements. Only those product categories subject to specific directives are required to be CE marked. Products that do not require CE marking include chemicals, pharmaceuticals, cosmetics and foodstuffs. CE marked products are bought by businesses (e.g., medical devices, lifts, machinery) and by consumers (e.g., toys, PCs, mobile phones, light bulbs). There are six steps that a manufacturer must take to obtain a CE marking (see box).

The EU also has packaging and labeling requirements. For example, the EU Ecolabel may be awarded to products that help improve the environment and provide consumer guidance on their environmental impact. Manufacturers, importers, service providers, traders and retailers may apply for the Ecolabel to the relevant authority in the EU country where the product has been placed on the market.

³² For more information see:

http://exporthelp.europa.eu/thdapp/display.htm?page=rt%2ft_TechnicalRequirements.html&docType=main&languageId=en

6 Steps to CE Marking

1. **Identify directives.** There are more than 20 directives setting out the product categories requiring CE marking. The manufacturer is responsible for identifying directives that apply to their product.
2. **Verify product specific requirements.** Directives outline the essential requirements with which the product must comply. The manufacturer must ensure that the product complies with the applicable requirements. Essential requirements outline the results to be attained, but not the technical solutions for doing so. Harmonised European standards express the essential requirements in detailed technical terms. While meeting the essential requirements is mandatory, the use of harmonised standards is voluntary.
3. **Check need for notified body.** For products with higher safety risks, such as gas boilers, safety cannot be checked by the manufacturer alone. Each directive specifies whether an authorised notified body must be involved in the conformity assessment procedure.
4. **Check conformity.** Manufacturers are responsible for testing the product and checking its conformity to the EU legislation. Usually the procedure includes a risk assessment. Application of the relevant harmonised European standards provides a “presumption of conformity” to the essential requirements which they aim to cover.
5. **Technical documentation.** The manufacturer must establish the technical documentation required by the directive(s) for the assessment of the product’s conformity to the relevant requirements and for the risk assessment. The technical documentation must be presented to the relevant national authorities, if requested.
6. **Affix CE marking.** The CE marking must be affixed to the product, its packaging or the accompanying document. It must be visible, legible and impossible to remove. If a notified body has been involved, its identification number must also be displayed. The manufacturer must also sign an EC Declaration of Conformity.

Table 6.2 Product Categories Subject to CE marking directives

Active implantable medical devices	Low voltage devices
Appliances burning gaseous fuels	Machinery
Cableway installations designed to carry persons	Measuring instruments
Construction products	Medical devices
Construction & gardening equipment ¹	Non-automatic weighing instruments
Electrical & electronic appliances, systems & installations ²	Personal protective equipment
Energy-related products	Pressure equipment
Equipment & protective systems for potentially explosive atmospheres	Pyrotechnics
Explosives for civil use	Radio & telecommunications terminal equipment
Hot water boilers	Recreational craft
In vitro diagnostic medical devices	Toys
Lifts	Simple pressure vessels

Notes: 1. Directive applies to noise emissions 2. Directives relate to electromagnetic compatibility and the restriction of hazardous substances in electrical and electronic equipment

Other Requirements

Certain goods imported into the EU, including agricultural and fishery products and organic products, must meet specific standards concerning quality. Under the common marketing system for agricultural products requirements vary by product, to take account of aspects like freshness, size, quality and presentation. The marketing standards for fishery products classify imports by quality, size or weight, packing, presentation and labelling. EU countries conduct documentary and physical checks to ensure that imported products comply with these marketing standards. Products complying with the rules for EU organic farming may bear the EU organic farming logo, certifying that the product has been manufactured according to organic standards. There is a strict certification process for producing and marketing organic products with labels and logos on the EU market.³³

There are also restriction on the import of certain goods into the EU. Imports of some agricultural products must be accompanied by an import licence. These licences allow the EU authorities to monitor trade flows and administer tariff quotas and safeguard measures. To obtain a licence, importers must apply to the competent authorities of the EU country of import and pay a deposit. Imports into the EU of certain iron and steel products can be subject to a double-checking (export licences against import licences) and/or quotas. Different schemes apply depending on the country of origin and the type of product.³⁴

6.4 Establishing a Local Presence

Some Atlantic firms have emphasized the importance of having an on-the-ground presence in the EU both to facilitate exports from Canada and to provide services in the EU. A local presence may be important in selling into an EU value chain and when selling directly to customers. It can help show the firm is invested in the EU and can improve access to large contracts, especially if there is a preference to purchase from local suppliers. It can also make it easier to respond to customers' requirements, facilitate the provision of after sales service, and help overcome logistical and regulatory barriers.

Firms can establish a local presence by locating employees in the EU, opening a sales office, forming a joint venture or establishing a foreign affiliate. In 2012, foreign affiliates of Canadian companies had sales of \$83 billion in Europe, more than 50% greater than

³³ For more information see http://exporthelp.europa.eu/thdapp/display.htm?page=rt%2ft_MarketingStandards.html&docType=main&languageId=en

³⁴ For more information see http://exporthelp.europa.eu/thdapp/display.htm?page=rt%2ft_ImportRestrictions.html&docType=main&languageId=en

the amount of exports Canada sent to the EU the same year.³⁵ By contrast, Canadian firms rely more on direct exports to the US than on setting up foreign affiliates in the US. The relative importance of exports and foreign affiliate sales also varies by sector: services accounted for just 16% of Canada's exports in 2012, while they made of 43% of foreign affiliate sales. Setting up a foreign affiliate may be the appropriate choice for a number of reasons including shipping costs and market access. McCain is an example of a local firm that has several EU sites where it produces its products for the European market.

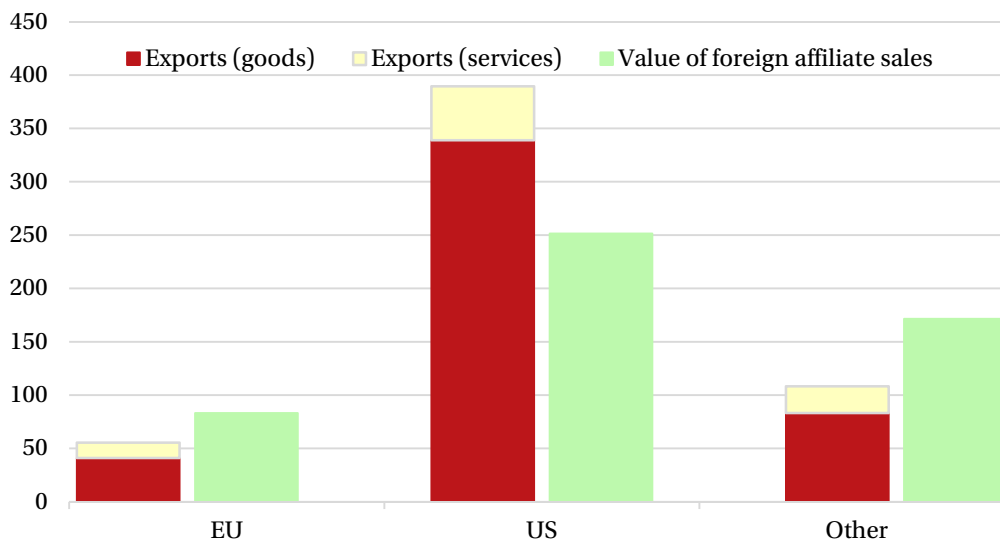
The Growing Role of Foreign Direct Investment (FDI)

The stock of Canadian direct investment in Europe grew by 126% between 2000 and 2014 to reach almost \$2 trillion. This was driven by big investments made by Canadian finance and insurance firms (\$44 billion). RBC has had a presence in the EU for decades, with over 1,300 employees in the region. It has made a big push in recent years, including acquiring BlueBay, a UK-based wealth management company, in 2010. Canadian oil and gas companies (\$12 billion) and mining companies (\$6 billion) have also made significant investments since 2000. Suncor has partial ownership of two large exploration and production projects in the UK North Sea (Golden Eagle and Buzzard). Suncor invested \$245 million in the Golden Eagle project in 2014. Acadian Seaplants acquired an Irish seaweed processing company in 2014.

European countries have also upped their direct investment in Canada with large increases in FDI from the Netherlands, Luxembourg, and the UK. After the US, these three countries account for the largest share of FDI in Canada. Shell Canada, owned by Royal Dutch Shell, is exploring offshore Nova Scotia, while Michelin operates three plants in the province.

Figure 6.4 Business with the EU Relies More on Foreign Affiliates than Trade

Export receipts and value of foreign affiliate sales, Canada, 2012 (\$ billions)



Source: Statistics Canada

³⁵ Data on these foreign affiliate sales in the EU are captured separately from direct exports from Canada.

6.5 An Overview of CETA

The CETA negotiations were completed in August 2014.³⁶ Canada and the EU jointly announced the end of the CETA negotiations at the EU-Canada Summit on September 26, 2014. The European Commission and Canada then began conducting the legal review of the original (English) version of the text. It will be translated into the other official languages of the EU and Canada prior to being submitted to the European Council and the European Parliament for approval.³⁷

The core of CETA is tariff relief. When CETA goes into effect, 98% of the tariff lines faced by Canadian exporters moving their products into the EU will be eliminated, including 94% of tariffs on agriculture products and 96% of tariffs on seafood. Some product markets that were deemed to be sensitive have been allowed a more gradual reduction over three, five or seven years. When the agreement is in full force 99% of all EU tariffs will be eliminated for Canadian trade partners, including 100% of non-agricultural tariffs, and 95% of tariffs on agricultural goods. Similarly, upon implementation, 95% of the tariffs on EU products imported into Canada will be eliminated, with that number growing to 99% by full implementation eight years out.

Rules of origin set the conditions under which a product qualifies as ‘European’ or ‘Canadian’ and hence for the tariff preferences of CETA. The objective is to avoid products of a third country indirectly benefitting from the agreement. Under CETA a product is generally defined to be Canadian if it has been wholly produced in Canada or has undergone ‘sufficient production’ in Canada. Sufficient production is defined differently for individual product groups.³⁸ CETA’s rules of origin are quite flexible relative to other trade agreements. CETA leaves open for the future the possibility of cumulation of origin with third countries with which both the EU and Canada have a free trade agreement. In that case, a material of the third country would be taken into consideration when determining whether a product is originating under CETA. Canada and the EU also committed to provide operators upon request written advance rulings relating to origin.

CETA also addresses non-tariff barriers. On the goods side, Canada and the EU have agreed to work together on integration measures for technical, compliance, marketing

³⁶ This section draws heavily on Durocher, Benoit P. (2015) *Canada-European Union Comprehensive Economic and Trade Agreement: An Overview of the Agreement, Trade and Advantages*. Desjardins Economic Studies. <https://www.desjardins.com/ressources/pdf/pv150422-e.pdf?resVer=1429702950000>. Further information on CETA is available at: <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/ceta-aecg/index.aspx?lang=eng>

³⁷ Certain provisions (such as those relating to investment) may require ratification by the member states.

³⁸ A full list of the requirements for ‘sufficient production’ for individual product groups is available as part of the consolidated CETA text: http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/ceta-aecg/text-texte/04_01.aspx?lang=eng

and labelling regulations. CETA specifies the steps each side can take to request that a given technical regulation be recognized as equivalent to its counterpart regulation adopted by the other party. It also creates a mechanism that will allow recognized bodies in Canada and the EU to accept each other's test results and product certifications – saving costs for Atlantic firms. This would allow products such as electrical and electronic equipment, toys, and radio communication systems, to be evaluated and approved in Canada and require no further evaluation before entering the EU. The agreement also ensures that prior to the adoption of any new regulations, the other party has the opportunity to review and comment, and thus identify any aspect of a new regulation that may unduly disrupt trade. Moreover, the agreement contains a protocol intended to increase cooperation between Canada and EU member nations on mutual recognition of certificates of compliance with good manufacturing practices in the pharmaceutical industry, for the purpose of ensuring the compliance of medicinal products and quality standards for drugs.

CETA also includes a chapter on the principles and standards governing intellectual property rights. This includes copyright, trademarks, geographical indications (used to identify an agricultural product, foodstuff, or regional product), patents, and protection of data on pharmaceutical products and plant varieties. For example, CETA will provide more assistance to pharmaceutical companies by protecting data with an eight-year period of market exclusivity, a potential two-year extension of patent protection (now 20 years), and a right of appeal under the regulation on patented drugs.

Another key part of CETA is the provision for labour mobility between Canada and the EU. Moving employees across borders can be an important part of service provision, as well as investment and installation and follow-up service for goods sold. The agreement calls for key personnel, contractual services suppliers, independent professionals and short-term business visitors to gain the ability to work temporarily in each other's markets.³⁹ Key personnel comprises business visitors for investment purposes, investors and intra-corporate transferees. Intra-corporate transferees must be senior personnel, specialists or graduate trainees, where each of these categories have eligibility criteria. In general, entry is not conditional on an economic needs test or subject to quotas. Short-term business visitors, those who are in the EU for the purpose of activities such as meeting and tradeshow, can enter without a work permit or other prior approval. However, the general provisions for key personnel and short-term business visitors are subject to member-state specific reservations and exceptions.⁴⁰ The eligible length of stay ranges from 90 days for business people visiting for investment purposes to 3 years for

³⁹ It does not apply to measures regarding citizenship, residence or employment on a permanent basis.

⁴⁰ A full list of member-state specific reservations and exceptions is available as part of the consolidate CETA text. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/ceta-aecg/text-texte/12.aspx?lang=eng>

specialists and executives transferred within a company. For intra-corporate transfers, spouses are also included.

The agreement also provides a framework for professional associations to negotiate mutual recognition agreements (MRAs) that would allow their professionals to work in both markets.⁴¹ In Canada the provinces and territories (not the federal government) have responsibility for regulating professions and trades and in many cases it has been delegated to professional associations. The benefit of this provision will therefore depend upon the extent to which professional associations take up this opportunity. The provision covers professions that are regulated in either Canada or the EU, including both professionals and tradespeople. Canada's architects and engineers have begun talks with their respective counterparts in the EU.

The agreement also provides free access to high-value public contracts in both Canada and the EU. The minimum value of contracts subject to CETA will be 13,000 special drawing rights (approximately CAN\$22,500) for the purchase of goods and services, and 5 million special drawing rights (approximately CAN\$8.7 million) for the construction of public infrastructure.⁴² For contracts valued at less than the minimum criteria, the various governments may continue to give preference to local businesses. Governments can also continue to impose technical considerations and environmental and social criteria. Some strategic contracts will also be excluded from the agreement. For the first time, Canadian provinces, territories and municipalities will open their procurement to a foreign supplier. Similarly, Canada will now have guaranteed access to public procurement contracts from all levels of government in the EU.

CETA will also contain measures related to foreign direct investment to ensure fair and equitable treatment for investors and investments in both zones. Among other things, the agreement includes an obligation not to treat foreign investors less favourably than national businesses, to guarantee foreign investors access to the national market, to prohibit nationality restrictions on members of boards of directors, to prohibit the imposition of conditions on investment (such as a percentage of national content) and to prevent the expropriation of foreign assets without compensation.

With respect to the Investment Canada Act, which allows the Canadian government to screen acquisitions of Canadian companies by non-Canadians for "net benefit" to Canada, the threshold for review has been increased from the current \$354 million to

⁴¹ A full, searchable list of which, if any, EU countries regulate a given profession, is available through the European Commission's Regulated Professions Database http://ec.europa.eu/internal_market/qualifications/regprof/

⁴² There are some exceptions. For example, EU firms cannot bid on defence contracts, research and development, Aboriginal business, education, social and health care services. In the EU, Canadian firms will be excluded from bidding on contracts for broadcasting, shipbuilding, postal services and ports and airports.

\$1.5 billion (applying to all EU investors other than those that are state-owned enterprises).

CETA provides that Canada and the EU will not grant any export subsidies to agricultural products fully liberalised and/or covered by a tariff rate quota provided the in-quota tariff has been fully eliminated. CETA contains no obligations related to the provision or the elimination of domestic agricultural or fisheries subsidies. However, a party may request consultations in case it feels that its interests are or may be negatively affected by support measures of the other party. In general for subsidies and government support, if Canada or the EU believes it is being affected by an action by its trade partner, it can notify the partner of its concerns and request that consultations be held on the matter.

On the services side, the national treatment clause and the most-favoured nation clause ensure that each party will give the other's service providers and services treatment that is no less favourable than that which the party accords to its own services and service providers or those of a third party state. In addition, each party pledges not to adopt or maintain measures intended to limit the number of service providers, the total value of the trade, or the total number of transactions (market access clause). CETA adopts the "negative list" approach to the liberalization of services, i.e. trade in all service sectors should benefit from non-discriminatory treatment and market access, except for those expressly excluded. There are more detailed clauses relating to specific sectors such as financial services and telecommunications.

Chapter 7

Summary and Conclusions

Chapter Summary

- **The EU is the largest market in the world. Gaining access to this market means over 500 million potential customers, many with relatively high incomes.**
- **While the EU is a single market, firms may still face various national regulations, policies and business practises.**
- **Within the EU individual countries range widely in terms of size, incomes, and growth prospects, as well as language, culture and taste.**
- **The EU has a much larger share of GDP in manufacturing than Atlantic Canada. This provides both opportunities to enter the value chain and strong competition from EU manufacturers.**
- **EU countries specialize in specific types of manufacturing. Growth is expected to be focused on high-value added sectors such as pharmaceuticals and transport equipment.**
- **Atlantic firms have been successful by establishing relationships in the EU, through trade shows and existing business contacts. Having a partner or a presence in the EU can help Atlantic businesses access new opportunities.**
- **It is important for Atlantic firms to fully understand the import procedures and regulations that apply to their product.**
- **CETA will eliminate 99% of existing tariffs on Canadian sales into the EU. In addition to tariff relief there are provisions to eliminate non-tariff barriers and facilitate investment and labour mobility.**

This chapter summarizes some of the key themes from the preceding analysis to help firms appreciate the nature of the EU as it pertains to their business.

When choosing to pursue the EU market Atlantic firms must consider both market potential and the cost of market entry and development. Expanding into a new market takes time and resources. It may involve, among other activities, conducting market research, establishing business contacts and obtaining new approvals. Several Atlantic firms have expressed the need to prioritize, choosing to focus their resources on the

markets which offer the greatest potential. Other firms will follow the most promising business leads, regardless of geography or borders.

The EU is a large market, the largest in the world by most measures. Gaining access to this market means over 500 million consumers with, on average, relatively high incomes. The wealth and stability of the EU as a whole make it an attractive place to do business. It follows that the EU is also a mature market, which is not seeing the rapid growth that characterizes the emerging economies in Asia. The EU was hit hard by the recession and the sovereign debt crisis and is forecast to average a modest 1.9% annual real GDP growth out to 2019. The EU may be an ideal market for producers selling premium products to high income consumers, those which require modern social or physical infrastructure to deliver, or those with niche products that can benefit from capturing even a small share of the EU market.

The EU market is complex. While the EU is a single market, in practise firms may face various national regulations, political systems and business practises. The movement towards harmonization at the EU level means that for firms that must invest in certifications and approvals, the EU has the potential to provide a high return to a single approval process. However, for exports that face both EU and national level regulations, this layered system can be an added cost. In general, businesses will need to monitor legal and policy developments at the EU level and in the individual countries they operate in because laws, regulations and strategies within the EU may originate at the EU level, the member state level, or may be shared between the two.

The EU is a diverse market in terms of the size, prosperity and growth prospects of its member countries. It includes a mix of large, affluent countries as well as many smaller, lower-income, but rapidly growing economies. High income countries tend to have better infrastructure, are easier to do business in, are less likely to have issues with corruption and are generally viewed as more competitive. Less wealthy countries, by contrast, may be more open to lower cost solutions. Technology standards may also vary by country. Member states differ not only on economic measures which characterize the size, stability and attractiveness of their markets, but also in language, culture and tastes. While some products may be in demand across the EU, some may be more successful in specific markets or may require adjustments to reflect customer requirements in a given region. Atlantic firms need to consider the best entry market for their product or service; for some exporters this will be determined by the location of their key customers.

The EU is a net energy importer, creating opportunities for Atlantic energy suppliers. It is also looking for green energy solutions to support its environmental goals.

The EU is a large producer and exporter of manufactured goods, with 15% of GDP coming from manufacturing compared to just 7% in the Atlantic provinces. Manufacturing is particularly strong in Germany, Ireland, and several central and eastern European countries such as the Czech Republic, Hungary, Slovakia and Slovenia. A large base in manufacturing provides big opportunities to be part of EU value chains, but also means exporters face strong competition from local firms, some of which may benefit from lower labour costs. This is highlighted by the fact that 60% of total EU trade takes place among member states. For many Atlantic firms therefore, such as those selling food products into EU value chains, the final manufactured goods may be destined for the EU market; but for others, such as those supplying the EU machinery and equipment industry, the final market may include customers around the world. Atlantic firms need to understand the EU value chain for their particular industry.

There are also manufacturing industry specializations that are important considerations for Atlantic exporters. Germany produces a large share of machinery and equipment as well as transportation equipment. Ireland, Denmark and Slovenia specialize in pharmaceuticals. Germany, Austria and Slovakia specialise in electronics and electrical equipment. In Greece, Croatia and Cyprus food and beverage production accounts for the largest share of manufacturing. Overall, future growth is expected to be focused on high-value added sectors where the EU has a comparative advantage such as pharmaceuticals and transport equipment.

An important key to success in the EU for many Atlantic firms has been to find a partner such as an agent, broker, or distributor located in their target markets. These intermediaries may provide market research, identify potential clients, and help navigate local regulatory regimes. Atlantic firms have employed various strategies to find clients and partners in the EU, including trade shows, research partnerships and referrals from existing clients. The Canadian Trade Commissioner Service also has a network of trade commissioners in the EU that can provide practical advice and on-the-ground intelligence. Commissioners in the local market can help businesses connect with qualified and reputable agents, distributors and potential clients in the region. In addition, Atlantic firms can use new tools such as the Enterprise Canada Network or Horizon 2020.

Atlantic Canada is closely linked to the EU through air cargo service from Halifax and Moncton airports and marine services from the Port of Halifax. Direct flights to the EU are available from Halifax and St. John's. These transportation linkages help facilitate both business travel and the movement of cargo.

Some Atlantic firms have emphasized the importance of having an on-the-ground presence in the EU both to facilitate exports from Canada and to provide services in the

EU. A local presence may be important in selling into an EU value chain and when selling directly to customers. It can help show the firm is invested in the EU and can improve access to large contracts, especially if there is a preference to purchase from local suppliers. It can also make it easier to respond to customers' requirements, facilitate the provision of after sales service, and help overcome logistical and regulatory barriers. Firms can establish a local presence by locating employees in the EU, opening a sales office, forming a joint venture or establishing a foreign affiliate.

To do business in the EU, Atlantic firms should ensure that they fully understand all of the import procedures and regulations that apply to their product. The EU has some distinct regulatory systems, such as REACH and the CE marking, as well as unique regulations on certain product categories (e.g., genetically modified food) and products aimed at specific populations (e.g., foods for young children).

CETA has the broadest scope of any trade agreement Canada has been a party to. Once it is fully implemented it will eliminate 99% of all tariffs on goods moving between Canada and the EU. CETA also addresses non-tariff barriers, with agreements on integration measures for technical, compliance, marketing and labelling regulations. Key provisions to increase labour mobility and investment will make it easier for Canadian firms to effectively market their products in the EU, whether that be by investing in local manufacturing facilities, or having local staff available for after-sale service.

Overall, the EU offers lots of market opportunities for firms that have products and services that can meet the requirements of EU consumers and businesses. However, Atlantic firms must ensure they do their own market research and many are likely to benefit from finding EU partners to help them succeed in the EU.

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