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Canada's Merchandise Trade Performance with the EU after the Entry into Force of CETA

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Highlights

- In the two years since the Canada-European Union (EU) Comprehensive Economic and Trade Agreement (CETA) has provisionally come into effect, Canadian merchandise exports to the EU including the United Kingdom (UK) averaged \$46.6 billion in 2018 and 2019, up 16.6 percent compared to the pre-CETA level of \$40.0 billion in 2016. Over the same period, merchandise imports from the EU rose 24.1 percent.
- The products that experienced the largest tariff reductions had stronger export growth. For instance, the products that were given between 5 and 10 percentage points reductions in EU tariffs saw exports growth of 40.6 percent, while exports of products that were given less than 5 percentage points reductions in EU tariffs grew only 2.4 percent.
- Utilization of CETA preferences showed moderate improvements in the second year of CETA. The utilization rate for Canadian exports to the EU reached 53.1 percent in 2019, up from 49.9 percent in 2018.
- On the import side, the utilization rate for Canadian imports from the EU improved noticeably from 37.1 percent in 2018 to 45.9 percent in 2019.
- Utilization of CETA preferences varied widely across countries. The utilization rate for Canadian exports to Denmark was 86.8 percent; but it was lower for some large EU economies: Germany (30.7 percent), the UK (49.9 percent) and Italy (47.6 percent).
- Even within sectors, utilization of CETA preferences varied across countries. For instance, in the motor vehicles and parts sector, the utilization rate for Canadian exports to the UK was 65.9 percent, but for exports to Germany it was only 5.2 percent.



Overview

On September 21, 2017, the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), Canada's most ambitious trade agreement since the North American Free Trade Agreement (NAFTA), provisionally entered into force. The 27 European Union members and the United Kingdom (referred as the EU hereafter), as a group, represent Canada's second largest merchandise trading partner after the United States. In 2019, the EU accounted for over 8 percent of Canada's merchandise exports and nearly 13 percent of Canada's merchandise imports.

This report aims to present Canada's merchandise trade performance in the two years since the implementation of CETA. It provides historical comparisons of trade performances before and after CETA and comparisons between the products that directly benefit from CETA concessions (affected products) and products that were already duty-free, and for a limited number of agricultural products that were exempted from concessions (non-affected products).

However, this presentation of post-CETA trade performance should not be considered a causal effect of CETA. Given the short time series of trade data available since CETA was implemented, the analysis does not use advanced econometric techniques to establish causality and to control for macroeconomic fluctuations and other industry- and product-specific factors that also influence post-CETA bilateral trade flows. A more sophisticated analysis would be undertaken to isolate CETA's effect when a longer time series becomes available.

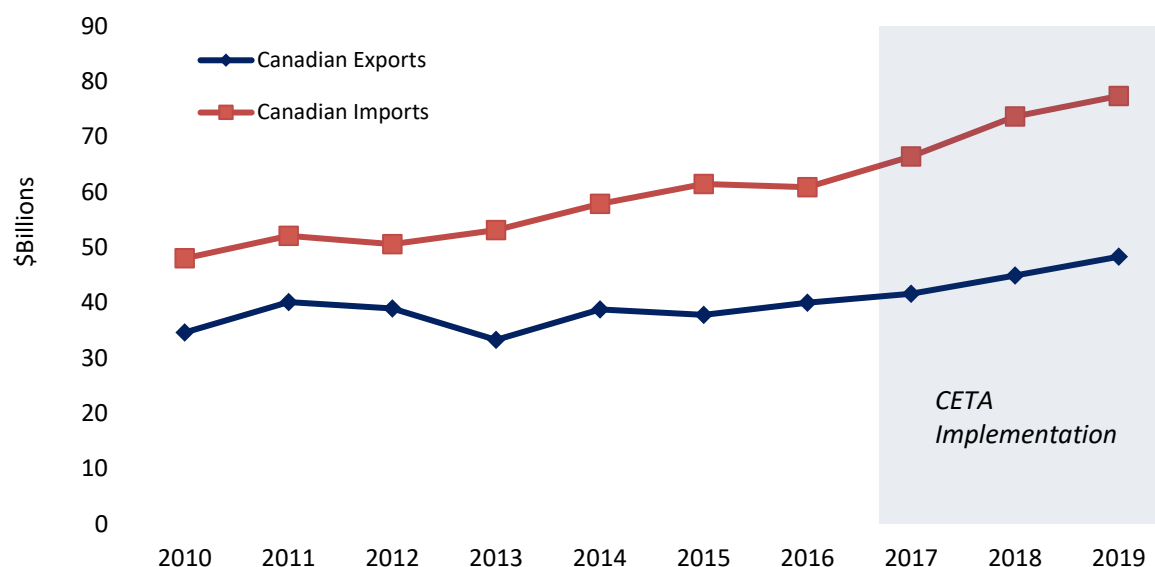
The analysis is presented in three parts: 1) Canada-EU trade performance based on Statistics Canada's trade data; 2) Canada-EU trade performance based on respective import statistics from Statistics Canada and Eurostat, which allows for splitting trade according to tariff concessions under CETA; and 3) the utilization of CETA preferences.



Part One: Canada-EU Trade Performance

The following data analysis is based on merchandise exports and imports statistics from Statistics Canada. CETA has been provisionally in effect for over two years. In 2018, the first full year of its implementation, Canadian merchandise trade with the EU totalled \$118.6 billion, representing an increase of 9.8 percent over 2017 and of 17.6 percent compared to 2016. Building on this momentum, Canadian merchandise trade with the EU continued growing in the second year after CETA's implementation, advancing by 6.0 percent over 2018 to reach \$125.7 billion in 2019.

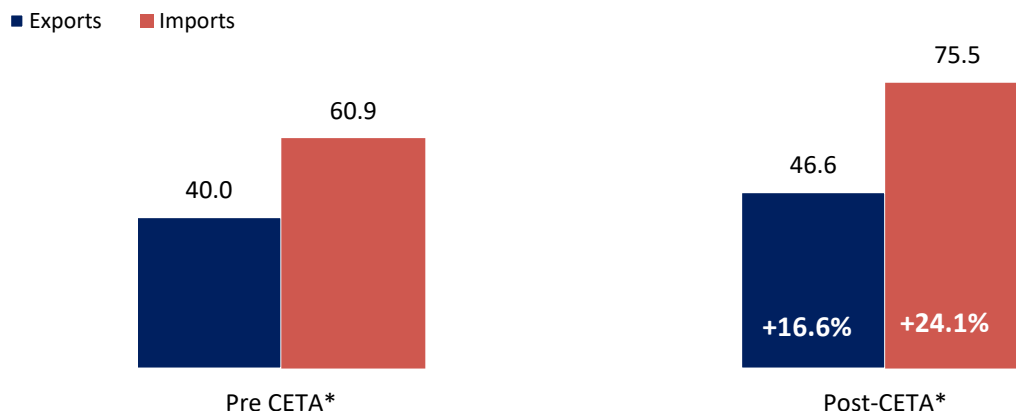
Figure 1: Bilateral Merchandise Trade between Canada and the EU, 2010-2019



Data: Statistics Canada

Sources: Office of the Chief Economist, Global Affairs Canada

Canadian merchandise exports to the EU averaged \$46.6 billion annually since CETA entered into force, up 16.6 percent, or \$6.6 billion, compared to exports in 2016 – the last full year before preferential tariff treatment under CETA became applicable. At the same time, Canadian merchandise imports from the EU averaged \$75.5 billion, up 24.1 percent, or \$14.7 billion, over the same period.

Figure 2: Canadian Merchandise Trade with the EU since CETA, in \$Billions

*Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

At the sectoral level,¹ four out of the top five Canadian export sectors registered rapid growth. Exports of mineral fuels and oils rose 161.3 percent, mainly on higher exports of crude oil. Moreover, exports of precious stones and metals, machinery, and mineral ores all improved, supported by strong growth in gold, gas turbines, and iron ores. Conversely, exports of aircraft and parts fell 16.6 percent.

Table 1: Canadian Merchandise Exports to the EU, Top 5 Sectors, in \$Millions

Sector	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
Precious stones and metals	13,174	14,108	933	7.1
Mineral fuels and oils	1,727	4,512	2,785	161.3
Machinery	3,725	4,036	311	8.4
Mineral ores	2,749	3,843	1,094	39.8
Aircrafts and parts	3,355	2,797	-558	-16.6
Other	15,263	17,317	2,054	13.5
Total	39,993	46,613	6,620	16.6

* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

On the import side, the top five imports from the EU all rose since the implementation of CETA. Machinery, the top product sector, led all products and expanded 28.7 percent, or \$3.3 billion, driven by gas turbines and combustion engines. Imports of motor vehicles and parts and pharmaceutical products also posted strong growth.

¹ Sectors here refer to the 2-digit level of the Harmonized Commodity Description and Coding System (Harmonized System). Headings used here are the description for the entire level of products, rather than a specific product. For example, the sector "Machinery" would represent all mechanical machinery ranging from nuclear reactors to water boilers to sewing machines.

**Table 2: Canadian Merchandise Imports from the EU, Top 5 Sectors, in \$Millions**

Sector	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
Machinery	11,575	14,895	3,319	28.7
Motor vehicles and parts	8,306	9,987	1,682	20.2
Pharmaceutical products	6,132	8,034	1,902	31.0
Mineral fuels and oils	3,385	4,294	909	26.8
Electronics	4,067	4,254	187	4.6
Other	27,402	34,056	6,654	24.3
Total	60,867	75,519	14,652	24.1

* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

Canada's trade performance with individual EU member states

The expansion in Canadian merchandise exports to the EU since the implementation of CETA was mainly due to growing exports to the Netherlands, Germany and the United Kingdom (UK). The Netherlands, Canada's third largest export destination in the EU (after the UK and Germany), posted the strongest growth at \$2.1 billion, mainly caused by higher exports of mineral fuels and oils and aluminum. It should be noted that the Netherlands is a transshipment point for EU trade. Many products exported by Canada to the Netherlands may be shipped further to other EU countries.

Broad-based increases of various products led to a surge of \$1.5 billion in exports to Germany, while precious stones and metals, and mineral fuels and oils supported growth in exports to the UK. Other EU members that saw strong Canadian export growth include Latvia (led by aircraft and parts), Ireland (mineral fuels and oils, and cereals), and Italy (pharmaceutical products, and mineral fuels and oils). On the other hand, a decline in exports to Malta, Bulgaria, Denmark, and Luxembourg tempered overall gains.

Table 3: Canadian Merchandise Exports to the EU, Top 10 Destinations, in \$Millions

Country	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
United Kingdom	17,098	18,207	1,109	6.5
Germany	4,065	5,566	1,501	36.9
Netherlands	2,843	4,967	2,124	74.7
France	3,400	3,540	140	4.1
Belgium	3,214	3,504	289	9.0
Italy	2,340	3,176	836	35.7
Spain	1,805	1,825	21	1.2
Ireland	496	820	325	65.4
Finland	671	779	108	16.1
Poland	617	744	128	20.7

* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada



Canada also recorded substantial growth in imports from the EU since the implementation of CETA. Imports from Belgium registered the largest expansion, up by \$2.5 billion, or 112.5 percent, mainly due to motor vehicles and parts, and organic chemicals. At the same time, imports from France (aircrafts), Germany (machinery), and Italy (machinery) also posted strong growth.

Table 4: Canadian Merchandise Imports from the EU, Top 10 Sources, in \$Millions

Country	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
Germany	17,223	19,186	1,964	11.4
Italy	7,539	9,234	1,695	22.5
United Kingdom	8,258	9,223	966	11.7
France	5,932	7,943	2,011	33.9
Belgium	2,215	4,706	2,492	112.5
Netherlands	3,674	4,596	921	25.1
Spain	2,357	3,235	878	37.3
Ireland	1,935	2,990	1,054	54.5
Sweden	2,054	2,330	276	13.4
Poland	1,919	2,224	305	15.9

* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

Trade performance by province and territory

Nine out of the thirteen Canadian provinces and territories posted an increase in exports to the EU since CETA's implementation. Newfoundland and Labrador led all regions as its exports to the EU more than doubled compared to the pre-CETA year, mainly due to stronger exports of mineral fuels and oils, and mineral ores. Ontario (gold and motor vehicles and parts) and Quebec (aluminum) also recorded strong exports growth. In contrast, exports to the EU from Saskatchewan fell moderately (with a decline in durum wheat exports), the Northwest Territories (diamonds), and Manitoba (nickel).

Table 5: Canadian Merchandise Exports to the EU by Province and Territory, in \$Millions

Province / Territory	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
Ontario	21,566	23,539	1,973	9.2
Quebec	9,872	10,636	764	7.7
Newfoundland and Labrador	1,962	4,317	2,355	120.0
British Columbia	1,989	2,610	621	31.2
Alberta	1,142	1,506	364	31.9
Saskatchewan	1,131	995	-135	-12.0
Northwest Territories	1,042	810	-232	-22.3
Nunavut	0.4	571	571	∞
Nova Scotia	442	554	112	25.3
Manitoba	598	536	-62	-10.3
New Brunswick	122	366	244	199.8
Prince Edward Island	127	173	46	36.2
Yukon	0.5	0.4	-0.1	-6.6

* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.



Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

Nearly all Canadian provinces and territories reported increases in imports post-CETA. Ontario recorded the strongest growth, up by \$6.5 billion, mainly due to pharmaceutical products, machinery, and organic chemicals. Quebec (machinery), Nova Scotia (motor vehicles and parts), and British Columbia (machinery) also experienced strong import growth.

Table 6: Canadian Merchandise Imports from the EU by Province and Territory, in \$Millions

Province / Territory	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
Ontario	27,481	33,939	6,458	23.5
Quebec	19,600	23,140	3,540	18.1
Nova Scotia	5,359	7,292	1,933	36.1
British Columbia	3,328	4,762	1,434	43.1
Alberta	2,304	2,727	422	18.3
Manitoba	1,150	1,525	375	32.6
New Brunswick	444	1,071	627	141.2
Saskatchewan	531	739	208	39.2
Newfoundland and Labrador	659	308	-351	-53.3
Prince Edward Island	7.9	11	2.7	34.4
Nunavut	0.6	3.9	3.3	543.1
Yukon	1.7	1.0	-0.7	-41.8
Northwest Territories	0.0	0.0	0	-

* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

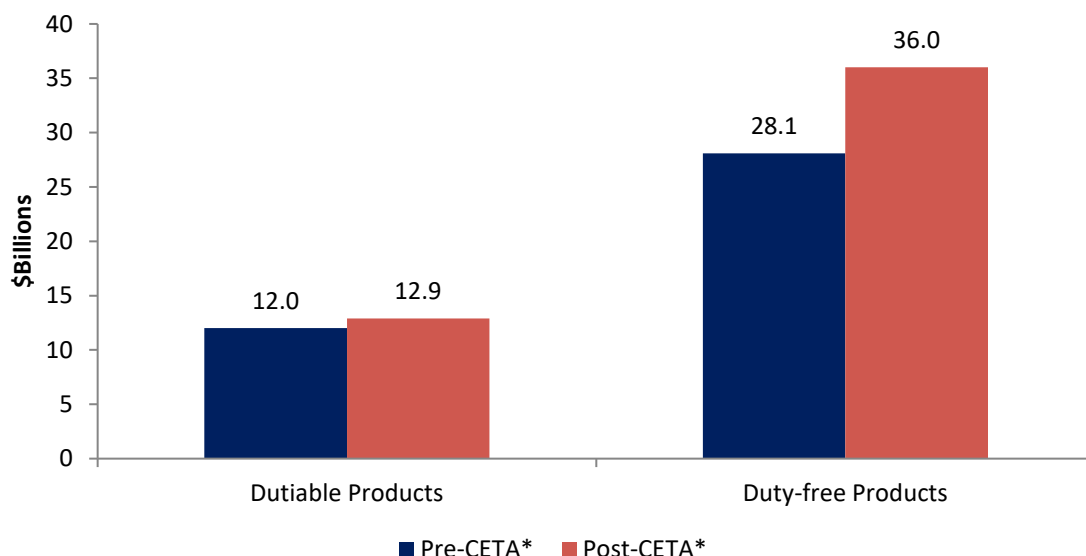


Part Two: Dutiable Trade between Canada and the EU

Data used in this part come from respective import statistics, i.e., Canadian exports to the EU are derived from the EU imports from Canada, provided by Eurostat. They are matched to the tariff concessions under CETA that allows for splitting the data into dutiable imports (products that are MFN dutiable and given tariff reduction under CETA) and duty-free imports.

Approximately 26.2 percent of total average Canadian exports to the EU (\$12.9 billion, or €8.6 billion)² were considered dutiable. Dutiable exports increased 8.1 percent since the implementation of CETA, mainly driven by increases in turbo propellers and unwrought aluminum. At the same time, duty-free exports to the EU, while not benefiting directly from tariff reductions under CETA, increased 27.8 percent compared to 2016, due to increases in exports of crude oil from bituminous minerals, medicaments of mixed amino acids, and semi-manufactured forms of gold.

Figure 3: Dutiable Exports from Canada to the EU, in \$Billions



* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Eurostat

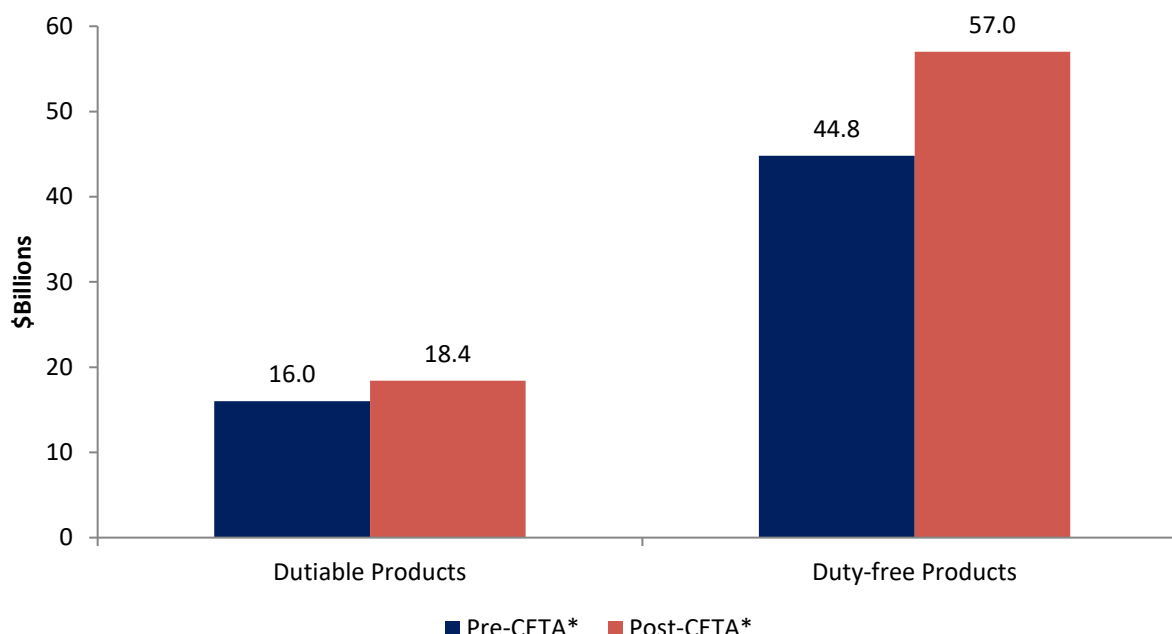
Source: Office of the Chief Economist, Global Affairs Canada

On the other hand, total annual average merchandise imports by Canada from the EU in 2018 and 2019 reached \$75.5 billion, which represents an increase of 19.3 percent compared to total imports of \$60.9 billion in 2016. Dutiable imports by Canada from the EU averaged \$18.4 billion in 2018 and 2019, or 24.5 percent of total merchandise imports. This represents an increase of 15.0 percent compared to 2016. The rise in imports was driven by passenger cars of medium cylinder capacity and special purpose vehicles, and jewelry parts of precious metals. Annual average duty-free imports in 2018 and 2019 stood at \$57.0 billion. Although not directly benefiting from CETA, this represents an increase of 27.0 percent compared

² Statistics are originally published in Euros, and were converted to Canadian dollars using the Bank of Canada's annual exchange rate for the corresponding year.

to 2016, mainly driven by large increases in tanks and armoured fighting vehicles, steroidal hormones, and medicaments of mixed amino acids.

Figure 4: Dutiable Imports by Canada from the EU, in \$Billions



* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

Tables 5 and 6 show the sectors that experienced the highest growth in Canadian exports of dutiable and duty-free products to the EU by value.³ The sectors that saw their dutiable exports grow the most are machinery, aluminum and articles, motor vehicles and parts, plastics, and electronics. Total growth of dutiable exports by these sectors made up as much as 64.8 percent of total growth in exports of dutiable products.

Table 5: Sectors with Highest Growth of Dutiable Exports by Canada to the EU, in \$Millions

HS 02	Sector	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
84	Machinery	3,465	4,303	838	24.2
76	Aluminum and articles	217	566	350	161.4
87	Motor vehicles and parts	469	710	241	51.4
39	Plastics and articles	266	450	184	69.1
85	Electronics	507	671	164	32.3

* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Eurostat

Source: Office of the Chief Economist, Global Affairs Canada

³ Both dutiable and duty-free products can be present in the same sector when using HS02-level data.



Exports that grew the most in the duty-free category are ores, slag and ash, mineral fuels and oils, pharmaceutical products, precious stones and metals, and medical instruments. Total growth in duty-free exports by these sectors made up approximately 86.9 percent of total growth of duty-free exports.

Table 6: Sectors with Highest Growth of Duty-free Exports by Canada to the EU, in \$Millions

HS 02	Sector	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
26	Mineral ores	2,723	4,887	2,164	79.5
27	Mineral fuels and oils	1,898	4,037	2,139	112.7
30	Pharmaceutical products	973	2,417	1,443	148.3
71	Precious stones and metals	13,678	14,884	1,206	8.8
90	Medical instruments	920	1,175	255	27.7

* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Eurostat

Source: Office of the Chief Economist, Global Affairs Canada

Tables 7 and 8 show the sectors that experienced the highest growth in imports of dutiable and duty-free products from the EU by value. The sectors where dutiable imports grew the most are railway, locomotives and parts, products of milling industry, aircrafts and parts, meat, and preparations of meat or fish. Total growth of dutiable imports in these sectors made up as much as 93.2 percent of total growth of dutiable imports.

Table 7: Sectors with Highest Growth of Dutiable Imports by Canada from the EU, in \$Millions

HS 02	Sector	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
86	Railway, locomotives and parts	27.1	55.7	28.6	105.7
11	Products of milling industry	19.2	25.2	6.0	31.3
88	Aircrafts and parts	1.4	6.8	5.4	376.4
02	Meat	40.2	45.2	5.0	12.4
16	Preparations of meat or fish	54.7	57.1	2.4	4.5

* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

The sectors where duty-free imports grew the most are motor vehicles and parts, nickel and articles, essential oils and cosmetic preparations, wood pulps, and prepared feathers and down and articles. Total growth of duty-free imports in these sectors made up almost all the total growth in imports of duty-free products.

Table 8: Sectors with Highest Growth of Duty-free Imports by Canada from the EU, in \$Millions

HS 02	Sector	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
87	Motor vehicles and parts	1,986	2,036	50	2.5
75	Nickel and articles	193	220	27	13.8
33	Essential oils and cosmetic preparations	92	111	19	20.7
47	Wood pulps	2	4	1	49.0
67	Prepared feathers and down	0	1	1	488.3



* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

At the individual country level, Canada had positive growth in dutiable exports to 17 out of the 28 EU member states. The largest increase in the value of exports was to Latvia, which grew by as much as \$904 million (equivalent to 12,415.3 percent growth over the value reported in 2016); the increases were mostly in aircraft parts, chemical products, and process control systems. The biggest decline in value was to Malta where dutiable exports from Canada fell by \$751 million, due to large decreases in exports of aircrafts, inflatable boats, and automatic data processing units.

Table 9: Dutiable Exports to Individual EU Member States by Canada, in \$Millions

Member state	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
Austria	223	242	19	8.5
Belgium	597	576	-21	-3.5
Bulgaria	21	32	11	51.0
Croatia	7	14	7	99.5
Cyprus	2	7	5	296.3
Czechia	107	221	114	106.8
Denmark	193	241	48	25.0
Estonia	27	12	-15	-55.3
Finland	137	166	30	21.6
France	1,715	1,833	117	6.8
Germany	2,033	2,575	541	26.6
Greece	36	26	-10	-27.4
Hungary	48	51	3	7.0
Ireland	316	183	-133	-42.1
Italy	624	738	114	18.3
Latvia	7	912	904	12,415.3
Lithuania	8	21	13	173.4
Luxembourg	295	107	-188	-63.8
Malta	847	96	-751	-88.6
Netherlands	874	1,457	583	66.7
Poland	147	213	66	44.8
Portugal	66	66	1	0.8
Romania	27	38	11	40.9
Slovakia	53	22	-31	-58.6
Slovenia	49	29	-21	-41.7
Spain	744	598	-146	-19.7
Sweden	307	218	-89	-28.9
United Kingdom	2,461	2,245	-216	-8.8

* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Eurostat

Source: Office of the Chief Economist, Global Affairs Canada



Canada had positive growth in duty-free exports to all but three EU member states post-CETA. The largest increases in value were to the UK (jewelry of precious metals, crude oil from bituminous minerals, and unworked diamonds), the Netherlands (iron ores, cobalt mattes, and titanium ores), Germany (silver and iron ores) and Belgium (medicaments of amino acids, iron ores, and unwrought nickel). Canada exported \$1 billion more to these states by comparison with 2016.

Table 10: Duty-free Exports to Individual EU Member States by Canada, in \$Millions

Member state	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
Austria	83	107	24	29.0
Belgium	2,712	3,888	1,176	43.4
Bulgaria	47	45	-1	-3.2
Croatia	8	46	37	438.5
Cyprus	7	11	4	58.7
Czechia	72	186	114	158.3
Denmark	158	126	-32	-20.3
Estonia	28	52	24	83.5
Finland	411	663	253	61.5
France	1,651	1,971	320	19.4
Germany	2,492	3,825	1,333	53.5
Greece	70	105	35	49.6
Hungary	64	55	-9	-13.8
Ireland	301	598	297	98.8
Italy	1,482	1,696	214	14.4
Latvia	5	15	10	210.2
Lithuania	10	15	5	53.0
Luxembourg	10	11	1	7.9
Malta	2	3	1	31.3
Netherlands	1,489	2,830	1,340	90.0
Poland	133	194	61	45.7
Portugal	172	186	13	7.7
Romania	75	108	33	43.7
Slovakia	53	109	56	106.8
Slovenia	108	85	-23	-21.2
Spain	987	1,681	694	70.3
Sweden	295	348	53	17.8
United Kingdom	15,219	17,005	1,786	11.7

* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Eurostat

Source: Office of the Chief Economist, Global Affairs Canada



Canada has increased its imports of dutiable products from 25 out of the 28 EU member states. The largest increase in value was imports from Italy, up by as much as \$625 million, equivalent to a 21.9 percent growth compared to 2016. The growth was largely generated by increases in imports of motor vehicles of large cylinder capacity, and jewelry of precious metals. The biggest decline in value was reported for imports from Romania, which decreased by \$122 million, due to lower imports of vehicle steering parts, footwear, and furniture.

Table 11: Dutiable Imports by Canada from Individual EU Member States, in \$Millions

Member state	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
Austria	119	196	77	65.0
Belgium	318	425	107	33.8
Bulgaria	57	61	4	6.7
Croatia	13	48	35	260.5
Cyprus	1	2	1	90.5
Czechia	111	137	26	23.3
Denmark	100	136	36	36.2
Estonia	12	14	2	18.2
Finland	81	89	8	10.1
France	1,710	2,237	526	30.8
Germany	5,504	5,434	-70	-1.3
Greece	88	112	24	27.1
Hungary	239	300	61	25.7
Ireland	152	159	7	4.4
Italy	2,945	3,590	645	21.9
Latvia	16	20	4	22.0
Lithuania	35	56	21	59.7
Luxembourg	12	12	0	-1.1
Malta	2	3	2	86.4
Netherlands	290	502	212	73.1
Poland	417	435	17	4.2
Portugal	264	343	78	29.7
Romania	301	179	-122	-40.6
Slovakia	409	628	220	53.8
Slovenia	17	33	16	91.6
Spain	678	775	97	14.3
Sweden	329	422	93	28.4
United Kingdom	1,809	2,092	283	15.6

* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

Canada increased its duty-free imports from all but three EU member states post-CETA. The largest increase in value were imports from Belgium which grew by more than \$2 billion compared to 2016,



mainly due to increased imports of tanks and armoured fighting vehicles, steroidal hormones, and light oils.

Table 12: Duty-free Imports by Canada from Individual EU Member States, in \$Millions

Member state	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
Austria	1,631	1,997	365	22.4
Belgium	1,897	4,281	2,384	125.7
Bulgaria	83	132	48	58.1
Croatia	43	43	0	-0.1
Cyprus	3	3	0	-7.7
Czechia	432	658	227	52.5
Denmark	917	1,381	465	50.7
Estonia	156	159	3	1.7
Finland	774	1,089	315	40.7
France	4,222	5,703	1,481	35.1
Germany	11,719	13,719	2,001	17.1
Greece	154	164	10	6.6
Hungary	365	549	184	50.3
Ireland	1,783	2,830	1,047	58.7
Italy	4,594	5,610	1,017	22.1
Latvia	20	29	8	39.6
Lithuania	347	183	-164	-47.3
Luxembourg	143	152	9	6.1
Malta	44	32	-13	-28.3
Netherlands	3,384	4,093	709	20.9
Poland	1,502	1,789	288	19.2
Portugal	289	299	10	3.3
Romania	222	309	87	38.9
Slovakia	111	125	14	12.6
Slovenia	150	168	18	12.3
Spain	1,678	2,446	768	45.8
Sweden	1,725	1,908	182	10.6
United Kingdom	6,448	7,105	657	10.2

* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

Trade growth by preference margins⁴

⁴ The preference margin is the difference between CETA's preferential tariff rate (as of January 2020) and the MFN tariff rate.



Table 13 shows the growth in Canadian exports to the EU by preference margin. Products are divided into categories based on CETA tariff concessions in percentage points. Exports increased in all categories of preference margin. The group that was given between 5 and 10 percentage points of tariff reductions had the strongest growth at 40.6 percent. Next is the group that received more than 10 percentage points of tariff reductions with a 20.0 percent growth. Duty-free products also advanced as much as 27.8 percent.

Table 13: Canada's Exports to the EU by Preference Margin, in \$Millions

Preference margin (percentage points)	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
Duty-free	28,145	35,963	7,818	27.8
Between 0 and 5	9,700	9,934	234	2.4
Between 5 and 10	1,357	1,907	550	40.6
More than 10	912	1,095	183	20.0
All affected⁵	11,969	12,936	967	8.1
All non-affected	28,383	36,434	8,051	28.4
Total	40,351	49,370	9,019	22.4

* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Eurostat

Source: Office of the Chief Economist, Global Affairs Canada

Table 14 shows the growth in imports by Canada from the EU by preference margin. All categories of tariff reduction experienced increases in imports from the EU. The products that were given more than 10 percentage points of tariff reductions had the strongest growth at 24.8 percent. The next group is made up of products that received between 5 to 10 percentage points of tariff reductions, with 21.1 percent growth. Duty-free products also experienced a large increase of 27.0 percent.

Table 14: Canada's Imports from the EU by Preference Margin, in \$Millions

Preference margin (percentage points)	Pre-CETA*	Post-CETA*	Growth (\$M)	Growth (%)
Duty-free	44,837	56,954	12,117	27.0
Between 0 and 5	8,281	9,004	723	8.7
Between 5 and 10	6,147	7,443	1,296	21.1
More than 10	1,600	1,996	397	24.8
All affected	16,027	18,442	2,415	15.1
All non-affected	44,840	56,956	12,116	27.0
Total	60,867	75,398	14,531	23.9

* Pre-CETA refers to 2016. Post-CETA refers to the annual average trade value in 2018 and 2019.

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

⁵ Affected products are products that were allowed lower tariffs than MFN rates under an FTA.

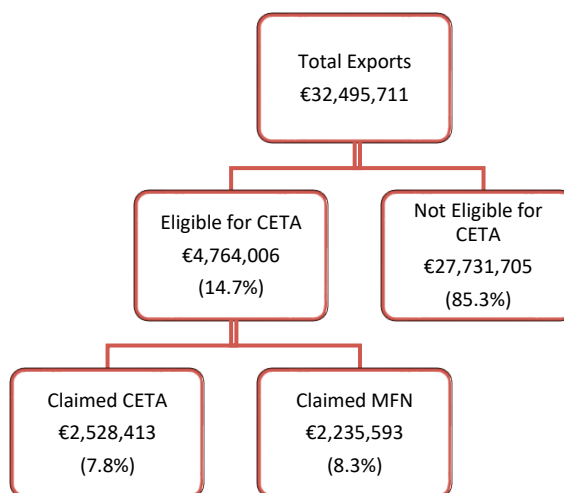


Part Three: Utilization of CETA Preferences

Aggregate utilization for Canadian exports to the EU

For Canadian exports to the EU, utilization data⁶ include information of the proportion of CETA-eligible exports entering the EU that claimed CETA preferential treatments. If the proportion of exports is compared to total exports, it is a coverage rate, not the utilization rate. Total Canadian exports in 2019 amounted to €32.5 billion;⁷ of which €4.7 billion (14.7 percent) were CETA-eligible and approximately €2.3 billion (or 53.1 percent of total CETA-eligible exports) entered the EU by claiming CETA preferential treatments (see breakdown in Figure 5). The utilization rate of CETA preferences for Canadian exports to the EU is therefore 53.1 percent in 2019, a modest increase over the 49.9 percent utilization rate observed in 2018.

Figure 5: Utilization Rates of CETA Preferences in Canadian Exports to the EU, 2019



Data: EU DG Trade, Unit of the Office of the Chief Economist
Source: Office of the Chief Economist, Global Affairs Canada

Table 15: Utilization Rates of CETA Preferences in Canadian Exports to the EU, 2018 and 2019

Year	Utilization rate (%)
2018	49.9
2019	53.1

Data: EU DG Trade, Unit of the Office of the Chief Economist
Source: Office of the Chief Economist, Global Affairs Canada

At the sector level, the utilization rate of CETA preferences varied vastly, from as high as 97.1 percent to as low as 0 percent. Table 16 shows the sectors with the highest utilization rates of CETA preferences in

⁶ Utilization data were obtained through data exchanges with the EU DG Trade, Unit of the Office of the Chief Economist.

⁷ Only normal trade is included (excluding processing trade) in the calculation.



Canadian exports to the EU. As can be seen, the zinc and articles sector has the highest utilization rate at 97.1 percent. Other sectors with high utilization rates are mostly food and minerals.

Table 16: EU Sectors with the Highest CETA Utilization in Canadian Exports, 2019, in €Thousands

HS02	Sector	Total eligible exports	Eligible exports that used CETA	Utilization rate (%)
79	Zinc and articles	9,501	9,223	97.1
46	Manufactures of straw	723	698	96.5
17	Sugar and confectionery	72,814	69,470	95.4
19	Preparations of cereals	44,057	41,833	95.0
03	Fish and crustaceans	346,386	327,570	94.6
20	Preparations of vegetables and fruits	60,408	56,482	93.5
36	Explosives	2,750	2,491	90.6
76	Aluminum and articles	256,982	228,352	88.9
27	Mineral fuels and oils	199,666	173,459	86.9
07	Edible vegetables	3,172	2,751	86.7
25	Mineral salts	4,110	3,525	85.8
72	Iron and steel	1,383	1,167	84.3
38	Misc. chemical products	99,761	83,803	84.0
28	Inorganic chemicals	27,379	22,646	82.7
21	Misc. edible preparations	74,286	61,353	82.6

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

Source: Office of the Chief Economist, Global Affairs Canada

Table 17 shows the EU sectors that have the lowest utilization rates of CETA preferences in Canadian exports. Four sectors had the lowest utilization rate (0.0 percent), including silk, gums and resins, raw hides and leather.

Table 17: EU Sectors with the Lowest CETA Utilization in Canadian Exports, 2019, in €Thousands

HS02	Sector	Total eligible exports	Eligible exports that used CETA	Utilization rate (%)
05	Products of animal origin	0	0	0.0
50	Silk	19	0	0.0
13	Gums and resins	1	0	0.0
41	Raw hides and leather	439	0	0.0
37	Photographic goods	181	0	0.2
43	Furskins	2,750	14	0.5
45	Cork and articles	8	0	0.8
75	Nickel and articles	10,544	116	1.1
52	Cotton	832	11	1.3
91	Clocks, watches and parts	1,075	54	5.0
86	Railway, locomotives and parts	1,319	80	6.1
01	Live animals	1,710	110	6.5
74	Copper and articles	5,203	344	6.6
88	Aircrafts and parts	70,647	9,639	13.6

51	Wool	180	26	14.7
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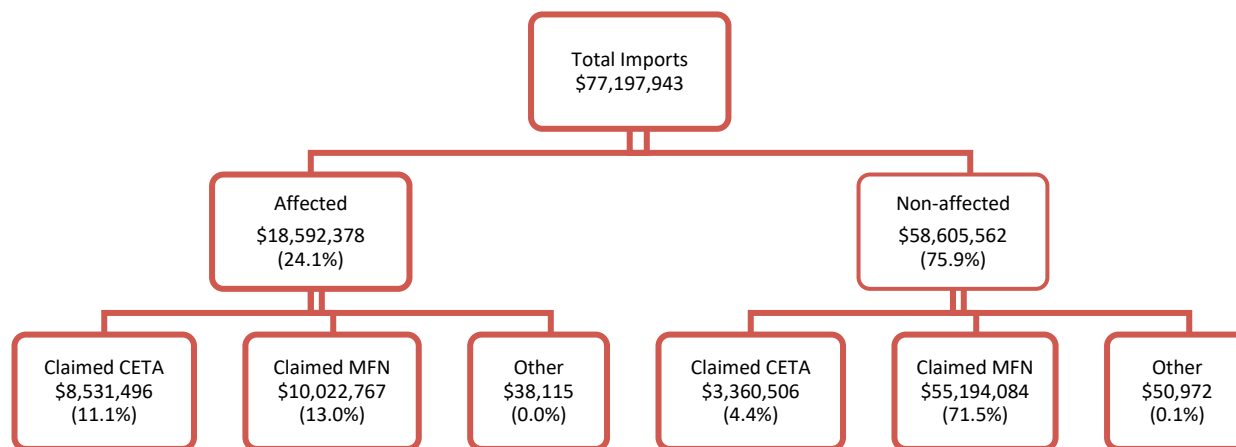
Data: EU DG Trade, Unit of the Office of the Chief Economist
Source: Office of the Chief Economist, Global Affairs Canada

Aggregate utilization for Canadian imports from the EU

Data on the utilization of CETA preferences for imports from the EU come from Statistics Canada, and include information of the proportion of affected imports entering Canada that claimed CETA preferential treatments and the proportion of imports that claimed MFN rates.

In 2019, total Canadian imports from the EU amounted to \$77.2 billion, of which \$18.6 billion (24.1 percent) were imports affected or covered by CETA and \$58.6 billion (75.9 percent) were non-affected imports. Among affected imports, approximately \$8.5 billion (45.9 percent of total affected imports) entered Canada by claiming CETA preferential treatment (see Figure 6 for breakdown). A small portion of non-affected imports, representing \$3.4 billion (5.7 percent of total non-affected imports) also claimed CETA preferential treatment. The utilization rate of CETA preferences for Canadian imports in 2019 is therefore 45.9 percent; an increase of 8.8 percentage points compared to the 37.1 percent rate observed in 2018.

Figure 6: Utilization Rates of CETA Preferences for Canadian Imports from the EU, 2019



Data: Statistics Canada
Source: Office of the Chief Economist, Global Affairs Canada

Table 18: Utilization Rates of CETA Preferences for Canadian Imports from the EU, 2018 and 2019

Year	Utilization rate (%)
2018	37.1
2019	45.9

Data: Statistics Canada
Source: Office of the Chief Economist, Global Affairs Canada



Table 19 shows the sectors with the highest utilization rates of CETA preferences for imports from the EU. As can be seen, the meat sector has the highest utilization rate at 99.0 percent. Other sectors with high utilization rates are also mostly food.

Table 19: Canadian Imports from the EU for Sectors with the Highest CETA Utilization, 2019, in \$Thousands

HS02	Sector	Total affected imports	Affected imports that used CETA	Utilization rate (%)
02	Meat	56,882	56,317	99.0
19	Preparations of cereals and flour	344,589	319,416	92.7
18	Cocoa and cocoa preparations	288,495	263,249	91.2
08	Edible fruits and nuts	6,983	6,343	90.8
17	Sugar and confectionery	117,694	106,460	90.5
86	Railway, locomotives and parts	79,158	69,652	88.0
06	Live trees and plants	15,088	13,106	86.9
11	Products of milling industry	33,550	29,073	86.7
04	Dairy produce and eggs	302,210	259,365	85.8
68	Articles of stone	141,887	119,120	84.0
69	Ceramic products	277,348	230,064	83.0
03	Fish and crustaceans	1,056	862	81.7
40	Rubber and articles	460,757	354,463	76.9
21	Misc. edible preparations	169,522	130,325	76.9
46	Coffee and tea	1,324	971	73.3

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

Table 20 shows Canadian import sectors that have the lowest utilization rates. Sectors with low utilization rates are largely textiles and mineral goods.

Table 20: Canadian Imports from the EU for Sectors with the Lowest CETA Utilization 2019, in \$Thousands

HS02	Sector	Total affected imports	Affected imports that used CETA	Utilization rate (%)
58	Special woven fabrics	19	0	0.0
10	Cereals	16	0	1.4
75	Nickel and articles	20,086	442	2.2
88	Aircrafts and parts	3,455	141	4.1
30	Pharmaceutical products	926	65	7.1
90	Medical instruments	140,670	21,151	15.0
24	Tobacco and substitutes	28,440	4,591	16.1
37	Photographic goods	2,100	399	19.0
87	Motor vehicles and parts	7,758,213	1,838,245	23.7
79	Zinc and articles	2,449	618	25.2
07	Edible vegetables	1,718	474	27.6
54	Man-made filaments	31	9	27.7
59	Industrial use coated textiles	13,081	3,848	29.4



74	Copper and articles	9,438	2,961	31.4
38	Misc. chemical products	14,204	4,626	32.6

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

Utilization of CETA preferences for Canadian exports to the EU across countries and sectors

Utilization of CETA preferences for Canadian exports to the EU varies considerably among individual EU member states. Denmark, Ireland and the Netherlands are the three member states that utilized CETA preferences the most, with utilization rates of 86.8, 85.5, and 78.3 percent, respectively. On the opposite end are Malta, Lithuania and Croatia, which have low utilization rates of 2.9, 8.0 and 15.2 percent, respectively.

Table 21: Utilization of CETA Preferences for Canadian Exports by EU Member State, 2019, in €Thousands

Member state	Total exports	Eligible exports	Eligible exports that used CETA	Utilization rate (%)
Austria	278,703	42,261	13,922	32.9
Belgium	3,133,157	291,888	175,051	60.0
Bulgaria	44,271	17,291	9,124	52.8
Croatia	20,444	10,345	1,621	15.7
Cyprus	12,021	2,310	992	42.9
Czechia	298,534	63,564	31,252	49.2
Denmark	215,314	140,330	121,860	86.8
Estonia	49,178	8,071	4,965	61.5
Finland	568,050	102,285	59,867	58.5
France	2,624,069	385,137	231,781	60.2
Germany	4,712,871	1,257,878	386,490	30.7
Greece	84,648	15,855	7,563	47.7
Hungary	71,767	20,777	8,015	38.6
Ireland	527,125	139,353	119,123	85.5
Italy	1,747,300	227,354	108,184	47.6
Latvia	598,227	7,234	1,627	22.5
Lithuania	17,115	9,905	795	8.0
Luxembourg	97,839	30,422	17,491	57.5
Malta	80,820	1,262	36	2.9
Netherlands	2,876,713	753,669	590,268	78.3
Poland	258,305	44,284	19,340	43.7
Portugal	131,307	28,194	13,840	49.1
Romania	70,164	25,024	9,226	36.9
Slovakia	84,017	13,469	7,097	52.7
Slovenia	113,764	5,499	3,041	55.3
Spain	1,383,732	219,749	133,658	60.8
Sweden	374,995	118,900	61,842	52.0



United Kingdom	14,371,375	781,704	390,286	49.9
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Data: EU DG Trade, Unit of the Office of the Chief Economist

Source: Office of the Chief Economist, Global Affairs Canada

Utilization of CETA preferences for Canadian exports to the EU at the sectoral level varied widely by member states. Table 22 shows the sectors with the most CETA-eligible Canadian exports to the EU. Eligible exports from these sectors made up 88.5 percent of all CETA-eligible exports from Canada to the EU.

Table 22: Sectors with the Largest CETA-eligible Exports to the EU, 2019, in €Thousands

HS 02	Sector	Eligible exports	Eligible exports that used CETA	Utilization rate (%)
84	Machinery	1,181,668	372,925	31.6
85	Electronics	408,670	158,139	38.7
87	Motor vehicles and parts	391,138	122,797	31.4
03	Fish and crustaceans	346,386	327,570	94.6
39	Plastics and articles	288,931	181,739	62.9
76	Aluminum and articles	256,982	228,352	88.9
27	Mineral fuels and oils	199,666	173,459	86.9
73	Articles of iron or steel	145,772	57,371	39.4
90	Medical instruments	112,858	27,137	24.0
16	Preparations of meat or fish	108,102	82,392	76.2
38	Misc. chemical products	99,761	83,803	84.0
29	Organic chemicals	86,454	43,803	50.7
62	Articles of apparel, not knitted	83,513	50,727	60.7
21	Misc. edible preparations	74,286	61,353	82.6
17	Sugar and confectionery	72,814	69,470	95.4
61	Articles of apparel, knitted	70,746	52,851	74.7
88	Aircrafts and parts	70,647	9,639	13.6
20	Preparations of vegetables	60,408	56,482	93.5
19	Preparations of cereals	44,057	41,833	95.0
95	Toys	43,940	23,568	53.6

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

Source: Office of the Chief Economist, Global Affairs Canada

As can be seen, some sectors have relatively high utilization rates (more than 80 percent), while others have utilization rates of less than 30 percent. All three top sectors in terms of CETA-eligible exports have only around 30 percent CETA utilization, even though their total eligible exports were more than \$1.8 billion. Total savings on tariffs if these sectors had otherwise fully utilized CETA preferential rates could have been massive.

Tables 23 to 25 focus on the first three sectors and show utilization rates of CETA preferences across countries within each sector. There is no clear pattern of how member states utilize CETA preferential rates; however, certain member states and sectors seem to be consistently under-utilizing CETA even when more savings could have been achieved.



In the machinery sector (HS 84), Germany and the UK received 52.6 percent and 11.4 percent of total eligible exports from Canada, yet their utilization rates are only 19.1 percent and 28.7 percent, respectively. Considering that the average preference margin on exports to the EU for HS 84 is approximately 1.8 percent, if these two member states had fully utilized CETA (if all €755.0 million of CETA-eligible exports to these two states had utilized the tariff savings of 1.8 percent), the total gain from tariff reductions would have been €10.8 million larger.⁸

Table 23: Utilization of CETA for Exports of the Machinery Sector, 2019, in €Thousands

Member state	Share in EU eligible exports (%)	CETA-eligible exports	Eligible exports that used CETA	Utilization rate (%)
Germany	52.6	620,997	118,521	19.1
United Kingdom	11.4	134,988	38,741	28.7
Belgium	4.6	53,927	30,972	57.4
Italy	4.4	51,495	16,304	31.7
Netherlands	4.4	52,064	23,294	44.7
Other	22.6	268,196	145,092	0.0 – 84.8

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

Source: Office of the Chief Economist, Global Affairs Canada

In the electronics sector (HS 85), Germany, the UK and the Netherlands accounted for 31.4 percent, 18.2 percent and 12.9 percent, respectively, of total eligible exports from Canada. Their utilization rates are 43.6, 23.4 and 51.5 percent, respectively. Considering that the average preference margin on exports to the EU for HS 85 is approximately 1.5 percent, if these three member states had fully utilized CETA preferences (if all €255.0 million of CETA-eligible exports to these three states had utilized the tariff savings of 1.5 percent), the total tariff saving could have been €2.3 million larger.

Table 24: Utilization of CETA for Exports of the Electronics Sector, 2019, in €Thousands

Member state	Share in EU eligible exports (%)	CETA-eligible exports	Eligible exports that used CETA	Utilization rate (%)
Germany	31.4	128,451	56,051	43.6
United Kingdom	18.2	74,239	17,398	23.4
Netherlands	12.9	52,881	27,256	51.5
France	8.3	33,736	16,185	48.0
Italy	6.7	27,197	3,202	11.8
Other	22.5	92,166	38,046	0.0 – 71.9

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

Source: Office of the Chief Economist, Global Affairs Canada

In the motor vehicles and parts sector, Germany, Belgium, the UK and Finland took in 32.8 percent, 14.6 percent, 13.1 percent and 12.8 percent of total eligible exports, respectively. Their utilization of CETA preferences varied widely, with only 5.2 percent for Germany, but 39.8 percent for Belgium, 65.9 percent for the UK, and 66.8 percent for Finland. A more in-depth examination of the composition of exports may be needed to better explain the large variations observed in CETA preferences utilization. However, considering that the average preference margin on exports to the EU for HS 87 is approximately 5.2

⁸ Based on the assumption that all exports qualify for the rule of origin and that CETA utilization is 100 percent.



percent, if these member states had fully utilized CETA (if all €286.0 million of CETA-eligible exports had utilized the tariff savings of 5.2 percent), the total tariff saving could have been €10.5 million larger.

Table 25: Utilization of CETA for Exports of the Motor Vehicles and Parts Sector, 2019, in €Thousands

Member state	Share in EU eligible exports (%)	CETA-eligible exports	Eligible exports that used CETA	Utilization rate (%)
Germany	32.8	128,239	6,626	5.2
Belgium	14.6	56,979	22,664	39.8
United Kingdom	13.1	51,094	33,681	65.9
Finland	12.8	50,195	33,522	66.8
Netherlands	4.5	17,695	1,692	9.6
Other	22.2	86,937	24,613	0.0 – 72.6

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

Source: Office of the Chief Economist, Global Affairs Canada

Utilization of CETA preferences for Canadian imports from the EU across countries and sectors

Similarly, utilization of CETA preferences in the Canadian market by EU exporters varied greatly among EU member states. The countries with the highest utilization of CETA preferences in Canada are Cyprus, Sweden, Croatia and Denmark, with utilization rates of 91.3, 76.9, 74.9 and 74.3 percent, respectively. Imports from Hungary, Latvia and Luxembourg have the lowest utilization rates at 18.5, 20.3 and 15.2 percent, respectively.

**Table 26: Utilization Rates of CETA Preferences for Canadian Imports from EU Member States, 2019, in \$Thousands**

Member state	Total imports	Affected imports	Affected imports that used CETA	Utilization rate (%)
Austria	2,284,241	221,813	70,630	31.8
Belgium	4,963,122	518,135	347,181	67.0
Bulgaria	199,488	61,901	24,784	40.0
Croatia	70,773	28,681	21,479	74.9
Cyprus	4,687	1,922	1,754	91.3
Czechia	817,844	154,931	88,008	56.8
Denmark	1,550,984	145,325	107,909	74.3
Estonia	123,653	12,449	8,013	64.4
Finland	1,064,202	94,256	66,241	70.3
France	8,687,800	2,377,347	1,237,466	52.1
Germany	19,224,431	5,200,692	1,460,832	28.1
Greece	279,934	113,631	69,741	61.4
Hungary	921,263	345,353	63,863	18.5
Ireland	3,019,230	176,122	117,818	66.9
Italy	9,452,564	3,644,145	2,347,736	64.4
Latvia	47,057	19,038	3,874	20.3
Lithuania	266,282	58,529	24,482	41.8
Luxembourg	164,969	11,413	2,618	22.9
Malta	34,420	3,300	1,336	40.5
Netherlands	4,663,742	497,852	199,897	40.2
Poland	2,338,235	441,517	172,684	39.1
Portugal	657,626	348,409	251,854	72.3
Romania	467,864	178,967	99,672	55.7
Slovakia	724,977	603,346	242,097	40.1
Slovenia	212,010	34,784	23,659	68.0
Spain	3,477,458	784,587	548,642	69.9
Sweden	2,287,150	352,698	271,329	76.9
United Kingdom	9,191,936	2,161,233	655,897	30.3

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

Table 27 shows the sectors with the largest affected imports in Canada from the EU. Affected imports from these sectors made up 87.0 percent of all affected imports that entered Canada from the EU. The aggregate utilization rate ranges from 23.7 percent to 92.7 percent. The motor vehicles and parts sector by itself made up as much as 41.7 percent of total affected imports and yet has the lowest CETA utilization among those sectors with largest affected imports.

Table 27: Sectors with the Largest Affected Imports in Canada, 2019, in \$Thousands

HS 02	Sector	Affected Imports	Affected Imports that used CETA	Utilization rate (%)
87	Motor vehicles and parts	7,758,213	1,838,245	23.7
22	Beverages	1,626,110	1,133,009	69.7
33	Essential oils and cosmetics preparations	1,026,636	568,277	55.4
94	Furniture	624,440	254,994	40.8
64	Footwear	507,723	364,545	71.8
62	Articles of apparel, not knitted	473,149	247,628	52.3
42	Articles of leather	463,981	235,248	50.7
40	Rubber and articles	460,757	354,463	76.9
39	Plastics and articles	424,146	212,388	50.1
19	Preparations of cereals	344,589	319,416	92.7
61	Articles of apparel, knitted	327,399	191,301	58.4
71	Precious stones and metals	309,267	168,376	54.4
85	Electronics	306,508	148,216	48.4
04	Dairy produce and eggs	302,210	259,365	85.8
18	Cocoa and preparations	288,495	263,249	91.2
69	Ceramic products	277,348	230,064	83.0
89	Ships and boats	267,925	110,894	41.4
20	Preparations of vegetables	230,728	165,885	71.9
73	Articles of iron or steel	228,375	102,902	45.1
34	Soap and washing preparations	197,738	109,520	55.4

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

Tables 28 to 30 focus on the first three sectors and show the share of affected imports from EU member states, with the CETA utilization rate. Again, there is no clear pattern as to how CETA preferential rates were utilized; however, imports from certain member states are consistently under-utilizing CETA preferences.

In the motor vehicles and parts sector (HS 87), Canada imported from Germany and the UK respectively about 48.2 percent and 18.0 percent of total affected imports, but the utilization rates for these imports are only 17.0 percent and 13.2 percent. Considering that the average preference margin on imports from the EU for HS 87 is approximately 5.6 percent, if imports from these two member states had fully utilized CETA preferences (if all \$5.0 billion of affected imports had claimed CETA preferential rates), then the total savings from tariff reductions could have been \$241.0 million larger.⁹

⁹ Based on the assumption that all imports qualify for the rule of origin and the CETA utilization is 100 percent.

Table 28: Utilization of CETA for Imports of the Motor Vehicles and Parts Sector, 2019, in \$Thousands

Member state	Share in affected imports (%)	Affected imports	Affected imports that used CETA	Utilization rate (%)
Germany	48.2	3,737,420	633,502	17.0
United Kingdom	18.0	1,397,495	184,355	13.2
Slovakia	7.0	543,442	207,395	38.2
France	6.2	483,130	19,838	4.1
Italy	5.4	420,690	274,024	65.1
Other	15.2	1,176,037	519,133	0.2 – 93.3

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

In the beverages sector (HS 22), imports by Canada from France and Italy accounted for 34.7 percent and 32.0 percent of total affected imports, respectively. Utilization rates for these imports are higher, 72.7 percent and 65.7 percent, respectively. The higher utilization rate may be an indication that imports fulfill the rule-of-origin requirements, most likely due to the fact that beverages, in particular wine, have fewer components from different sources. Considering that the average preference margin on imports from the EU for HS 22 is approximately 12.0 percent, if imports from these two member states had fully utilized CETA (if all \$1.1 billion affected imports from these two member states had claimed CETA preferential rates), then total savings from tariff reductions could have been an additional \$40.2 million.

Table 29: Utilization of CETA for Imports of the Beverages Sector, 2019, in \$Thousands

Member state	Share in affected imports (%)	Affected imports	Affected imports that used CETA	Utilization rate (%)
France	34.7	563,788	370,407	72.7
Italy	32.0	520,027	378,157	65.7
Spain	8.1	132,169	94,387	71.4
United Kingdom	6.1	99,046	76,614	77.4
Ireland	4.7	76,433	61,852	80.9
Other	14.4	234,647	151,592	0.0 – 100.0

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

In the essential oils and cosmetic preparations sector (HS 33), imports by Canada from France, Italy and the UK accounted for 44.4 percent, 22.7 percent and 11.6 percent of total affected imports, respectively. Utilization rates for these imports are 65.5 percent, 36.5 percent and 68.3 percent, respectively. Considering that the average preference margin on imports from the EU for HS 33 is approximately 6.3 percent, if imports from these three member states had fully utilized CETA (if all \$817.0 million imports had claimed the CETA preferential rate), then total savings from tariff reductions would have been \$21.6 million higher.



Table 30: Utilization of CETA for Imports of the Essential Oils and Cosmetic Preparations Sector, 2019, in \$Thousands

Member state	Share in affected imports (%)	Affected imports	Affected imports that used CETA	Utilization rate (%)
France	44.4	456,021	298,767	65.5
Italy	22.7	233,530	85,299	36.5
United Kingdom	11.6	118,657	80,993	68.3
Germany	8.5	87,469	37,447	42.8
Spain	3.9	40,086	18,027	45.0
Other	8.9	90872	47744	3.6 – 99.3

Data: Statistics Canada

Source: Office of the Chief Economist, Global Affairs Canada

Conclusion

For the two full years since CETA has been implemented, bilateral trade has shown impressive gains. Canadian merchandise exports to the EU averaged \$46.6 billion annually, up 16.6 percent from 2016. At the same time, merchandise imports from the EU rose 24.1 percent. Products exported to the EU that received tariff concessions under CETA grew by 8.1 percent compared to 2016, while duty-free products also grew by an impressive 27.8 percent.

Utilization of CETA preferences showed moderate improvement in the second year of implementation of the agreement. The utilization rate for Canadian exports to the EU that were eligible for CETA preferences and claimed the preferences was 53.1 percent in 2019, up from 49.9 percent in 2018. On the other hand, the utilization of CETA preferences for Canadian imports from the EU improved noticeably, going from 37.1 percent in 2018 to 45.9 percent in 2019.

Nevertheless, utilization of CETA preferences for Canadian exports to the EU varied widely by country and by sector. About 86.8 percent of Canadian exports to Denmark that were eligible for CETA preferences claimed these preferences; yet only 30.7 percent of eligible Canadian exports to Germany utilized CETA preferences.

Even within a given sector, such as motor vehicles and parts, CETA preferences utilization for Canadian exports can vary considerably. Utilization of CETA for Canadian exports to the UK in this sector was high (65.9 percent), while the utilization rate for Canadian exports to Germany in the same sector was only 5.2 percent.

In conclusion, what this report shows is that, in the two years since CETA provisionally came into effect, it has worked as intended, but more promotion efforts are required to reach CETA's full potential.