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Policy Brief November 2008

The economic partnership agreement between Canada and the EU is still on track

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On October 17, at the time of the Canada-EU Summit in Quebec, the two parties released a joint study which outlined the economic consequences of a possible economic partnership agreement between Canada and the EU.[1] This study represents just one more step in a long journey towards the greater liberalisation of transatlantic trade and investment. The next stage of the process will be to develop an agenda and a schedule for negotiations for such an agreement. At the very least we must hope that this stage will be complete by the time the new European Commission is installed next summer so that the negotiations can start at the latest in the Autumn of 2009 and be completed by the end of 2010. Besides, Canadian Prime Minister Stephen Harper indicated that "Canada and the EU will prepare formal mandates with a view to launching negotiations on an economic partnership as soon as possible in 2009."[2]

When we speak about an economic partnership agreement, it should be noted that we are not talking about a traditional free trade agreement such as NAFTA where customs duties (tariffs) are eliminated for trade in goods and services. Here we are talking about a second generation trade agreement where the emphasis is on non-tariff barriers such as standards, procedures and regulations. Other than in the realm of agriculture, the benefits derived from eliminating tariff barriers are relatively insignificant. In 2007, Canadian goods faced an average tariff of 2.2% when they entered the EU, whereas at that time European goods were hit with an average tariff of 3.5% to enter the Canadian market. Nevertheless, a study that I carried out with Andreea Strachinescu demonstrates that if there were a first generation type free trade agreement between Canada and the EU, Canadian exports to Europe would increase by approximately two billion

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dollars whereas imports coming from the EU would rise by approximately 10 billion dollars.[3]

The joint report published on October 17 suggests that a second generation type of economic partnership agreement would allow Canada to increase its exports of goods and services to the EU by 8.5 billion euros and that the EU would be able to increase its exports to Canada by 17 billion euros (see Table 1). The report also suggests that GDP would increase by 11.6 billion euros and 8.2 billion euros for the EU and Canada, respectively. While these amounts are not negligible in absolute terms, they account for only 0.08% and 0.77% of European and Canadian GDP, respectively.

Table 1: Anticipated increase in trade between Canada and the EU if an economic partnership agreement is concluded.

(in billions of euros and as a % of the current level of trade)	Goods	Services
Canada to the EU	6.3 (24.3%)	2.2 (14.2%)
The EU to Canada	12.2 (36.6%)	4.8 (13.1%)

These increases in trade flows between Canada and the EU are projected for the year 2014 and are relative to a hypothetical "baseline" projection that not only includes projected changes to the world economy but also the elimination of barriers to trade in goods as currently envisaged by the Doha Round negotiations.

Thus, the anticipated economic gains are slight relative to the size of the European and Canadian economies. In the case of Canada such an agreement could increase the wealth of each resident by 273 euros. For the Europeans, the profit would be around 25 euros per resident. Of course, the benefits from such an agreement would not be distributed evenly among Canadian and European residents. According to the joint study, in Canada the metals and transport and electronics equipment sectors would see the greatest economic gains from such a deal. It can also be assumed that provinces which trade more with the EU, such as Quebec, will derive most of the economic benefits from a new deal. For the EU, the joint study suggests that the main areas to benefit from an economic partnership agreement would be chemicals, food, beverage and tobacco products, transport services, business services, consumer insurance and services. It is also likely that the member states which already export the most to Canada would garner the greatest benefits from such an economic agreement. These countries include Germany, France, Italy and the United Kingdom.

As well as considering the economic and trade implications of an economic partnership agreement between Canada and the EU, the joint study also tries to identify the current obstacles to trade and investment between Canada and the EU. For example, each Canadian province has different regulations which necessitate varying requirements for recognizing professional qualifications, licences to practice and accreditations. These divergent regulations represent a barrier to the mobility of labour and have a negative impact on trade in services. This means that at present, European engineers who want to offer their services in Canada must conform to ten different sets of regulations. This is unconscionable. The joint study says that any agreement between Canada and the EU would need to solve issues such as this so that Europeans would be faced with a single market in Canada as they are in Europe.[4]

Another example of a trade barrier involves public procurement. At present European firms see themselves as being handicapped when provincial and territorial governments launch invitations to tender for the supply of goods and services. For example, in the case of the Montreal subway, the contract was initially awarded to Bombardier Transport without the European company Alstom even being invited to submit a bid, though this has now been revised following intense political pressures from Alstom and the Europeans (Alstom and Bombardier will now submit a joint bid). Although the WTO requires that its members treat foreign firms on an equal footing with their own national companies when it comes to making deals with the government, these rules only apply to the federal government in Canada, they do not affect the provincial territorial or municipal governments. Canada obtained this exemption from the WTO but the exclusion has become a focus of heavy criticism within the EU. The Europeans have clearly indicated that Canada will have to give up this exclusion if it wishes to start negotiations for an economic partnership agreement with the EU.

For its part, the Canadian government complains that European rules on geographical denominations (e.g. prosciutto di Parma, feta, champagne, etc.) represent a barrier for Canadian food products in the European market. Conversely, the EU asks that Canada comply with these same rules within its own territory. Otherwise, without such a commitment Canadian products would have an unfair competitive advantage in the Canadian market. The two parties will have to agree on these questions within the framework of negotiations for the economic partnership agreement.

The joint study identifies several other examples of this kind and tries to quantify what each would cost in terms of opportunities for trade between Canada and the EU – using models to establish the economic costs and benefits derived from an agreement. The study also outlines several fields where Canada and the EU would benefit from collaborating more than they do at present. These fields are science and technology, energy, the environment, transport, customs and education. The objective of this part of the study is to try and identify where rules and procedures could be better harmonized in order to support trade and investment. In addition, greater collaboration in these fields would hope to improve the exchange of ideas and best practices with the ultimate goal of getting more people and companies on both sides of the Atlantic to do deals with each other.

All in all, Canada and the EU have just taken a major step in advancing towards an economic partnership agreement. It was difficult for the Canadian government and the European commission to convince politicians, civil servants, companies, trade unions, etc. of the advantages of such an agreement in the absence of a comprehensive study showing the economic consequences of a transatlantic economic partnership. Now, it is necessary to move onto the second phase: to launch negotiations.

However, it is extremely likely that the degree of effort that the two parties will want to invest in the negotiations for an agreement will be a function of the likely relative economic benefits afforded to each side. Thus Canada will probably have to be more proactive and take the lead in the negotiations. The Harper government must ensure that the economic partnership agreement stays on the EU agenda – equally important that it be on the agenda at the Commission as well as those of the member states. In addition, the federal government will have to prove that it has the unequivocal support of the provinces and territories.

Finally, Canada will need to send a clear signal to European decision makers that the country is ready to make concessions. It is clear that the EU expects Canada to adopt more of the European position than the other way around. However, the Canadian government will need to indicate clearly to their European counterparts that any transatlantic agreement cannot harm the competitive position of Canadian companies in the U.S. market. This means that any attempt to harmonize rules, standards, procedures and regulations cannot be at the detriment of the economic relationship between Canada and the United States. This has to be Canada's "red line" in the negotiations.

In conclusion, Canada and the EU have a unique opportunity to develop a second generation preferential trade agreement which could be a model for the rest of the world. Perhaps the United States, given their new leadership, would wish to join such an agreement (once the economic crisis is over). For Canada, that would be the ideal scenario. For Europe, a reinforcement of the fundamentals underlying trade and investment would provide a strong foundation from which to face competition from Asian countries.

[1] "Assessing the costs and benefits of a closer EU-Canada economic partnership", A joint study by the European Commission and the Government of Canada, 17 October 2008, http://trade.ec.europa.eu/doclib/docs/2008/october/tradoc_141032.pdf (consulted 20 October 2008).

[2] "Canada, European Union to seek closer economic partnership," Office of the Prime Minister, http://pm.gc.ca/eng/media.asp?id=2282 (consulted 18 November 2008).

[3] P. Leblond et M.A. Strachinescu, "Le libre-échange avec l'Europe: Quel est l'intérêt pour le Canada ? ", HEC Montréal, October 2007.

[4] It is important to note that all is not yet perfectly clear within the EU on this subject, as the difficulties experienced with the services directive demonstrate.