CETA: Public Services and Procurement

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I feel conflicted discussing this topic. As an academic I try to conduct detached, social scientific research on international relations. Yet, as a Brit and a Canadian married to someone who is also a Canada/EU dual national, I have a personal stake and interest in transatlantic relations.

In addition, I favour progressive causes. I support transatlantic dialogue and partnership specifically, and internationalism and openness generally. For many in the public debate on CETA, however, these seem to be at odds. International competition is either directly a challenge to or a stalking horse to undermine measures that seek to guarantee some sort of equity in Canadian society.

Nowhere is this posed more starkly than with the issue of public services and procurement. How can an international agreement opening access to foreign competition possibly be a positive thing for the welfare state, we might ask? This is a question for Europeans as much as it is for Canadians.

I confess that I have been disappointed by some of the rhetoric of supposedly progressive opponents of the deal who seek to stir up fear of *foreign* corporations. Of course, everywhere but here, Canadians are foreigners too, and I hope that when they are, that they are treated fairly. One can hope that any agreement with the EU will move towards this fairness of treatment of Canadians by Europeans and vice versa.

Having said that, putting my analyst hat on, my initial assessment had been that CETA wasn't going to go anywhere or at least not quickly. It is far too complex and controversial, which is why in the past agreements between Canada and the EU have either been narrowly sectoral or high-sounding rhetoric set within a general framework.

Negotiations have got further than I expected, I admit. Yet we are nevertheless where I expected us to be – stuck with the provinces (or at least, one of them) and one of many controversial issues, government procurement, as the sticking point.

Why is this deal advancing and why now?

Some have said because it is secretive. I find that hard to believe. Given the nature of international negotiations, necessarily everything isn't on the table and declared openly from the beginning. Moreover, there have been consultations on the Canadian side. More importantly, the complex multilevel nature of the negotiations has left the whole process effectively open. The EU as a multi-state governance system just isn't that good at being secretive (as anyone who studies European security and defence policy knows). Canada has exploited this in the past, and I have advocated such strategies in getting what we want. The fact that the text has been leaked and that so much is known by opponents as well as advocates is testament to this. The ignorance of CETA and its implications in Europe has as much to do with the seemingly small stakes in terms of the economic relationship with Canada, perhaps exacerbated by the trade surplus that the EU has with Canada. It is also commonly an assumption among European critics of the EU that it is the EU that is the more powerful party in international trade negotiations and as such the exploitative one; in this case that's seen as unlikely because Canada is a strong, developed nation.

Some in Canada have painted CETA as part of an ideological agenda. In fact, Quebec initially got this going (while the rest of Canada might see the US as its 'natural' market, Europe is much more so for Quebec), the provinces have been and continue to be for the most part onside, and anyway, Harper largely dislikes and has little time for the EU and most of Europe. Indeed, a free trade agreement with the EU has been long been a Canadian objective and is something that Liberal PM Jean Chretien desperately wanted, though sadly his buddy, fellow progressive and at the time Commission President, Romano Prodi, could not deliver European interest.

A Canada-EU agreement is not intrinsically ideological, though some iterations of it may be more or less so. There may now actually be a case for somewhat more openness about the CETA, especially as the deal is being fleshed out beyond the original negotiating positions, though this openness must be more than pandering to sectoral interest groups and consider overall welfare of Canadians.

Canadian desires and EU reluctance in the past tell us something about the present round of negotiations: in the history of Canada-EU relations, Canada has tended to push for new agreements but these tend to happen when the EU wants them. The result is that the agenda is typically a mix of the interests of both. Yes, this is to do with relative power but not only that.

As a major global economic power, the EU is pursuing bilateral (or (inter-)regional) agreements like this one as a second best option in a context where multilateral negotiations are proving difficult to complete and when the global economy has slowed or is uncertain. This is a repeat, in many ways, of the earlier general Canada-EU agreements in 1976, 1990, 1996 and 2004.

As a second best, we should expect the EU to be interested in pursuing an agenda like the one they advance multilaterally. But in the Canadian context, there is an added bonus and opportunity for the EU. It is not, primarily, a direct economic opportunity, since in terms of the trade and investment exchanged, Canada is relatively unimportant to the EU. We have risen up the EU tables of imports and exports but only because other nations have joined the EU! Rather, the bonus is that Canada and the EU share a lot in terms of democratic values, multilevel governmental systems, open and liberal economies, as well as welfare states. As a result, the negotiations can go to places that the EU cannot and would not consider with other parties. This is also the reason the accord while on its own may be seen as liberalizing and deregulating, might be made part of a broader attempt to deal with early 21st century concerns to do with the financing and provision of public services. Such issues can only be dealt with through the involvement of the Canadian provinces. The EU has wised up to the fact that Canada and the US have used their federal constitutions as a way to hide certain issues from the purview of trade agreements. It wants, demands even, that issues within provincial jurisdiction be on the table, though they may not have expected that that would mean that all the provinces were *at* the table as a result.

Where is the Canadian interest?

But it isn't the EU that is simply driving the agenda. The provinces aren't involved simply because the EU wants them there. The provinces have been exempted from trade and economic agreements in the past, yet they are there now. Why? To my deep dismay, I am on a few clips on YouTube talking about Canada-EU relations, in one saying that Canadians should eschew the notion that agreements like this are about establishing international values. Rather we should pursue our interests. These include diversification of trade from an over-concentration on the United States according to some; and indirectly achieving freer trade within the Canadian economic union might be another. But what interests might provinces themselves be pursuing?

To understand the implications of CETA for the provinces, it is helpful to begin by distinguishing public provision and public finance as they relate to public services and procurement. As shown in Figure 1, many public services may not be what economists think of as pure public goods but they are both publicly provided and publicly financed – for instance in the top left, nursing services in hospitals, teaching in schools, police services. But not all public services are both. Insofar as there are user fees or prices for purchasing there is an element of private financing – for example, within a public hospital, food services may be privately provided. And anyone with a kid in hockey will know that, while the arenas are publicly provided, you pay to use them. This is bottom left, we pay for water, for instance, even though it is municipally run and subject to public subsidies. By contrast, public procurement involves private provision with public funding, like, for instance, road building or the construction going on across this campus today. At the bottom right are private goods, though it is interesting to note that even food which is for the most part privately provided and financed, there is nevertheless a public element in the various supply management regimes with respect to dairy products for instance.

This figure illustrates a couple of points which are important when considering the implications of CETA and why provinces are interested. First of all, many public services and all public procurement already involve some private element. Even insofar as a good or service is a public good, it can potentially be privately provided. But different goods and services will have a different mix of public and private. For instance, contracting out or privatization (that is, moving certain public services to public procurement) might make sense in some cases but not in others. I think it is at least logical that one could consider a tendering process for the cleaning services in hospitals, schools or universities. Not many people would regard a tendering process for doctors and teachers the same way.

In any case, when looking at CETA, it is a good idea to consider where a good is in the 2x2 box and whether CETA will move it and whether such a move is justified by improving efficiency, transparency and the like. Much of this assessment will be to do with whether the good or service is subject to market failure and whether government initiative can address that failure without making matters worse.

Why might this matter? If we consider the consolidated provincial and municipal expenditures in Canada as presented by Statistics Canada (see Table 1), it is clear that the primary public services account for the lion's share of spending. (I would like to suggest that the key to provincial interest in the public procurement aspect of CETA might be associated with a particular economic horizon not so far off. With large and possibly growing debts, an unpredictable and often unsupportive federal government, and a demographic and social future that will put serious strains on those big ticket items, provinces are faced with an unenviable choice. Now I don't want to go all CD Howe on you, predicting the end of the Canadian welfare state, but I do want to try to think through what the options might be. I can see three approaches provinces can take to get closer to budget balance, which might be taken in relative measure together:

1. Increase revenues through taxes, user fees and other income.

2. Cut expenditures and reduce government intervention across the board –the Manchester Guardian's 'You be the Chancellor' which modelled cuts in the UK is a useful and fun exercise in this regard.

3. Make savings through "efficiencies" – though everyone knows that in the public sector, the costs are the benefits (we're spending 'X' millions on health care, etc.), so cutting costs means job losses and or wage reductions, restructuring and so on.

It seems to me that, given the significance of health care, education, and social services as primary public services and their budgetary impact, those areas where there is public procurement are clearly where so-called efficiencies may be found. Remember, what we are talking about already involves private provision, and the idea that this is some nasty foreign multinational undercutting little Canadian businesses does not seem to me to bear scrutiny. For provincial governments, the EU and the CETA give them plausible deniability, an excuse if you like, regarding the opening up of provincial procurement and other cost-saving measures. Furthermore, properly managed, the competitors are as likely to be other Canadian firms as European ones. CETA, then, might be part of a process of the provinces 'self-binding' by adhering to an international agreement that commits them to certain shifts in the provision and financing of public services and the relative openness of public procurement.

Those Free Traders who favoured the Canada-US free trade deal and, to a lesser extent, NAFTA have liked the subsequent plethora of niche trade deals with smaller parties much less. However, they especially don't like this one; where they ask, is the benefit to Canada and in particular to the provinces? Now this seems to me to suggest an opportunity for those who aren't keen on what they see as neoliberal globalization.

In its efforts to do this deal with Canada, the EU is far from unified. Even in trade, the EU is a fractious, sometimes contrary, actor. The EU is not only divided among its member states but is a segmented actor in the sense that different policy areas are subject to different decision-making rules. With regard to global trade and investment negotiations, the Commission and particularly the part of the Commission that deals with international trade is in the driver's seat. This part of the EU is well known, among member states especially, as rather more liberal and free trading than the average in the EU. However, that it gets to negotiate does not mean that the Commission has the final say: that still rests ultimately with the wider EU public in the member states. As usual, since it is far from being the most creative international actor (there are far too many intra-EU veto points to allow that), the EU is using a cookie-cutter, a policy mix that has worked before. In this case it is an approach that shadows the one taken to some degree within the EU and with the EEA (European Economic Area).

In the EU economic integration has been attended by protections and regulations for labour, though of course as we know, these vary whether you are in Ireland, the UK, Germany, France, or say Estonia or anywhere else in the EU for that matter. And the European national welfare states, even if under pressure, whether in Sweden, Germany, the Netherlands or elsewhere in the EU, stand as examples of how these can be maintained within the wider setting of economic openness and the reduction of international trade and investment restrictions. In negotiating an international agreement with the EU, Canada is negotiating with an organization that already mixes economic openness and extensive welfare states.

This is why I find the negative outlook of the critics of the CETA so disappointing. Talk of the threats to Canadian jobs strikes me as disappointingly reactionary. Remember that Canadians will also be able to access the European market, though presumably it will be the usual suspects – the nasty Canadian multinationals! And in Canada, for instance, the worries that the postal services will be privatized we are told – as if what is happening to the postal service in terms of its competitive environment will be averted by continued government ownership. Water privatization is not a route I would follow, or at least certainly not the way that the UK did it. But there may in this and other cases – the LCBO is a rather different example in terms of public control of retail sales – be good reason to be open to competitive bidding for certain aspects of the business. In any case, regarding water, there is no reason why price subsidization should not be a topic for public policy discussion.

The Green Energy Act is protectionist the EU says and wants to be rid of it; while we're told by CETA critics this will jeopardize green energy jobs in Ontario. But we are not told why we shouldn't purchase the most effective or cheapest green energy? Why shouldn't we take advantage of the R&D invested by the Europeans? And if local Canadian suppliers are indeed vulnerable to undercutting, we should through CETA seek the removal of European subsidies and preferences to their corporations.

Ultimately, there is nothing to stop the federal or provincial governments setting limits to what is opened up to Canada-EU competition. However, scrapping the entire agreement would be a mistake and a missed opportunity to input the sort of regulatory framework and legislative initiatives that would not only protect but advance the interests of not only workers, but consumers and citizens generally in both Canada and the EU.

It has been suggested that Canada is negotiating from weakness in its discussions for the CETA. Having your head in the sand regarding the local, national and global economy seems to me to be not only a weak but an undignified negotiating position. Considering how or whether the CETA might shift public services across or within the categories of public provision/public finance might be a step towards preserving and modernizing rather than dismantling the Canadian public system.

Figure 1: Provision/finance typology		**Provision**	
Finance		Public	Private
	Public	*Hospitals*	*Roads*
	Private	*Water*	*Food*

Consolidated provincial, territorial and local government revenue and expenditures, 2009		
	$ millions	Proportion
Total expenditures	418,606	100%
General government services	13,580	3%
Protection of persons and property	23,673	6%
Transportation and communication	29,667	7%
Health	116,631	28%
Social services	63,843	15%
Education	92,319	22%
Resource conservation and industrial development	13,878	3%
Environment	14,756	4%
Recreation and culture	12,294	3%
Labour, employment and immigration	1,144	0%
Housing	5,366	1%
Regional planning and development	2,391	1%
Research establishments	625	0%
General purpose transfers	715	0%
Debt charges	26,800	6%
Other expenditures	924	0%
Surplus	-9,679	-2%
Source: Statistics Canada		