

## The Canada-European Union Comprehensive Economic and Trade Agreement: A View From The Trenches

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*The Comprehensive Economic and Trade Agreement (CETA) negotiations between Canada and the European Union (EU) started in 2009 are scheduled to conclude within the next couple of months. Although the actual breadth and ambition of the agreement will not be known until the deal is signed, its genesis, negotiation, and potential impacts present a number of interesting economic and trade policy issues. This short article does not intend to analyze these issues in any depth, but rather tries to convey an impression of their importance, complexity and interconnectedness. This account is unavoidably biased by my participation in CETA as Ontario's Chief Negotiator (June 2009 to June 2012), and obviously limited by the fact that the negotiations are still ongoing.*

### What's the big deal?

As trade deals go this is a fairly large one—the largest Canada has undertaken since NAFTA was signed twenty years ago. The EU, with a population of 503 million and a GDP of over \$17.5 trillion, is still the largest trading block in the world. Even if its demographics and current economic troubles mean that its growth prospects are limited, the EU is a large, rich and mature market with strong labour and environmental standards. Canada would clearly benefit from having increased access to the EU for its products and services. For the EU, this is their first trade deal with a developed nation and a good preparation for future trade negotiations with the United States. It would also be welcome good news in an otherwise bleak European economic environment.

Although tariffs between Canada and the EU are relatively low for many products, the annual economic gains of a comprehensive trade agreement have been estimated at approximately 0.08% of GDP for the EU, and 0.77% of GDP for Canada, by a study carried out in 2008 (Foreign Affairs and International Trade Canada 2012). Much has

changed in the economic landscape since this study was conducted, and while we would benefit from updated numbers, its main conclusions should still hold.

**To trade, or not to trade: That is the question**

For a country so dependent on trade, the relatively low public awareness of the critical role that international trade plays in our economy is surprising. Canada is among the top 10 trading nations in the world (intra-EU trade excluded), with merchandise exports and imports topping \$900 billion (WTO 2012). Canada’s economy is so dependent on trade that its “trade intensity” (the ratio of exports and imports to GDP) is 61%; the trade intensity of the US by comparison is only 28% (WTO 2012). On a per capita basis, Canada’s exports are the second largest among the G-20 countries, behind only Germany (WTO 2012). Canada’s future standard of living hinges precariously on our ability to expand the markets for our products and services and to improve our trade performance, yet the public discourse seems far from unanimous on this point.

With the WTO multilateral Doha rounds stalled, the race is on to negotiate bilateral and regional trade agreements. CETA’s successful completion would place Canada in the enviable and unique position of having preferential trade agreements with both the US and Europe. It would also be a strong calling card for our participation in the Trans-Pacific Partnership and to pursue an ambitious trade agenda that includes both India and China. Conversely, a poor outcome on CETA would not bode well for either Canada’s or the EU’s ambition to secure preferential trade agreements with the fast growing economies of the East.

**All in the family: Federal-Provincial-Territorial (FPT) dynamics during the negotiations**

The negotiation of international trade agreements is under the exclusive jurisdiction of the federal government. For the CETA negotiations, however, the provinces and territories were invited to the negotiating tables related to areas under their responsibility, such as public procurement, and investment and services. Provincial and Territorial

participation was a requirement of the EU, who apparently felt it necessary to ensure that commitments in these areas would be respected.

While this afforded the Provinces and Territories a historical first, and perhaps unique, front seat at international trade negotiations, it did not make things easier for the federal negotiators, who had to mind the international and the internal fronts simultaneously. The evolution of the FPT relations that followed the first rather tense meetings, however, was marked by cooperation, collegiality and regard for the different trade objectives of the regional economies. Without going into details—the time for details will come after the deal is signed—the FPT negotiators were able to turn a tactical disadvantage into a strategic advantage.

### **From deal to deed**

Although the scheduled end of the negotiations is almost upon us, and the negotiators have crafted balanced agreements in most areas, some of the toughest issues still remain to be bridged. This is not surprising, as in this kind of negotiation the most difficult issues are usually decided by political leaders late in the eleventh hour; but it is also a bit unnerving as another characteristic of these negotiations is that “nothing is agreed until everything is agreed.”

Beyond the actual shape that the final CETA deal takes, the practical measure of its benefit to Canada will be our ability to turn opportunity into reality. This will require a concerted effort to turn preferential market access into strong export performance in a variety of sectors. The ratification process may provide a window to prepare us to do just that. Ratification is likely to take the better part of a year on the EU side given the enhanced role of the EU Parliament in the approval process, resulting from the Lisbon Treaty.

Seizing the potential of CETA, and of future trade agreements effectively and swiftly is crucial for our economy, especially in this era of low economic growth. With the traditional

stimulus levers of monetary and fiscal policy almost fully exercised, trade presents one of the few bright lights in the economic recovery horizon, but it will not shine indefinitely.

### References

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