Canada in for $12B windfall with EU deal: Van Loan

BY PETER O'NEIL, EUROPE CORRESPONDENT, POSTMEDIA NEWS
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Trade Minister Peter Van Loan defended on Thursday the federal government's assertion that a Canada-European Union trade deal will add $12 billion to Canada's annual wealth by 2014.

The estimate, included in a 2008 joint Canada-EU study, is coming under criticism from analysts, with one describing it as a "sales pitch" that doesn't take into account the impact of Europe's debt crisis and the slide since 2008 in the euro currency.

"The number is almost certainly suspect," Swiss Institute for International Economics Director Simon Evenett said Thursday.

The claim of $12 billion was made twice in the last six weeks in news releases issued by Van Loan, who has predicted an agreement will be struck by the end of this year.

It is based on the study's 2008 projection that Canada's gross domestic product would rise by 8.2 billion euros by 2014, or 0.77 per cent of GDP.

That figure apparently has not been updated recently, since 8.2 billion euros would convert over the past month from a low of $10.5 billion to a high of $11.2 billion.

Van Loan issued a statement noting that Canada could actually gain more due to developments since 2008 that weren't taken into account by the authors.

"Yes, we are comfortable with the projected benefits," he told Postmedia News. "The potential benefits of the Canada-European Union trade agreement may well exceed $12 billion."

Evenett, who believes a Canada-EU deal will be positive but on a more modest scale, noted that the 2008 study was based on aggressive assumptions about the reduction of tariff and non-tariff barriers.

But neither side is moving quickly on several fronts, with Quebec Premier Jean Charest, who many credit for getting the negotiations underway, demanding that Hydro-Quebec be exempt so the government-owned corporation can use procurement contracts to promote regional development initiatives.

"If Charest wants to protect its hydro power company, why can't EU member states do the same thing?" Evenett said. "Trade deals are a two-way street; once one party starts backing off, the deal shrinks in value quickly as the other party responds in kind."

Canadian Auto Workers economist Jim Stanford noted that the study doesn't take into account the sharp rise in the Canadian dollar since 2008.

"There's no consideration of the fact our products are 20 per cent more expensive relative to Europe than we were just a couple of years ago," Stanford told Postmedia News. "It is more of a sales pitch for why we should be doing this."

A Library of Parliament study has also raised questions — though it didn't take a position on whether the $12-billion figure is too high or too low.

"The Canada-EU joint study was completed before the global financial and economic crisis and does not reflect the impact of the crisis, nor of the debt crises facing several EU member states," wrote Alexandre Gauthier and Michael Holden in a report that advised "caution" in relation to the projection.

Free-trade advocates acknowledge the study's shortcomings, but economist Hosuk Lee-Makiyama said the report doesn't give consideration to the "dynamics" and "efficiencies" Canadian companies will experience by getting easier access to a market with a population of a little less than 500 million.

"If anything, this approach underestimates the importance of deregulation and focuses instead on tariffs, as they are tangible and quantifiable," said the economist with the European Centre for International Political Economy in Brussels.

A spokesman for the Canada Europe Roundtable for Business, a lobby group funded by major Canadian and European corporations, said the report actually underestimates the potential gain for Canada.

Jason Langrish said the authors used traditional data based on the final value of products leaving a single country for export, which means the study would have had trouble identifying and allocating accumulated value within global "supply chains" as components of the goods move from country to country before final assembly.

"Given that a large proportion of the Canada-EU relationship is dominated by intra-company trade and trade in services, both difficult to measure, we suspect that a study focused on accumulated value would conclude gains in excess of $12 billion per year," according to Langrish.

The 2008 analysis assumed an aggressive agreement that would include the complete elimination of all tariffs on goods, including agricultural products, a partial cut in non-tariff barriers, and a partial liberalization in trade in services, according to the Library of Parliament analysts.

The 2008 study also assumed in its calculations that the Doha Round of negotiations at the World Trade Organization would be successful.

The Doha talks had been stalled for two years before a recent push, in the midst of much skepticism, for a deal by the end of this year.

Both Van Loan and Lee-Makiyama pointed out that Doha's possible failure to this point adds value to the Canada-EU deal, since a successful Doha round would have essentially replicated many of the features of the bilateral deal.