Canada ready to raise foreign takeover threshold for Europe to $1.5B

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OTTAWA -- The Harper government has agreed to smooth the way for more takeovers of Canadian companies by European firms in one of several concessions during free-trade talks, sources tell The Canadian Press.

Canada has also agree to open up parts of its hydro-electric sector to a limited amount of foreign investment, say sources in Canada with intimate knowledge of the talks.

With Prime Minister Stephen Harper in Europe over the next week hoping to hammer out the remaining barriers to the ambitious deal, sources say Canadian negotiators have agreed to a provision to raise the threshold for reviewing foreign acquisitions from Europe to $1.5 billion.

All acquisitions under that value would not be subject to a government assessment about whether they create a net benefit for Canada.

Just this Monday, the House of Commons passed the budget implementation bill raising the threshold from the current $334 million to $1 billion over the next four years. The new threshold would only apply to private, not state owned firms.

While the concession will be seen as controversial with some in Canada, especially after issues arose over recent foreign acquisitions in the resources sector, Europe is treating the issue as a major climb-down from its starting position of no restrictions.

In return, Europe has apparently gained ground on investor protection dispute settlement rules, meaning the deal calls for few restrictions on the ability of European firms to sue Canadian governments for policies judged unfair to investors.

As well, the current state of the talks has Canada giving Europeans more market access in protected sectors such as telecommunications, which has restrictions on foreign ownership, as well as uranium mining, postal services and insurance.

Overall, the two sides say they will completely eliminate all industrial tariffs within seven years, a measure that will save Canadian exporters $213 million annually -- and European exporters $635 million -- at current exchange rates.

Canada has also significantly moved to appease European demands for opening up provincial energy utilities, again affecting mostly those in Ontario and Quebec, in procurement of goods and services.

Documents obtained by a Quebec civil society network, the Reseau quebecois sur l'integration continentale, suggest that 35 per cent of Hydro Quebec's annual procurement -- currently about $1.1 billion -- will be up for grabs to European suppliers.

"We are pretty concerned that the Quebec government is abandoning its tools to support Quebec firms and industrial development in the province," said Pierre-Yves Serinet, the co-ordinator of the network, which is planning to issue a statement on the issue Wednesday.

Last week, a spokesman for the prime minister poured cold water over speculation that the two sides could sign off on a deal before or during the G8 meetings in Ireland that end Tuesday.

However, Canada's negotiating team has been kept in Brussels just in case and is expected to continue talking at least throughout the week.

Some analysts believe a deal must come quickly or Canada will risk being shunted aside as the European Union launches discussions with the United States. As well, an agreement would constitute a political win for the Harper government, especially at this time when it is under attack over the Senate expenses scandal.

"I don't think it's going to be signed during the G8," said Lawrence

Herman, a trade lawyer with Cassels Brock who has closely followed the talks.

"But I think it has to be concluded within weeks. If it isn't, it means the problems are intractable."

Trade Minister Ed Fast's director of communications, Adam Taylor, said "progress is being made across the board," but would not comment on the specifics of the negotiations.

Still, he cautioned: "Nothing is agreed to until everything is agreed to."

According to sources, the two sides have closed the gap on several key issues but remain apart on a few others.

A major sticking point is Europe's unwillingness to open up its market to beef imports, particularly problematic because Canadians would need a big enough entry -- believed to be 40,000 tonnes annually at a minimum -- to justify converting production to hormone and antibiotic free beef as required by EU restrictions.

Meanwhile, France and Ireland are resisting any significant quota assuming that whatever Canada gets, the U.S. is likely to demand an equal or greater amount.

John Masswohl of the Canadian Cattlemen's Association, who is in Brussels with the Canadian negotiators, would not confirm the industry's minimum requirement but says what Europe is offering now is insufficient. He added that 40,000 tonnes "is not a basis for an agreement" in his view.

Also still on the table is whether Canadian provinces -- particularly Ontario and Quebec -- will be able to have a set-aside for local suppliers on urban transit projects. Europe wants local preferences eliminated, but is meeting resistance from Canada's two biggest provinces.

And despite agreement to liberalize about 92 per cent of all agricultural tariff lines, there still has been no final resolution on the

sensitive issue of supply management in dairy, poultry and eggs.
On autos, the rules of origin concerns have apparently been settled to Europe's satisfaction.

The two sides have moved closer on intellectual property, although the pharmaceutical copyright issue that increases drug costs in Canada has not been completely closed.

Stuart Trew of the Council of Canadians, which opposes the Canada-EU deal, says Ottawa is preparing to give away too much, particularly in the area of government procurement, for too little gain.

He says he is especially concerned that even if beef producers win all they want on the quota front, it will be at best a temporary gain since U.S. farmers will begin squeezing out Canadian producers once the U.S.-EU trade deal is concluded.

"This is trading temporary private-sector profits for public-sector costs in transit and drugs," he said.

On one subject that was recently in the news after Newfoundland Premier Kathy Dunderdale complained about Ottawa's strong arm tactics, sources say most of the issues regarding the fishing industry have been agreed to in principle.

The premier had said she would not compromise on the issue of the province's ability to protect local jobs in the seafood processing industry, but has more recently said her position and that of Ottawa's negotiators are now in "alignment."