

Canada-EU trade talks need wider focus on services: Report

By **STEFANIA MORETTI**, QMI AGENCY

Last Updated: September 20, 2010 2:58pm

Canada is at the bargaining table with European Union trade officials and the stakes are much higher than many would think, according to a new report by the Conference Board of Canada.

That's because Canada's trade with the EU is grossly underestimated, the think-tank said.

Conventional trade analysis paints a narrow picture of the trade relationship, focusing mostly on hard goods trade and largely missing the service trade.

Ignoring the value-added supply chain could leave Canada in a defensive position, essentially closing the door to substantial trade growth, it said.

"The entire agreement could fall apart if this narrow approach prevails, costing us better access to a broad range of long-term economic opportunities," Danielle Goldfarb, associate director of the Conference Board's international trade and investment centre, said in a release.

The report, entitled "Canada's 'Missing' Trade with the European Union," uses Research In Motion's BlackBerry to illustrate the benefits of integrative trade.

Designed in Waterloo, Ont., the BlackBerry is made of parts from companies all over the globe and assembled in either Hungary or Mexico.

On top of manufacturing hardware for maximum returns, RIM also collects subscription fees from wireless carriers all over the world. The multilayer linkages make RIM an extremely sustainable profit model.

Yet traditional trade data would only consider a BlackBerry sale to an Asian consumer as an export from Hungary, entirely missing Canada, which accounts for a sizable portion of the collected revenue.

In fact, these types of sales by foreign affiliates represent the primary mode of Canada-EU trade, not cross-border exports, the report said.

When traded services, imported parts and sales by Canadian affiliates in the EU are included, Canada sells at least \$150 billion in goods and services to the region every year - more than four times the size of reported goods product exports.

The Europeans appear to have made the distinction already.

EU businesses are rapidly expanding their services sales via affiliates in Canada, growing such sales at "an incredible" 14% annually on average between 2000 and 2008, the report said.

"By contrast, Canadian affiliates in the EU are merely keeping their services trade roughly in line with inflation."

The BlackBerry is the exception, not the rule, and Ottawa needs to do more to foster the integrative trade model, the Conference Board argues.

Canada needs to eliminate barriers to service trade, people movements, digital trade, trade in technologies and investments, it said, adding this likely requires further investment in communications infrastructure.

"This could boost value chain activity, services trade, and foreign affiliate trade -- particularly in Canada's presence in the EU, which seems underdeveloped at present," it said.

Canada should also continue to push for advances in global trade talks, which are largely stalled at present but represent the greatest integrative trade potential.

A separate report by the World Trade Organization on Monday forecast international trade will grow by 16.5% in emerging markets this year and by 13.5% in other developed economies.