

TRADE

Crucial EU trade deal hangs on Canadian autos, cheese, beef

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The Harper government is pushing hard to secure a trade deal with the European Union before the Commons adjourns in June, an achievement the Conservatives sorely need to demonstrate they can ink ambitious accords that reduce Canada's reliance on the United States.

Ottawa is in a race against the clock now that the European Union is turning its attention to a separate accord with the United States – a development that threatens to overshadow EU negotiations with Canada.

Chief Canadian negotiator Steve Verheul has been in talks with his EU counterparts in Brussels since Monday and discussions are expected to continue through Wednesday. Canada hopes to emerge with a schedule for future talks that would in turn focus on each of the obstacles to a deal.

This long-delayed deal, which was supposed to be completed by 2012, would be Canada's biggest since the 1988 Canada-U.S. Free-Trade Agreement.

It would make it easier for Canadian companies to sell goods and services to the 27-member EU with its 500 million consumers.

In discussing the state of play of talks, Ottawa officials say they are now on a "very aggressive track to close these negotiations out" as both sides haggle over how much Canadian beef will be allowed into the EU, how much Canadian content needs to be in Europe-bound automobiles and to what extent Canada might open up its cheese market and government procurement or lengthen patent protection for brand-name drugs.

Canadians have refused to sign an accord until they get sufficient

access to EU markets for beef. Officials say the amount allowed would need to significantly exceed 40,000 tons a year. Ireland, a major beef producer, is balking at big concessions for Canada. One possible solution, sources say, would see both sides agree to a phased-in quota for Canada that would enable allowed shipments to grow over time.

Canada's heavily sheltered dairy farmers have resisted lowering Canada's high-tariff walls to allow more European Union cheese into this country as part of a deal. But federal officials say they believe that rising Canadian demand for cheese will give them the leeway they need to offer extra access to the EU without disrupting domestic producers.

The EU and Canada are also grappling with Ottawa's stubborn insistence to protect its right to intervene in the Canadian financial system when it feels business activity might endanger the sector. One example, a Canadian official said, would be Ottawa's 2008 move to shorten the maximum amortization period for mortgages to 35 years from 40.

But time could be working against Canada. Ottawa's long-delayed trade deal with South Korea stands as a reminder of what can go wrong when Canada fails to beat the United States to the punch. "The Canada-Korea free-trade deal was absolutely in the last stages and was completely set aside when Korea started to negotiate with the U.S. And the U.S. completed and Canada still languishes," said Ted Haney, president of the Canadian Beef Exporting Federation.

The Tories are under pressure to deliver. Almost since taking office, they have talked of signing major trade agreements that diversify commerce away from the slow-growing United States but have so far failed to land one significant accord that would underpin what has become a major pillar of the Harper economic strategy. Negotiations with India and other big economies have also made little progress.

The EU and Canada now find themselves haggling over what rate and period Canadian beef exports might grow. This gives EU farmers more time to adjust while reaching volumes that might satisfy Canadian producers. "Is there likely to be a phase-in period on this? Yes ... it gets us at a bigger number, which then gets us to a package that gives stakeholders the access and predictability they need," a Canadian official said.

Some Canadian producers say the minimum acceptable annual EU access is 40,000 tons of beef. They say anything less than that will provide insufficient incentive for Canadian producers to convert plants to hormone-free beef production required by the EU.

“Our big interest now at this stage of the negotiations is getting a number that satisfies the beef stakeholders. The deal has to serve all Canadian interests [but] if the beef guys aren’t satisfied, the provinces in the west won’t be satisfied. That’s the challenge,” an official said.