

Deal on autos emerging in Canada-EU free-trade talks: documents

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Leaked European documents on the free-trade talks with Canada suggest the two sides have the bare bones for an agreement in the troublesome field of autos.

The Canadian Press has obtained a European list of outstanding issues on rules of origin, which have long been a barrier to a final Canada-EU free trade agreement.

The list, dated Feb. 5, is included in a memo from the European Commission's director-general for trade, addressed to the trade policy committee.

Included in the list is a proposal for a two-step solution to the problematic auto sector – a sector that has proven difficult for negotiators to handle because Canada's auto production is so deeply intertwined with the U.S. market, making it nearly impossible to define what a "Canadian" car actually is.

The first step involves setting up a quota – an approach used frequently by Canadian and European negotiators to deal with contentious issues – while the second step involves negotiating arrangements with the United States.

The short-term quota "should be reasonable and based on current investment plans and export possibilities," the document states. "It is also linked to any growth clause."

That kind of quota design is unusual, since quotas are often based on historical production patterns and don't anticipate future changes.

However, the document does not say where the quota should be set. Canada proposes 100,000 passenger cars per year, but there is no indication that the EU would agree to that level.

Nor does the document say how Canada would divvy up the quota among auto manufacturers in Canada.

The quota – which the EU calls “derogation” – would eventually be removed after Canada, the EU and the United States reach an understanding of how to account for North American content in cars being shipped from Canada. Instead, it would be replaced with a stipulation that Canadian passenger vehicles should have no more than 40 per cent non-North American content.

“Derogation to cease, and maximum foreign content to be brought down to 40 per cent if and when there is an agreement with the U.S. providing for cumulation with Canada,” the document states.

The “cumulation with Canada” part is key because it signals that the European Union is ready to recognize and deal with the deep integration of the Canada and U.S. markets.

“The reality of a Canadian-made car is that it crosses the border and contains parts that are intermingled with the American sector, and that’s just the reality of the Canadian auto industry,” said the NDP’s trade critic, Don Davies.

“What we need in [the Canada-EU free trade agreement] is a deal that recognizes that, and sets the numbers at a reasonable number, so that a Canadian-made car that contains a certain amount of American content can in fact be exported into the European market at zero tariff or preferential tariff rates as a Canadian-made vehicle.”

The documents suggest that’s exactly where the deal is heading, said Laura Dawson, an Ottawa-based trade consultant.

“It’s good for Canada because it’s going to improve market access for Canada in the European market, and it takes account of the integrated nature of the North American market,” Ms. Dawson said.

However, the document also states that the European Union is taking a hard look at Canada’s vehicle standards – a red flag for anyone hoping for an agreement, since standards are not exactly the same in Canada and the EU.

The Canada-EU trade talks are in their final stages, with arrangements on beef, pork, procurement, financial services and pharmaceuticals still to be worked out. Both sides are under pressure to finalize the agreement, with the EU preparing to launch free trade talks with the United States in the coming months.

A spokesman for International Trade Minister Ed Fast would answer no questions about the auto rules-of-origin discussions.

Instead, press secretary Rudy Husny e-mailed a statement repeating earlier media lines: "We caution Canadians against attaching credibility to speculation, including related to 'leaked' documents. Productive discussions are ongoing between Canada and the EU."

Opposition MPs have complained frequently about the lack of Canadian information about the talks, forcing them to rely on European documents instead.

And Jim Stanford, chief economist for the Canadian Auto Workers union, warns that any deal with the European Union will only exacerbate the lopsided nature of the motor vehicle trade.

In 2012, Canada exported \$269-million in cars and parts to the EU, but imported European cars and parts worth \$5.6-billion – for a deficit of \$5.3-billion.

The document also shows that negotiators are trying to use quotas as a way to deal with rules-of-origin issues for textiles, sugar products, footwear and grain products.