

EU-Canada trade talks stalled, overshadowed by U.S.

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BRUSSELS/OTTAWA (Reuters) - Talks to wrap up a multi-billion-dollar free trade deal between Canada and Europe have stalled, diplomats said, raising concerns the agreement could be put on hold as Brussels switches its attention to a much bigger pact with the United States.

The Ottawa-Brussels negotiations to open up access to each others' economies were launched in 2009, and were originally presented as a straightforward bid to reinvigorate growth and generate around \$28 billion in trade and new business a year.

But diplomats and officials told Reuters wrangling over the amount of beef Canada will be able to export to the EU, and EU demands for greater ability to bid for Canadian government contracts, are bedeviling the final stages of the agreement.

"This was supposed to be done in November, then we said February, but now there's no clarity ... No one wants to walk away from this, but it could be put on ice if things remain stuck for a prolonged period," said an EU diplomat.

An EU agreement with Canada would be its first with a member of the G7 club of major economies. It would also be one of a new generation of deals that not only remove import tariffs but also harmonize rules on how companies do business across borders.

The European Commission's negotiating teams and the EU diplomats who shape such pacts already often work into the small hours and need Canada out of the way to focus on the biggest of the new deals they are facing, with the United States.

"Everyone in Brussels is shifting efforts and attention to the United States ... The challenge lies in maintaining the political momentum," said Adrian van den Hoven, a director at the EU's biggest industry lobby Business Europe.

Any failure of the Canadian deal could have an impact on the U.S. negotiations, due to start in July. Brussels officials were hoping to use the Ottawa accord to show Washington they were serious about opening up their sensitive agricultural markets to a large, developed economy.

An EU-U.S. trade deal, which would encompass half the world's economy and a third of global trade, could increase EU economic output by 65 billion euros (\$85 billion) a year, according to a European Commission estimate.

TUSSLE OVER BEEF

Diplomats say much of the EU-Canada deal is agreed, and at the heart of the final dispute is a Canadian demand to be able to export up to 100,000 metric tons of beef to the EU every year.

Canadian beef exports are effectively blocked by the EU at present because they contain hormones. Ottawa argues it needs a large quota to make production of hormone-free beef for Europe economically viable.

Irish and French farmers are unhappy with that, and the EU has offered a much lower quota. That means both sides have to seek a compromise, especially as Brussels wants to leave quota space for the beef the United States will seek to export under its free-trade deal.

In return for opening up to Canadian beef, German and French companies want to be able to bid for government contracts in the urban transport sector, which would challenge Canadian rail car builder Bombardier's dominant domestic position .

The extent of the discord became evident in February, when EU trade chief Karel De Gucht flew to Canada to shake hands on the deal with Canada's Trade Minister Ed Fast.

According to people familiar with the exchanges, Fast was unable to agree on the deal because he did not have the authority to do so from his prime minister, Stephen Harper.

"De Gucht was ready to sign a deal when he came over, but the Canadians weren't prepared. They were nowhere near ready," said one EU diplomat.

Harper has taken a close interest in the Canada-EU talks and one person close to the talks said he had covered one document with handwritten suggestions on how negotiators could proceed.

But analysts say he needs more time to sell a deal to his electorate, especially in Quebec, where Bombardier has its base.

"Harper and the government is recognizing they are going to have to make some sacrifices and spend some political capital to close this," said one Canadian source close to the talks.

Asked about the state of play, a spokesman for Fast said negotiations were continuing and a deal would be signed when both sides were ready.

"Harper has to add his political weight to get an agreement," said another person close to the talks. "The best scenario would be for both sides to sign the deal at the G8 summit in Northern Ireland in June, but there's no guarantee."