FREE TRADE How to maximize our leverage: Diversify Building transatlantic ties will strengthen Canada's position in case NAFTA is sunk by Democratic demands

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Barack Obama, who most still consider the leading Democratic contender for the U.S. presidency, has joined others in his party who are calling for the renegotiation of the North American free-trade agreement and withdrawal from the deal if the talks don't meet U.S. demands.

Although all such threats appear to have Mexico in mind - no one has proposed the renegotiation of the earlier Canada-U.S. free-trade agreement - it is time for Canada to consider possible responses to the implementation of such demands if Mr. Obama wins the White House. One answer, long overdue in any event, is to seek diversification of Canadian trade and investment.

Limited progress has been made on this front; free-trade agreements have been completed with Chile, Israel, Norway, Switzerland and now Peru. But the big prize remains the European Union.

Quebec Premier Jean Charest, supported by both Ottawa and Ontario, is one who has been imaginatively courting European leaders in an effort to build momentum for a free-trade agreement. But although it has been well received in some quarters, a few naysayers insist that Canada focus exclusively on the United States.

To be sure, the United States remains Canada's largest trading partner, however faltering its economy may be at the moment. But the trade policy we have pursued in recent years has failed to define clearly Canada's place in a globalizing world. This may have in turn contributed to a degree of complacency on the part of U.S. policy-makers. A trade and investment accord with the European Union, which our NAFTA partner Mexico already has, would help to address this weakness.

With the European Union, as with all our trading partners, the sticky question of agricultural subsidies is best addressed multilaterally at the World Trade Organization. (The Canada-U.S. FTA did little to dismantle agricultural protectionism: Canadian "supply management" and generous U.S. farm subsidies.) In any event, bilateral trade in agricultural products has become so limited over the years that a free-trade agreement between Canada and the EU could be negotiated with the exclusion of agriculture and still meet WTO requirements.

And although trade barriers still matter, they are no longer the relationship's core component.

The real story is investment - this is where the numbers illuminate the relationship. Outflows and inflows of foreign direct investment between Canada and the EU increased in 2006 (the latest year for which numbers are available) to more than a quarter of the Canadian total. Sales by Canadian affiliates in the EU reached $53-billion, just over 20 per cent of overall sales. In purely economic terms, Canadian firms sell more in Europe than to Europe.

These numbers alone argue for a more aggressive effort. Why shouldn't Canada court the world's largest single market, with a population of 500 million and still evolving? An FTA with Europe need not compromise relations with the United States - but it would recognize a globalizing economy and Canada's place in it.

For example, as companies create global supply chains, it is not in Canada's interests to pursue a policy aimed solely at continental integration. And Europe is clearly interested in the Canadian market, despite its relatively small size. Again, the investment numbers back this up.

Canada presents numerous opportunities in energy and resources that do not rely solely on the domestic market, but rather on the global market for commodities, where Canada is a known and reliable partner. And while the EU is naturally interested in the emerging markets of India and China, they know full well that their fair and equal treatment as investors will be better protected in Canada.

As NAFTA has shown, traditional free trade does not necessarily ensure that regulatory disputes are avoided or quickly remedied.

Negotiating a Canada-EU agreement with a regulatory co-operation arrangement at its core would allow the affected party to comment in advance on how the proposed regulation could affect trade and investment patterns. This would be a useful development in preventing future disputes.

Canada and the European Union have an opportunity to develop a framework that accelerates transatlantic economic integration and creates a template for an eventual transatlantic marketplace. Recognizing that as the U.S. election cycle will make any early advances on the trade front difficult, the timing is propitious.

Alternatively, Ottawa can wait for an eventual EU-U.S. deal, to which it will have to sign on as a fait accompli.

Canada's political relations with Europe have always been underpinned by a strong economic relationship. This is important, given our shared interest in dealing with terrorism, Afghanistan, the environment and Arctic sovereignty. An eventual transatlantic marketplace will help to reinforce Western leadership in the world, providing an economic counterweight to the emerging economic giants of Asia.

Europe is turning toward the logic of a deal. French President Nicolas Sarkozy will be in Montreal for the Canada-EU Summit in October. There are already indications that he will make a significant announcement. The Germans, Italians and Nordic countries are also supportive, while Britain has traditionally endorsed the notion of Canada-EU free trade.

The multilateral Doha round of world trade talks is on life support and other bilateral EU trade initiatives will not be done before the end of European Trade Commissioner Peter Mandelson's term in 2009. A deal with Canada, which could be closed in less than a year, could provide something for his legacy and create momentum for the creation of a transatlantic marketplace.

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