Op-Ed: Canada-EU relationship about much more than trade

BY JEREMY KINSMAN, OTTAWA CITIZEN JUNE 24, 2013

A column last week by Gordon Ritchie ('Prolonged EU talks no surprise' June 21), on the difficulties apparent in negotiations between Canada and the European Union for a Comprehensive Economic and Trade Agreement deserves a response.

Canadians, especially former trade negotiators of a certain generation, can miss the point when they occasionally look toward Europe. The transatlantic relationship is not about "trade." It is the most massively inter-invested relationship in the world. North America and the EU — outside the problematic zone of protected agriculture — form a virtual common economic space, defined by huge inter-investment, somewhere around 70 per cent of global FDI (foreign direct investment).

Exports of goods from the EU to Canada can appear "paltry" at 2 per cent of the EU's total as Ritchie says. (The EU market represents 12 per cent of Canadian exports of goods.) Two-way trade in goods is $60 billion, and trade in services about $24 billion.

However, the strength of the relationship lies in "affiliate sales" from direct investment in each other's market which typically are three to four times the trade in goods. This is quite different from the Canada-U.S. relationship where trade flows and affiliate sales are historically roughly equal. To view the Canada-EU relationship through trade alone is completely misleading.

This is the background to the innovative but very difficult new kind of agreement being attempted. It is not a "free-trade agreement."

Jean Chrétien originally proposed an FTA with Europe. Then European trade commissioner Pascal Lamy deflected the request, in part because the doomed Doha Round of world trade talks was already in the doldrums because of developing country demands, and he thought it would look bad for Europe to proceed to cut a trade deal with a developed-country partner. He proposed trying a unique “21st-century” sort of agreement which could address the non-trade issues that have become so important to the transatlantic economic relationship and that arise from the massive inter-investment of about $4.3 trillion — regulatory issues, intellectual property, and virtual recognition of all sorts of credentials, from financial disclosure to professional competence.

Of course, Lamy had in back-of-mind an eventual deal with the U.S., with which affiliate sales are over $1 trillion each way, four times trade in goods. An eventual EU-U.S. “21st-century” deal appeared inevitable down the road, but the vagaries of Congressional and political opinion made the way forward murky at best. A Canada-EU deal first would help spur things along. From Canada’s point of view, it would get us into an EU-North America deal before the U.S. defined the terms.

Premier Jean Charest loved the idea when I did a tour of principal provincial capitals in the fall of 2005 and he ran with it by opening negotiations on various credentials issues directly with France. Premiers Gordon Campbell of B.C. and Dalton McGuinty in Ontario were interested. Alberta was seemingly not in favour.

In Ottawa, where the international trade negotiation prerogative is jealously kept tight to the federal chest, there was initially reluctance to provide much of a role to the provinces. However, most of the meaningful issues in the CETA — regulations, standards, credentials — are in provincial jurisdiction. Key EU objectives — opening provincial and municipal procurement to foreign bidders — were provincial prerogatives.

That part of the exercise has generally worked better than expected, even if some of the apparently major, though materially insignificant, blocking issues related to dairy goods, beef, and (God help us) seals are important provincial files.

So, where’s it going? Recent mutual interest between Washington and European capitals to do a U.S./EU CETA will slow the EU process down. It’s a pity we didn’t get it done beforehand. Some issues — the exemption of cultural industries so dear to the French, as well as to ourselves which Ritchie will remember well from the U.S.-Canada FTA — are very U.S.-specific and the Europeans will be very careful in what they agree with Canada.

The main take-away from all this is that a Trans-Atlantic Free Trade Area which defines our massive common economic space is coming. The TAFTA will be one of the most significant global geo-political undertakings for some time to come. Its formalization of our larger home economic base will also require strengthening our North American ties.

Its realistic pursuit is not counter to the fashion and trend of looking to the Asia-Pacific for our future. We are not alone in that and can pretty well count on the emergence before long of a U.S.-China G-2. But as inter-dependent as China and the U.S. have become, they don't inter-invest much (in fact, the U.S. is disinvesting in China) which says quite a lot. North Americans and Europeans still massively invest mostly in each other.

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