

Ottawa, EU seek new trade pact

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OTTAWA, ROME – Canada and the European Union will move closer to freer trade on services today with a commitment to start formal talks next year on an “economic partnership” designed in part to ease Canadian trade dependence on the beleaguered U.S. economy.

The proposal, to be launched today at a Canada-EU summit in Quebec City, would focus on liberalized trade in services rather than manufactured goods and agriculture, and must overcome serious provincial concerns such as government procurement.

According to sources briefed on the plans, a French-language draft version of a joint statement says both sides are ready to take the steps by the end of this year to ensure “operational launch of negotiations as soon as possible in 2009.”

There were still late-stage talks yesterday about just what would be in the plan, including whether they will commit to negotiating an “open skies” agreement for airlines. Working drafts of the statement have included a commitment to work on some kind of open skies deal, which would see each side's airlines given expanded rights to fly routes in the other's jurisdiction.

But some EU countries, including Germany, have raised objections, and progress from Canadian officials was slowed because of caution during the election, sources said.

The real sticking point when formal talks are held will likely be whether Canadian provinces will agree to open their public procurement systems to European firms, according to sources briefed on the discussions.

Trains and subway orders, for example, could be on the table.

For Canada, trade diversification is one of the effort's main appeals.

Since the Canada-U.S. Trade Agreement (born in 1988) and NAFTA (1993), Canada has focused primarily on north-south trade at the expense of transatlantic trade. Now, with the U.S. economy languishing and American demand for Canadian goods sagging, striking a long-discussed deal with the 27-country European Union has taken on greater urgency.

“For too long, the relationship between Canada and the EU has suffered from benign neglect,” said Thomas d'Aquino, CEO of the Canadian Council of Chief Executives. “Too many Canadian companies have passed up important opportunities in Europe.”

Reducing tariff and non-tariff trade barriers and liberalizing trade services – ranging from reciprocal access to government procurement contracts and the open skies policy for airlines – would produce “gains” of about €11.6-billion (\$18.5-billion) for the EU and €8.2-billion for Canada over five years, according to a joint Canada-EU

study published yesterday. Measured by GDP, Canada would gain the most, with a 0.77 per cent lift compared to 0.08 per cent for the EU.

Both sides are expected to emphasize the benefits of removing barriers to trade in services, as opposed to goods, based on the study, which concluded that tariffs on most goods are already relatively low. Canadian officials had repeatedly pressed for the negotiations to be called "free trade" discussions, apparently because it is a term Canadians understand, according to a source from a European nation.

Quebec Premier Jean Charest has pushed hard for the arrangement, and the statement will be issued when French President Nicolas Sarkozy, who currently holds the rotating presidency of the EU, is in Quebec City for the Francophonie Summit.

"The financial crisis makes this deal even more likely," said Jason Langrish, the executive-director of the Canada Europe Roundtable for Business (CERT), an association that tries to boost trade and business links between the two economies. "We need to create liquidity between these markets."

Full negotiations would happen next year, with the launch of the transatlantic deal coming as early as 2010, CERT said.

While the EU, with a population of 500 million, is Canada's second-largest trading partner, the relationship is relatively small. In 2006 two-way merchandise trade between Canada and the EU was about \$78-billion while two-way investment reached \$263-billion. But the figures pale with the \$626-billion in two-way merchandise trade with the United States and \$497-billion in two-way investment.

The Canada-EU trade study said that that Canada is the EU's 11th-largest merchandise trading partner, with only 1.8 per cent of external EU trade in this category. "The EU-Canada trade relationship appears significantly under-traded," the report said. "Total trade between the EU and Canada is about the same size as the EU's total trade with India, even though the Canadian economy is one-and-half times larger than India's."

While momentum is now building for a Canada-EU trade pact, previous trade liberalization efforts have gone pretty much nowhere. The latest dud, in 2006, was the trade and investment enhancement agreement (TIEA).

The EU has instead focused its trade efforts on Asia, where it has negotiated free-trade agreements with high-growth countries such as South Korea and India. An agreement with Canada would be the EU's first trade deal with a developed country.

One issue for Canada is that the EU wants to negotiate with one country, not one country and 10 provinces. To make the transatlantic trade partnership work, the provinces would have to accept common labour mobility and procurement rules.

"The EU wants a level playing field so that a European company and a Canadian company are treated the same," Mr. Langrish said.

Other potential sticking points are agricultural subsidies - both sides defend theirs - the design of a dispute-resolution system, and agreements on carbon trading, carbon output and environmental regulations. Carbon policy could prove particularly troublesome, because the Canadian provinces are moving in different directions. British Columbia has a carbon tax while Quebec has a carbon-trading system.

Mr. d'Aquino has said the deal could be as ambitious as the Canada-U.S. trade pact.

Some European nations have pressed for strong references on targets for combatting climate change to be included - a political priority for many - but the Canadian government has expressed qualms, because it would underline that Canada's targets are far weaker than the EU's, sources said.