

**Statement by
the Honourable Roy MacLaren
to the Heads of Canadian Missions in Europe
Brussels, 5 November 2007**

All of us, Canadians or Europeans alike, presumably agree that free trade is a good thing. Why else would we have engaged over the past decades in trade and investment liberalization, both multilaterally in the GATT and WTO and regionally in NAFTA and the European Union? The 1991 study by DFAIT and various sectoral studies by the private sector found significant economic advantage to both partners in a free trade agreement; an update would presumably confirm additional benefits. And why else would successive Canadian prime ministers, most recently Prime Minister Harper this summer, press the European Union to engage with Canada with North America in free trade and in enhanced investment? But beyond that unassailable economic orthodoxy, there are additional reasons for both Canada and Europe to pursue bilateral trade and investment liberalization.

For Canada, there is the concern that approximately eighty percent of our merchandise trade is with the United States. This share has begun to decline as our exports to third countries and our overseas investments increase. At eighty percent, however, it is well above the sixty percent that gave Lester Pearson such misgivings several decades ago: "It is not a very comforting thought when you have sixty percent or so of your trade with one country; you are in a position of considerable economic dependency." Further, the United States market has become, in the words of the chief economist of the Export Development Corporation, "risky" or less solidly dependable than in past decades. No one, of course, is arguing that we neglect the great United States market. It is rather that in trade and investment diversification there reside additional opportunities for Canada, opportunities which, if taken, will reduce that "economic dependency" of which Lester Pearson so deplored.

That is the essence of the geo-political argument in favour of a NAFTA-EU or a Canada-EU free trade agreement. But there are more reasons for Canada to seek additional ties with the flourishing European Union.

Canada has a clear interest in transforming itself into the most competitive economic space in North America, attracting investment technology, skilled workers, and leading-edge production. A bilateral deal with Europe would give Canadian companies an advantage over competitors from the United States and Asia in the European market, as we recently asserted in the free-trade agreement with EFTA. It would also sharpen Canada's competitive edge vis-à-vis the United States itself, which remains our most significant economic interest, especially in a strong Canadian dollar era. And it would strengthen our hand in negotiating bilaterally with the United States, as American companies would become concerned about the dilution of their preferential access, particularly if a Canada-EU agreement went deeper in areas such as trade facilitation, services, investment, competition policy, intellectual property, movement of people, etc.

It is not for me to speculate on what benefits a Canada-EU free-trade agreement would provide the European Union beyond the obvious and tangible ones. On the face of it, the EU could presumably use a Canada-EU agreement to press the United States into engaging Europe in transatlantic negotiations – and largely on Europe's terms. US companies, having recognized that Canada now has preferential access to the world's largest market, would put strong pressure on Washington to strike a similar transatlantic deal, as they did following the Canada-Chile free-trade agreement of a decade ago. A Canada-EU agreement should make good sense in Brussels, as part of a larger European strategy, strengthening the leverage of the European Union vis-à-vis the United States.

Together, North America and Europe have a clear interest in increasing their leverage vis-à-vis Asia and the rest of the world. That the Doha Round is stumbling badly is the result of power shifts in the global economy. The United States and Europe are losing their economic dominance over Asian rivals and have been unable to impose an acceptable outcome on the Doha Round – as they did at the end of the Uruguay Round. They have failed to find a common cause. Worse, they risk being left outside the grand free-trade arrangements that are now being designed by ASEAN, China, India, and even Japan.

A Canada-EU agreement would certainly be noticed by Asia. A NAFTA-EU deal would be impossible to ignore, fundamentally transforming the international economic dynamic. It would place – possibly for the last time – ineluctable pressure on China, India and others to negotiate seriously with the transatlantic bloc for fear of losing access to the newly integrated and massive North Atlantic economy.

This same logic applied even when a Doha deal looked possible. The logic is even more compelling where the multilateral option is diminishing. A transatlantic deal is the lever needed to move and sharpen world economic relations while North America and Europe together still have influence. It might also just be the wake-up call that is needed to save the world trading system from drifting into irrelevance.

Given these broad potential benefits, it remains surprising that the European Commission has been at best lukewarm to proposals for Canada-EU free trade, being inventive only in offering reasons against rather than in favour of it. And this despite the fact that Canada is only one of eight countries with which the EU still does not have some form of free trade. Why?

I do not know. From time to time, the Commission has emphasized the virtues of the multilateral approach over the regional or bilateral. Few would dispute that proposition, but it has in any case prevented neither the European Union nor the United States from seeking bilateral agreements while the Doha Round has been stumbling along. And now that the Round is effectively dead (although as in the case of the MAI in the OECD, no one will finally say so, pronounce its demise), that argument, never very convincing, today carries no conviction at all. If additional trade liberalization cannot for the time being be found at the multilateral level, it must be found at the regional and bilateral, pending some future resumption of the preferred

multilateral route. Other than in agriculture, both partners can go beyond what is envisaged in the multilateral negotiations. Why not now conclude a bilateral agreement which embodies that enhanced liberalization especially, with regard to non-tariff barriers, and which could offer accession to other members of the WTO who can meet its disciplines?

One day, the Commission advances the Doha Round as an excuse for not responding. Another day it points to agriculture. A third day the Commission, seemingly intimidated by the phrase "free trade", offers Canada the negotiation of something called a Trade and Investment Enhancement Agreement, a TIEA, knowing full well that it was the least likely route as an early or successful conclusion. No big idea here! Now, however, briefly in response to the far-seeing prompting of the German chancellor whose interest in closer transatlantic economic collaboration became early evident to all, the Commission has agreed, without any apparent enthusiasm, to yet another study, but this time more of a joint study, with the work divided between the two interlocutors. The proof of that pudding is yet to come, but the process being followed must identify, by the Canada-EU Summit in 2008, during the French presidency, whether or not the Commission intends to remain incorrigibly dilatory or evasive in its approach to an agreement.

I should add that the study has been welcomed, faute de mieux, by the business communities both in Canada and Europe, who are contributing to its progress in the broadly-based private sector steering committee imaginatively created by the Minister for International Trade and his Deputy.

And that is where all of you come in. If the study is to reach an early conclusion, it will be in good measure the result of EU members leaning on the Commission. Representations that you make in the capitals of member states, if made thoughtfully and persistently and repeatedly, is the single most promising route to bringing our Brussels discussion to a successful conclusion.

I conclude by sharing with you that I personally find all this rather bizarre - one night believed however naively, that the Commission would have welcomed Canada with open arms, but if in fact it is our fate to be a nimble demandeur, we must be so, as we were in Washington when we negotiated the Canada-US free trade agreement. The road to Brussels appears to pass through every capital in Europe.