

TRADE

Tough tradeoffs in store for free trade with EU

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The final push for a free trade deal with Europe is hung up over a clutch of thorny issues that strike at the heart of Canadian economic policy: dairy products, cars, telecommunications, pharmaceuticals and resources.

Canadian and European negotiators met for a round of talks in Brussels last week seeking to narrow the gap in advance of a planned visit to Ottawa on Feb. 6-7 by European Union trade commissioner Karel De Gucht.

But the two sides remain apart on some of the most difficult and politically sensitive issues, according to industry sources who have been briefed on the progress of the talks. As a result, a final deal may be a couple of months away, rather than weeks.

Canadian Trade Minister Ed Fast acknowledged that a deal remains elusive.

"As in all negotiations, nothing is agreed to until everything is," Mr. Fast said in an e-mailed statement from Davos, Switzerland, where he was attending the World Economic Forum over the weekend before beginning a trip to Africa on Monday.

"Our guide for finalizing any agreement will be the quality of its content, not any calendar date," the minister said.

Decisions on the remaining tradeoffs will likely be made by Prime Minister Stephen Harper, who has staked his Conservative government's economic strategy on getting a deal. Ottawa says free trade with Europe would boost bilateral trade by 20 per cent, add \$12-billion a year to the economy and create 80,000 jobs.

"All the really difficult decisions get made at the last minute, and they usually don't get made at the level of the minister," said one industry source. "Those decisions have to be made at the top."

John Weekes, Canada's former ambassador to the World Trade Organization and a top negotiator, said he still expects a deal, given how much political capital Mr. Harper has invested. But the final outcome is unpredictable because no one knows "how far people are prepared to move," said Mr. Weekes, now an adviser with law firm Bennett Jones in Ottawa.

Among the most troublesome of issues is agriculture, where Europe is seeking more duty-free access for cheese and other dairy products.

Canada won't budge on dismantling the wall of tariffs that shields the supply management system for Canadian dairy and poultry from foreign competition. But Ottawa is apparently ready to allow in more duty-free cheese if Europe were to open its market to Canadian beef and pork. The Europeans also want Canadian cheese and meat producers to stop putting European names on their products, such as Parma ham.

So-called "rules of origin" for cutting tariffs on autos and textiles are also problematic. The two sides can't agree on the timing of reductions in the EU's 10-per-cent tariff on vehicles built in Canada and the 6.1-per-cent tariff Canada levies on vehicles imported from Europe.

One of the sticking points is the level of Canadian and EU content in Canadian-made vehicles that is needed to ensure duty-free access for vehicles being shipped from assembly plants in Canada.

The amount of Canadian content in vehicles made in this country is a closely held secret, but on average it is likely less than 30 per cent. That's in part because some of the most expensive and value-added components – engines and transmissions – are made by auto makers at U.S. plants and then shipped to vehicle plants in Canada.

Europe also wants two years of extra patent protection for brand-name drugs in Canada, which could mean higher prices for Canadians. Canada is tying these intellectual property demands to the outcome of its agriculture demands – protecting supply management, and opening markets for beef and pork, according to leaked EU documents obtained by Montreal's La Presse newspaper.

As well, key sections of the deal involving government purchasing and

foreign investment are still unresolved. For example, the EU wants exclusions from the Investment Canada Act for telecommunications, loosening strict foreign ownership controls that persist even after last year's lifting of curbs on smaller cellphone companies. Some Canadian telcos, such as Telus Corp., want rules liberalized for all carriers.

Finally, the Europeans want greater access to sectors where there are provincial restrictions, including energy, mining and resources, according to one industry source.