

U.S. entry adds pressure, but officials insist Canada-EU trade remains close

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OTTAWA - Officials on both sides of the Atlantic insisted Wednesday that the Canada-European trade negotiations remain on track and are close to resolution despite concerns the entry of the United States could put the four-year-old talks on the backburner.

On Wednesday, the European Union and the U.S. announced they would pursue the world's largest and most comprehensive trade agreement, dwarfing NAFTA in terms of both the size of the markets and trade volumes.

Trade analysts said the announcement introduces a wildcard in the Canadian-EU talks that have already missed several deadlines, the latest for the end of 2012.

"I think if we don't conclude this agreement fairly quickly there will be a sense of drift and the Europeans will start looking elsewhere, in particular the U.S.," says Lawrence Herman, a trade expert with Cassels Brock.

The precedent that comes to mind is Canada's protracted and ultimately unsuccessful negotiations with South Korea, which were hung up by stern and unyielding opposition from Ontario and the auto industry, analysts say. While Canada started the process, the U.S. was able to mop up the agreement, including on trade in autos.

Veteran trade negotiator and consultant Peter Clark says the Europeans will be trying to use the announcement as leverage to get Canada to offer greater concessions.

"They are going to get the Harper government to conclude a deal basically on the state of play on terms that are not necessarily that great for Canada," he said. "They are bigger than we are."

He added the Europeans are also pleading a lack of staff, which could be stretched once the U.S. enters the picture, likely in June.

But a Canadian government official insists the announcement changes little,

saying negotiations are at too advanced a stage.

"We're down to a basket full of issues being addressed politically, so this doesn't change anything," the official. "There's no worries here the EU is going to focus on the bigger fish down south because the bigger fish down south is waiting to see what the northern pike gets."

In a news conference from Brussels, EU Trade commissioner Karel De Gucht said reaching a good deal was better than a quick one.

"I'm confident we can reach an agreement in the coming weeks but there are a number of issues that are not ready," he said.

Although the negotiations have been carried on behind closed doors, trade experts monitoring the talks say there are only a few key issues remaining to be resolved. But they are the most politically difficult.

Canada is looking for greater access for its beef and pork producers, while Europe wants Ottawa to reduce tariffs and increase quotas for shipments of dairy products, particularly cheese. Europe is demanding Ottawa extend patent protection for brand-name pharmaceuticals, a measure that is estimated to wind up costing provincial drug plans and Canadians about \$900 million annually once implemented.

And both sides are having difficulty with the issue of government procurement. More than 40 Canadian municipalities have asked out of a deal if it means ending local preferences on municipal bids, while economically troubled southern European countries also want to keep giving a leg up to their local firms.

The concern among trade analysts is that given the volumes involved, Europe will lose interest in Canada once the U.S. negotiations start in earnest.

The Canadian market represents about two per cent of European exports, whereas the EU-U.S. trade relationship is already the world's biggest at about \$1 trillion annually in goods and services trade.

Matthew Kronby of Bennett Jones, who was the federal government's chief trade lawyer until last July, said the entry of the United States into the dynamic does pose a risk for Canada, but also some advantages.

There is plenty of skepticism in the U.S. about whether Europe is up to making the compromises that will be necessary for a modern trade deal, he said, so concluding one with Canada will be advantageous for Brussels.

"I think this could be helpful for Canada because the EU is facing pressure to conclude before beginning negotiations in earnest with the U.S.," he said.

On one specific issue — "geographical indications" whereby products from certain regions can claim exclusive naming rights, such as champagne — it would be useful for Europe to show Washington it can be practical, he said.

As well, rules of origin may not be as much of a sticking point for Europe if it can conclude a deal with both Canada and the U.S., given the production integration between the two countries.

Ottawa trade consultant Laura Dawson of Dawson Strategic said Canadians shouldn't be surprised that the end game of the Canada-EU talks is "long and slow" given the nature of the complex nature of the agreement being sought. Called the Comprehensive Economic and Trade Agreement, the deal would go beyond eliminating barriers to the trade in goods to all economic arrangement, including professional services and investment.

The entry of the U.S. into the dynamic likely doesn't help, she says, but the process may be too far along to stop.

"I'm glad it's coming now and not earlier because in some of our other negotiations, Canada has been used as a kind of practice round before the country engaged seriously with the United States," she said, citing South Korea and Central America.

"I think if the U.S. and EU had agreed to move together sooner, I think that would have taken a lot of the wind out of the sails for Canada. But at this stage, I think there is enough momentum to finish it."