

# Where to 'give in' to the EU

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The European Union is asking a lot of Canada in the ongoing trade negotiations. If we're clever, though, Canada could come out of this having "conceded" the most in those areas where we need to make reforms anyway, for domestic reasons.

A leaked European Commission document from early November acknowledges that Europe's "list of offensive interests is larger than the Canadian one." Put in everyday language, that means Europe is making more demands than Canada is. And this isn't just about reducing tariffs on goods. Those demands cover many aspects of Canada's economy: its complex system of agricultural protections called supply management, its drug-patent regime, its barriers to foreign investment, even changes to public procurement and labour mobility.

It's no wonder that the negotiations have been taking a long time. The first round was in 2009. The two sides have been hoping to come to a deal in 2012, but with only a month left, it's looking less and less likely that will happen.

"Most of our requests do require genuine new market access from Canada," the document admits, and this is not true to the same extent in the other direction. But Canada is hoping to get things out of this deal too, including improved access for exports such as seafood and beef.

And despite the scary tone of negotiator language such as "offensive interests," it's important to remember that many of Europe's demands would actually be good domestic policy for Canada. When Europe speaks of greater access for its exports within Canada, the flip side of that is that Canadian consumers get access to imports. And Canada's barriers to foreign investment hurt its productivity. Liberalization in these areas wouldn't be bitter pills to swallow.

The government still swears it's determined to go to the mattresses in defence of supply management. That's odd, because Canadian consumers would be the main beneficiaries of dismantling or reforming that system, which keeps prices high for dairy, poultry and eggs. "There is agreement that these products will not be totally liberalized, and new market access will be granted" in the form of changes to the amount of imports Canada allows in before it imposes punishingly high tariffs, according to that European document.

Of course, while the negotiations continue, anything is subject to change. But if it's true that Canada would allow in more European imports of supply-managed products, that might hold a clue to the government's long-term strategy for reforming this system. If it uses successive trade agreements to gradually let in more imports of certain products, that could eventually undermine supply management. And the government could do that without ever coming out against supply management in principle. But much depends on the details, and the size of the changes Canada might be willing to make.

The question of drug patents is much trickier. Some argue that stronger protection for intellectual property would spur research and innovation here in Canada. That is likely true, at least to some degree. But it is also likely that it would increase drug costs by delaying access for generics. That's a huge public-policy question, and one the government should decide on its merits. If the government believes that tougher patent protection would be in Canada's interests, there would be nothing wrong with seeming to "give in" to Europe's demand. But if Canada were to give in purely for the sake of the trade agreement, while harbouring serious misgivings about the effects to Canadians' health costs, that would be foolish — especially when there are other, less costly, concessions we could make. For example, the government shouldn't give in on drug costs just so it can protect supply management.

This trade agreement has the potential to be very good for Canada's economy. It might also provide the government with an excuse to bring in some market-friendly reforms. Liberalization is in Canada's interests, as well as the interests of our trading partners. But that doesn't mean we have to give in to every European demand.

It's also worth remembering that this deal with Europe could help set the stage for future negotiations with other countries and regions — and for Conservative policy on many key economic questions, since trade deals are about much more than tariffs these days.