Why free trade with Europe is better than it looks

The Globe and Mail

Published Tuesday, Nov. 12 2013, 7:32 AM EST

The Canada EU Comprehensive Economic and Trade Agreement (CETA), four years in the making, is the largest ever negotiated by Canada. It has been welcomed as a long overdue breakthrough in international trade – the first wide-ranging pact negotiated between the 500-million person European Union and another advanced economy.

The Economist magazine in London stated that the CETA was a 'landmark deal that could show the way for future deals' and that 'no previous (trade and investment) deal rivals the broad sweep of CETA'.

In Canada, the reaction is also very positive. A recent Ipsos Reid poll found that 81 per cent of Canadians surveyed support a free trade deal with the EU.

Canadians understand that in a globalized economy, maintaining barriers to trade and investment is foolish. They are comfortable moving forward with Europe, whose advanced industrial and service economies, generous social welfare states and healthy institutions are recognizable.

The European Union has its challenges and is currently undergoing a major transformation to a more concentrated federal structure amongst its 28 member countries. However, it is naive to believe that because the continent has a collectively low growth rate, that there are a dearth of opportunities for Canadian exporters and investors.

Productive, undervalued European assets are being scooped up by Canadian companies and pension plans.

A list of the world's top ten most competitive countries is largely populated by European countries, Germany and the Nordic countries in particular. Those in Canada who lament a lack of innovation should welcome competition from European firms that the CETA will bring.

The FTA with the U.S., and the subsequent negotiation of NAFTA, were significant for their time. Today, an agreement of similar scope would be deemed insufficient. In the 1980's, free trade was a new frontier and the challenge was principally changing the outlook and attitude of Canadian business and citizens.

Canada has benefitted immensely, but progress in further reducing barriers within NAFTA has stagnated. The country has been diversifying its trade and investment away from an almost sole focus on the U.S. market.

This includes to Asia, with its fantastic rates of growth and dynamic populations.

However, progress in Asia has been stymied by a few hard-learned truths – competing on a level playing field is next to impossible, and that the development of some of the principle goods that we wish to sell to Asia are not without their controversy at home.

Relations with Europe have expanded quietly, but significantly. Today, 30 per cent of Canadian investment abroad goes to the EU, and 30 per cent of inward investment comes from Europe. The total stock of investment is now more than $350-billion.

Some economists have argued that the CETA won't deliver significant benefits based on a narrow analysis of the potential for trade to grow with Europe based on the elimination of tariffs.

Yet the combination of reduced tariffs and expanded quotas for agriculture alone in CETA will generate an additional $1.5-billion annually in Canadian farm exports into the EU. Ninety-eight per cent of tariffs on goods will be eliminated on day one of the agreement. There will also be further opening of markets for such things as forestry and processed food products that are currently prevented from entering the EU due to discriminatory regulatory barriers.

Still, tariff elimination will be less significant than advances for investment and trade in services, which represent 75 per cent of Canada's economic activity. Canadian companies today invest *in* Europe and sell within, as opposed to only selling *to* Europe.

The Conference Board of Canada's 2010 study "Canada's Missing Trade with the European Union" illustrates that Canada-EU trade is about more than cross-border final goods exchange. Their estimates show that Canada and the EU trade primarily via sales by foreign affiliates; engage in substantial, fast-growing services trade in both directions; and have important value chain linkages.

The study concluded that total Canadian sales of goods and services to the EU were over $150-billion in 2008 – compared with $48-billion in conventional exports. Total EU sales of goods and services to Canada were $440-billion in 2008 – compared with $70-billion in conventional imports. These numbers have grown over the past five years.

Strategically, the CETA will give Canadian firms an early mover advantage in the EU market relative to their American competitors, whose government is currently negotiating its own trade pact with the EU. Upon ratification of CETA, Canada will be the only developed country in the world to have preferential access to both the NAFTA and EU market, some one billion wealthy consumers.

As Chinese Premier Zhou Enlai responded in 1968 when asked of the significance of the French Revolution of 1789 'It is too soon to say'.

Hopefully we won't have to wait quite as long to determine the impact of the CETA, but one thing is certain **-** it is a big deal.

Jason Langrish is the Executive Director of the Canada Europe Roundtable for Business