

Canada-EU Trade Agreement: A Big Deal

By Danielle Goldfarb

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Canada is on the verge of completing its first major trade deal since the Canada-U.S. free trade agreement in the late 1980s. The federal government and the European Union are aiming to forge a Comprehensive Economic and Trade Agreement by year's end.

Canadian media and the public have paid little attention to the deal, except for a few contentious areas. These include access to Canada's closed dairy market, increasing patent protection for pharmaceuticals, and opening up government procurement.

All three issues are important, and they each merit their own discussion. But public attention focused strictly on these issues could obscure the overall importance of this trade agreement. Freer access to the EU market is hugely important for Canadian businesses and for Canadian living standards.

Here's why this trade deal matters:

Trade with the United States is stagnant. Canada trade with the U.S. is at the same level as it was a decade ago. While the US market will continue to be crucially important for Canadian businesses, growth opportunities need to be found elsewhere if Canada wants to maintain and improve its living standards. Canada is already diversifying its trade relationships as its non-U.S. trade takes off (see chart). A Canada-EU agreement would accelerate this process.

The EU is huge. The eurozone countries are in the midst of an economic crisis. Still, the EU is a massive market—its members have a combined economy of more than \$17 trillion, which is larger than the U.S. market. Freer access to that market opens up significant opportunities for Canadian companies.

Canada's share of trade with the EU has become significant and will become more so. A new Conference Board study shows that Canada's exports to the EU are poised to grow

significantly.

Exports represented over 4.5 per cent of Canada's trade in 2010 and we estimate that share will grow to 6 percent by 2025. The Canada-EU free trade deal could give this growth path an extra boost. Of course, given the current eurozone crisis, an alternative scenario could develop in which Canada's trade with the EU would grow much more slowly; even so, we project that it would still grow and the EU would still remain a significant trading partner.

The deal is about more than trade. Exporting products across borders is only one way to take advantage of global markets. Canada-EU relations are primarily about two-way investments. For example, Canadian companies can use foreign investment to set up operations in Europe to sell into that market. In fact, Canadian companies sell more in Europe from their investments there than they export directly to Europe. Canada and the EU also engage in substantial, fast-growing services trade in both directions, as a previous Conference Board study shows. And Canadians benefit from having access to the best European technologies, goods, services, and agricultural products. The opportunities go far beyond simple exports of Canadian goods.

Everyone else is doing it. Canada is not the only one negotiating with the EU. To take only a small sample, Mexico already has a deal, India is negotiating a deal, Japan launched trade talks just last week, and it seems likely the Americans are next. Without a deal, Canadian businesses would be at a disadvantage in that market relative to those who have an agreement. And once the Americans start negotiating, it will be impossible to get the EU's attention again.

A free trade deal could be considered Canada's contribution to a eurozone recovery. Canada has and should stay out of the eurozone debate and related financing. But, as a recent Conference Board briefing notes, Canada can contribute to a eurozone recovery by completing this deal, thereby boosting growth potential on both sides of the Atlantic.

The deal sets the stage for Canada to open other doors. The Canada-EU deal will lend momentum to Canada's other trade

deals in the works. Most notably, these include the Canada-India talks and the Trans-Pacific Partnership Talks (U.S., Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam).

In short, the details matter, but Ottawa and the Canadian public need to keep their eyes firmly focused on the big picture. This deal is a big deal.

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