

Canada-EU trade talks: Jumping from one sinking ship to another

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Canada's trade negotiators used to complain they were missing all the fun. Canada didn't sign any free-trade agreements for seven years (stretching back to a blockbuster deal with Costa Rica in 2002). Then, last year, a spate of little deals (including Colombia, where trade unionists are still being murdered) broke the drought and gave them something to do. But it's the "big one" that now has negotiators drooling: a proposed mega-deal with the European Union. The fourth round of talks kicks off today in Brussels.

The trade mandarins make it sound like they've found the holy grail. Europe is big. Europeans are clever. Europe has no free-trade deal with any other developed country. We should snap up this offer before they change their mind. Reinforcing the urgency, negotiators are following a super-ambitious schedule that could have a deal signed, sealed and delivered by next spring.

Europe is important, to be sure, and diversifying our trade away from the Americans is a noble goal. But is a free-trade agreement the best way to do it? Canada's experience with previous FTAs has been consistent: FTAs cause our imports to grow faster than our exports, and pigeon-hole us even further as a resource exporter (energy, minerals and agriculture).

Canada's trade deficit with the EU is huge (\$15-billion last year, 20 per cent larger so far this year), and the government's own simulations

indicate that free trade would make it worse. Moreover, our biggest exports to Europe are resource products; our biggest imports are sophisticated, high-tech manufactures. That imbalance, too, would be reinforced by this deal (which, for example, would prohibit preferences for domestic transit equipment).

Then there's the issue of timing. In case our negotiators haven't noticed, Europe is sinking under the weight of recession, debt and profound institutional failure. Is this really the best time to jump on board that particular ship?

The timing is all wrong for these trade talks. Rushing to consummate this deal, just because Europe is "big," could leave us with an even bigger headache the morning after. Here's why.

The sinking euro: Since negotiations began last spring, the euro decreased 25 per cent against the loonie – and will sink even further as the debt crisis unfolds. That makes European products 25 per cent cheaper. Europe's average tariff on our exports is only 2 per cent. So even eliminating that tariff altogether would only offset one-tenth of the damage that's already been done.

The coming deflation: Europe's deficit hawks are dictating enormous reductions in public spending across the continent (not just in Greece). That will cut spending by several points of GDP, and usher in a long, painful stagnation. They're not going to buy much from anybody for years to come, least of all from us.

Cars: Canada spends 20 times as much on European automotive products as they spend on ours – an imbalance that's become much worse in recent years. It's a \$4-billion annual blow to our most important manufacturing sector. Has the government forgotten that it now partly owns two of our vehicle producers? Their fortunes will not be helped by even more imports from across the Atlantic.

Europe's institutional failure: It's now obvious that Europe's institutional capacities have not remotely kept pace with its integrated marketplace. Europe's central bank is the slowest in the world to respond to the business cycle. And unlike other central banks (including ours), it won't lend to national governments in times of financial crisis. Each EU member still tries to run beggar-thy-neighbour trade surpluses with its European partners, since it's one of the only avenues left for boosting employment. That's how Germany got through the crisis – but with devastating side effects for its EU neighbours. Now the whole institutional structure could start to crumble, starting with the euro.

A truly mutual economic partnership with Europe would be great – one where they buy as much from us as they sell to us, and good stuff, too, not just resources. But a free-trade agreement won't do that. Meantime, we'll be dragged down by Europe's coming funk, which will easily last a decade. Better to take a pass on this one, and negotiate a better deal with the Europeans somewhere down the road, once they're back on their feet.

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