Is EU trade prize worth a few changes?

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The European Union has long been a boogeyman for nationalists everywhere. "Nutty EU officials" have been blamed in the U.K. by the tabloid press for banning everything from straight bananas to barmaids' cleavage (an attempt to cut over-exposure to the sun by the EU prompted The Sun newspaper to launch a "Save Our Jugs" campaign).

Similar noises may soon be heard in Canada, as this country's free trade negotiations with the 27-member EU progress. One of the key European demands is Geographic Indicators, which would ban the use of names inspired by regions. Canadian producers of gouda and parmesan cheese may soon find themselves having to re-brand their products, unless the public can be whipped into a frenzy of opposition to the deal.

The branding issue is just one of a host of potential barriers to a trade agreement that a joint economic study by Canada and the European Union could boost the economy by $12-billion annually and increase trade with the EU by 20%. Yet, perhaps because of the size of the prize, talks have been proceeding more smoothly than anyone could have imagined.

The trade negotiations have already gone through five rounds and the European Trade Commissioner, Karel De Gucht, was in Ottawa Wednesday to meet International

Trade Minister Peter Van Loan ahead of the sixth round in Brussels next month.

There is no doubt any deal has greater potential upside for Canada than for the Europeans -- the EU is Canada's second largest trading partner, while Canada languishes in 10th place in a relationship worth $75-billion a year.

But both sides believe trade is currently understated -- the EU's relationship with India is about the same as that with Canada, yet the Canadian economy is a fifth higher than India's. In the five years that followed the Canada-U. S. Free Trade Agreement, trade doubled for goods where there was a greater than 5% reduction in tariffs.

The most obvious stumbling block is Canada's supply management industry. Canada's average tariff rate on agricultural goods is 22%, with some out-of-quota tariffs rising above 200% for dairy products and cheese, effectively prohibiting trade.

All parties in Parliament have sworn to protect supply management -- even as, in the same breath, they affirm themselves as free trade warriors. In a take-note debate in the House of Commons Tuesday, Wayne Easter, the Liberal agricultural critic, expressed his horror at the prospect of consumer prices falling. "This is a serious issue, that our cheese markets could potentially be opened and undermine our price structure," he said, as the Bloc Quebecois reminded everyone about its 2005 motion to block any increased market access or drop in tariffs for dairy products.

For the government, Mr. Van Loan has said his party will defend supply management, even if he concedes everything is on the table. Small wonder. There are 15,500 dairy farms in Canada, 7,500 in Quebec and 5,000 in Ontario, which receive $2-billion a year by milking Canadian consumers. The muddy road to a majority for the self-proclaimed party of rural Canada goes through those farms.

Fortunately for the Conservatives, the EU has its own high agricultural tariff walls that may make it more sympathetic to supply management. These include prohibitive barriers to trade in beef and pork, as well as high tariffs on fruit, vegetables and seafood. Other products that both sides hit heavily include textiles, footwear and automobiles. For many of these products, a quid pro quo approach could see tariffs reduced on both sides, without necessarily forcing the Conservatives to dismantle supply management.

In an interview, Mr. De Gucht said he is optimistic about a deal in the coming year, particularly since there had been a "breakthrough" in the EU gaining access to sub-national procurement. "Canada has agreed to public procurement, not just at a federal level, but also at a provincial level," he said.

One sleeper issue could yet derail the whole process. The European Union is pressing for intellectual property changes that would give brand name drugs several years more of patent protection, delaying the entry into the market of cheaper generic drugs.

In the House of Commons, NDP MP Peter Julian asked Mr. Van Loan if the government has done any due diligence on what this would mean for provincial drug plans. The answer was equivocal, but it is clear any such agreement would increase costs to provinces already battling soaring health costs.

One drug, Pfizer's Lipitor, had annual sales of $1.3-billion in Canada during its last year of patent protection, which ended in July. Generic versions of the drug are now being sold for 25% of that price, which would mean provinces would be paying an extra $1-billion this year if the EU's rule was in place. The brand-name companies argue this is short-sighted and that Canada will be by-passed when the latest drugs come out if it doesn't fall into line with the EU on patents. It remains to be seen whether the provinces buy that argument.

If there is an asymmetry to the negotiations, it is at the table, where a small group of European bureaucrats representing 27 nations are faced with 70 or 80 Canadians, since all the provinces insist on being represented. The prize of a comprehensive trade deal with the wealthiest single market in the world is a glittering one -- Canada would become the only country in the world to have deals with both the U.S. and E.U.

But opposition is growing, and the provinces may yet veto further progress, as domestic opposition grows to what the British press has labeled the "po-faced pen-pushers" from Brussels. Save our over-priced Suisse Fromage, anyone?