

Ottawa prepared to give up dairy tariffs for access to Europe's markets

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The Canadian government is prepared to knock holes in the hefty tariff walls shielding dairy producers from foreign competition and admit more European cheese into this country in return for greater access to EU markets for Canada's beef and pork.

These are among the proposals on the table as International Trade Minister Ed Fast meets with his European Union counterpart, Karel De Gucht, in Ottawa on Wednesday and Thursday to try to settle differences in free-trade talks with the EU that have gone into overtime.

Sources say the negotiations – that the Conservatives had originally aimed to wrap up in 2012 – have reached a sufficiently late stage that elected officials must join the talks to haggle over politically sensitive concessions, including beef exports, intellectual property protection and auto shipments.

The Europeans appear to be increasing the pressure to conclude talks on the Comprehensive Economic and Trade Agreement – discussions that began almost four years ago and represent a key feature of Prime Minister Stephen Harper's policy to lessen Canada's reliance on the United States for business growth.

But Canadian officials said Tuesday the Harper government won't wrap up talks until it obtains sufficient access to EU markets for exports of beef, pork and autos from Canada.

"There won't be a deal until these issues of core interest to Canada are addressed," a Canadian government source said.

Mr. De Gucht, the European Union's trade commissioner, is visiting Washington to talk about free trade before he arrives in Ottawa on Wednesday, a signal that Brussels's attention may turn to the U.S. if Canada and the EU can't secure an agreement. EU Agriculture

Commissioner Dacian Cioloş and Canadian Agriculture Minister Gerry Ritz are also attending the Ottawa talks.

Canadian government sources said Mr. De Gucht surprised them last week by announcing that he was visiting Canada before arrangements had been made. "They said they were going to be in Washington anyway," one official said.

The last time Mr. Fast and his EU counterpart met face to face, in Brussels, last November, sources say: "The EU wasn't ready to talk in a serious way."

On Wednesday night, Mr. Fast will host a dinner for the EU commissioners that features Canadian beef – among the most sensitive topics under negotiation.

Canada wants guaranteed annual access to the 27-member European Union market for tens of thousands of metric tonnes of beef. Canada exports to the EU are negligible today for a number of reasons, including Brussels's ban on beef from cattle treated with growth hormones.

Industry sources say beef producers will be unhappy unless Ottawa secures annual EU access for at least 40,000 tonnes of beef. They say anything less than that will provide insufficient incentive for Canadian producers to convert plants to hormone-free beef production.

Ireland, a member of the EU and major cattle producer, is fighting any move to grant major beef concessions to Canada, arguing for less than 5,000 tonnes annually, Canadian industry sources say.

"Ireland has gone to the wall on the negotiations, indicating they may well try to undo the entire agreement if Canada gets anything that looks like significant access," one industry official said. "They're afraid it's going to take out their market."

Canada is also seeking guaranteed annual access to the EU for Canadian pork amounting to tens of thousands of tonnes but officials in Ottawa do not believe this request will be as stoutly resisted as beef.

Ottawa is trying to play down expectations for this week's meetings, insisting no deal will be reached. But if negotiations go well, sources say, an agreement could be weeks, rather than months, away.

Canada is willing to bend on trade barriers protecting this country's sheltered dairy industry as part of a deal with the European Union. Canadian tariffs of 200 to 300 per cent discourage foreign imports.

About 20,400 tonnes of foreign cheese currently enter Canada tariff-free annually under special arrangements with jurisdictions such as the European Union. The EU, which already has the lion's share of this tariff-free access, is allowed to import about 13,400 tonnes of cheese annually under this deal. That's more than 3 per cent of Canada's current annual cheese consumption.

The EU is looking for as much as 10,000 tonnes more of annual tariff-free access for cheese, Canadian dairy industry sources say, adding they do not believe Ottawa would agree to this size of this concession. The Canadian government declined to confirm this number or how much it's prepared to offer up as part of negotiations.

The EU and Canada are still haggling over extra patent protection for brand-name drugs in Canada, which would mean higher prices for Canadians.

Brussels and Ottawa remain divided over Canada's insistence on duty-free or low-tariff access for vehicles shipped from assembly plants in Canada. The amount of Canadian content in these vehicles is on average less than 30 per cent because significant portions are made by U.S. auto makers.

Canadian officials expect Brussels, which is worried about U.S. autos slipping into Europe through such an arrangement, will set a quota for this trade.