Stakes are high for Alberta in Canada-EU trade talks

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The third negotiating session of a Canada-EU Comprehensive Economic and Trade Agreement (CETA) starts today in Ottawa. Given the negotiations have been going on for over a year, it is surprising that there has been little public discussion given what is at stake for Canada and for Alberta.

The lack of public interest may be related to magnitude. While the EU is Canada's second-largest trading partner with Canadian exports of more than $36 billion annually, it accounts for only 7.5 per cent of our total exports. Moreover, trade with emerging markets like China, India and the ASEAN group is relatively dynamic, exotic and exciting to the public.

But a lot is at stake in the proposed CETA under discussion for the next three days.

The key issue is the scope of the agreement, including the precedents it could set for future trans-Atlantic and North American trade relations. In preliminary negotiations, the scope has gone considerably beyond traditional trade liberalizing factors such as tariff reductions and into areas of deeper economic integration. CETA could have an impact on Canadian regulations, standards, practices and enforcement in a variety of industries exporting to the EU. In many of these areas, EU policies and practices vary considerably from those of Canada and the provinces, and Alberta industries exporting to the EU would have to adapt to the agreement's provisions.

CETA also contains provisions affecting procurement of goods and services by provincial governments, where EU companies would have to be considered as potential suppliers for government contracts. A pertinent question would be, "What opportunities to EU procurement or other market access would be available to Canada or more particularly, Alberta?"

The EU was adamant on provincial government participation in the negotiations to get buy-in from provinces in areas of increasing trade importance such as environmental products and services. This was because the EU is also targeting certain provincially regulated practices in wine and spirits, particularly in the large markets of Ontario and Quebec. It is important to recognize that while the EU assumes obligations on behalf of all its members, the Canadian government remains constrained by the division of powers in several areas of trade and investment. Ottawa, which has consistently safeguarded its constitutional authority in matters of trade and commerce, conceded to limited provincial participation in these actual negotiations.

Another important issue in CETA relates to trade in agriculture and food products, which is an important industry in Alberta. In 2009, Canada exported $1.7 billion in primary agriculture products to the EU, but less than half as much -- $720 million -- in manufactured foods. As well, growth in exports of primary agriculture products in the past decade has been three times higher than for manufactured food products. In comparison, EU exports to Canada show the opposite trend. Primary agriculture exports accounted for $250 million in 2009 and have remained stable over the decade; those of manufactured food accounted for $1.5 billion, increasing from $1.2 billion a decade ago.

The fact is, the EU is cashing in on Canada as a market for more lucrative manufactured food products, while Canada is depending on the EU market for lower value-added primary agricultural commodities. CETA could provide the opportunity for large increases in exports of our most competitive agriculture and food products such as cereals, oilseeds, and livestock products -- if EU product regulations for things like growth hormones and genetically modified organisms could be met. Also, as the home of the world's foremost food manufacturing and export industry, the EU could open opportunities for supply chain relationships of considerable magnitude.

A final area of importance is the impact of CETA on trade protectionism through tariffs. The agriculture and food sector has been the bane of protectionism in both the EU and Canada. The EU severely restricts agriculture and food trade extensively despite recent significant changes and reform of the Common Agricultural Policy. The EU also offers huge subsidies that distort production and protect its large food processing and manufacturing industry. In comparison, Canada has high protection in selected areas through supply management arrangements and in the non-livestock food processing and manufacturing sector production. Canada also continues to guard the monopoly of the Canadian Wheat Board in a world long rid of state trading in grains. But Canada's agriculture production is capable of supporting a significantly expanded manufacturing sector, and an agreement that could remove or significantly reduce barriers would spur the development of value added food manufacturing investment to the benefit of both partners.

It would appear that in preliminary talks on the agreement, significant progress has been accomplished in a number of trade and investment areas: demand and offer lists were tabled and goals set for eliminating tariffs, entities included in government procurement tenders, investment measures, regulatory co-operation and dispute settlement. Such rapid progress in negotiations is unusual and encouraging. But the devil is in the details, and these details will measure real success.

As pointed out above, the proposed Canada-EU CETA will deal with emerging issues and sectors in international trade far beyond past agreements. The provisions could impact governance practices and institutions, not just current trade and existing constraints. The complexity and the trade-offs required for a successful agreement in the case of the agriculture and food industry serve to illustrate of the issues in other sectors and elements of CETA. A more transparent and informed debate will help reduce public skepticism and the probability of future disappointment.