



Too huge to neglect

With the U.S. spiralling into a recession, we need a trade agreement with Europe—and fast

Lazy capitalism never looked so appealing or worked so well. There was Canada, sitting above the world's biggest and richest market. The conveniences were in place—a free trade agreement, an open border, a cheap C-buck for exporters, investor protection, proximity, common language and similar regulations. Forget Europe and the other dark bits of the map. All Canada had to do was bash out everything from car bumpers to aluminum ingots, load the trucks headed south, then watch the profits roll north.

The formula worked for 15 years or so, and turned Canada into a \$1-trillion-plus economy. It's not working now. The dollar is at par. Shabby infrastructure and paranoid security guards have turned Canada-U.S. border crossings into choke points. The U.S. is either in recession or so close to it that it may as well be. Presidential wannabe Hillary Clinton declares that she's ready to shred NAFTA and start all over again. California and other states want to tax carbon emissions all the way up the value chain, from the local refinery to the Alberta oil sands. Canada's one-market strategy is going from asset to liability in a hurry. Wealth creation's first rule—diversification—was ignored.

Before anyone heard of the Canada-U.S. Trade Agreement (born in 1988), or NAFTA (1993), there was Europe, the motherland. Culturally and economically, Canada was very much attuned to Britain, France, Germany and Italy. Trade between the old countries and the new one wasn't huge, but it was substantial. Then came our 1980s obsession with the high-growth American market. Europe was downgraded to tourist destination.

Too bad. The 27-country European Union, with 500 million people and about 30% of global GDP (measured in

U.S. dollars), is now the world's single biggest market. Germany is on fire. It is the world's largest exporter, third-largest economy and, unlike Canada, it hasn't let a soaring currency crimp its style. Canada does a fair amount of business with the EU—two-way merchandise trade in 2006 was \$78 billion, and two-way investment reached \$263 billion. But that pales compared with the \$626 billion in two-way merchandise trade with the U.S. and \$497 billion in two-way investment. The totals for Europe could be a lot higher if Canada and the EU had done more to shrink the pond between them.

The good news is that an EU-Canada trade and investment agreement has been quietly bubbling away since the late 1990s. The bad news is that it's still quietly bubbling away. It needs a jolt, and Canada has to deliver it. The EU would like an agreement, but the Europeans have their

course, like convincing Canada's provinces to accept common labour and procurement rules. The EU wants to negotiate with one country, not 10. Agricultural subsidies are another hornet's nest—both sides defend them staunchly, and they're sure to vanish from the agenda.

Prime Minister Stephen Harper also hasn't been a cheerleader—at least not publicly. He hasn't promoted trade with Europe in speeches or toured Europe to raise the idea's profile. Interviews with Canadian trade negotiators are almost impossible to get. Perhaps Harper fears a large failure. NAFTA was Canada's last significant trade deal. Since then, agreements have been made with Chile, Israel, Peru and other small countries. Among the provinces, Québec has been the staunchest supporter, probably because it covets skilled immigrants from Europe, such as French-speaking doctors.

LAZY CAPITALISM TRIUMPHED OVER THE FIRST RULE OF WEALTH CREATION: DIVERSIFY, DIVERSIFY, DIVERSIFY

own distractions, and they'll motor along with or without Ottawa on their side.

Still, there has been progress. Last summer's EU-Canada summit thrust investment and trade to the forefront, and more negotiations were scheduled for late April in Brussels. The main goal is to reduce or eliminate investment barriers (import tariffs on both sides are already low). Issues to be addressed include labour mobility, such as the mutual recognition of professional qualifications; common investment and procurement rules; an open-skies policy for airline routes; and some sort of agreement on carbon emissions and carbon trading.

There are many complications, of

In March, U.S. Republican presidential contender John McCain called for free trade with the EU. This was not good news for Canada. If the EU and the U.S. get serious, negotiations with frozen little Canada would get pushed aside. In October, French President Nicolas Sarkozy will be in Montreal for the next EU-Canada summit. A trade agreement will live or die at that point. It's time for Harper & Co. to ramp up the enthusiasm or risk being chained to an economy that's going in the wrong direction. **ER**

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