

## No quick end to the Canada-EU trade deal

*Expect one, maybe two more rounds, and a tough approval process.*

Embassy

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Will the ninth round of negotiations on the Comprehensive Economic and Trade Agreement between Canada and the EU really be the last? Don't count on it. There will likely be at least one, and possibly two, more before ministers will be asked to bridge the final gaps.

This is how the negotiating game is played. Trade negotiations are never concluded until time runs out because negotiators want to be certain they have extracted everything they can. Uncertainty about closure generates delay.

European negotiators swooped into Ottawa to start the ninth round of negotiations on Oct. 17.

There are many complex issues to be resolved by 28 countries, 10 provinces and three territories. The toughest issues must be left for the end to avoid logjams. And the crunch issues have not yet been fully identified.

Canada, as a relatively small country, does not have an easy time negotiating free trade agreements. The US and EU are more attractive markets. Canadian negotiators must overcome this size problem every time out.

Free trade agreement negotiations involve repeated sales of the same fish. Trying to maintain the full price each time it is sold is difficult because the first country to conclude an agreement gains the advantage; others play catch-up.

Canada has not concluded a significant free trade agreement negotiation since the North American Free Trade Agreement, nearly 20 years ago. Negotiations with smaller countries have not been easy. And discussions with Korea and Singapore are comatose or clinically dead. Canada needs the European deal to re-establish its credibility as a free trade agreement partner. Canada must be able to close what it starts.

What are the issues saved for the end of the day? Are they deal breakers?

### **The sticky issues**

The EU and France, in particular, has been lobbying hard for increased access for agri-food products. But trade in agriculture is not free. Every country including the EU has its own particular problems and sensitivities.

Free trade must go beyond simply removing tariffs. Subsidies, non-tariff and other barriers must also be neutralized.

European agriculture is heavily subsidized and this is likely to continue. The Common Agricultural Policy is both production and trade distorting. It is not neutral. EU negotiators have made it clear that is not going to dismantle the subsidy elements of the Common Agricultural Policy within a trade deal with Canada.

Current access to EU markets for beef and pork is less than stingy, far less than the five to eight per cent or more of consumption access that Canada provides for its sensitive products. Will this change? Trade in agriculture will need to be addressed at the political level by ministers.

Canada has made major concessions on intellectual property protection. It has signed the Anti-Counterfeiting Trade Agreement. Copyright legislation is being updated. Brussels is demanding more—including improved pharmaceutical patent protection as well as extension of geographic indicators going beyond wine and spirits.

Canada has tabled a straight-face offer on provincial government procurement. The EU wants at least as much as Canada did for the US (perhaps more). Local preferences related to the Ontario Feed-in Tariff Program are an irritant to Europe, which has been challenged in the WTO.

The EU wants to limit private sales outlets for beer and wine. Provincial liquor boards are being urged to eliminate or reduce recovery of the additional costs of marketing imported beer, wine and spirits.

Canada cannot meet origin rules demanded by the EU as a condition for the deal's tariff treatment. This has become a major concern for Canada. Industrial materials and parts are sourced within the North American free trade zone and globally. Will Brussels give the USA a free ride by relaxing its origin demands? Don't hold your breath.

Nor will ratifying the eventual agreement be easy. The 27 EU member states and the Canadian provinces will almost certainly want to re-open some sensitive issues.

Canada needs to conclude an ambitious trade deal because free trade agreement preferences are the new Most Favoured Nation. Those not inside the tent, will be left behind. Not only will trade not grow, existing trade will be diverted to those inside the preferential circle. A case in point is Canada's inability to conclude negotiations with Korea. Actual and potential losses in farm trade with Korea could exceed a billion dollars. Meanwhile, Congress passed the United States' free trade agreement with South Korea last week, leaving Canada worse off.

Canada wants and needs the Europe deal more than Europe does. The EU knows this. Because Canada is the demandeur, it will pay dearly for the deal. This is not negativity or opposition to CETA. It is a glimpse of the blindingly obvious. For those who have blind faith in a system that does not exist, being reminded of the obvious may not be comfortable. But denial will not make reality go away.

What price will Canada have to pay for an agreement? Can Canada afford it? Or can Canada afford to ignore the potential of free access to a market of half a billion affluent consumers? Ministers will likely need to decide in mid-2012.

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