

## Europe's Continuing Financial Crisis and the Canada – EU Trade Negotiations

The euro zone continues to struggle with a major financial crisis. Essentially, vastly different levels of competitiveness within a single currency zone cannot be sustained unless there are constant transfers of wealth from the strongest to the weakest. While leaders of the G8 called for Greece's continuing with the euro, Germany is the key and Germany's tolerance for supporting Greece seems to be nearing its political limits. Greece will hold another election on June 17 and if the result favours a rejection of the previously agreed austerity package, all bets are off and Greece may have to exit the euro. The election of President Hollande in France will not bring about drastic change in handling the crisis, rather it will focus the debate within the euro zone on measures to stimulate growth and employment. Most leaders are now speaking both of fiscal consolidation and growth. Especially troubling, however, is the situation in Spain, a large economy deeply in recession, with youth unemployment at a staggering 50 percent and some banks in trouble.

So clearly Europe needs growth and enhanced international trade is one potential source of such growth. Hence, in the midst of all this turmoil, the Europeans still place a high priority on completing the Canada - EU trade negotiations this year. Europe sees Canada as a stable and prosperous place in which to do business. The strongest and most competitive European countries (notably Germany) stand to gain the most from an agreement with Canada.

For Canada, while a deal with a troubled Europe might seem at first glance less appealing than it once did, the Harper government is absolutely determined to conclude an agreement, preferably by the end of 2012. It sees this deal as an important strategic and political goal. The provinces are, for the most part, onside and negotiations are in their final stages.

A key priority for European governments and companies remains the opening up of government procurement by Canadian provinces, notably Quebec and Ontario. Significant progress is apparently being made on this important issue. Intellectual property rights and the treatment of investment are also key goals for Europe. Another achievable goal for the EU will be improved access to the Canadian market for European cheese.

Canada will receive improved access in some important sectors, for example pork, beef and fish products. One of the biggest unresolved issues involves "rules of origin". Europe is insisting that 60 percent of the final value of any Canadian product being given improved access to the EU be created in Canada. In a globalized world, products are often of multinational origin (e.g. autos). Calculating the percentage of Canadian content is not always straightforward.

The EU does not want the Canada-EU agreement to be a back door for easier access for American goods to Europe. That said, some in Europe see the Canada - EU deal as a foot in the door in North America and a starting point for an eventual EU - NAFTA deal down the road. The bottom line is that, despite Europe's continuing financial crisis and the headline treatment it receives, the EU commitment to closing a deal with Canada in 2012 remains strong. Canada is equally committed.

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