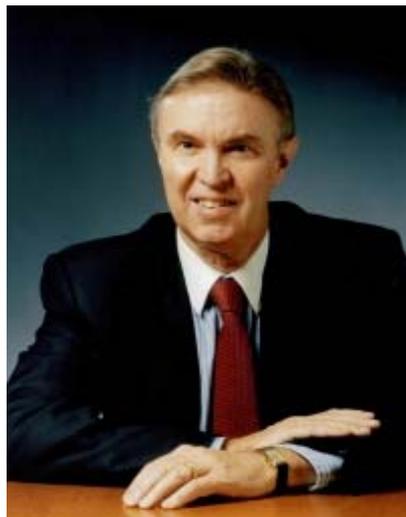




Europe's Travails and the Canada/European Union Free Trade Negotiations

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The December 9 European Summit did not solve the sovereign debt crisis in the EU. While the emphasis on austerity was a victory for Chancellor Merkel and the German model, underlying issues of slow growth, unemployment, and the outstanding debt burdens of weaker eurozone economies remain. Bank of Canada Governor Mark Carney said today that "Europe is sinking into recession".

In light of this, what are the chances for the Canada-EU Comprehensive Economic and Trade Agreement (CETA)? In the absence of a big, global push for trade liberalization, agreements such as CETA can improve competitiveness and offer modest opportunities for growth. So while Europe is preoccupied with its own financial crisis, it is going to have to support any initiative that opens the door to potential growth. In addition, Canada's relatively strong economic performance through the financial crisis of the past few years has enhanced its attractiveness as a trade and investment partner.

Canada and the EU have completed nine rounds of negotiations. The target remains an agreement by the end of 2012. Offers have now been exchanged in all sectors and the table is set for decisions. Trade issues are likely to include rules of origin. The EU does not want this agreement to be a preferential "backdoor" for US goods destined for Europe. The EU is also emphasizing government procurement rules (restrictive in Canada, especially in some provinces).

Canada's supply management system for dairy and poultry is another EU target. The EU has said that it does not expect Canada to dismantle the system, but that it wants improved market access, e.g. for European cheese. This has long been a sensitive political issue in Canada (rural ridings in Quebec and Ontario). However, the Canadian government has a pro free trade agenda. When it signed on for negotiations under the Trans-Pacific Partnership (TPP) it was clear that the supply management system would be under pressure in these talks as well.

Other issues that will be of special interest include treatment of investment, labour mobility, mutual recognition of credentials and temporary entry of professionals.

The Canada-EU CETA negotiations will no doubt be difficult in the coming year. However, both sides need a win rather than a stalemate. The weak economy in Europe means that the EU needs more free trade deals covering more sectors (it is currently negotiating with India for an agreement in 2012). So, while the Canada-EU trade and investment relationship seems lost in the headlines about the euro, it is still alive and has political impetus behind it on both sides of the Atlantic.