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## ***Canada–European Union Trade Negotiations***

### ***1. Overview of Negotiations***

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***Canada–European Union Trade Negotiations:***  
***1. Overview of Negotiations***  
**(In Brief)**

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# CANADA–EUROPEAN UNION TRADE NEGOTIATIONS:

## 1. OVERVIEW OF NEGOTIATIONS

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### 1 INTRODUCTION

In May 2009, Canada and the European Union (EU) announced the launch of negotiations towards a Comprehensive Economic and Trade Agreement (CETA). These negotiations are significant for Canada. The EU is the world's largest single market, with a population of nearly 500 million individuals and a gross domestic product (GDP) of more than \$19 trillion in 2009. As an integrated bloc of 27 member states, the EU is Canada's second-largest trading partner in goods and services, and our second-largest source of, and destination for, foreign direct investment (FDI).

This paper is the first in a series on Canada–EU CETA negotiations.<sup>1</sup> It provides background information on Canada–EU trade liberalization efforts, the subjects included in formal trade discussions and the status of CETA negotiations.

### 2 BACKGROUND

The current CETA negotiations represent the second time in less than a decade that Canada and the EU have made an effort to formally expand their economic relationship. The first effort began in March 2004, when they agreed to a framework for a Trade and Investment Enhancement Agreement (TIEA). Three negotiating rounds were held in 2005 and 2006, covering issues such as regulatory cooperation, mutual recognition of professional qualifications, government procurement, financial services and intellectual property rights. The two sides failed to reach an agreement, however, and suspended negotiations in May 2006 in the hope that a successful result at the Doha Round of World Trade Organization (WTO) negotiations would clarify some of the issues that had arisen over the course of TIEA discussions.

In spite of the suspension of TIEA negotiations, Canada's interest in a formal economic cooperation and trade agreement with the EU remained strong. In part owing to the lobbying efforts of provincial governments and the business community, Canada and the EU agreed, at the 2007 EU–Canada Summit in Berlin, to conduct a joint study to explore the expected costs and benefits of a closer economic partnership. The study focuses on the potential effects of removing existing barriers, especially non-tariff barriers, to the flow of goods, services and capital between Canada and the EU.

#### 2.1 JOINT STUDY ON THE COSTS AND BENEFITS OF FREE TRADE

According to the economic simulation exercise conducted as part of the Canada–EU joint study, *Assessing the Costs and Benefits of a Closer EU–Canada Economic Partnership*, a trade liberalization agreement would benefit both economies.<sup>2</sup> The study suggests that the EU could expect GDP gains of \$18.6 billion annually, while

Canada could experience a \$13.1 billion annual increase in GDP.<sup>3</sup> Annually, this additional economic activity represents a 0.08% increase in the EU's GDP and a 0.77% increase in Canadian GDP.

The joint study reports that trade liberalization could expand Canada-EU trade by \$41.2 billion from 2007 to 2014, a 23% increase. Nearly three quarters of the increase (\$29.8 billion) would result from goods trade. According to the study, exports of Canada's goods to the EU could increase by \$10.1 billion (24.3%) from 2007 to 2014, while EU exports to Canada could increase by \$19.6 billion (36.6%).

The joint study concludes that Canada-EU trade in services would increase by \$11.2 billion from 2007 to 2014. Canadian imports of EU services would rise by \$7.7 billion (13.1%), while services exports from Canada to the EU would expand by \$3.5 billion (14.2%).

Economic impact studies such as this one are intended to provide only an illustration of the potential impact of trade agreements. In practice, it is impossible to predict actual outcomes, for several reasons. First, in the case of the Canada-EU joint study, no agreement has yet been reached; consequently, the projected impact of free trade is based on assumptions about the outcome of negotiations. For example, the study assumes that projected increases in Canada-EU trade occur in the context of a successful outcome to the Doha Round of WTO negotiations. Second, the study assumes full elimination of tariffs and tariff-rate quotas in all industrial and agricultural sectors, including sensitive sectors; these outcomes are unlikely. Third, the study does not consider the economic impacts of activities such as opening government procurement markets or changing foreign direct investment levels between the two economies.

It is also difficult to separate the impact of trade agreements from the economic and policy environments in which they are implemented. The Canada-EU joint study was completed before the global financial and economic crisis and does not reflect the impact of the crisis, nor of the debt crises facing several EU member states. In the 2010 budget, the Canadian federal government unilaterally eliminated tariffs on imports of manufacturing inputs as well as of machinery and equipment, an initiative that would affect the impact of a CETA on Canada-EU trade and economic growth.<sup>4</sup>

For reasons such as these, the results of economic impact assessments of trade agreements should be interpreted with caution. Such assessments provide an indication of the degree to which trade agreements, in isolation from all other factors and subject to certain assumptions, could have an impact on participating countries. However, they do not provide a standard against which to compare actual outcomes, because trade agreements do not occur in isolation from other economic events, many of which are impossible to anticipate. These limitations have led to numerous debates about the effectiveness of trade liberalization agreements that have failed to meet the outcomes estimated in economic impact assessments.

## 2.2 SCOPING EXERCISE FOR TRADE NEGOTIATIONS

Because the joint study demonstrates that a Canada–EU trade liberalization agreement would benefit both sides, Canada and the EU agreed on 17 October 2008 to begin identifying the specific subjects to be covered in formal negotiations. The results of that scoping exercise were released in March 2009 in the *Joint Report on the EU–Canada Scoping Exercise*.<sup>5</sup> The joint report outlines a broad CETA negotiating agenda that includes trade liberalization and other increased economic integration between the two parties. It specifically recommends the following topics as areas for negotiation:

- trade in goods;
- sanitary and phytosanitary issues (food safety as well as animal and plant health measures);
- technical barriers to trade;
- trade facilitation;
- customs procedures and rules of origin;
- cross-border trade in services, including mutual recognition of professional qualifications;
- investment;
- central and sub-central government procurement;
- regulatory cooperation (laws and procedures);
- intellectual property;
- temporary movement of business persons;
- competition policy and related matters, including monopolies and state enterprises;
- institutional arrangements and dispute settlement; and
- sustainable development.

## 3 CETA NEGOTIATIONS

Following two months of planning and consultation, the formal launch of CETA negotiations was announced on 6 May 2009 at the Canada–EU Summit in Prague, Czech Republic. The first formal round of negotiations took place in October of that year; since then, formal negotiating rounds have taken place quarterly. According to Canadian and EU officials, the two sides are aiming to conclude negotiations by the end of 2011. Both sides have expressed their desire to achieve a wide-ranging and comprehensive agreement that not only liberalizes trade but that enhances economic cooperation in other areas as well.

According to Canada's trade negotiators, CETA discussions span 22 subjects. While the subjects include areas such as competition policies, sustainable development and trade facilitation, there are nine subjects that together form the core of the

agreement.<sup>6</sup> They are market access for agricultural goods, market access for non-agricultural goods, trade in services, investment protection, government procurement, non-tariff barriers to trade and regulatory cooperation, intellectual property protection, labour mobility and dispute settlement. Each of these nine areas is the subject of a paper in this series.

Should Canada and the EU succeed in completing an agreement that makes meaningful progress in these areas, the implications for Canada would be significant. CETA negotiations could result in an agreement that is both broader and deeper than the North American Free Trade Agreement (NAFTA), Canada's most comprehensive trade agreement to date.

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## NOTES

1. Other subjects covered in this series are market access in agriculture, non-agricultural market access, trade in services, investment protection, government procurement, technical barriers to trade and regulatory cooperation, intellectual property protection, labour mobility and dispute settlement.
2. Government of Canada and the European Commission, [\*Assessing the Costs and Benefits of a Closer EU-Canada Economic Partnership: A Joint Study by the European Commission and the Government of Canada\*](#), Ottawa and Brussels, 2008.
3. Figures from the Canada-EU joint study have been converted to Canadian dollars from Euros using the Canada-EU exchange rate for 16 October 2008 from the Bank of Canada.
4. Most tariffs are to be eliminated immediately, while some will be phased out over a five-year period.
5. Joint Scoping Group of the Government of Canada and the European Commission, [\*Joint Report on the EU-Canada Scoping Exercise\*](#), Ottawa and Brussels, 9 March 2009.
6. House of Commons, Standing Committee on International Trade, *Evidence*, 3<sup>rd</sup> Session, 40<sup>th</sup> Parliament, 15 June 2010.