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Canada–European Union Trade Negotiations

3. Non-Agricultural Market Access

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Alexandre Gauthier and Michael Holden

International Affairs, Trade and Finance Division
Parliamentary Information and Research Service

Canada–European Union Trade Negotiations:
3. Non-Agricultural Market Access

(In Brief)

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CANADA–EUROPEAN UNION TRADE NEGOTIATIONS: 3. NON-AGRICULTURAL MARKET ACCESS

1 INTRODUCTION

While negotiations for a Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union (EU) cover more than 20 subject areas, there are nine of particular interest to Canadians and their EU counterparts. These nine topics are the most sensitive or difficult negotiating issues, or the source of the greatest estimated impacts should CETA negotiations succeed, or the areas of the more controversial elements. This paper discusses market access issues for non-agricultural products.[1]

2 NEGOTIATION ISSUES

Tariff barriers for non-agricultural products are perhaps the least contentious of the major CETA negotiating subjects. While trade in industrial goods and manufactured products can, in some cases, face considerable regulatory hurdles or other non-tariff barriers to trade, tariff rates on most non-agricultural products in Canada and in the EU are generally relatively low, as the result of several successful rounds of multilateral trade negotiations. According to the Canada–EU joint study, *Assessing the Costs and Benefits of a Closer EU–Canada Economic Partnership*, on a trade-weighted basis,[2] Canadian goods faced an average applied tariff rate of 2.2% in the EU in 2007, while EU exporters to Canada faced an average tariff rate of 3.5%.[3] Both Canada and the EU are seeking to eliminate all remaining tariffs on industrial goods in a CETA.

The average industrial tariff rate facing EU exporters in Canada is expected to fall even without a Canada–EU CETA. In the 2010 budget, the Canadian federal government unilaterally eliminated all tariffs on imports of manufacturing inputs as well as of machinery and equipment. Although most of those tariffs were eliminated as of March 2010, some are to be phased out over a five-year period.

However, Canada maintains tariffs on a number of other non-agricultural products that would likely be eliminated should the CETA negotiations be successful, judging from the outcomes of Canada's previous trade liberalization negotiations. For example, as of 2010, Canada levied a tariff rate of 11% on some rail cars, 6.1% on most motor vehicles and parts, and 6.2% to 16.3% on textiles, apparel and footwear. In its free trade agreement with the European Free Trade Association (Norway, Switzerland, Iceland and Liechtenstein), which entered into force on 1 July 2009, Canada eliminated all tariffs on these goods and agreed to phase out its tariffs on ships and floating structures. Canada's most-favoured-nation tariff rate applied to these products is as high as 25%. In the agreement, these tariffs are scheduled to be phased out over a period of 10 to 15 years. The EU may request similar treatment.

While the average trade-weighted tariff rate facing Canadian exporters to the EU is relatively low, in certain sectors the rates are high enough to represent a barrier to Canadian businesses. For example, the Canada–EU joint study notes that the EU levies an average tariff rate of 12.5% on fish and seafood products, 7 to 10% on certain types of wood and wood products, 9.4% on clothing and textiles and 10% on cars and car parts.

As with agriculture and agri-food products, rules of origin are expected to become a focus of negotiations for non-agricultural products, in particular for the auto and textile sectors. For autos, the EU wants to maintain its 60% local content rule of origin, while Canada will likely seek something closer to 30%, since the auto-industry supply chain is so integrated within North America. For textiles, Canada is seeking a change to the EU's double-transformation rule, which requires two complete processes, such as from yarn to fabric to apparel, for origin to be conferred.

NOTES

1. Other subjects covered in this series are market access in agriculture, trade in services, investment protection, government procurement, technical barriers to trade and regulatory cooperation, intellectual property protection, labour mobility and dispute settlement.
2. The average of a country's tariffs, weighted by value of imports.
3. 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.