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Canada-European Union Trade Negotiations

4. Trade in Services

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Canada–European Union Trade Negotiations:
4. Trade in Services
(In Brief)

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CANADA–EUROPEAN UNION TRADE NEGOTIATIONS:

4. TRADE IN SERVICES

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 trade in services.¹

2 CANADA–EUROPEAN UNION TRADE IN SERVICES

Services are the largest component of both the Canadian and the European economies, representing more than 70% of the gross domestic product in each jurisdiction.² Important in their own right, services also provide inputs into the production of many goods and after-sale support. Two-way trade in services between Canada and the EU is considerable. The EU is Canada's second most important trading partner in services. Service exports to the EU in 2008 totalled \$12.6 billion, accounting for 18% of Canada's service exports worldwide. Service imports from the EU were valued at \$15.7 billion in that year, representing 17% of Canada's service imports from around the world.³

In 2008, Canada was a net exporter of commercial services to the EU and a net importer of travel services as well as of transportation and government services. Strong growth in EU purchases of Canadian travel services has been a major contributor to the increase in service imports from the EU in recent years.

3 NEGOTIATION ISSUES

Trade impediments to the free flow of services between jurisdictions generally arise from governmental regulation of those services. Thus, the challenge for CETA negotiators will be to reconcile removing impediments to trade in services with preserving the policy flexibility that allows the EU and Canada to regulate services to meet legitimate public policy objectives.

In past trade agreements concluded by Canada, including the North American Free Trade Agreement (NAFTA), Canada has taken a "negative list" approach to its service trade commitments: all items are covered except for specific exemptions. The EU has never used this approach, relying instead on a "positive list" method that involves agreeing to commitments only in a specified list of areas.

In addition, the coverage of services related to levels of government will have to be negotiated. It has been widely reported that one of the EU's main requests is that *sub-central* governments (i.e., provincial governments and major municipalities) in Canada be covered by the CETA although, historically, trade agreements negotiated by Canada have not extended to provincial and municipal governments.

The Canada-EU Scoping Group that outlined the areas for negotiation took the view that the services provisions should apply to all levels of government as well as non-governmental bodies exercising delegated powers.⁴ Moreover, according to the Group, no mode of supply or services sector should be excluded *a priori*. Depending on the provisions included in government procurement, European companies could bid on provincial and municipal service procurement contracts. To date, Canada has consistently exempted certain services from its trade agreements, including NAFTA and its World Trade Organization commitments. Examples include water services, public education and health and social services.

According to the simulation completed by Canada and the EU, 46% of the estimated total gains for Canada and 50% of those for the EU would result from further liberalization of trade in services.⁵ These gains are equivalent to gross domestic product gains of \$5.9 billion for Canada and of \$9.3 billion for the EU.⁶ Although these results were based on numerous debatable assumptions, they nonetheless provide an indication of the strategic importance of services in the CETA negotiations.

NOTES

1. Other subjects covered in this series are market access in agriculture, non-agricultural market access, investment protection, government procurement, technical barriers to trade and regulatory cooperation, intellectual property protection, labour mobility and dispute settlement.
2. See "[Canada](#)" and "[European Union](#)" in US Central Intelligence Agency, *The World Factbook*, Washington, DC, 19 August 2010.
3. Statistics Canada, "Canada's International Trade in Services," Catalogue 67-203, October 13, 2009, Reproduced at Foreign Affairs and International Trade Canada, [Balance of Payments](#), "Total Canadian trade in services by country (and ranking)," Ottawa, 2010.
4. 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.
5. 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, p. 55.
6. Ibid. Figures have been converted to Canadian dollars from Euros using the Canada-EU exchange rate for 16 October 2008 from the Bank of Canada.