

# TRENDWATCH



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## Trading Up: Canada and the EU Negotiate

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Negotiations are well underway for what is expected to be Canada's most comprehensive trade agreement to date. With negotiations slated to conclude as early as 2011, the government is eager for input from the Canadian business community now, before the agreement is substantially drafted.

The EU, Canada's second largest trading partner, is the largest, wealthiest market in the world. Understandably, Canada has been interested in negotiating a free trade agreement (FTA) with the EU for over 30 years. While Canada does not offer as large a market for goods and services, it is a significant source of foreign direct investment in the EU. A successful agreement could, moreover, be used by the EU as a jumping-off point for the negotiation of a transatlantic free trade agreement.

In October 2008, the parties released a joint study assessing the potential impact of an FTA. The study identified possible benefits in goods sectors such as aerospace, chemicals, plastics, wood products,

automotives and agriculture, and in services sectors including transportation, engineering and computer services. It also recognized opportunities for enhanced relationships in investment, labour mobility, regulatory co-operation, the environment, and science and technology.

Negotiations were formally launched on May 6, 2009. The parties have agreed to timelines, the structure of negotiations and an outline for the text of the agreement. Draft texts were exchanged at the October 2009 round, which included 21 negotiating groups and, for the first time, 60 provincial and territorial representatives. Beginning in December, the parties tabled offers and requests for goods, services and procurement.

The outline of negotiations envisages an FTA that is broader and more ambitious than any trade and economic agreement negotiated by either party to date, including the NAFTA. No tariff lines relating to goods, nor sectors or modes of supply relating to services, have been excluded from the outset, and

commitments are expected to extend to all levels of government.

Both parties are looking to substantially improve access to public procurement markets, with the EU seeking specific commitments from provincial and territorial governments. Investment is similarly focused on improved market access and transparency at sub-central levels. Barriers caused by regulatory divergences will be addressed. Discussions on investment and trade in services will include consideration of mutual recognition of professional qualifications and better means to facilitate the temporary entry of businesspersons.

The text of any trade agreement is a reflection of interests and an assessment of opportunities and risks. Some interests will be defensive. For instance, the EU is looking to eliminate tariffs on foodstuffs, textiles and footwear, small electric products and various agricultural products. Canadian manufacturers of these goods may be willing to see tariffs dismantled to gain reciprocal access, but will likely want assurances that products coming into Canada are made in the EU, rather than its developing country trading partners. The drafting of rules of origin comes into play to protect these interests.

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Canadian businesses have an opportunity to address regulatory barriers that frustrate access to the EU market such as the recent EU regulation, *Registration, Evaluation, Authorization and Restrictions of Chemicals* (REACH). Obstacles can exist in packaging and labelling laws, health and safety measures, and sanitary and phytosanitary regulations. Knowledge is power. If negotiators do not know a problem exists, it will not be put on the table.

These negotiations present a unique opportunity to impact government policy through external pressure. Both the EU and Canada have complained of delays in the processing of food additive submissions by Canadian authorities. The EU is also unhappy with Canada’s IP enforcement regime, as are many Canadian companies. Industry can mobilize to champion common interests through international industry organizations or parents and affiliates of domestic companies.

Canadian trade negotiators have expressed a need for more engagement from industry and fear that this input will come too late to be incorporated into the rapidly building package of commitments. Now is the time for Canadian businesses to make their views known.

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