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TD Economics

International Commentary: Canada's trade agreement with Europe is one step closer to being ratified by the EU

- Overnight, the European Union announced that it had managed to salvage the Comprehensive Economic and Trade Agreement (CETA) with Canada, at least for one more day. Earlier this week there were fears that the agreement would fail due to lack of Parliamentary approval in Belgium. Strictly speaking, Belgian parliaments have been asked to settle their positions on the trade agreement before midnight this Friday, October 28, 2016, with the EU cautioning that the deal isn't approved until all EU parliaments have agreed to it.
- The Belgian government was able to overcome regional opposition through the addition of text providing some guarantees for farmers, and a tweak to the corporate dispute settlement system, suspending the system until all nations have ratified the treaty.
- CETA aims to eliminate almost all tariffs between Canada and the EU within seven years. The deal entails opening up agricultural sectors, although the supply management system in Canada is expected to remain largely intact in its present form. Regulatory cooperation is expected to get a boost, as is mutual recognition between regulated professions, particularly in relation to cross border services.
- The agreement is also expected to help facilitate the temporary movement of employees between the EU and Canada, with the current 90-day limit increased to three years for certain professions. On this note, the financial services industries in both regions will see some benefits but will lack full, UK-style passporting.
- European businesses will get to bid for Canadian public contracts at all levels of government, a first for a Canadian trade agreement. The agreement is reciprocal with Canadian firms able to bid on EU government contracts.
- In terms of importance, Canada is the EU's fifth largest trading partner, constituting about 6% of extra-EU goods trade. The EU is Canada's second largest trading partner, comprising about 9.5% of its external trade. Canada's exports to the EU include commodities, some manufactured goods and machinery and transportation equipment. The EU mainly exports machinery and transportation equipment to Canada, as well as chemicals and manufactured goods.

Key Implications

- Recent global trends have marked a movement towards greater anti-trade sentiment. CETA was certainly going to test this sentiment, punctuated by uncertainty about the status of the trade agreement post-Brexit, the resistance of EU parliaments to a transatlantic trade and investment partnership (TTIP) with the United States, and recent resistance by Belgian Parliaments to CETA. The positive overnight news leaves us a little more optimistic about the capability of the EU to negotiate trade agreements. After the expected approval by Belgian parliaments tomorrow evening, the EU will be able to shift their full attention to planning for upcoming negotiations with the UK that are likely to begin early next year.

- That said, there remains some uncertainty surrounding the ultimate fate of CETA. The suspension of the dispute system means that the trade component of the treaty should be able to go forward on a provisional basis while changes to the dispute system are discussed. Should a revised dispute system not be agreed in the coming years, CETA may still be undone (remember that it would only take one member state rejecting the revised dispute system to make the entire agreement null).
- For the UK, trade with Canada remains complicated. As soon as the UK enacts Article 50 and formally applies to leave the EU, there will be a two year window before Canadian trade with UK firms will no longer be governed by CETA rules. The need to renegotiate a trade deal with Canada will stretch UK trade negotiators even further over this time. In terms of trade shares, only 3.2% of Canadian exports were UK-bound in 2015, while 1.4% of UK exports were Canada-bound. The small scale of trade between the two nations suggests that trade negotiations with Canada may not be an urgent priority for the UK given the magnitude of trade negotiations it faces with the EU and other larger economies.

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