Blaney McMurtry LLP

PUBLICATION

Canada and the European Union Conclude Negotiations on Trade Deal

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Introduction

On October 18, 2013, Canada and the European Union ("EU") reached an agreement, in principle, on a Comprehensive Economic and Trade Agreement ("CETA"); this will be the first free trade agreement between the EU and a G8 country. CETA covers most aspects of the Canada-EU bilateral economic relationship, including trade in goods and services, investment, and government procurement. It also grants the flexibility to include areas of mutual interest beyond those that have traditionally been included in Canada's trade agreements, such as regulatory cooperation. Further details of the agreement are provided below.

Overview of CETA

According to the Canadian Government, CETA will provide Canada with preferential market access to the EU's more than 500 million consumers and to its annual $17 trillion in economic activity. It further states that a joint study conducted with the EU, which supported the launch of negotiations, concluded that such an agreement could boost Canada's income by $12 billion annually and bilateral trade by 20%. From its perspective, the EU claims that CETA will raise the level of its annual GDP by approximately €12 billion a year.

Approximately 98% of all tariffs will be eliminated on the first day that CETA comes into force; the remaining tariffs will be phased out over several years. The Canadian industry sectors that stand to benefit the most from CETA include the following:

a. **Advanced Manufacturing:** Most tariffs on advanced manufactured products, including those on electrical parts and equipment and medical devices will be immediately eliminated.

b. **Automotive Industry:** Up to 100,000 passenger vehicles per year will be exported to the EU duty free. CETA will also eliminate EU tariffs on automobile parts.

c. **Chemicals and Plastics:** CETA will immediately eliminate existing EU tariffs on all chemicals and plastics, including plastic floor coverings, chemicals used in photography, and silicon.

d. **Agriculture and Agri-Food:** Almost 94% of EU agricultural tariff lines will be duty-free, including wheat and vegetable oil.

e. **Beef and Pork Producers:** Under CETA, beef ranchers would be able to export 64,950 metric tonnes of beef per year duty free; 50,000 tonnes more than the current annual quota. Canadian pork producers would be able to export 80,000 metric tonnes of pork per year; significantly more than the current quota of 6,000 metric tonnes.

f. **Food Processing:** CETA will immediately eliminate existing EU tariffs on processed foods and beverages.

g. **Forest and Value-Added Wood Products:** CETA will immediately eliminate existing tariffs on all forest products, including: plywood, prefabricated wooded buildings, and particle board and oriented strand board panels.

h. **Metals and Mineral Products:** CETA will immediately eliminate existing EU tariffs on metals and mineral products.

i. **Fish and Seafood Products:** Upon coming into force, almost 96% of EU tariff lines for fish and seafood products will be duty-free. 100% of these tariff lines will be duty-free 7 years later.

j. **Information and Communications Technology ("ICT"):** CETA will immediately eliminate all existing EU tariffs on ICT products, including parts for visual signalling equipment and optical fibre cables.

On the other hand, the Canadian industry sectors that stand to lose the most as a result of CETA include the following:

a. **Dairy Products:** Canadian dairy producers could be adversely affected, since European cheese imports to Canada will double to 30,000 metric tonnes per year under CETA.

b. **Generic Drug Manufacturers:** Under CETA, Canada will be required to lengthen the patent protection for brand-name drugs produced by EU pharmaceutical companies from 20 to 22 years. This will adversely affect generic drug manufacturers in Canada and Canadian consumers as well.

Trade in Services

According to the Canadian Government, citizenship or residency requirements, barriers to temporary entry, and ownership and investment restrictions can all act as barriers to exports of services. CETA will immediately establish preferential access to and greater transparency in the EU services market. Among other things, it is likely that CETA will establish a process for the temporary entry of professionals and business persons, in the same manner as the *North American Free Trade Agreement*.

Government Procurement

CETA will expand and secure opportunities for Canadian firms to supply their goods and services to the 3 main EU level institutions (the EU Commission, Parliament, and Council), the 28 EU member states and thousands of regional and local government entities within the EU, as well as with entities operating in the utilities sector. All Canadian levels of government will also open up their public procurement markets to EU suppliers.

Foreign Investment Thresholds

Due to recent amendments to the *Investment Canada Act*[1] earlier this year, the minimum review threshold for foreign direct investments made by World Trade Organization members will be set at $1 billion in enterprise value.[2] However, under CETA, the minimum review threshold for foreign direct investment made by EU investors will be set at $1.5 billion in enterprise value.

Conclusion

Based on the political agreement that has now been reached, technical discussions will need to be completed so that the final legal text of the agreement can be prepared. Once this has been completed, Canada's provinces and all of the EU's 28 member states, plus the European Parliament, must ratify CETA before comes into force.

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[1] R.S.C., 1985, c. 28 (1st Supp.).

[2] http://www.parl.gc.ca/HousePublications/Publication.aspx?Language=E&Mode=1&DocId=6249902.