

# Should CETA be Finalized?

Written by Simone Main

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SIMONE MAIN, MAR 21 2013

### **Comprehensive Economic and Trade Agreement (CETA) – To Finalize or Not to Finalize, that is the Question.**

#### **Introduction**

The European Union has significant interests in the expansion of its global economic and political partnerships. The ever-changing global atmosphere, as well as the economic history and mutual strategic visions of Canada and the EU have led the nations deep into CETA negotiations. This paper will provide an argumentative analysis for why it is in the interests of the EU to finalize CETA. While I am aware that there are many significant aspects of CETA that support the EU's values and norms, the predominate focus of this paper will be on the strategic and material interests that the EU can gain from CETA. It will begin by providing an analysis of the economic benefits and opportunities the EU would gain by finalizing CETA. These benefits include: the gains that arise from the elimination of market barriers; the creation of a template for future trade agreements; access to the United States market; mutual recognition of regulations and standards; access to Canadian public procurement markets; and industry specific cooperation and labor mobility. While these potential benefits of CETA are significant, EU criticism and speculation has arisen regarding Canada's environment policies and questionable responses to the threat of global climate change. While these issues have heated up negotiations, they are unlikely to hold the magnitude to end them. If CETA is finalized, the EU would step up as a global leader in the ever-changing global political and economic environment, incur massive economic benefits and therefore set the stage for major forthcoming economic opportunities.

#### **Strengths and Benefits of CETA**

CETA's strengths arise from its very broad agenda. The agreement also represents the new desire between two developed capitalist markets to create bilateral political and economic partnerships (Hübner, 2011, 5). If CETA becomes a reality, it will pave the way for political and economic relationships and break the current standstill of many unfinished multilateral and bilateral economic partnerships (Hübner, 2011, 1). A portion of the potential gains exists because Canada and the EU are trading much below their potential. The long-term economic opportunities that arise represent the remainder of the gains that CETA would provide. Thus, for the following reasons it is in the interest of the EU to finalize CETA.

#### **Economic Benefits**

If CETA becomes ratified, the establishment of an open, tariff-free market in Canada will create many economic gains. For instance, the Joint Study found that the EU's trade with India and Canada was approximately the same size, despite that Canada's economy is one and a half times that of India (Government of Canada, European Commission, 2008). Finalizing CETA would help remedy the current under-trading between the two nations, and allow both countries to realize increased profits. A major contributing factor to the economic gains arises from the liberalization of services, which by 2014 will account for 50% of the potential €11.6 billion increase of the EU's GDP (Government of Canada, European Commission, 2008). It is no question that CETA's gains are larger for the Canadian economy because of its smaller market size, resulting in a 0.77% Canadian GDP increase compared to the 0.08% EU GDP increase. However, as the Eurocrisis continues to grow and threaten to break up the Eurozone and

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collapse the Euro, the value that Canada adds as a partner is increased, as is the significance of these economic gains. Access into Canada's market will increase business activity and exports regardless. In the short term these immediate economic gains, specifically in GDP, may seem minor for the EU, however, the most significant gains are long-term and come in the form of economic opportunities.

### **Future Economic Opportunities**

It is in the interest of the EU to further integrate with Canada because Canada is a highly developed, stable, resource-powerhouse (Hübner, 2011, 15). CETA is the first FTA the EU has developed with any G8 country, and there are many strategic reasons why the European Commission chose Canada for a partnership, such as: Canada borders the United States, the Pacific Ocean, and the Atlantic ocean; has a lucrative natural resource market; and has a stable democratic political system. To begin analysis, the core of global economic power is shifting from an Atlantic Economy to a Pacific Economy as Asian economies continue to grow (Hübner, 2011, 3). Canada is in a prime location to partner with as it offers access to both these economies. The EU can thus take advantage of all economic opportunities that arise during this transition period. To strengthen the case of Canada's valuable partnership, I will raise a counter-argument as to why many wonder about the EU's choice of Canada, because of its small GDP relative to that of the US or China. While it is agreed that the benefits that would arise would be smaller than if the EU partnered with the US or China, the US and China are massive and extremely complex markets, making finalization of such a far-reaching FTA verge on impossible. Canada is the most logical and stable option to actually finalize an agreement. CETA's final draft will create a template for this new type of FTA, which can be built upon for larger, more complex countries. Thus, CETA can be seen as the first logical step towards a much larger goal, bilateral FTAs with China and the US. This leads to theory of the spaghetti bowl (Hübner, 2011, 7).

Global political and economic climates are undergoing massive changes. The inability for multilateral agreements to be finalized has resulted in a standstill and has led to many advanced nations creating a network of bilateral agreements with lesser-developed nations, referred to as the spaghetti bowl theory. Given this change in direction of the global economy towards bilateral agreements, regardless of a general multilateral preference, CETA gives the EU the means to position itself as a global leader in economics and trade. CETA would supply the EU with a first mover advantage in this newly emerging type of FTA. Being a first mover ensures that the EU has the skills and knowledge to know how to successfully finalize these ambitious trade agreements. The advantages gained from the experience curve would equip the EU with the structural platform to apply this template to nations with larger, more complicated markets. The following argument also adds to the value Canada provides in the potential EU-Canada comprehensive partnership. Canada's border with the United States can be seen as a massive economic opportunity for the EU. The US and the EU have the largest bilateral relationship in the world with both countries' GDPs accounting for half of the entire world's GDP sum. If finalized, CETA can be utilized as a launching pad into the United States, under the provisions of NAFTA (Hübner, 2009). Gaining increased access into the US provides a huge economic opportunity for European businesses. Furthermore, the pathway CETA creates into the US market is done so with no negotiations with the US, which means no transaction costs and extremely fast entry opportunities. It can be seen as the first step in what will potentially become a FTA between these two massive economic powers.

### **Removal of Market Barriers**

European industry sectors would see major gains from the removal of tariffs and non-tariff barriers. One of the most significant benefits would be in the Science and Technology industries. Currently, Canada and the EU's relationship in this industry is monitored and organized under the Agreement for Science and Technology Cooperation, developed in 1996 (Government of Canada, European Commission, 2008). As a result of this agreement, Canada and the EU are each other's second leading industrialized research partners, and there is much potential gain to be realized from further integration. Much of these new gains will arise from Flagship Cooperation Projects in globally significant sectors like the environment (Government of Canada, European Commission, 2008). The EU is a world leader in environment and climate challenges; partnering with another advanced nation and collaborating efforts would be to their advantage. The importance of this linkage is expanded in the drawbacks section of this paper.

Another major economic gain stems from CETA's proposed agreement of mutual recognition of professional

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qualifications. This is a significant provision of CETA: it would directly affect labor mobility, as laborers or professionals would have the freedom to work in Canada and have equal work opportunities as they would have in their nation state. This is particularly beneficial for intra-corporate transfers or long-term leaves of employees. This mutual recognition thus plays a large role in easing the global expansion ability of European transnational companies.

The EU has made it a high priority to gain access into Canada's public procurement markets on a central and sub-central level. Under the WTO's Government Procurement Agreement, Canadian provinces, municipalities and crown corporations were granted exemption from opening public procurement markets to foreign suppliers (Bascariol, 2012). The EU has taken advantage of this, and has demanded that provinces become part of the negotiation table (Leblond, 2009). If CETA is finalized, the EU will see major export gains because many European companies are global leaders in transportation equipment, infrastructure construction and public utilities (Hübner, 2010). Since Canada's public procurement markets are minimally affected by foreign competition, the contract prices received by firms are high, making attractive bidding start points. Many European transnational companies have set their sights on Canada's lucrative public procurement market (Bascariol, 2012). Finally, given the massive global scale of public procurement, one can understand why the EU wants to incorporate genuine liberalization of procurement markets as a standard in this new type of FTA.

### Drawbacks and Costs of CETA and How to Overcome Them

Given the far-reaching provisions of CETA, there is one major argument commonly articulated by the European Parliament. It is important to understand that the majority of arguments against CETA arise from Canadians' fear of having the smaller economy, and thereby feeling the effects of increased European competition much more than Europe would feel from Canadian competition. Canada and the EU hold contrasting positions in their response to the challenge and threat of climate change. The EU has taken the position as a global climate leader, as it dedicates immense resources on ways to manage the threat of climate change (Hübner, 2011, 260). The EU has disapproved of many of Canada's responses to global climate change, including its abandonment of the Kyoto agreement, and has actually implemented a ban against Canadian seal products. For example, while Canada has fallen short on its carbon emission targets, the EU has agreed to reduce emissions by 20%, and even by 30% if all other G8 countries agree (Hübner, 2011, 249). Although these differences have sparked EU concern and even been considered enough to threaten the partnership, there remains an opportunity to turn this concern around. For example, Canada clearly needs to develop a greenhouse gas emission reduction plan, and can learn from the experiences of the EU. Developing a partnership with the EU would allow Canada to gain knowledge of how to implement a successful plan and also support EU global climate change initiatives. Furthermore, it has the potential to create a transatlantic link that would be a massive step forward in connecting global efforts to tackle climate change.

### Conclusion

If CETA negotiations end successfully, it would coincide directly with the EU's aim to increase trade and expand its political and economic partnerships while also providing the platform for the EU to become a global leader in trade policy. Canada represents a highly strategic choice for a partnership and the EU would gain from the multitude of benefits that arise merely due to the geographical location of Canada. The EU is able to take advantage of the weakness of Canada's global climate image, and create a link with Canada and help them overcome their image as a problematic figure in the global attempt to suppress climate change. Overall, the finalization of CETA produces a far-reaching range of short-term and long-term benefits from which the EU would economically and politically grow.

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