# Canada’s Pact with Europe and North America’s Economic Integration: Is CETA bigger than NAFTA?

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**ABSTRACT**

Following the conclusion of negotiations towards a Canada-European Union trade pact, the Government of Canada declared the deal to be the country’s most sweeping trade initiative yet - broader in scope and deeper in ambition than the historic North American Free Trade Agreement (NAFTA). Some government officials heralded the pact, officially known as the Comprehensive Economic and Trade Agreement (CETA), as one of the biggest ever – one that could benefit Canadian business more than NAFTA (Shingler, 2014). Yet the reality is that inflated expectations surrounding CETA, coupled with an underestimation of NAFTA, may be misleading the business community and distracting Canada’s general public from the necessity of deepening North American economic integration, something so critical to the future prosperity and competitiveness of all NAFTA members.

In this paper the author undertakes efforts to examine both CETA and NAFTA, evaluating their relative roles in Canada’s further economic development. The buzz over a new pact with the Europeans will soon pass and the task of handling relations with the Americans, Canada’s major trading partners in the past, present, and foreseeable future, will once again dominate the agendas of the Canadian government and business community. Compared with other countries, Canada’s foreign relations within and beyond North America have been and always will be affected by the level of integration with the neighboring superpower of the United States. The reemergence of Mexico, a faithful NAFTA member, is also a very good reason to deepen continental economic integration.

There is urgent need for a balanced strategic approach to make the best of CETA while prioritizing efforts to advance high-value supply chains across North America.

Keywords: Canada’s foreign trade liberalization, NAFTA, CETA

## INTRODUCTION

Is CETA bigger than NAFTA? This is a reasonable question to ask in a period of fading attention toward the latter and brightening perception of the former. The author has been particularly motivated to write this paper by the following statement: "The Canada and European Union Comprehensive Economic and Trade Agreement is by far the biggest trade deal that Canada has ever negotiated—bigger even than NAFTA" (From Exports to Affiliates, 2014, p. 7). The statement was made by Export Development Canada (EDC), a commercial credit agency that operates at arm's length from the Government and provides a wide spectrum of foreign trade-related services to Canadian firms. Peter Hall, chief economist at EDC, indicates that there is tremendous interest among businesses as to what CETA really means for them (as cited in Isfeld, 2014a, p. 3). Canada's federal government has spread a massive amount of pro-agreement propaganda in order to convince businesses to target the European Union (EU) market in their strategic plans in a way that they have not done before (Ibid, 2014). CETA is promoted as "an historic opportunity for Canadian businesses, including small and medium-sized enterprises, to gain preferential access to the largest market in the world" (Canada-European Union, 2014). But not everybody in Canada is persuaded.

A number of studies evaluating CETA's benefits and costs deliver conflicting conclusions. Canadian researchers Duchesne and Morin observe that "gains in absolute terms remain unreliable and assessments of CETA's impact vary significantly from one study to the next" (Duchesne, Morin, 2013, p. 13). According to Scott Sinclair (2010), the Canada-EU trade pact threatens Canadian purchasing policies and public services. Health experts worry about an increase in drug costs and effect on intellectual property rights in Canada as a result of CETA's implementation (Lexchin, Gagnon, 2014). Trade union activists see the CETA deal as a diversion and distraction from the task of developing domestically-based and globally active firms (Paquette, 2012). Independent researchers voice concerns about the threat CETA poses to Canadian sovereignty (Gabriel, 2011).

Negotiations and discussion regarding the Canada-EU trade pact took place during the so-called post-NAFTA period of trade liberalization (The Post-NAFTA Political Economy, 1998). Despite the fact that the North American market remains the most dominant segment for all three members, renewal of NAFTA has been gradually dismissed from the list of government trade priorities. This is considered to be a serious mistake (Yakabuski, 2013). Many experts today have also noticed NAFTA's disappearance from the headlines and radars of both the mass media and academics. Yet Canada's merchandise trade with its NAFTA partners (the USA and Mexico) has reached a historic high of almost CAD 775 billion last year, compared with approximately CAD 90 billion in trade with the European Union (Imports, exports and trade balance, 2009-2014). As an integrated market of over 470 million people producing approximately USD 21 trillion worth of goods and services annually, NAFTA is the world's largest and most prosperous free trade agreement. The author of this paper completely agrees with the following quote from *The Globe and Mail* daily: "Canada's future remains far more dependent on further North American economic integration than on trade expansion with any other region" (Yakabuski, 2013).

Underestimating the importance of NAFTA and overestimating trade and investment opportunities for Canadian firms in Europe could cause strategic blunders and further complications for commerce with their continental partners. A comprehensive analysis of the contents, scale, and scope of CETA in comparison to NAFTA, and sharing the findings of this analysis with a broad business, academic and public community, could prevent such blunders and contribute to successful trade and investment deals with both European and North American partners.

This paper is hoped to make a modest contribution to the comparative analysis of CETA and NAFTA. The author seeks to encourage decision-makers in government and business to spend their limited resources wisely as they explore the potential of Europe while undertaking a necessary deepening of North American integration.

The paper is based on the most current multidisciplinary sources and is organized around the following objectives:

1. Review the annals and current process of Canada's foreign trade liberalization
2. Compare the contents, scale and scope of both CETA and NAFTA
3. Examine the current and future challenges to Canada's deepening economic relations with the EU and NAFTA members.

## THE ANNALS OF CANADA'S FOREIGN TRADE LIBERALIZATION

A retrospective analysis of the evolution of trade relations between Canada and its major partners can help to contextualize current issues and new developments. There are fundamental studies covering the history of Canada as a trading nation, including Clarkson (2002, 2008), Clarkson and Mildenberger (2011), Clement et al (1999), Foster (1986), Hart (2002), along with numerous publications reflecting various aspects of its economic and political relations and globalization, strategic trade policy, foreign affairs, and evolution of regional integration. For the purposes of this paper, the author has chosen to focus on the most current and relevant materials.

According to perhaps the most comprehensive and instrumental work explaining the evolution of Canadian trade policy, "Historically, the Canadian economy has been open, small, export-led, and resource-based" (Hart, 2002, p. 6). The discovery and development of the entire continent can be explained by the trade objectives which brought European explorers seeking fish, fur, and precious metals to the shores of North America. The fur trade required penetration of the northern part of the continent. By the end of the seventeenth century, most of the North American fur territory was shared between the English and the French. By the middle of the eighteenth century, approximately 60,000 expatriates occupied a territory far larger than all of Western Europe (Ibid, 2002). To survive, they had to trade fish, furs, and lumber for food and supplies from France and England.

Canadians learned about the importance of custom duties as a source of revenue for their survival as quickly as they learned about the need to rely on larger and wealthier markets. However, as Ben Foster (1986) concluded in his outstanding study of national tariff policies, protectionists never dominated Canada's political sector.

Canada's overall early economic development has been explained in the literature through the "staples theory", developed primary by the Canadian economists Harold Innis and W. A. Mackintosh in the1920-30s, and revived by Mel Watkins in the 1960s (as cited in Clement et al, 1999, p.163). This theory suggests that the early Canadian economy was driven by external demand for natural resources (staple products). Economic growth in a staples-driven economy (like the Canadian colonies) depends on trade with metropolitan countries (France and England). A critical role belongs to the economic linkages associated with a particular staple product. The linkages can be forward, exporting staples for processing in the metropolis, or backwards, importing the necessities of life, inputs, tools, and equipment to the staple-based countries (Clement et al, 1999; Hart, 2002).

As a result, Canada's trade policy in the pre-Confederation period (up to 1867) was shaped by European powers and facilitated their demand initially for fish and furs, followed by lumber and grain.

By the middle of the nineteenth century, Canadian producers turned their attention to the south, towards the growing and quickly industrializing American market. The United States (US), was motivated to establish close relations with the Canadian colonies for additional purposes besides accessing staple riches. US anxieties over the possibility that Britain may use its northern colony as a platform for imperial revenge led the American government to favour Canada as its closest ally (Clarkson, Mildenberger, 2011).

The Industrial Revolution and drive for world supremacy caused the US to look at its northern neighbour as a source of natural and human resources first, and later as a decent market for exports and breeding ground for American corporations.

Critically dependent on the United Kingdom (UK) and the US since the 1870s, Canada pursued trade policies that would provide it maximum access to both markets without compromising the protection required by domestic producers. By the end of the 1930s, the UK and US were roughly on par as Canada's principal trade and investment partners (Hart, 2002).

The relationship with its European metropolis remained critical for Canada until the late 1940s. The US had taken 38 percent, while the United Kingdom and Western Europe together dominated with 47 percent of Canada's exports in 1946. Yet by 1948, destinations for Canada's exports had reversed: the US took 50 percent and Europe only 33 percent. Britain's decision to tie its future to continental Europe at the expense of loosening ties with former colonies within the Commonwealth weakened Canada's economic relations with its former metropolis.

Europe's determination to strengthen intracontinental interdependence led to a more unified grouping. The fear of once again becoming a breeding ground for a new World War drove Western European politicians to create institutions that would prevent such a calamity. "The principal political goal in Western Europe was to keep the peace and to make war between France and Germany materially impossible. The vehicle to reach this objective was economic integration" (Jovanović, 2013, p.2).

With the creation of the European Economic Community (EEC) in the late 1950s, "a gated community" of six nations (Italy, France, West Germany, and Benelux), and with the establishment of the European Free Trade Association (EFTA) including the UK in 1960, Canada was left with very few options. One was to immerse in the process of multilateral trade liberalization evolving after World War II (WWII). Another option was to deepen relations with its southern neighbour.

Canada has been supportive of the gradual removal of trade barriers in world commerce or trade liberalization since the conception of the multilateral system in the 1940s. Being among the twenty three founding nations who signed the General Agreement on Tariffs and Trade (GATT) in 1947, Canada backed multilateral tariff reduction. The average Canadian tariff rate dropped from 20 percent in the 1930s to 8 percent by 1950 (Clement et al, 1999). It reached 4 percent in 1979 and continued to decline to 1.5 percent in 2013 (Tariff rate, 2015).

The Canadian government also hoped to boost ties with Europe by participating in negotiating and signing of the GATT. However, Europe took only 4 percent of Canada's exports in 1950 comparing to 8 percent in 1947. The revival of the European economies in the 1950s and 1960s did not translate into increasing trade with Canada either. Trade liberalization and multilateralism did not spur a more integrated Europe to treat its Canadian cousin as a preferred supplier. The markets of Latin America and Asia were also closed to Canadian exporters in the decade after WWII (Hart, 2002).

On the contrary, the American neighbours took advantage of a growing and more diversified Canadian economy. They welcomed Canadian natural resources and industrial inputs. During WWII Canada and the US coordinated economic war mobilization. The US-Canada Hyde Agreement (1941) as well as the bilateral Defence Production Sharing Agreement (1958) contributed to integration in the defence industry. The latter agreement allowed Canadian producers to bid on US defence-related orders.

American investment financed a resource and manufacturing boom in Canada after the war. While total US capital in the Canadian economy more than doubled from $4.9 billion to $10.3 billion, direct investment tripled between 1945 and 1955. In comparison with investors from the British metropolis, who usually lent money, American capitalists wanted to secure ownership and control over Canadian assets (The Illustrated History of Canada, 1997).

Growing dependence on the US for capital and its role as a primary destination for exports was bound to cause concern among Canadian politicians over "American expansionism." The threat of American dominance is a recurring theme in Canadian trade policy debates. Canada's Prime Minister Pierre Trudeau used the famous elephant-and-mouse analogy to describe relations with the US. In 1969 he told the National Press Club that living next to the US "is in some ways like sleeping with an elephant. No matter how friendly or temperate the beast, one is affected by every twitch and grunt" (as cited in Hart, 2002, p.283).

Unsurprisingly, there have been efforts to reduce Canada's economic reliance on the US through trade diversification outside North America. Despite the frustrating reality of diminishing commerce with the Europeans, "Canada has always considered Europe a partner to counterbalance US influence and reduce its dependence on its powerful southern neighbour." (Deblock, Rioux, 2011, p. 40).

As a proclamation of Canadian anxieties about overdependence on the US, John Diefenbaker, another Prime Minister, announced that Canada would redirect 15 percent of its trade from the US to the UK.

Responding to rising nationalist sentiments, especially regarding overwhelming US investment and the dominance of American culture, the Trudeau government searched for closer relations with the EEC. He suggested to establish "a contractual link" with Europe through a Canada-EEC agreement (Hart, 2002).

Both Diefenbaker's and Trudeau's initiatives to diversify Canada's economic relations away from its American counterparts failed. Inward-oriented integration in Europe, and the insignificance of Canada for the EEC at that time, prevented any meaningful deviation from further North American continental integration.

Gradual acceptance of the fact that its destiny in the twentieth century was inexorably tied to the superpower next door resulted initially in bilateral, and then trilateral, negotiations to remove remaining barriers and irritants between Canada and its neighbours.

The first major step towards closer cooperation between Canada and US was taken during negotiations on free trade in automobiles and auto parts. The 1965 Auto Pact had a dramatic impact not only on the auto industry but on the entire Canadian economy. "Prior to the Auto Pact only 7 percent of Canadian production was exported to the United States. Within four years that figure had reached 60 percent" (Clement et al, 1999, p.171). By 1980, more than 100,000 jobs were attributed to the success of the Auto Pact (Hart, 2002).

However, the seemingly obvious benefits of the Auto Pact failed to convince everyone in Canada. Opponents argued that instead of fostering bilateral free trade, Canada should invest in multinational negotiations. Moreover, in the late 1970s the Trudeau government introduced policies which were supposed to reduce dependence on the US through a "Canadianization" of the national economy by imposing restrictions on foreign direct investment and encouraging domestic procurement. While accepting the Trudeau government's assessment of a growing and irreversible dependence upon the US, Michael Hart (2002) has argued that its prescriptions to reduce such dependence simply ignored economic realities.

Soon after the Progressive Conservative Party won the federal election in 1984, it abolished Canadianization policies and declared to the world that "Canada is open for business again!" Once again, geographical proximity and intertwined economic relations forced Canadians to get along with the Americans. This cleared the way for negotiating and signing of the Canada-United States Free Trade Agreement (CUSFTA) in 1988.

Meanwhile, as its economic policy turned toward liberalization in the 1980s, Mexico joined the GATT. It was then that Mexico's leadership started to negotiate a free trade agreement with the United States. The success of CUSFTA encouraged President Carlos Salinas de Gortari to integrate his country with the US and Canadian economies by signing NAFTA in 1993.

Canada's trade policy in the twenty-first century has had three main directions: first, maintaining multilateralism through the World Trade Organization (WTO); second, deepening North American integration (NAFTA); and third, diversification in trade with individual countries (through bilateral agreements) and regions (cross-regional arrangements and mega-trade deals) away from the US.

The first direction has now become effectively stalled because of an impasse in the Doha round of negotiations.

The second one has not advanced since the completion of all four NAFTA stages of liberalization on January 1, 2008.

The third one is the most active and advanced. While pledging to deepen North American integration, the Canadian government is increasingly shifting its attention to trade and investment opportunities with economies outside of North America. This is motivated by enormous market potential in China, India and other emerging Asian markets, as well as frustration with a "thickening border" and lack of progress on further continental integration (Paramonov, 2013). Moreover, Europe seems to never have disappeared from Canada's "wish list" of diversification.

Since the implementation of CUSFTA and NAFTA, Canada signed free trade agreements (FTAs) with an additional 42 countries, including two regional arrangements with the European Free Trade Association (the "EFTA", comprising of Iceland, Liechtenstein, Norway and Switzerland), the EU, and a freshly minted FTA with the Ukraine (Canada's Free Trade Agreements, 2015). According to the federal government, there are ten ongoing FTA negotiations with other countries. The current process of trade liberalization covers a wide spectrum of the world's regions and industries, with the purpose of enabling Canadian producers to compete "on a more even playing field with local firms in the FTA partner country" (Ibid, 2015).

Some FTAs, especially the more recent ones, were promoted as going beyond traditional trade barriers and covering practices in labour mobility, intellectual property and investment.

The following analysis is centred on a comparison of the contents, scale and scope of the recently signed CETA and fully established NAFTA.

## CETA VERSUS NAFTA

From a retrospective view, CETA and NAFTA represent two primary historic streams in the evolution of Canada's trade relations: the former metropolis of Europe, and the New World of North America. Both agreements are climaxes of Canada's relations, correspondingly, with Europe and North America, and both have been labelled as historic and critically important for Canada. Both were signed by Prime Ministers from the Conservative Party of Canada. There are some other similarities between the two agreements, but an important question is what makes them different. More importantly, which one should be a priority for Canadian businesses looking to invest and expand abroad?

There is a relatively limited number of publications in the mass media (Gabriel, 2011; Kwan, 2013; Yakabuski, 2013; Langrish, 2014b), and even fewer scholarly articles (Deblock, Rioux, 2011; Paquette, 2012) comparing these two FTAs directly.

Governmental sources in North America and Europe provide a significant body of information, allowing for a comparison.

The selection of facts, public comments, relevant ideas, and analytical conclusions below reflect the author's choice as to what is currently available, and what is important, for the purposes of this paper.

**Status, provisions, and outcomes**

Pursuant to the classification of regional trading agreements (RTAs) monitored by the WTO, CETA is a bilateral, cross-regional agreement, while NAFTA is a plurilateral free trade and economic integration agreement. As indicated in Table 1 (Appendix), CETA's status is "Early announcement – Under negotiation," and the WTO has left the categories of "Type of agreement" and "Coverage" for CETA blank until further notice. The Government of Canada classifies NAFTA as an "FTA in Force," and CETA as an "FTA Concluded" as of August 5, 2014. The latter is also defined as a "trade and economic agreement" (Canada's Free Trade Agreements, 2015). At the Canada-EU Summit in Ottawa, negotiators released the completed text of the agreement. It is available online to the general public (Consolidate CETA Text, 2014). According to a Government of Canada update, "Canada and the EU are now proceeding with a thorough legal review and translation of the text into the other 22 EU treaty languages" (Canada's Free Trade Agreements, 2015).

If NAFTA is classified by the government as a "first-generation" agreement with an emphasis on tariff elimination, CETA is promoted as "by far Canada's most ambitious trade initiative, broader in scope and deeper in ambition than the historic North American Free Trade Agreement" (Canada's Free Trade Agreements, 2015). Table 2 in the Appendix provides a technical summary of both agreements. A comparison between NAFTA's General Provisions and Side Agreements with the scope of CETA contents reveals a very similar list of headings related to tariffs, rules of origin, services, foreign investment, intellectual property, dispute settlement, the environment, and labour issues present in both NAFTA and CETA. The only significant difference is the association of the latter with the Strategic Partnership Agreement (SPA).

Dr. Laura Dawson, one of Canada's most prominent independent foreign policy influencers, has defined the SPA as a little-talked-about side agreement which, due to its political nature, "may be difficult for Canadians to swallow" (Dawson, 2013, paragraph three). The SPA is a specific type of EU prerequisite which the EU requires all of its trading partners to sign. Failure to comply results in a suspension of benefits in a corresponding free trade agreement with the EU. The SPA consists of a broad range of areas including energy and sustainable development, security, and human rights. Despite the fact that other existing FTAs that Canada has signed include similar side provisions, the SPA-CETA combo is quite different because of the suspension of the free trade benefits clause. The scope and implications of the agreement may impinge on Canadian sovereignty (Ibid, 2013).

The issue of Canadian sovereignty was front and centre during debates on CUSFTA and NAFTA. As a result, the final NAFTA text had to be written in such a way as to accommodate Canadian sensitivities (Clements et al, 1999).

Some experts agree with the Canadian government that CETA is more ambitious, far-reaching, and deeper than NAFTA (Deblock, Rioux, 2011; Herman, 2013; Kwan, 2013). First of all, they point out the expedited schedule for phasing out tariffs: 98 percent of tariff lines set at 0 percent upon entry into force of CETA. Canada and the EU have agreed that 99 percent of EU tariffs will be duty-free in seven years after entry into force. In comparison, NAFTA planned for a phasing out of most barriers over a 15 year period. However, some estimates indicate that CETA gains from speedy tariff elimination will be rather modest. The Royal Bank of Canada (RBC) forecasts that, because between 40 and 50 percent of all Canadian exports to the EU are natural resources, CETA's impact will be minimal as most raw materials are already tariff free (Cooper, 2013).

The Canadian Centre for Policy Alternatives (CCPA) has published a critical analysis of CETA, voicing concern that ending Canadian tariffs on automotive trade will result in a 6.1 percent price advantage for EU-made vehicles (Making Sense of the CETA, 2014).

CETA, like NAFTA, includes specific rules of origin for all products. The former's superiority is attributed to its more favourable rules of origin that take into consideration Canada's supply chains. The problem is that "Canada is just one country whereas Europe possesses an integrated continental supply chain. It is thus much easier for Europe to meet any given domestic content threshold than Canada" (Ibid, 2014, p. 77).

Trade in services under both CETA and NAFTA is regulated similarly with the standard Most Favoured Nation provision.

CETA's dispute settlement mechanism has been promoted as an improvement compared to the WTO Dispute Settlement procedure (Canada-European Union, 2014). This means streamlining and shortening the process, as well as more robust voluntary mediation than that under NAFTA.

Another far-reaching provision of CETA is the investment chapter. It is presented to the public as a new model of investment treaty and blueprint for the negotiation of the EU-US Transatlantic Trade and Investment Partnership (TTIP). CETA has a new investor-state dispute settlement (ISDS) mechanism which allows companies to appeal to independent tribunals for compensation in the case of unfair treatment resulting in loss of money. In legal terms, it gives private investors from either side the right to invoke binding arbitration against Canadian or EU governments where it is alleged that the non-discrimination requirement of the CETA investment chapter has not been met (Herman, 2013).

NAFTA has implemented ISDS since the very beginning. Some estimates by non-governmental organizations suggest that over $300 million has been paid to investors as a result. For instance, Public Citizen's Global Trade Watch references the case of a Mexican municipality forced to pay $15 million to a US investor who bought a landfill that was being subjected to unfavourable local regulation (as cited in Eidelson, 2012).

CETA's ISDS has been modelled on Chapter 11 of NAFTA and the EU Bilateral Investment Treaties (BITs). CETA's improvements include "greater transparency on how arbitrators are chosen, broader scope to dismiss frivolous claims and a prohibition on treaty shopping through Most Favoured Nation (MFN) clauses that require the state party to one investment treaty to provide investors with treatment no less favourable than the treatment it provides to investors under other investment treaties" (Langrish, 2015). In spite of these improvements, public criticism of ISDS took place on both sides of the Atlantic. Critics worry that foreign companies could sue governments in private international tribunals, demanding public funds in compensation for unfavourable treatment.

Compared to NAFTA, CETA appears to strengthen protection of intellectual property in two specific sectors: pharmaceuticals and geographic indications. However, independent critics argue that "the changes to Canadian patent protection for pharmaceuticals required by the CETA will delay the availability of cheaper, effective generic drugs, driving up health care costs for Canadians" (Making Sense of the CETA, 2014, p. 57).

With regards to geographic indications, Reuters has already reported on the tensions over geographical protection of European food names in Canada (Emmott, 2015). The name in question is "feta," a salty cheese which Canadian dairy producers still use in Canada. Greece has complained to the EU Commission about the numerous usurpers of the famous Greek feta cheese label in the Canadian market.

CETA can open to Canadian businesses the world's largest government procurement market, estimated to be worth $3.3 trillion annually (Canada-European Union, 2014). RBC reports that Canada is likely to be a net beneficiary in this segment (Cooper, 2013). However, the CCPA warns, "The procurement commitments that Canada has agreed to in the CETA are extensive and will substantially restrict the vast majority of provincial and municipal government bodies from using public spending as a catalyst for achieving other societal goals, from creating good jobs to supporting local farmers to addressing the climate crisis" (Making Sense of the CETA, 2014, p. 57).

NAFTA was slow on the mobility of professions and mutual recognition of professional credentials. CETA could be the first of Canada's free trade agreements to include substantive and binding provisions on the mutual recognition of professional qualifications. This segment is very important for professional associations of accountants, engineers, architects and foresters which have already expressed interest in engaging in discussions once CETA enters into force (Canada-European Union, 2014).

CETA scores positively on the inclusion of a chapter on sustainable development. It is considered unique for Canada to have such a chapter in a free trade agreement (Making Sense of the CETA, 2014).

Summing up the above comparative analysis of the contents and outcomes of NAFTA and CETA, the following is observed.

First, NAFTA provisions and side agreements were used as templates for the contents of CETA. Some parts of CETA are modelled on NAFTA and the EU BITs sections.

Second, CETA chapters provide deeper and more comprehensive coverage of trade, investment, dispute settlements, intellectual property, and public procurement matters. It could be Canada's first FTA to address professional qualifications and sustainable development to any significant extent.

By all accounts, CETA is a more advanced and far-reaching pact compared to NAFTA. The net benefits of these ambitious plans to integrate Canada and Europe in a new type of arrangement remain to be seen, but obstacles to ratification and other potential flaws thereafter are already being revealed.

**Economic and political dimensions**

The most quoted economic justification for negotiating and singing CETA can be traced to a joint study by the European Commission and the Government of Canada, "Assessing the costs and benefits of a closer EU-Canada economic partnership" (2008). According to this study CETA could bring a 20-percent boost in bilateral trade and a $12-billion annual increase to Canada's economy. That would add $1,000 to the average family's income or almost 80,000 new jobs for Canadians (Canada-European Union, 2014).

Such economic effects are attributed to the size of the EU economy, identified as the world's largest, bigger than even the United States (Ibid, 2014). Data in Table 3 in the Appendix confirms this in terms of Population, Gross Domestic Product (GDP), Exports and Imports. However, if the consolidated economy of the 28 member states of the EU is compared with the integrated NAFTA economy, the conclusions are different. With a GDP of over USD 21 trillion, and close to USD 44,688 per capita, the North American economy is actually the largest in the world. Unemployment and GDP growth rates look better in NAFTA countries than in Europe.

The recent 20th anniversary of NAFTA's implementation has reignited public debates over its economic and social effects. With the addition of more than 4.7 million net new jobs during the period from 1993 to 2014, Canada's unemployment rate has decreased from 11.4 percent in 1993 to 6.8 percent in June of 2015 (Labour Force Survey, 2015).

The Government of Canada has calculated that Canadian merchandise exports to the US grew at an annualized rate of 4.4 percent and total merchandise trade between the two countries more than doubled between 1993 and 2012. Trade between Canada and Mexico has increased almost seven-fold over the same period (North American Free Trade Agreement, 2013).

In 1993, trilateral merchandise trade within the North American region was USD 289 billion. In 2012, it reached nearly USD 1.1 trillion – an increase of nearly 3.7 times (Ibid, 2013).

More recently, of the CAD 529 billion in goods that Canada shipped abroad in 2014, exports to its NAFTA partners comprised CAD 407 billion, or 76.9 percent, of the total (Imports, exports and trade balance of goods, 2015).

Table 4 in the Appendix provides a comparison of Canada's trade in goods with NAFTA and the EU during the last six years. The EU remains Canada's second largest trading partner in the world, although it accounts for a comparatively modest share compared to NAFTA, the largest partner. In fact, the EU's share in both Canadian exports and imports went down, while NAFTA's share went up, over the period from 2009-2014.

While admitting the difficulty of measuring an FTA's overall impact on the national economy, the author believes that the data above contradicts the statement that "CETA is bigger than NAFTA." So why was such statement made, and why do some government officials promote CETA as the most important trade pact Canada has ever negotiated? An analysis of the political dimensions of both CETA and NAFTA can assist in answering these questions.

CETA has significant political and strategic value for the Canadian government (Duchesne, Morin, 2013).

First of all, the pact with the EU may be considered one of the most advanced fulfilments of the diversification policy, a recurring theme in Canada's trade history. Diversifying its commercial ties and preferential trade commitments, Canada can potentially reduce its dependence on its southern partner and take advantage of existing markets beyond the USA. An outstanding question is whether the EU represents the best market for diversification.

Second, the EU gives Canada a strategic advantage. Canadian government officials have been credited for completing negotiations with the Europeans before the Europeans started to negotiate the TTIP with the Americans. In an interview with *Postmedia News*, Brian Mulroney, former Prime Minister of Canada, said, "They were wise in getting in ahead of the Americans, because they would have been left in the dust had that not taken place" (as cited in Kennedy, 2013, p. B2). Dr. Laura Dawson clarifies that Canada attained a first-mover advantage by completing negotiations with the EU before the US. It is very likely that TTIP negotiators will use CETA as a template. Therefore, the contents of the EU-US pact will not deviate too far from Canada's interests (Dawson, 2013).

Third, CETA provides an opportunity for Canadian politicians to display a high profile and independent trade policy (Hübner, 2010; Duchesne, Morin, 2013). Historically, Canada's trade policy had been heavily influenced by metropolis countries and then the US, as well as multinational interests. CETA could become an embodiment of a more self-reliant policy. *The Economist* proclaims that Canada is proving "to be a global leader in free trade" (Trade liberalization, 2013, p.18).

Forth, CETA is a politically driven project. It's considered to be a centrepiece of Ottawa's foreign economic policy and personal achievement for Prime Minister Stephen Harper, who invested significant political capital in promoting and negotiating CETA (Coyne, 2013; Duchesne, Morin, 2013). Mr. Harper and his government are very well aware of the issue of the best allocation of trade "negotiation resources." Negotiation of previous FTAs, especially CUSFTA and NAFTA, proved to be complex, lengthy, exhausting, and damaging to the authorities involved. Very often, to reach a compromise, negotiators have to make concessions which can hurt jobs, incomes, the environment, and livelihood of constituencies which are so critical for politicians to be re-elected. For instance, even the prospect of formally re-opening NAFTA talks sends US politicians running for cover (Dawson, 2015).

Historical and sentimental ties to Europe, the vast size of its market, highly technical nature of negotiations, limited public exposure to the negotiation process, and large-scale government propaganda in the mass media to promote CETA, has made it the best-selling FTA in Canada's history. While representing negligible political risk for Mr. Harper, CETA could bring significant gains for him and his Conservative Party during the next federal elections (Kennedy, 2013). It could be his enduring political legacy as well.

Thus, it is no wonder that Mr. Harper calls CETA "the biggest, most ambitious trade agreement that Canada has ever reached" (as cited in Financial Post Staff, 2013). As noted by Deblock and Rioux (2011), the imbalance between the economic and socio-political dimensions of regional economic integration is evident in this agreement. CETA is more proof of the political nature of FTAs.

## CHALLENGES TO CANADA'S ECONOMIC RELATIONS WITH EUROPE AND NORTH AMERICAN PARTNERS

Canada's deepening integration with Europe and North America means that further steps are required to validate CETA and to renew NAFTA to deal with the challenges of a changing trading environment and complexity of international relations.

Government officials in the EU and Canada expect CETA to be operational by 2016. The European Commission's lawyers are now reviewing the text of the agreement. Thereafter it will be discussed by the EU Council and European Parliament. It is believed that EU member states could begin voting on CETA in January 2016 and that the European Parliament could vote on it in April 2016 (Barlow, Patterson, 2015). Provided both the Council and European Parliament approve the agreement, CETA could take effect in 2016. This timeline also depends on Canadian lawmakers approving the text (Questions and answers, 2014).

As the history of international relations shows, "negotiations are relatively easy to launch but difficult to close, as the political pain comes at the end when the implications of negotiations move from theoretical to tangible" (Langrish, 2014a). CETA is no exception. There are sceptics and critics of the pact on both sides of the Atlantic.

### Challenges to CETA in Canada

In the fall of 2014 Mr. Harper's government trumpeted CETA as a done deal with Canada as the Big Winner (as cited in Caplan, 2014). But there are always winners and losers in such complex and profound trade deals.

The Province of Newfoundland and Labrador retracted support for CETA in January of 2015 over a fisheries compensation deal. Provincial officials said "the federal government is not honouring a prior commitment to set up the fund, which it says will be needed to help the seafood industry when a trade deal with the European Union is approved" (as cited in CETA negotiations with Ottawa, 2015). Newfoundland and Labrador cannot derail the Government of Canada's ability to ratify CETA, but it portrays the country as a less-than-reliable negotiating partner (Herman, 2015).

Other Canadian critics doubt the government statement that CETA "could benefit Canadian business more than NAFTA" (as cited in Shingler, 2014). In 2014, exports to the US, the key partner in NAFTA, accounted for CAD 400,093.5 million or 75.6 percent of total Canadian merchandise exports. Exports to the EU were evaluated as CAD 40,494.5 million or 7.7 percent. Imports from Europe accounted for CAD 49,297.1 million or 9.4 percent of all Canadian imports (Imports, exports and trade balance, 2009-2014). Even with the 20-percent boost in bilateral trade promised by the government, the EU will remain a distant second partner.

Previously made projections in the federal government's publication "Canada's State of Trade" do not support the statement either. "The United States would remain Canada's largest trading partner far into the future. By 2040 the U.S. share of Canadian exports is expected to be 75.5 percent" (Canada's State of Trade, 2011, p.67).

The earlier-named RBC report suggests that CETA will likely provide a net benefit to Canada, although "there will be little noticeable economic impact for Canada over the short time" (Cooper, 2013, p. 5). The report also forewarns that CETA's impact will vary across and within industries, depending on how Canadian firms adapt to the changing trade environment.

Another concern is how Canada is going to address a clear asymmetry in the composition of trade with the EU. Table 5 in the Appendix demonstrates that between 2010 and 2014, Canada relied more on exports of natural resources and less on manufactured products. For instance, the combined groups of Precious Metals, Fuels, Ores, and Nickel increased from 46.6 percent to 49.4 percent of Canada's exports. During the same period, Machinery, Appliances, Aircraft, Electrical Equipment, and Instrumentation exports dropped from 23.7 to 21.2 percent of Canada's total exports.

In contrast, Table 6 shows an increasing proportion of manufactured imports from the EU. Machinery, Appliances, Motor Vehicles, Aircraft, Electrical Equipment, and Instrumentation increased from 41.4 percent in 2010 to 43.5 percent of total imports to Canada in 2014.

While the value-added composition of Canada's exports to the EU is declining, EU imports to Canada are increasingly dominated by high-value finished products – machinery, automobiles, turbines, and pharmaceuticals.

The overall trade balance is not in Canada's favour either. The Canadian trade deficit with the EU has been fluctuating between CAD 3.2 billion and 10 billion during the last six years (Imports, exports and trade balance, 2009-2014). Official projections reveal that trade liberalization under CETA will only enlarge Canada's chronic deficit (as cited in "Making sense of the CETA", 2014).

It is not clear how Canada will break away from its pattern of staple-product based exports and trade deficits, which may have been acceptable in the eighteenth and nineteenth centuries but are hardly justifiable in the twenty first.

Another challenge for the government is how to prove that CETA will generate significant benefits for both large, small, and medium-sized enterprises (SMEs) in Canada. For the former (including telecommunications, aerospace, beef and several others) a free trade agreement with Europe will have unquestionable benefits. Opportunities will abound for large-enterprise operations (Ovsey, 2013). That is why big business groups have lobbied for the

Canada-EU trade pact actively from the start. The heads of the Canadian Chamber of Commerce, Canadian Council of Chief Executives, the Canadian Manufacturers and Exporters, the Canada-Europe Roundtable for Business, and the Canadian Association of Importers and Exporters signed a letter to assure Trade Minister Ed Fast that they will help to promote the pact among workers and communities, and stand behind the pact once it is signed (Beltrame, 2013). More recently, Jeff Brownlee, Vice President of Canadian Manufacturers and Exporters, wrote that CETA is an important game-changer that needs to be ratified and implemented as soon as possible (Brownlee, 2015).

Traditionally, Canada's SMEs have been more reluctant to enter foreign markets than big business. They require a supportive and transparent regulatory environment to operate successfully in host countries (Dawson, 2015). Compared to the large companies, SMEs have less resources to identify and seize opportunities abroad (Ovsey, 2013). Geographical proximity of markets plays a very important role for smaller firms as well.

As a result, many Canadian SMEs had been reluctant to enter the EU market in the past. After ratification, at least theoretically, CETA could provide a more favourable environment for them to do business in Europe. The federal government and big business groups encourage them to explore European trade opportunities. Yet there is a real danger that SMEs may spend their limited resources on efforts to enter territories with cultural variables as well as regulatory and economic differences unfamiliar to them. Government propaganda promotes the EU as a single, enormous, and unified market. In reality, Europe isn't nearly as homogenous as many believe (Ovsey, 2013). Moreover, uncertainty over the future of the Eurozone, social tensions, and the rise of populist political parties are all ingredients for a potential perfect storm in Europe (El-Erian, 2015). Big business can navigate through such a storm, but SMEs cannot do so as easily.

Big business and government officials want to portray CETA as a vehicle for achieving a policy goal that has eluded successive governments since the 1970s — market diversification and reduced reliance on the US (Ivison, 2013). Some academics argue that economic benefits of diversification can be potentially larger than those of deepening continental integration, as long as the partners are selected carefully. Is the EU a proper partner for Canada's trade diversification? A well-grounded empirical study has concluded that "it would be unwise for Canada to try to diversify trade to Japan and Europe, notwithstanding the current government's intention to move ahead with negotiations for a comprehensive economic and trade agreement with the European Union" (Georges, Merette, 2010, p.23). The study's simulation model shows that trade diversification towards the EU could actually reduce Canada's domestic consumption by approximately 6 percent by 2050. Georges and Merette (2010) suggest that Canada should build up trade links with nations with relatively young populations in order to take advantage of demographically-driven improvements in its terms of trade as well as strong economic growth in those nations.

**Unexpected wrangling in Europe**

The validity of certain CETA provisions has been questioned in Europe as well. Compared to other trade deals, the Canada-EU pact has not generated as much public attention. This can be explained by the small volume of mutual trade and traditionally good relations with unthreatening Canadians. According to the European Commission, in 2014 Canada was the EU's 12$^{th}$ trading partner, representing only 1.7 percent of the EU's total external trade (Countries and regions, 2015).

Europe's recent engagement with Canada has been officially explained by an intention to upgrade bilateral strategic relations through the SPA and provide an ambitious liberalization of trade and investment via CETA. The expected GDP gains for the EU are estimated to be up to EUR 11.6 billion per year (EU relations with Canada, 2014).

Many observers point to the Europeans' unofficial intention to make CETA a blueprint for their much more complicated negotiations of the enormous TTIP with the Americans.

Unexpected wrangling over some aspects of the final CETA text have intensified in Europe since the spring of 2015. This has coincided with controversy surrounding the EU-US trade negotiations. The European Parliament had to postpone a first vote on the TTIP. German broadcaster *Deutsche Welle* reports that the delay was caused by growing doubts in Europe over the benefits of the free trade deal with the US. EU lawmakers received more than 200 proposed complaints and amendments (European Parliament, 2015). The general public in Europe is much more suspicious of the US government and American corporations than Canadian entities. The problem is that the troubles around the TTIP created public backlash against CETA too. All of a sudden the Europeans discovered that the Canada-US pact consists of the same provisions, and especially ISDS mechanism, that they reject in the TTIP. A Europe-wide online petition set up by the "Self-organized European Citizens" has raised more than 2.1 million signatures against both TTIP and CETA. The claim is that both deals are a "threat to democracy, the environment, consumers and labour standards" (as sited in European Parliament, 2015).

Canadian and international media points to politicians in Austria, Germany, Greece, and Hungary who want to renegotiate CETA (Isfeld, 2014c; Emmott, 2015; Barlow, Patterson, 2015).

In recent governmental statements, Canadian officials are appealing to calm and reason. Trade Minister Ed Fast believes that CETA does not need to be renegotiated to address growing European concerns about the ISDS provision (as cited in Barlow, Patterson, 2015).

In sum, CETA faces serious challenges to proving its benefits on both sides of the Atlantic, and the deal is in a much more fragile stage than the Canadian government wants the public to believe.

**North American integration**

In comparison to CETA, Canada's integration with the US has been surrounded by controversy from the first rounds of CUSFTA negotiations, and the future of NAFTA remains debatable as well. The difference is that while CETA has not been implemented, NAFTA was officially completed a few years ago and proven both its benefits and costs. In an assessment of NAFTA at twenty, the Congressional Research Service provided a summary of its economic and trade effects. While admitting the difficulty of measuring the overall economic impact of NAFTA, the authors also recognized its significance (Villarreal and Fergusson, 2013).

A legacy of the agreement is that it has become a template for certain provisions of the WTO and a model for the new generation of trade blocs negotiated more recently, including CETA and another "super trade bloc" – the Trans-Pacific Partnership (TPP). At the same time, NAFTA contains no blueprint for deepening North American integration after full implementation of the agreement's provisions and other requirements (Zahnizer, Angadjivand, Hertz, 2015). This opens up a wide discussion regarding what is next for NAFTA.

The recent debates over the future of North American economic integration consist of at-times opposite views, opinions, and suggestions, such as: abandoning NAFTA as outdated and replacing it with the TPP; reopening triad negotiations; modernizing and "rebooting" NAFTA; and transforming it into a customs union. The choice of trajectory for further North American economic integration should be based on its current position and conditions.

Maybe NAFTA has fallen short on delivering on its promise of a borderless market, but it has contributed to the reality of cross-border supply chains (Dawson, 2015). The economic destiny of each NAFTA member-nation has been tied together by a single, integrated North American manufacturing platform. Therefore, trade transactions between North American firms are different from those with European firms. Materials and parts are zig-zagging via the North American supply chains multiple times throughout the course of production. "As a result, the average U.S. import of a final product from Mexico contains 40 percent U.S. content, while imports from Canada contain 25 percent U.S. content. This compares to four percent U.S. content in imports from China and even less in imports from Europe" (Wilson, 2014).

Duncan Wood, one of the directors at the Woodrow Wilson International Center, testified before the Subcommittee of the US House Committee on Foreign Affairs that "NAFTA remains a useful, if incomplete, expression of the economic ties between Mexico, Canada, and the United States" (Wood, 2014, p.1). The challenge is how to modernize NAFTA institutions regulating a highly-integrated continental economy, which is competing with emerging economies and the rest of the world.

Unfortunately, as it stands there are no concrete plans or even consultative mechanisms through which member-nations will upgrade NAFTA, alone or through new trade arrangements with Asia and the European Union (Dawson, 2015). The responsibility of creating such a plan or mechanism to modernize the North American trade pact lies with all members, but mostly comes down to US leadership. Despite the fact that NAFTA is still supported by the majority of Americans, "it is anathema to the trade unions that swing influence in today's White House" (Crowley, 2014).

What can Canada do to advance North American integration to catch up with the realities of the second decade of the twenty-first century? The short answer is that the Canadian leadership should spend its limited negotiation resources wisely, and Canadian businesses should pay more attention to integration with their Mexican counterparts.

It took the Government of Canada over five years to negotiate CETA, allowing for translation and final legal review to commence. Since October 2009, Canadians and Europeans have been carrying on negotiating rounds every three months (Duchesne, Morin, 2013). Apparently, it took a lot of political, financial, and human capital to achieve these well publicized results. While it is unlikely that the total costs of CETA negotiations will ever be revealed, there is a published estimate of transportation costs for just one flight to bring EU officials back home after the September Canada-EU summit in Ottawa in 2014. Gerald Caplan estimated that it took CAD 300,000 (Caplan, 2014).

Was all this money and other resources well spent? It remains unknown. Was there any alternative?

Economists use the concept of opportunity cost, which may be applied to the CETA project. The CETA opportunity cost for Canada is negotiation of NAFTA modernization and deepening economic integration with the US and Mexico.

Laura Dawson argues that Canada cannot be competitive everywhere, and that its greatest advantage lies in North America where Canadian firms can advance their cross-border supply chains. By neglecting or mismanaging opportunities for further integration with NAFTA partners, Canadians are hurting their own prospects for future economic sustainability (Dawson, 2015).

In a situation where the US leadership is not interested in trilateral negotiations to modernize NAFTA and Canada wants to diversify its trade, Mexico could be an excellent alternative. *The Economist* has suggested that Mexico would seem to be the easier foreign host market for Canadian firms to enter (Canadian-Mexican Relations, 2014).

Mexico is one of the fastest growing markets and the second-largest economy in Latin America, as well as a faithful member of NAFTA. According to research by the Boston Consulting Group (BCG), Mexico's economy exhibits a growing cost advantage over China. "A tipping point was reached in 2012, when average manufacturing costs in Mexico, adjusted for productivity, dropped below those of China" (Mexico's growing cost advantage, 2013, p.1). The key drivers of its improving competitiveness are low labour and energy costs, and shorter supply chains due to Mexico's proximity to US markets. In order to prosper and grow, Canada should have preferential access to these cross-border supply chains and foster "virtuous circles where, for instance Canada provides the design, [and] Mexico also introduces innovations to the production process that are subsequently adopted in both Canada and Mexico" (Dawson, 2015, p. 8).

Recent constitutional reforms by President Enrique Pena Nieto and his government have liberalized conditions for foreign investment in Mexico's energy sector. This opens up great opportunities for Canada-based oil and gas companies to participate in Mexico's energy supply chain.

Minimal trade barriers, common regulatory procedures under NAFTA, and geographical proximity, along with the advantages and opportunities listed above, make Mexico attractive to Canadian SMEs. In the last twenty years, the NAFTA partners have been each other's most likely foreign partners for trade and investment. That is why the reduction of remaining obstacles and irritants within North America is so important (Dawson, 2015)

While pursuing trade liberalization with Europe, Mr. Harper's government did very little to deepen relations with Mexico. This was noticed by Mexico's officials. Mr. Francisco Suarez Davila, Mexico's ambassador to Canada, said his country's relations with Canada have been stagnant, and that Canada has held an Anglo-centric view of the world in which Mexico does not exist (as cited in Canadian-Mexican relations, 2014).

Deepening economic and political relations between Canada and Mexico could motivate the US to pay more attention to trilateral efforts to update and advance the North American pact. This would be very timely now, when there is a growing realization within influential American circles that "it is time to put North America at the forefront of U.S. policy" (North America: Time for a new focus, 2014, p.4). Likewise, the Council on Foreign Relations has recommended upgrading trilateral economic relations to meet twenty-first-century demands.

## CONCLUSIONS

Difficulties in measuring the performance of twenty-year-old NAFTA, uncertainty about the potential benefits and costs of CETA, and conflicting assessments of both in the literature underscore the complexity of major free trade agreements today, and the even more challenging task of evaluating them.

CETA and NAFTA are the latest culmination of two streams of competitive trade liberalization that Canada has undertaken with its historical partners in Europe and North America.

This paper undertook an extensive analysis of government sources, academic materials, and mass media publications, drawing the following conclusions.

Canada's historical and sentimental bonds to Europe and its geographic proximity to, and economic dependence on, the United States have defined two dominant directions in the country's trade policy decisions for years to come.

The statement that "CETA is bigger than NAFTA" seems to be contradicted by both data and facts. There are significantly larger trade flows between Canada and its North American partners than with the Europeans. A comparison of the sizes of the consolidated economies (in terms of GDP) of both NAFTA and the EU reveals the former's superiority as well.

At the same time, a comparative analysis of their contents and provisions demonstrates that the Canada-EU pact is more advanced, comprehensive, and far-reaching than NAFTA.

Both agreements face substantial challenges. There are significant obstacles to the ratification of CETA, while NAFTA member states still have to find concrete ways to deepen North American integration.

Accepting that Canada's negotiation resources have already been spent on CETA at the expense of NAFTA, it makes sense to make the best of the achieved concord with EU leaders. However, Canadian businesses have to weigh carefully the potential benefits and costs of entering European markets that are far from homogeneous. They have to compare opportunities overseas with favorable conditions for expanding business in North America.

Further allocation of negotiation resources should be based on the economic and social results of negotiations. Government priorities in developing bilateral and multilateral relations with foreign partners should not be decided predominantly on political benefits and sentimental attachments.

The undeniable importance of North America for Canada's competiveness and future development and prosperity should be translated into governmental promotion of existing and new cross-border supply chains, along with increasing participation of Canadian-based firms. The limited resources in possession of the Government of Canada should be effectively used to explain, educate, and encourage Canadian businesses and the general public to pursue well-chosen international trade and investment priorities.

It is also very important to take into consideration the reality of free and democratic societies, where the decisions regarding whom to trade with are traditionally made by a class of entrepreneurs who facilitate the needs and wants of millions of consumers.

To improve its current and future economic and social conditions, Canada does not have to wait for the implementation of CETA or official modernization of NAFTA. Mexico represents an excellent option for Canadian firms to expand markets and improve the competitiveness of "Made in North America" products by teaming up with local partners.

An integrated economy, abundance of energy, enormous internal market, and younger demographics in North America provide a bigger opportunity for Canada than anywhere else.

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## APPENDIX

Table 1. Comparing NAFTA and CETA: Coverage, status, and type of agreement (2015)

| | NAFTA | CETA |
|---|---|---|
| Coverage | Goods and Services | |
| Status | In force | Early announcement – Under negotiation |
| Timeline:<br>Date negotiations commenced:<br>Date of signature:<br>Date of entry into force:<br>End of implementation period: | <br><br>17-Dec-1992<br>01-Jan-1994<br>2008 | <br>06-May-2009 |
| Signatories | Canada, Mexico, USA | |
| Regional trade agreement (RTA) composition | Plurilateral | Bilateral; One Party is an RTA |
| Region | North America | Europe; North America |
| Type of agreement | Free Trade Agreement & Economic Integration Agreement | |
| Cross-regional | No | Yes |

Source: Compiled from Database on Regional Trade Agreements, WTO.

Table 2: Comparing NAFTA and CETA: Contents

| | NAFTA | CETA |
|---|---|---|
| Technical Summary | General Provisions:<br>• Tariff liberalization<br>• Rules of origin<br>• Foreign investment<br>• Financial and other services<br>• Intellectual property<br>• Dispute settlement<br>• Government procurement | Final negotiated outcomes (October, 2013):<br>• Tariff elimination, rules of origin:<br>- Non-agricultural goods<br>- Agricultural goods<br>• Services and investment<br>• Government procurement<br>• Intellectual property<br>• Dispute settlement, institutional and horizontal provisions<br>• Sustainable development, environment and labour |
| Side Agreements | • North American Agreement on Environmental Cooperation<br>• North American Agreement on Labor Cooperation | Strategic Partnership Agreement |

Source: Compiled from Free Trade Agreements (FTAs), Foreign Affairs, Trade, Development Canada.

Table 3. Comparing NAFTA and the EU: Population, economy, trade (Estimates, 2014)

| | Popu-lation million | GDP, purchasing power parity USD billion | GDP per capita USD | GDP real growth rate (%) | Unem-ploy-ment (%) | Exports USD billion | Imports USD billion |
|---|---|---|---|---|---|---|---|
| EU (28 countries) | 511.4 | 17,610 | 38,300 | 1.4 | 10.0 | 2,173 | 2,312 |
| NAFTA (total) | 474.0 | 21,182 | 44,688 | n/a | n/a | n/a | n/a |
| USA | 318.9 | 17,460 | 54,800 | 2.4 | 6.2 | 1,610 | 2,334 |
| Mexico | 120.3 | 2,143 | 17,900 | 2.4 | 4.7 | 406 | 407 |
| Canada | 34.8 | 1,579 | 44,500 | 2.3 | 6.9 | 465 | 482 |

Source: Compiled from the World Fact Book, CIA.

Table 4. Canada's trade in goods with NAFTA, the EU, and the rest of the world, 2009-2014 (proportion of total, %)

| Year | NAFTA (USA and Mexico) | | EU | | Rest of World | |
|---|---|---|---|---|---|---|
| | Exports | Imports | Exports | Imports | Exports | Imports |
| 2009 | 75.3 | 65.9 | 8.6 | 10.4 | 16.1 | 23.7 |
| 2010 | 74.7 | 66.2 | 9.2 | 9.8 | 16.1 | 24.0 |
| 2011 | 73.7 | 65.0 | 9.3 | 10.1 | 17.0 | 24.9 |
| 2012 | 74.7 | 65.8 | 8.9 | 9.4 | 16.4 | 24.8 |
| 2013 | 76.2 | 67.7 | 7.4 | 9.3 | 16.4 | 23.0 |
| 2014 | 76.9 | 70.2 | 7.7 | 9.4 | 15.4 | 20.4 |

Source: Compiled from "Imports, exports and trade balance of goods on a balance-of-payments." Statistics Canada.

Table 5. Canada's Top Ten Exports to the EU, 2010-2014, (HS2 codes, proportion of total, %)

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Pearls, Precious Stones or Metals, Coins & Jewelry | 32.73 | 35.89 | 37.56 | 30.00 | 28.89 |
| Mineral Fuels, Mineral Oils, Bituminous Substances and Mineral Waxes | 4.12 | 6.82 | 7.75 | 6.87 | 9.69 |
| Nuclear Reactors, Boilers, Machinery & Appliances | 8.11 | 7.31 | 7.91 | 8.82 | 8.61 |
| Ores, Slag &Ash | 6.11 | 6.34 | 5.96 | 6.73 | 6.71 |
| Aircrafts and Spacecraft | 8.90 | 5.61 | 5.15 | 5.27 | 6.31 |
| Pharmaceutical Products | 2.00 | 1.69 | 1.58 | 3.55 | 4.16 |
| Nickel and Articles Thereof | 3.70 | 3.98 | 3.30 | 3.83 | 4.16 |
| Cereals | 1.49 | 1.87 | 1.42 | 1.84 | 3.39 |
| Electrical or Electronic Machinery & Equipment | 4.08 | 4.07 | 4.06 | 3.84 | 3.33 |
| Optical, Medical, Photographic, Scientific& Technical Instrumentation | 2.62 | 2.32 | 2.22 | 2.78 | 2.95 |
| Others | 26.14 | 24.1 | 23.09 | 26.47 | 21.80 |
| Total (All products) | 100 | 100 | 100 | 100 | 100 |

Source: Compiled from Trade Data Online, Industry Canada.

Table 6. Canada's Top Ten Imports from the EU, 2010-2014, (HS2 codes, proportion of total, %)

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Nuclear Reactors, Boilers, Machinery & Mechanical Appliances | 16.19 | 17.48 | 18.80 | 19.69 | 19.58 |
| Motor Vehicles, Trailers, Bicycles, Motorcycles & Other Similar Vehicles | 10.39 | 10.39 | 12.40 | 12.24 | 11.88 |
| Pharmaceutical Products | 12.67 | 11.06 | 10.88 | 10.56 | 11.00 |
| Mineral Fuels, Mineral Oils, Bituminous Substances & Mineral Waxes | 12.97 | 12.75 | 9.44 | 8.66 | 7.17 |
| Electrical or Electronic Machinery & Equipment | 6.63 | 6.04 | 6.15 | 6.45 | 6.70 |
| Optical, Medical, Photographic, Scientific & Technical Instrumentation | 4.49 | 4.69 | 4.85 | 4.89 | 4.76 |
| Beverages, Spirits & Vinegar | 3.80 | 3.71 | 3.96 | 4.01 | 3.81 |
| Pearls, Precious Stones or Metals, Coins & Jewelry | 3.04 | 4.10 | 2.40 | 1.82 | 2.76 |
| Aircrafts & spacecraft | 3.44 | 2.87 | 2.50 | 2.73 | 2.61 |
| Organic Chemicals (Including Vitamins, Alkaloids & Antibiotics) | 2.29 | 2.16 | 2.31 | 2.32 | 2.18 |
| Others | 24.09 | 24.75 | 26.31 | 26.63 | 27.55 |
| Total (All products) | 100 | 100 | 100 | 100 | 100 |

Source: Compiled from Trade Data Online, Industry Canada.