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CETA - BILATERAL TRADE AGREEMENT BETWEEN THE EU AND CANADA

Ludmila Borta*

Abstract: *The international trade for wide world countries in the means more growth, more jobs and access on more products at competitive prices. The European Union is a major economy and an important trading partner for many countries and regions in the world. To stimulate growth and to create jobs in the Union, this economy has concluded multilateral trade agreement (under the World Trade Organisation) and a number of bilateral (preferential) trade agreements. The aim of this paper is to present an example of fully elimination of tariffs and tariff lines under a bilateral trade agreement. In this case, we have analysed Comprehensive Economic and Trade Agreement (CETA) negotiated by the European Union and Canada. For both sides of Atlantic, the CETA is supposed to bring the solution for today's issues concerning the important trading aspects and, also, to facilitate the EU-Canada bilateral trade by creating competition.*

Keywords: elimination of tariffs; CETA; exports; imports; non- and agricultural goods; duties.

JEL Classification: F13; F19; F43; F53.

INTRODUCTION

Over time, the European Union has created and developed strategic relationships with both developed and developing countries and regions of the world, and international organisations. Through its actions in providing access for its trading partners to the Community market, the EU has proved to be adept of free and fair trade. The EU's participation in so many multilateral and bilateral trade negotiations (the number of the seconds is rapidly increasing in recent years) shows again its interest in reducing or eliminating tariffs and non-tariff barriers in the world trade.

The current trends of the European Union to negotiate and complete many bilaterally trade agreements proves that multilateral relations are not efficient anymore for facing the nowadays economic level. It seems that the EU considers trade bilateralism a better way to get a lot more benefits. For this region, multilateralism remains the basis of its trade policy, but it is not seen as the best way to solved trade disputes.

Thus, in this paper we chose to present a bilateral trade agreement negotiated by the EU. CETA is a comprehensive agreement that will eliminate tariff and tariff lines (as soon as the agreement enters into

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force) and will cover all sectors and aspects of the EU-Canada trade. It will open new markets and increasing market access for goods and services and providing new opportunities for European and Canadian investors and exporters.

1. CETA - FULL ELIMINATION OF TARIFF LINES

The European Union and Canada are World Trade Organisation's member since 1995. They have always been fully committed to the regularisation of a strong multilateral trading system. For the EU and Canada it is of great importance that the WTO is an international organisation that reflects and respects the needs and concerns of developing countries. Nowadays (characterised by numerous and different crises), the existence of that international organisation was not sufficient to ensure free, fair and open trade. The EU has always recognized the importance of the fight against all forms of protectionism, ensuring market access. At least, for the EU the trade agreements negotiated bilaterally represent a global basis. These provide for the development of global rules in areas where the WTO has not been able to provide effective solutions for disputes at multilateral level.

The European Union and Canada chose to appeal to bilateralism. Thus, the current EU-Canada trade relations are based on a Framework Agreement for Commercial and Economic Cooperation, which is in force since 1976. Over the years, these two economies meet annually to review bilateral economic and trade issues, designing a number of additional bilateral agreements to facilitate trade between them, such as The Veterinary Agreement (1999), the Wine and Spirits Agreement (2003), the Comprehensive Air Transport Agreement (1999) etc. (Canada, 2013). Thus, by stimulating trade cooperation with other site of Atlantic, the European Union aim to generate new opportunities to increase growth and to create jobs in the Union.

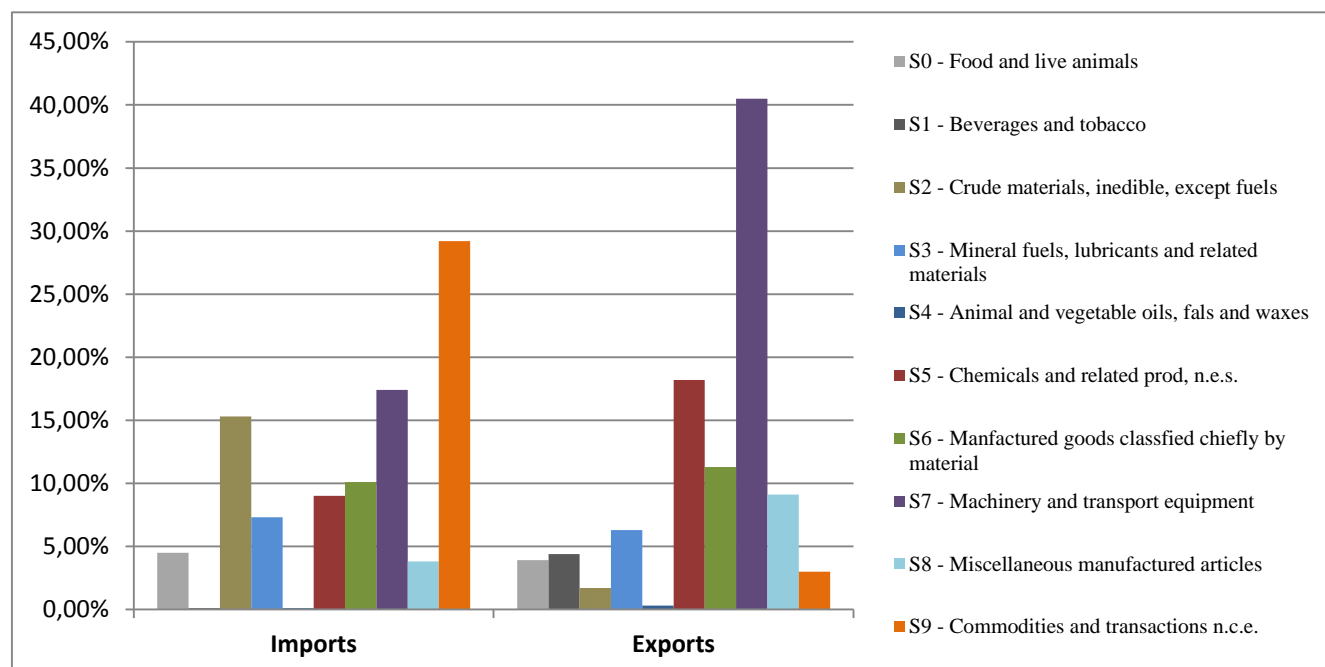
In May 2009, EU and Canada have launched negotiations for CETA (Comprehensive Economic and Trade Agreement), and a month later they are agreed about the content and general modalities of the agreement. On 18 October 2013, they have reached a political agreement on the key elements of this trade agreement, which aim is to eliminate the tariff lines between these two economies. Through this political cooperation, the parties will now be able to continue the process and settle all the remaining technical issues. The next step of negotiations is represented by approval of the Council and European

Parliament of the CETA. After it will be implemented, the agreement is expected to increase EU-Canada bilateral trade in goods and services by 23%, providing for growth and employment on these two economies.

The EU is a major trading partner for almost all countries and regions in the world, developing multilateral and bilateral trade relations with certain countries. For Canada, the European Union was the second most important trading partner (after the United States) in 2012, with around 9.5% of Canada's total external trade. For the European Union, Canada was the 12th most important trading partner in 2012, with 1.8% of the EU's total external trade. Thus, it is obvious that both regions are interested to stimulate bilateral trade cooperation by negotiating of strengthen and beneficial, for both parties, contents of CETA.

In 2012, the value of bilateral trade in goods between the EU and Canada was 61.6 billion of euro. In Figure 1, it can be seen that the EU's exports of goods to Canada are dominated by machinery and transport equipment and chemicals, with 40.5% of the EU's total trade flows. These categories of products also are an important part of the EU's imports of goods from Canada (with 17.4%), as well commodities and transactions (with 29.2%, dominating in the top of the EU's trade flows from Canada) and crude materials, inedible (except fuels) (with 15.3%). Trade in services and the investment relationship are equally highly important area of the EU-Canada trade relationship. The value of bilateral trade of services amounted to approximately 26 billion of euro, being dominated by travel, transportation, communication and insurance.

Figure 1 - EU trade flows with Canada by SITC section, in 2012



Source: Own processing after the European Commission Statistics

Canada is one of the most advanced economies in the world. For this country, CETA is most ambitious trade initiative. It will open new markets and increasing market access for goods and services and providing new opportunities for European investors and Canadian exporters. Besides bringing almost all tariffs to zero, CETA will also liberalise trade in services, in particular financial services, telecommunications, energy and transport.

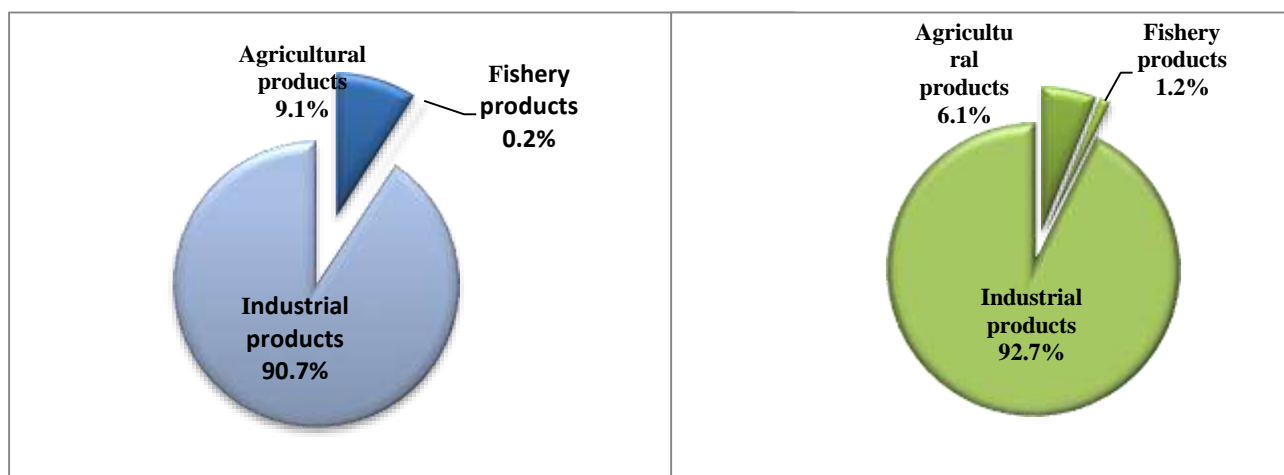
After this agreement enters into force, Canada will be one of the only developed countries in the world to have preferential access to the both EU and the United States markets. The investment opportunities of this double access will lead directly to jobs and opportunities in the country access to more than 800 million of the world's most affluent consumers (Opening New Markets in Europe. Creating jobs and Opportunities for Canadians, p. 3, 7-8). After entry into force, all levels of Canada's government will open up their public procurement markets to European suppliers. CETA will insure the closer level of the Canadian protection of intellectual property to that of the EU. The pharmaceutical sector and exporters of agricultural products of specific geographical origin known as GIs will be the sectors that will be in the beneficial position (*EU and Canada strike free trade deal*, 2013).

International commercial purpose of the European Union is to facilitate the access of EU's exporters to new markets. Following the research, we found that the EU is able to form an open global trading system based on fair rules, and at the same time ensuring that these rules are respected. In international trade, the success of the European Union depends on the success of the EU's trading partners.

2. KEY ELEMENTS OF THE EU-CANADA CETA

Trade relations traditionally begin with trade in goods. The EU-Canada cooperation is based on this type of trade that is the longest-standing and most extensive part of the Agreement. In Figure 2, we can see that, in 2012, the trade relations in goods between Canada and the EU have been represented by three type of products: agricultural, industrial and fishery products.

Figure 2 - EU's exports (left) and imports (right) of AMA/NAMA product Group to and from Canada, respectively, in 2012



Source: Own processing after the European Commission Statistics

Under CETA, the fully elimination of tariff lines will determinate more benefits especially concerning the EU's exports and imports of industrial products which accounted for 90.7% and 92.7% of total EU's exports and imports, respectively, of agricultural and non-agricultural products to and from Canada. Also, we observed that the fishery products only accounted for 0.2% and 1.2% of exports and imports, respectively, of AMA/NAMA product group in 2012.

In conclusion, the most important element of the EU-Canada CETA is represented by the elimination of duties. These two economies agreed to undertake an ambitious obligation to fully eliminate tariffs on approximately all tariff lines, as soon as the agreement enters into force. While almost all tariffs will be eliminated when CETA comes into force, 1% of tariffs will be eliminated over a period of up to seven years.

2.1. Non-agricultural goods

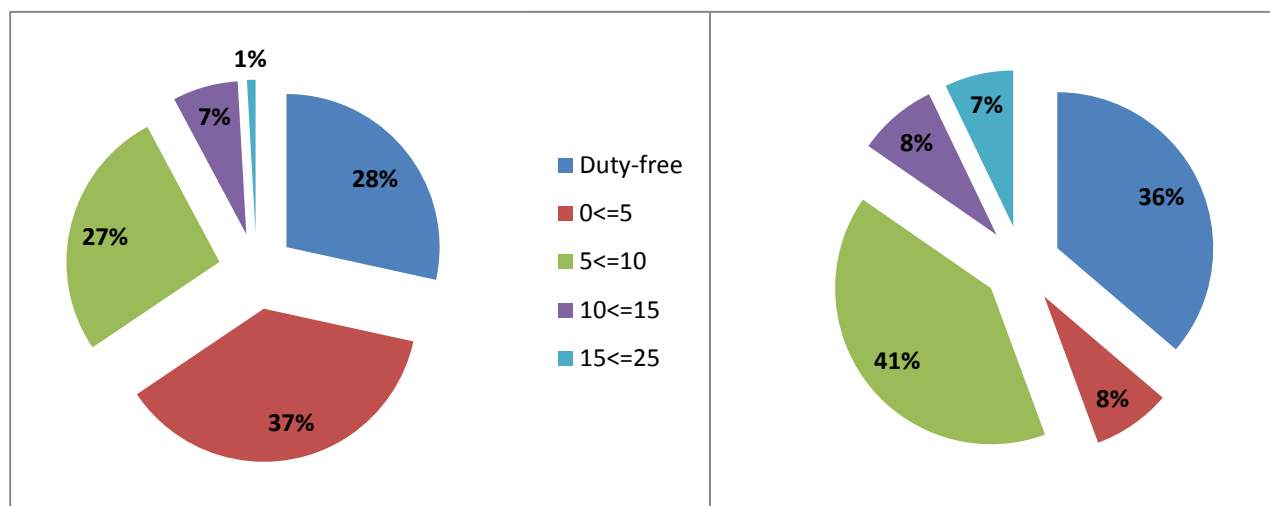
With regard to non-agricultural goods, under this trade agreement 98% of EU and Canada tariff lines will be set at 0%. The tariffs and tariff lines will be duty-free seven years after entry into force of CETA. Industrial tariffs will be fully liberalised saving EU exporters an expected around 500 million of euro in duties a year. In other words, EU exporters will be relieved of the costs of paying tariffs when selling goods on the Canadian market. Also, CETA assumes customs and trade facilitation by providing access to advance rulings on the origin or tariff classification of products.

For fishery products, most duties will be eliminated. Thus, 95.5% of EU's tariff lines will be set at 0% and Canada will eliminate 100% of tariff lines. CETA guarantees to EU's firms a better access to Canadian fish for the EU processing industry. Sustainable fisheries will be developed in parallel, in particular with regard to monitoring, control and surveillance measures, and the fight against illegal, unreported and unregulated fishing. Under favourable rules of origin the majority of Canadian fish and seafood products will qualify for preferential treatment. EU imports of fish and seafood from Canada will be treated at minimum processing requirements. Canada already has eliminated tariffs on all of its fish/seafood tariff lines in almost of its past free trade agreements (*Facts and figures of the EU-Canada Free Trade deal*, 2013).

Also, Canada commits to provide most-favoured nation treatment for EU member state vessels as compared to vessels of any other foreign states and to recognise a list of EU car standards. One of the ongoing disputes is represented by quantitative restrictions and related measures by the Canada - used car import ban. Under the Canadian Customs Tariff a prohibition on imports of used or second-hand vehicles of all kinds remains in place, except on those imported from the United States (*Trade Barriers*). The most sensitive lines of current duties of automobiles for both regions have maximum seven-year

phase-out. The EU and Canada have agreed to strengthen cooperation and to share of information between them, without compromising safety North American integration of the auto manufacturing market.

Figure 3 - Frequency distribution of the final bound duties of the EU (left) and Canada (right), on non-agricultural products (in 2012)



Source: Own processing after the WTO

In Figure 3 is presented the share of final bound duties on non-agricultural goods applied by both the EU and Canada. We can see that, in 2012, Canada has set 36% of tariff lines as duty-free, but the EU by 8% less. Also, the first one has appealed to more duties at 5-10% (for example, on automobiles). The EU has applied more duties at 0-5% (for examples, on forestry products, chemicals and plastics etc.). Over all, under CETA the EU will be the one of the parties of this agreement that will eliminate more tariff lines.

We can conclude certainly that Canada will have access on more "cheaper" EU non-agricultural goods than the EU on Canada products of this type. This means that Canadian goods that faced tariffs will become more competitive in the EU market, giving Canadian exporters a significant advantage over other exporters still facing tariffs. This will allow Canadians to expand or create new markets for their goods in the EU. One important benefit to protect is the preferential access given to goods: only goods made in Canada or the EU will benefit from preferential tariffs.

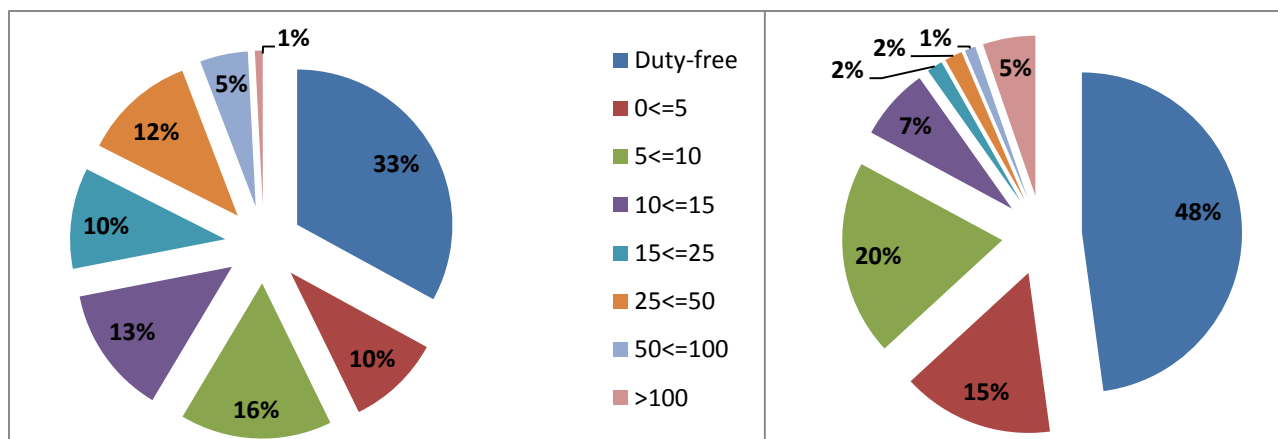
2.2. Agricultural goods

Canada is a very valuable export market for EU's agricultural, with annual sales of over 2.9 billion of euro. CETA will rapidly eliminate duties on agriculture products by 92.8 % (Canada) and 93.5 % (the EU) of trade lines, by the end of the transitional periods. This industry will considerably gain from CETA as all the tariffs will be eliminated. As example of ongoing disputes, in Canada, imports of wheat and barley originating in the NAFTA countries do not comply with WTO rules, at the same time continuing to benefit from the preferential NAFTA duty rates. Therefore, EU exporters must face this preferential trade on the Canadian market. Under CETA, the elimination of tariffs is "considerably more comprehensive and ambitious than required by Article XXIV GATT", with no tariff lines excluded a priori, including agriculture, thereby possibly resulting in the liberalisation or even the elimination of these restrictions on EU wheat and barley exports (*Trade Barriers*).

The EU is Canada's major import source of wine, this accounted for half of Canada's imports. The elimination of tariffs on this products provides also the removal of other relevant trade barriers which will significantly improve access to the Canadian market for European Wines and Spirits (*Facts and figures of the EU-Canada Free Trade deal*, 2013). In accordance with the Agreement on trade in wines and spirit drinks, Canada will shall to respect and follow some rules to have the EU names listed in Annex of the Agreement entered on the list of protected geographical indications (GIs) in Canada. Canada currently recognizes a number of wines and spirit GIs of the European Union, such as Cognac and Bordeaux.

With regard to Canadian trademark that use English and French languages, CETA will offer protection for GIs without prejudicing the validity of existing trademarks of this country. Some EU GIs were protected but with the caveat that they not impact the ability of producers to use specified English and French languages terms that are commonly employed in Canada [Technical Summary of the Final Negotiated Outcomes]. Under this trade agreement between the EU and Canada, the agricultural goods from Canada will treated at the main rule of origin, qualifying for duty-free treatment.

Figure 4 - Frequency distribution of the final bound duties of the EU (left) and Canada (right), on agricultural products (in 2012)



Source: Own processing after the WTO

In Figure 4 is presented the share of final bound duties on agricultural goods applied by both the EU and Canada. We can see that, in 2012, Canada has set 48% of tariff lines as duty-free, but the EU by 15% less. Also, the first one has appealed to more duties at 0-10%. The EU has applied more duties at 5-15% (for example, on fresh and frozen fruits, processed fruits and vegetables etc.) and 25-50% (for examples, on beef). Over all, after entry into force of CETA the EU will be the one of the parties of this agreement that will eliminate more tariff lines on agricultural products.

We can conclude certainly that Canada will have access on more "cheaper" EU agricultural goods than the EU on Canada products of this type. As regards products considered sensitive (dairy for Canada and beef, pork and sweet corn for the EU), it has been agreed that new market access, amounting to a further 1% and 1.9% of tariff lines respectively, will be granted in the form of tariff rate quotas. According to European Commission, today, Canada apply unjustified import restrictions on a number of animal products relating to BSE (Bovine Spongiform Encephalopathy). Canada has indicated that it is waiting for the publication of the US rule to align the US legislation to the OIE (World Organisation for Animal Health) standards, the rules of this organisation is respected by the Canada. After that, Canada has indicated that it will informed the EU after this publication and will discuss the following steps of cooperation [Trade Barriers].

The EU and Canada agreed to reaffirm and build upon WTO sanitary and phytosanitari (SPS) commitments. They subscribe to WTO requirements that ensure that SPS measures, which governments

use to regulate the protection of human, animal and plant life and health, are not used as a cover for trade protectionism [Facts and figures of the EU-Canada Free Trade deal]. Thus, to be ensured that consumers have access on safety food and to prevent the introduction of animal diseases, the EU and Canada have agreed to maintain sanitary measures. Under CETA, these two economies have agreed to build on their shared WTO commitments (at multilateral level) and bilateral cooperation in order to make sure their respective sanitary and phytosanitary measures remain effective yet do not unnecessarily hamper trade.

2.3. Other sectors

In the field of technical regulations, CETA contains provisions that will improve transparency and foster closer contacts between the EU and Canada. With regard to trade in services, CETA will bring new opportunities for European exporters by creating access on the market on other sites of Atlantic in key sectors such as financial services, telecommunications, energy and maritime transport. The GDP gains for the EU could amount to up to 5.8 billion of euro per year, once the agreement is fully implemented. The EU's important sectors and services activities of export interest to Canada are:

- services related to energy;
- mining;
- research and development;
- environmental services;
- technical testing and analysis services;
- professional services;
- computer and information technology (*Technical Summary of the Final Negotiated Outcomes*).

FDI create new jobs and introduces the receiving country to new technologies, different management techniques and broader international markets. Investments are one of the key pillars of economic relations between the EU and Canada and FDI is an important contributor to growth and to create jobs in Canada. The EU is the second largest source of foreign direct investment in Canada and the second largest destination for Canadian direct investment abroad. Under CETA, will be removed barriers to FDI both horizontally and in specific sectors, improving legal certainty and predictability for businesses. The European Commission has negotiated provisions to protect European investors in

Canada, ensuring non-discrimination, a fair and equitable treatment and appropriate compensation in the event of expropriation [Facts and figures of the EU-Canada Free Trade deal]. CETA covers all services unless Canada or the EU specifically excludes a particular service from coverage. Canada and the EU are giving each other's service suppliers the most favourable access either has given to a trading partner.

Thus, to support trade in services and investment, CETA will make it easier for firms to move staff temporarily between the EU and Canada. This will make it easier for European companies to run their operations in Canada. EU commitments are the most ambitious ever in a free trade agreement. Canada's offer is in line with the level of ambition taken by the EU.

The agreement provides a framework for a future mutual recognition of qualifications in professions such as architects, engineers, and accountants. First time that substantive and binding provisions on licensing and qualification have been included in any of Canada's free trade agreements. Thus, CETA will be the first of Canada's free trade agreements to include substantive and binding provisions on the mutual recognition of professional qualifications. As a result, the process of recognizing foreign qualifications will provide a detailed framework. Through this framework professional organisations will be able to negotiate mutual recognition agreements. This will be of key importance to professional associations that is interested in engaging in discussions once CETA enters into force (*Technical Summary of the Final Negotiated Outcomes*).

Because CETA, it will be the first time when in Canada all sub-federal levels of government will have committed themselves to bilaterally opening their procurement markets. In this country will also be created a single electronic procurement website that combines information on all tenders and access to public procurement at all levels of government. This will make it much easier for European suppliers to compete in the Canadian procurement market (*Facts and figures of the EU-Canada Free Trade deal*).

With regard to Intellectual Property Rights (IPR), CETA will create more of a level playing field between Canada and the EU, leading, in particular, to developments in the Canadian system regarding pharmaceuticals. The request of the EU to provide 10 years of data protection was been rejected by Canada which agreed to lock in the current Canadian practice of providing eight years of market exclusivity current regulations. This economy chose to provide a six year "no-filing" period and a two-year "no-marketing" period. During these periods no applications for generic drugs are accepted for regulatory consideration and generics can progress toward market readiness but cannot be sold. Canada

agreed to provide additional (*sui generis*) protection for pharmaceutical products protected by eligible patents in Canada. Time of approval of new biotherapeutic products in Canada has increased dramatically in the recent past to the point where Health Canada's Biologic and Genetics Therapies Directorate (BGTD) is, by wide margin the slowest agency amongst its international peers to review and approve new products. The problem is mainly the amount of time a submission is in queue waiting for a review to be initiated. As the European industry complains about this issue that is dealt with in the EU-Canada Trade and Investment Subcommittee (TISC) (*Trade Barriers*).

In field of intellectual property rights, CETA's strong commitment will complement access to EU markets for citizens of Canada who develop innovative and creative products, bringing benefits for investors and consumers alike. CETA will help Canada to maintain its leadership in innovation-driven industries (such as information and communications technology, aerospace etc.) and key industries of 21st century including health, energy and sustainable technologies. The chapter of CETA also includes provisions on trademarks, designs and copyrights, and overall it reflects high standards for IPR protection. Reiterates existing aspects of Canada's copyright regime, including term of protection, broadcasting, protection of technological measures (technology designed to protect copyrighted material), protection of rights management information, and liability of intermediary (e.g. Internet) service providers (*Technical Summary of the Final Negotiated Outcomes*).

CETA recognises the special status and offers protection on the Canadian market to a list of numerous European agricultural products from a specific geographical origin, so-called Geographical Indications (GIs). Examples are Grana Padano, Roquefort, Elia Kalamatas Olives or Aceto balsamico di Modena. In addition, thanks to the agreement, some prominent EU GIs such as Prosciutto di Parma and Prosciutto di San Daniele will finally be authorised to use their name when sold in Canada, which was not the case for more than 20 years (*Facts and figures of the EU-Canada Free Trade deal*).

CETA provides for an efficient and streamlined horizontal mechanism covering most areas of the agreement. The system is intended as a last resort should the parties fail to resolve disagreements relating to the interpretation and implementation of the Agreement's provisions by other means. It proceeds along a fixed set of procedures and time-frames (*Facts and figures of the EU-Canada Free Trade deal*). Under CETA, the state-to-state dispute settlement provisions are based on the WTO Dispute Settlement Understanding model, but improve on it in several ways. For example, CETA includes a more robust

voluntary mediation mechanism than has been included in Canada's previous trade agreements and an accelerated arbitration procedure for cases requiring urgent resolution. Mediation is a cost-effective and expeditious way to resolve disputes without the need for a third party to decide the outcome.

The EU and Canada have in CETA also reaffirmed their strong commitment to the principles and objectives of sustainable development. This means that investment and trade relations should not develop at the expense of the environment or of social and labour rights, but instead foster mutual supportiveness between economic growth, social development, and environmental protection. As the US and Canada have already liberalised their trade under the North American Free Trade Agreement (NAFTA), this agreement will allow EU companies to compete with US exporters on the Canadian market by levelling the playing field, while in addition benefitting from preferential treatment going beyond NAFTA (Facts and figures of the EU-Canada Free Trade deal).

CONCLUSIONS

As a WTO member, the EU and Canada are fully committed to the regularisation of a strong multilateral trading system that reflects and respects the needs and concerns of developing countries. However, current economic and financial crises put under questions the efficient of that international organisation. For both sides of Atlantic, the WTO is not anymore sufficient to ensure free, fair and open trade, not being able to provide effective solutions for today's disputes at multilateral level. The EU has always recognized the importance of the fight against all forms of protectionism, ensuring market access.

WTO is an organisation within which the European Union could achieve an essential part of its business objectives. Even the EU's common commercial policy was "designed" under the World Trade Organisation. It seems that economic globalisation "poisoned" the multitude of crises - having the world, regional or global impact eventually - weakened the WTO action and set a uncertainty among the members participating in global trade in the efficiency of this international organisation.

The EU Global Agenda This provides a new generation of ambitious bilateral trade agreements with major trading partners. Some emerging economies already represent a significant and growing share in world trade. European bilateralism is important and extremely challenging. These new trade agreements go beyond import duties whose importance has diminished. Regulatory hurdles are addressed

in terms of goods, services and investment, intellectual property, public procurement, protection of innovation, sustainable development and other important issues. The EU resorted to negotiate such agreements in solving problems that are not ready for multilateral discussion and by preparing the ground for the next level of multilateral liberalisation.

We believe that ambitious agreements, especially with large developed countries may have a systemic range. They provide a laboratory for gaps in multilateral normative acts. They can develop regulatory solutions that can be the basis for further activities at the multilateral level. Thus, by negotiating of a bilateral trade agreement with Canada, the European Union's purpose is to generate new opportunities to increase growth and to create jobs in the Union. For Canada, which is one of the most advanced economies in the world, the CETA is most ambitious trade initiative. It will open new markets and increasing market access for goods and services and providing new opportunities for European and Canadian exporters. Besides bringing almost all tariffs to zero, CETA will also liberalise trade in services, in particular financial services, telecommunications, energy and transport. In a few words, the most important element of the EU-Canada CETA is represented by the elimination of duties. These two economies agreed to undertake an ambitious obligation to fully eliminate tariffs on approximately all tariff lines, as soon as the agreement enters into force.

On every trade sectors, under this trade agreement almost all the EU and Canada tariff lines will be set at 0%. CETA assumes customs and trade facilitation by providing access to advance rulings on the origin or tariff classification of products, guaranteeing to EU's firms a better access to Canadian goods that faced tariffs will become more competitive in the EU market, giving Canadian exporters a significant advantage over other exporters still facing tariffs. This will allow Canadians to expand or create new markets for their goods in the EU.

FDI create new jobs and introduces the receiving country to new technologies, different management techniques and broader international markets. Investments are one of the key pillars of economic relations between the EU and Canada and FDI is an important contributor to growth and jobs in Canada. The EU is the second largest source of foreign direct investment in Canada and the second largest destination for Canadian direct investment abroad. Thus, to support trade in services and investment, CETA will make it easier for firms to move staff temporarily between the EU and Canada. This will make it easier for European companies to run their operations in Canada. EU commitments are

the most ambitious ever in a free trade agreement. Canada's offer is in line with the level of ambition taken by the EU.

EU wants especially to take advantage of free trade and investment triple, which requires: more growth, more products for sale at competitive prices and more jobs. For this, the EU has chosen to negotiate free trade agreements. Stipulating global existence of uncertain perspectives on successful completion of WTO Doha Round, the EU has redirected its trade strategy to bilateral negotiation. Considering this as a better solution to face the crisis that has affected the global economy.

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