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TRADE POLICY TRENDS: CETA RATIFICATION

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Negotiations between the Government of Canada and the European Union (EU) for the Comprehensive Economic and Trade Agreement (CETA) began in 2009 and the agreement came into force provisionally on September 21, 2017. Global Affairs Canada (GAC) lauds the agreement as "by far one of Canada's most ambitious trade initiatives." CETA is considered a modern and "progressive" trade agreement because it includes commitments to promote labour rights, environmental protection, and sustainable development.

Based on 2015 data, the EU is Canada's second largest trading partner at 9 percent of goods trade with Canada just behind the US and just ahead of China. Meanwhile, Canada ranks as the 11th largest trading partner of the EU at 2 percent of EU goods trade. Moreover, in 2017, EU investment in Canada totalled $243.5 billion making it the second largest investor in Canada. CETA eliminated 98% of the EU's tariff lines, whereas, prior to CETA, Canadian exporters faced tariffs on 25% of EU tariff lines. CETA also alters many other aspects of Canada-EU trade including rules of origin, customs and trade facilitation, regulatory harmonization, government procurement, services trade, and labour mobility. Finally, the agreement implements new investment rules.

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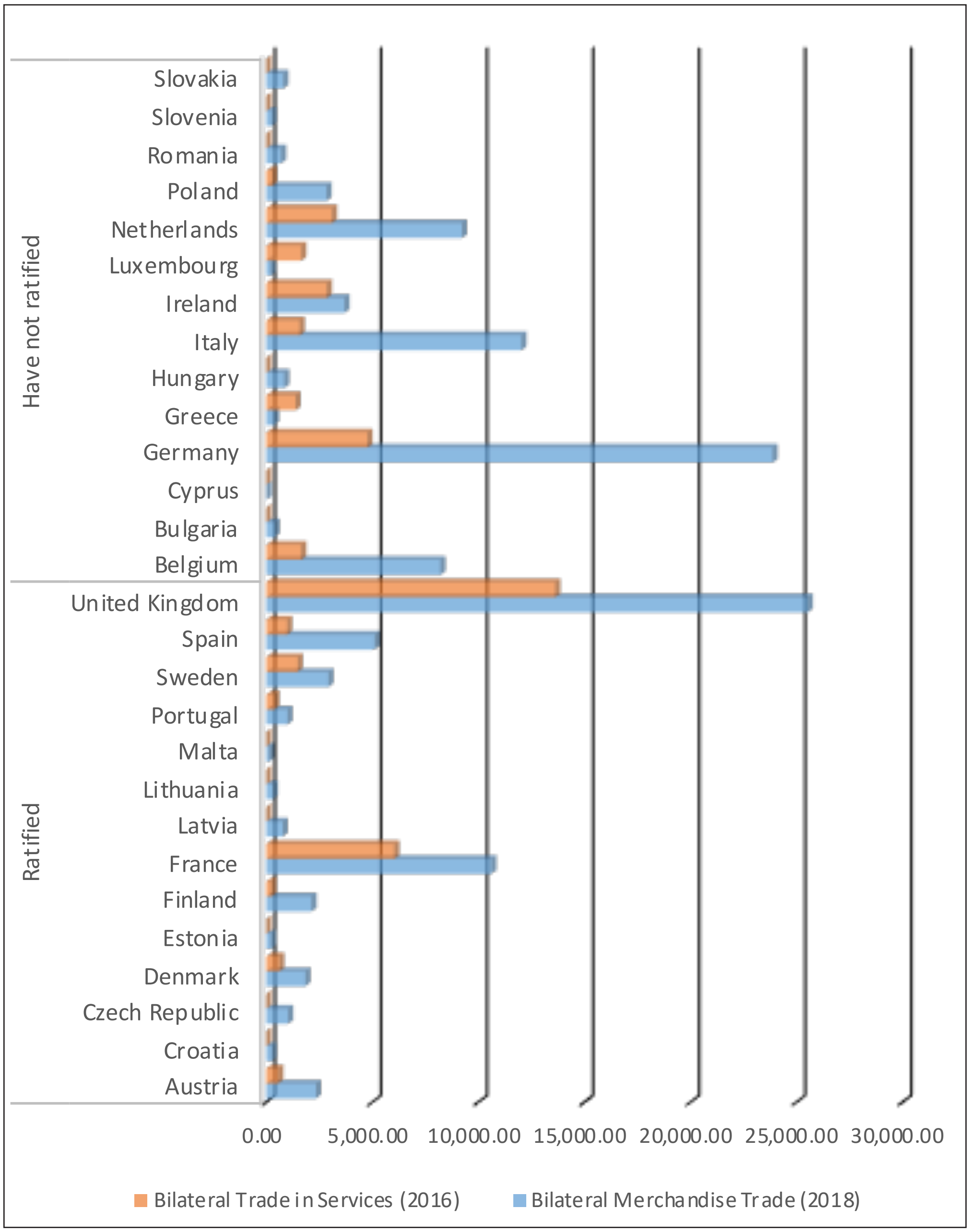
PROVISIONAL RATIFICATION

CETA is a 'mixed agreement,' which means that, unlike other EU agreements, all individual EU states must ratify the agreement internally before the EU fully implements the deal. In practice, this means that most of the agreement came into affect when the Canadian and European Parliaments signed the agreement, but parts of the investment chapters are not implemented and will only be in force when each domestic EU legislative body ratifies the agreement. Specifically, the parts of CETA that are not yet implemented are investment provisions pertaining to financial services (specifically, portfolio investment, investment protection, and Investor State Dispute Settlement [ISDS]). This method of implementation hails from a decision by the Court of Justice of the European Union (CJEU) in 2017 that found that components of agreements pertaining to portfolio investment and ISDS require legislative approval from all EU legislatures in addition to the EP.

WHICH COUNTRIES HAVE RATIFIED CETA?

The following chart displays the EU countries that have ratified, and have not ratified, CETA (based on information from the European Council). The chart also displays the relative size of bilateral trade and investment relations with Canada. While the Canadian Parliament and EP have approved the deal, CETA will not come fully into force until the 28 legislative bodies of these states ratify CETA in line with their own constitutional procedures. Some of Canada's largest trading partners in Europe such as Italy, and Germany, have yet to fully ratify the deal. Similarly, some countries with which Canada has the largest bilateral investment relations with (Netherlands, and Luxembourg) have yet to ratify CETA. Notably, Canada's largest trading and investment partner in the EU, the UK, ratified the agreement on November 8, 2018.

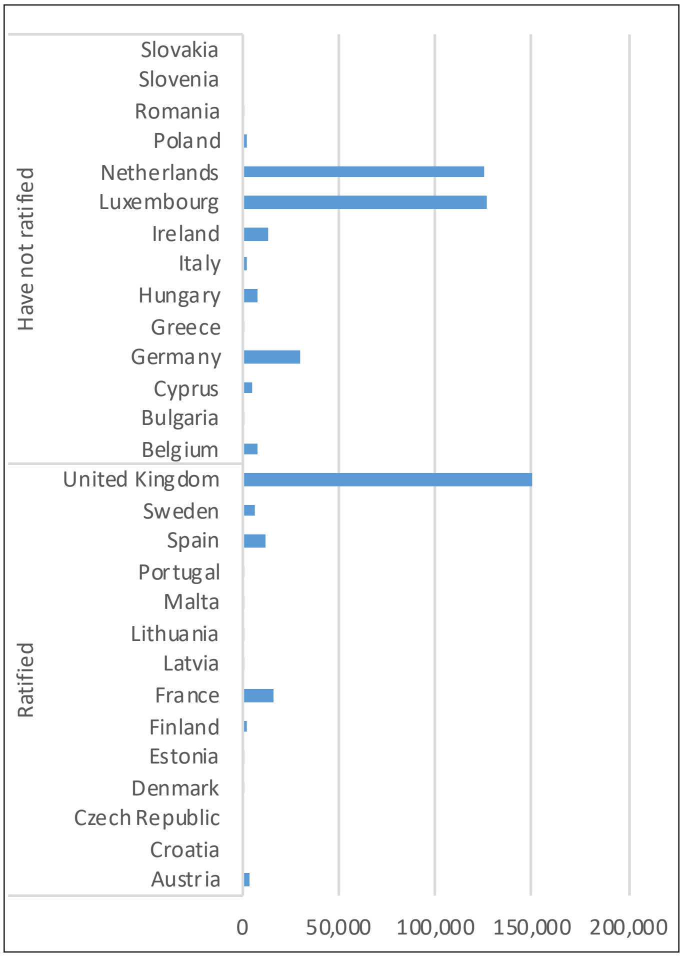
FIGURE 1: CETA RATIFICATION STATUS AND BILATERAL TRADE WITH CANADA BY COUNTRY (MILLIONS OF CAD)



Source: Global Affairs Canada, Trade Investment and Economic Statistics

Figure 2 displays bilateral Canada's bilateral investment relations with EU countries that have, and have not, ratified the agreement.

FIGURE 2: CETA RATIFICATION STATUS AND CANADA-EU BILATERAL FDI, 2017 (MILLIONS OF CAD)



Source: Global Affairs Canada, Trade Investment and Economic Statistics

NOTE ON THE UK

The UK is in the process of leaving the EU and is currently obliged to leave the EU on October 31, 2019, although this could be delayed. If they pull out of the EU without a deal with the EU, they will not be part of CETA. If a deal is reached, the UK could take part in CETA for up to two years. Failing this, it will be up to Canada and the UK to complete an FTA to maintain trading relations. Overall, the UK is Canada's 2nd largest destination for Canadian foreign investment and 4th largest source of investment in Canada making it Canada's largest bilateral investment relationship within the EU.

NEXT STEPS

Commentators have hailed Canada as a defender of the liberal world order in an increasingly protectionist world. In this vein, Canada is actively pursuing various trade agreements. Although the EU will more than likely ratify CETA, whoever wins the upcoming federal election on October 21st will have to contend with opposition to trade agreements like the opposition seen during the process of ratifying CETA (which was significant). If a hard Brexit happens this diminishes the importance and impact of CETA for Canada. In this case, the Canadian government should be prepared to finalize a trade and investment agreement with the UK. Canada should also encourage its European economic partners to ratify CETA.

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About the Author

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Dr. Beaulieu (PhD, Columbia, 1997) is a Professor in the Department of Economics at the University of Calgary and the Program Director, International Economics at The School of Public Policy. Before pursuing a doctorate at Columbia he worked as an economist for the Government of Kenya and the Bank of Canada. Dr. Beaulieu publishes widely in economics and public policy journals and his principal area of research is empirical international economics, with a focus on trade policy, foreign investment, firm dynamics, labour markets and income inequality. He works broadly in the areas of public policy, political economy and economic development. Dr. Beaulieu has held several research grants and awards including the Petro-Canada Young Innovators Award, a Killam Resident Fellowship, and held the Norman Robertson Fellowship at the Canadian foreign affairs office.

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