

The Political Economy of CETA: A European Perspective

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Canada-EU Economic Relations

- Canada is 12th most important trading partner, Europe is Canada's 2nd most important trading partner.
- EU is 2nd largest investor in Canada (2012: 260bn EUR), Canada is 4th largest in Europe (2012; 142 bn/EUR).

Trade and FDI with Canada

EU-Canada "trade in goods" statistics

Trade in goods 2011-2013, € billions

Year	EU imports	EU exports	Balance
2011	30.7	29.9	-0.8
2012	30.3	31.4	1.1
2013	27.3	31.6	4.3

EU-Canada "trade in services" statistics

Trade in services 2011-2013, € billions

Year	EU imports	EU exports	Balance
2011	9.6	16.0	6.4
2012	10.1	16.8	6.7
2013	9.9	16.3	6.4

Foreign direct investment

Foreign direct investment 2012, € billions

Year	Inward stocks	Outward stocks	Balance
2012	142.6	258.0	115.3

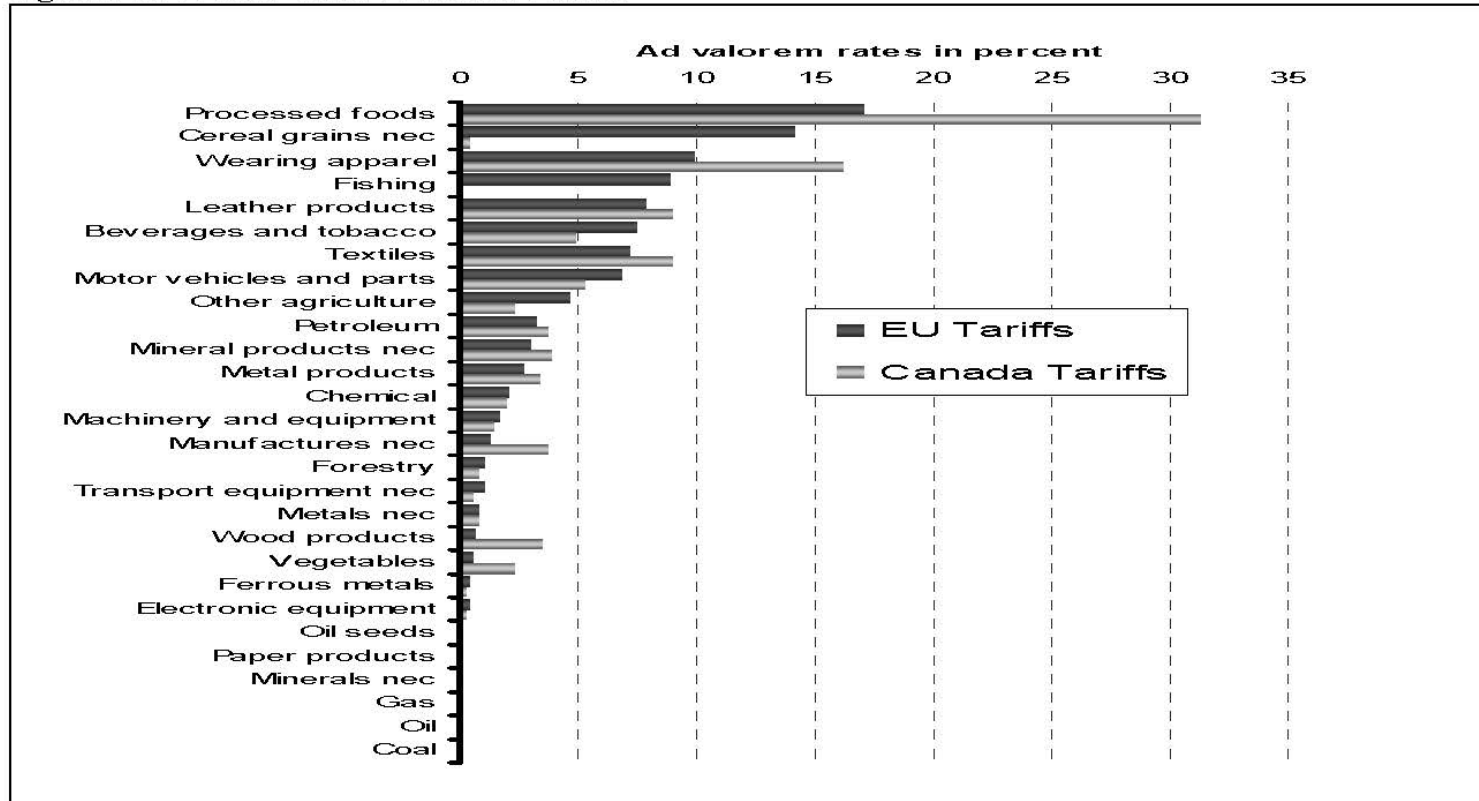
Canada-EU Trade

Table 2.1 Most Important Sectors for EU-Canada Trade

The EU's Most Important Export Sectors to Canada		Canada's Most Important Export Sectors to the EU	
<i>Sector</i>	<i>Share</i>	<i>Sector</i>	<i>Share</i>
Metal products	3.10%	Processed foods	3.10%
Processed foods	3.20%	Paper products	5.70%
Beverages and tobacco	4.00%	Electronic equipment	6.60%
Petroleum	4.40%	Machinery and equipment	10.70%
Transport equipment nec	8.10%	Minerals nec	11.70%
Motor vehicles and parts	10.80%	Metals nec	12.80%
Chemical	22.00%	Transport equipment nec	13.70%
Machinery and equipment	22.50%	Chemical	15.70%
Sum of 8 sector shares	78.10%	Sum of 8 sector shares	80.00%

** Not elsewhere classified.*

Figure 2.1 Trade Protection for Goods



Note: The data on tariffs are taken from the WTO's integrated database, with supplemental information from the World Bank's recent assessment of detailed pre- and post-Uruguay Round tariff schedules and from the UNCTAD/World Bank WITS dataset. Tariff information has been concorded to the sectors used in the model

Source: GTAP version 7

Source: Joint Study, 2008

Prediction of Economic Effects

- Tariffs will be reduced by up to 99 percent, saving some 500m EUR/y for European exporters.
- Even most agricultural products (92 percent) will be tariff free, in particular processed food.
 - Quotas for beef, pork, sweet corn are maintained, poultry and eggs are not liberalized.
 - EU agricultural price system is maintained.
 - EC stresses that CETA will not touch upon food or environmental regulation nor will it constrain future rule setting.
- Service trade should yield nearly 6bn EUR/y when fully implemented.

- Procurement is considered big gain for Europe. CETA is first treaty to cover this, granting access also to Canadian provinces. Market size is about 7 percent of Canadian GDP (82 bn EUR/y).
- Regulatory cooperation is estimated to yield some 3 bn EUR/y.
- Europe expects better protection of intellectual property rights and trademarks.
- Investors will be treated like domestic firms, incl. financial services industries.
- Overall, CETA should expand trade in goods and services by 23 percent.
- But: These estimates may be overly optimistic. Most predictions of earlier gains (e.g. common market) have not been realized.

Expected Income Gains

Table 2.9 GDP Gains and Percentage Changes in GDP

	Total	Tariff reductions	Services trade liberalisation	NTBs in goods
GDP gains (€ million)				
European Union	11,594	2,899	5,797	2,899
Canada	8,161	2,720	3,709	1,731
% changes				
European Union	0.08	0.03	0.04	0.02
Canada	0.77	0.27	0.35	0.15

Source: Joint Study, 2008

Assessment of Expected Gains

- This is not too bad, but economically CETA is no big issue (for Europe). Its importance rather lies in
 - being a first step towards „deeper integration“
 - being a blueprint for TTIP
 - being a European treaty (CETA substitutes 8 BITs with individual European countries)
 - being an alternative for Doha and WTO.

Contentious Issues

- Product standards, in particular food and health.
- Public enterprises and protection of culture.
- Arbitration panels between investors and government (ISDS).
 - But: public debate neglects that BITs and panels exist for a long time, that courts are not excluded, and that panels are not „secret“.
 - >25% of ISDS cases are settled without formal judgement, ~40% are won by states, and only ~a 1/3 by investors, who get ~1/3 of what they demand.
 - At end of 2013, 568 ISDA cases have been filed by 98 countries, >50% by EU firms.
 - National laws might even grant more rights to investors, says recent report for German ministry of economics.

- NGOs and other opponents have been very successful in dominating the public debate. Supporters are rather mute and ineffective.
- CETA is usually mixed up with TTIP, where debate is much more emotional.
- Role of national parliaments is contested; Commission believes/d to have exclusive competence, MS have different view. Former trade commissioner de Gucht wants the ECJ to decide on this.

CETA as a Blueprint for TTIP?

- In its communication the EC stresses that CETA and TTIP are different, at the same time they make clear that many of the special clauses that distinguish CETA from other agreements are also applied in US treaties (e.g. transparency in ISDS).

Changing Political-Economic Landscape

- Due to crisis, there is no longer a trade friendly environment.
- Germany is not willing to use „political capital“ for free trade.
 - Fiscal/monetary issues are more important for Germany.
 - Canada is not very important for Germany (EX: 27th, IM: 36th position as trading partner.)
 - The current government seems less interested in trade (and economic) issues than predecessors. German economics minister Gabriel has vowed to block ISDS clause in CETA.
- New EC is more reluctant: EC president Juncker states that EU will not accept CETA „at any price“. New trade commissioner will not have exclusive competence. (See, however, letter by 14 governments to Juncker supporting ISDS (wrt TTIP).)

Conclusion

- What has been achieved?
 - Economically, quite a bit (abolition of trade barriers, step towards deeper integration, esp. public procurement, many criticisms taken on board, a possible model for TTIP and further PTAs) .
 - Yet, CETA's (recent) meaning is more political than economic.
- CETA suffers
 - from its association with TTIP
 - cyclical protectionism, fight between EU and MS, no-one willing to spend political capital on free trade, govs. making statements that are hard to take back.
- Chances of ratification are slim, given these factors.