CETA Broadens Trade Horizons

By Giles D. Marshall

For many years, the General Agreement on Tariffs and Trade and its successor—the World Trade Organization—helped boost global trade, a key driver of global growth. As *The Economist* reports, "between 1985 and 2007, trade volumes shot up at around twice the rate of global GDP."[1] Since 2012, however, growth in global trade has hardly kept pace with sluggish global growth. In addition, the benefits of global trade, a key component of globalization, have come under increasing scrutiny with the rise of populist political rhetoric.

Against this backdrop, Canada and the 28 member states of the European Union (EU) signed the Comprehensive Economic and Trade Agreement (CETA) on October 30, 2016. The signing in Brussels attracted little attention, likely due to the agreement's technical nature and protracted development over the past 12 years. Although the European Parliament and national legislatures must still ratify the agreement, once fully implemented, CETA will eliminate tariffs on 99% of goods sold between Canada and the EU, versus a meagre 25% of tariff-free goods today.

Eliminating tariffs tends to be the most talked about element of trade deals since it cuts taxes for exporters, but it is also worthwhile noting that CETA addresses non-tariff barriers. In doing so, it will reduce regulatory barriers, permit the mutual recognition of regulated professionals (e.g., accountants, engineers), ease the movement of company staff between Canada and the EU and offer fairer treatment on the recognition of intellectual property (patents, trademarks, copyrights, etc.). As with all trade agreements, however, objections have been voiced on both sides, mostly from labour unions, agricultural groups such as dairy producers, national food safety authorities and environmental groups.

As we go to press, Canada finds itself in uncertain waters as US president-elect Trump has been outspoken about trade deals, including the North American Free Trade Agreement (NAFTA). CETA, however, reduces Canada's reliance on the United States as an export destination. Assessing CETA's dollar impact on Canada's GDP and corporate Canada's profitability is largely guesswork at this point but, with approximately 510 million inhabitants in the EU, in our view the agreement seemingly offers an additional source of consumer potential.

Nonetheless, Canadian companies will need to do their homework. A Conference Board of Canada study involving nearly 9,000 Canadian exporters to the EU (between the mid-1990s and 2008), showed Canadian companies experienced delays in profitability due, in part, to their unfamiliarity with EU regulations.[2] While CETA may lower non-tariff barriers through greater regulatory co-operation, the most successful Canadian companies in the EU demonstrated an ability to innovate and introduce new products.[3]

From our perspective, it is too early to evaluate how CETA might affect the share price performance of Canadian companies and time will test CETA's future. The expected final ratification by the European Parliament will allow the agreement to take provisional effect while ratification by various national legislatures could take years. That interim period should provide time for businesses on both sides of the Atlantic Ocean to identify profitable opportunities and enhance trade under CETA.

1. "Why is world trade growth slowing?" *The Economist*, October 11, 2016, http://www.economist.com/blogs/economist-explains/2016/10/economist-explains-5.
2. Doris Chu and Danielle Goldfarb, "CETA could be huge for Canada—if companies are ready to adapt," *Canadian Business*, July 7, 2015, http://www.canadianbusiness.com/blogs-and-comment/ceta-could-be-huge-for-canada-if-companies-are-ready-to-adapt.
3. Chu and Goldfarb, "CETA could be huge."