

Selling Ourselves on Self-Interest

Will a free trade agreement with Europe help us see the light?

Don McIver
Research Director, Atlantic Institute for Market Studies
12 October 2011



EXECUTIVE SUMMARY

Canada has entered into a significant number of free trade negotiations in the decades since the ground-breaking US-Canada (FTA) pact and the ensuing North American Free Trade Agreement (NAFTA). Given the dominance of trade with the United States, some of the more recent initiatives may have appeared of limited consequence. Now Canada is engaged in discussions with the European Union—how significant is that?

While it is true that enjoying preferential access to both North American and European markets would place Canada in a unique arrangement to service almost one billion consumers, the reality is that trade with the European Union is relatively small and diffused across the 27 member countries. That said, Canada could benefit substantially from reducing its vulnerability to US economic cycles and for Atlantic Canada, the strategic location of Halifax as the continent's closest port to Europe offers

obvious benefits from increased shipments of goods.

So the advantages for Canada of forging a Comprehensive Economic and Trade Agreement (CETA) are clear. What do the Europeans stand to gain? Given the relative size imbalance, the EU could expect only limited benefits. However, as a testing ground for future EU-United States discussions these negotiations are important—they set precedents in agricultural issues (on which both the EU and the US have entrenched positions) and on matters of intellectual property protection, on which both sides have concerns. For these reasons, the European CETA negotiators are prepared to bargain vigorously.

Ironically, for Canada many of the issues that are being debated are ones that we could profitably concede unilaterally without the need to extract a modest quid-pro-quo. This paper deals with several of those policy shifts that, if implemented domestically, would improve economic efficiency

and bring immediate benefit to Canadians. Namely:

- Agricultural supply management
- Public procurement (by all levels of government)
- Intellectual property
- Increased international labour mobility (and, by extension, enhanced inter-provincial worker certification and movement)

Canada's agricultural supply management system obliges consumers to pay more for products such as eggs, milk, cheese etc. than if their output and price weren't subject to marketing boards. It is an internationally obsolete model that not only discriminates against Canadian consumers, but has also served as a constraint from expanding our global markets.

Government procurement policies, as practiced by all levels, are a mishmash of "buy local" and "beggar-thy-neighbour" practices that raise the costs of public goods and increasingly limit the ability of administrations to meet the increasing needs of the population. EU estimates suggest very substantial cost savings from opening procurement—and nearly all the competitive advantage would come from inside Canada, not from European bidders.

Canada has an important interest in ensuring optimal world-wide protection for innovation. Given its size, the country is a major player in research and development—with a considerable focus on biotechnology and pharmaceuticals. The locus of R&D activity is shifting inexorably towards Asia and before many years China and India will combined likely be among the global leaders in pharma-research and production as well as becoming massive consumers of such products. Strong patent protection and adherence to world-wide standards can help Canada from being overwhelmed during these developments. In shouldn't need a trade

agreement to convince the country to act in its own self-interest.

Among the recommendations included in this paper are:

- Canada can simply not expect to be taken seriously in international negotiations so long as the country is unprepared to place the serious irritant of agricultural supply management on the table. It will eventually have to be dismantled—why not sooner, especially when the benefits to Canadians is so obvious.
- Public procurement limitations fly in the face of economic logic and are direct contradictions to the spirit of trade liberalization. Let's seize the opportunity presented by CETA to at least provide mutual free access to each others' government contracts. We stand to benefit far more domestically by transparent dealing and help present a united example to other countries.
- Canada's high-value technology industries along with those in the United States and Europe will face intense competition in the coming years. A harmonized agreement guaranteeing innovators reliable strong protection of their intellectual properties represent the best opportunity for preventing free-fall, and gives Canada time to develop strategies to ensure a long term domestic R&D presence.

YET ANOTHER FREE TRADE AGREEMENT?

There are unquestionable benefits in pursuing a free trade agreement with the European Union—the Comprehensive Economic and Trade Agreement (CETA). For Atlantic Canada, in particular, the strategic location of Halifax as the continent's closest port to Europe makes



pursuing the deal a “slam-dunk” in terms of capturing value from expanded trade flows.

Like all modern trade accords however, the focus has shifted away from just the trade in goods to also encompass the myriad of regulated activities whose harmonization would do much to increase overall economic efficiency. Many of the measures on the negotiating table represent steps that Canada could take unilaterally—and should pursue whether or not the agreement is concluded.

INTRODUCTION

Almost 200 years ago British economist David Ricardo postulated the theoretical basis that has supported arguments favouring trade liberalization ever since. Known as “comparative advantage” the principle is simple—even if one country is more efficient in the production of every tradable good, provided that each country specializes in what it does best, all can benefit from trade.

Ricardo has rightly earned his rank as a classical economist in the company of the likes of Adam Smith, but however theoretically elegant his thinking, modern free trade agreements continue to ignore his logic and are negotiated on a flagrantly beggar-thy-neighbour principle. If Ricardo’s reasoning prevailed there would be no need for negotiations—common sense would dictate efficient trading patterns.

In the much-less-than-perfect real world, negotiators determinedly strive to maximize access to others’ markets while constructing as many import barriers as possible. Those with a vested interest in domestic production quite rationally wish to protect their investment. Overall efficiency in such circumstances, however, is sub-optimal and domestic consumers are usually the losers. Current negotiations for a

“free” trade agreement between Canada and the European Union are a case-in-point.

The Comprehensive Economic and Trade Agreement (CETA) currently being discussed certainly offers potentially significant benefits to each region. However, the probable outcomes are a long way from the Ricardian ideal of comparative advantage. Instead they will reflect the obscure, and sometimes murky, “hidden agendas” of each side.

The European Union is Canada’s second largest trading partner—and for years Canadians have been anxious to diversify this country’s almost overwhelming export dependence on the United States. So clearly an agreement with the Europeans would be a major step in the right direction—or would it? The answer is equivocal.

Participating in free trade agreements simultaneously in North America and Europe would place Canada in the unique situation of having preferential access to almost a billion consumers—but might do little to truly expand the country’s geographic export profile. Ironically, the major benefits that could accrue will likely arise only if Canada truly endorses the underlying principles of free trade and opens its own markets to greater competition by placing the following squarely on the negotiating block:

- Agricultural supply management
- Public procurement (by all levels of government)
- Intellectual property protection.
- Increased international labour mobility (and, by extension, enhanced inter-provincial worker certification and movement)



Each of these topics will be developed in the balance of this paper, but before turning to that discussion it would be useful to put into perspective the trade limitations of CETA and to recognize the driving objectives of Europe in pursuing negotiations with Canada.

Calculating the impact of CETA is immensely complex—especially since the details are still being discussed. A recent report commissioned by the European Union sketched the possible outcome under four different scenarios (assuming different degrees of tariff reduction and service liberalization). They concluded that the impact on Canadian GDP could range between .18 percent and .36 percent.ⁱ A joint EU-Canada study offered a somewhat greater prospect of GDP improvement for Canada of .77 percent.ⁱⁱ These figures represent the permanent one-off gain to Canadian production—after several years of implementation.

If these outcomes appear somewhat modest, they reflect the reality that, although the EU may be Canada's second largest trading partner, they are a very distant second. The United States continues to dominate trade patterns—still accounting for more than 80 percent of business. Moreover, the EU's second place standing is divided across the 27 member countries.

So what does Canada stand to benefit from CETA? Apart from the limited output consequences, the primary gain from achieving agreement is the all-important fundamental free-market principle of promoting competition in both domestic and foreign markets. It is hardly surprising then, that despite the anticipated modest economic impact of an agreement, there has been substantial opposition mounted by groups traditionally unfriendly towards “global capitalism” and trade liberalization. The Council of Canadians and the Canadian Union of Public Employees, for example, have organized a cross-Canada speaking tour: “highlighting the dangers

of this proposed deal.”ⁱⁱⁱ Their chief concerns appear to be municipal and local procurement provisions.

If the advantages for Canada of CETA are of a minor nature, does the European Union stand to gain much more? The joint study referenced earlier concluded that there might be a gain in EU GDP of an inconsequential 0.08 percent—hardly worth the trouble of talking about! There are other advantages however.

European negotiators are quite open that some of the benefits arising from any agreement with Canada are most significant in serving as precedents in future trade agreements. While a US-EU pact is still over the distant horizon, negotiators are aware that any concessions provided to Canada are likely to have consequences for the larger picture. For that reason alone, the Europeans have a vested interest in tough bargaining.

I'M A CANADIAN CONSUMER – I DEMAND THE RIGHT TO PAY MORE!

The Canadian government has proved less than enthusiastic about placing this country's supply management practices on the table at the Trans-Pacific Partnership discussions. This trade pact could—given the aggressively expanding Asian bloc—prove a more important longer-term advantage than the EU deal. The TPP consists of New Zealand, Chile, Singapore and Brunei. The United States, Australia, Peru and Vietnam are seeking membership but Canada was accorded only observer status at the table—reportedly because of an unwillingness to disassemble dairy supports.^{iv}

The determined opposition, by Australia and New Zealand in particular, to allow Canada to participate in the Trans Pacific free-trade talks reflects the painful reforms those countries have taken in unwinding domestic price controls.



Australia “invented” dairy supply management in the 1920s and eliminated the practice in 2000 (for an interesting review of the restructuring process and its benefits see the Montreal Economic Institute report ‘Reforming dairy supply management in Canada: the Australian example’^v). The New Zealand reforms were markedly more dramatic. The country’s long-standing commitment to economic management was evident in virtually every industrial and agricultural sector—the resulting inefficiency pushed the country to the edge of financial default. The then-Finance Minister Roger Douglas instituted a series of radical and effective reforms that dramatically reversed New Zealand’s competitive posture.^{vi}

Given the substantial domestic headwinds those countries faced in order to effect radical change it is hardly surprising that they would be reluctant to hand Canada a free pass to continue such trade discriminatory practices. The Europeans are a different story. Since the inception of the European Union, the Common Agricultural Policy has formed one of the most contentious and expensive elements of the common market.

That said, even the Europeans appear somewhat perplexed by the apparent willingness of Canadian governments to consistently administer policies that are patently not in the interests of its citizens:

Although Section 121 of the Canadian constitution prohibits the use of inter-provincial tariffs, subsequent judicial interpretation has allowed provinces to implement non-tariff barriers which have fragmented the country’s internal market and provide obstacles to pan-Canadian standards. After the implementation of NAFTA, the Canadian federal government managed to bring the provinces together and negotiated an Agreement on Internal Trade (AIT), although not without

resistance from groups for provincial protectionism. The AIT took effect in 1995 but as it required separate legislative and administrative actions by each of the provincial governments to take effect, implementation started slowly and little progress was made.

However, under the Harper government there has been a renewed interest in removing the internal barriers and recent progress has been made albeit only by some provinces. In 2006, the governments of British Columbia and Alberta signed a Trade, Investment and Labor Mobility Agreement (TILMA). With certain exceptions, TILMA phases out existing barriers to free circulation of goods and creates a mechanism for dispute settlement that is accessible by businesses, NGOs and individuals. The governments of Ontario and Quebec are said to be considering talks on a related agreement of their own.

While internal trade barriers impede a number of different sectors, the most prevalent internal trade impediments exist in the agriculture and agri-foods sectors. For example, restrictions are in place that limit inter-provincial shipments of supply-managed commodities such as wheat, dairy and poultry products; [emphasis added] prohibitions are in place on bulk shipments of fruits and vegetables; different labeling rules and food packaging requirements discourage internal trading; and meat inspection requirements often overlap which prevents shipments to processors in other provinces or territories.^{vii}

So what is it that our federal and provincial governments are so unwilling to place on the negotiating table? The answer may be surprising. Basically it is a system that requires Canadian consumers to pay more than double the US price for products like milk, eggs and butter and



almost three times the US price for cheese.^{viii} Consumer advocates have criticized the practice and trade specialists have argued that it substantially undermines Canada's bargaining strategy in other international negotiations such as the WTO.^{ix}

It would appear that this is a clear instance where acceding to the demands of the “rapacious agents of global free trade” would be an unequivocal benefit!

The Canadian government does not believe that would be so. There is no equivocation: “*The Government of Canada supports supply management and it will continue to defend interests that are important to these industries in all international negotiations.*”^x

How, on earth, can the practice be defended? The EU provide a succinct assessment of the standard arguments in their report:

“Canada’s dairy industry operates under a system of supply management according to three pillars: i) import control, ii) producer pricing, and iii) production discipline. The system’s main goal is the stabilisation of revenues for dairy farmers and the avoidance of costly surpluses. In carrying out these objectives, the Canadian Dairy Commission (CDC) determines the quantity of milk to be produced at the national level and uses a series of production quotas in an attempt to balance production and consumption throughout the year. The CDC then delegates production shares to each province, with milk marketing boards at the provincial level tasked with promoting, controlling and regulating production, transport, packing, storing and marketing of milk and dairy products. These boards are also tasked with licensing producers, transporters and processors as well as regulating prices (based on support prices published by the CDC) that are negotiated with producers.

Proponents of supply management in Canada’s dairy sector argue that the system ensures fairness and income security for producers; requires no government subsidy or support; and promotes

long-term investments by dairy farmers. Opponents, however, argue that supply management only avoids subsidies by passing higher prices onto consumers; limits the industry’s ability to expand into export markets; and serves as a highly protectionist measure that hurts Canada’s position in trade negotiations.”^{xi}

By all measures supply management has benefitted producers. Dairy farmers are less likely to go out of business and have significantly higher incomes than the farm average. They also have a substantially greater net worth—reflecting the market value of the marketable quotas they own. If they were the original recipients of those quotas allocated decades ago (or their heirs) then they have received an immensely valuable windfall. If they have had to purchase them on the open market so as to commence production then they have made a very large investment.

If government dismantles the unwieldy structures—as they inevitably will have to do at some point (Canada being the only developed country holding-out)—then there will be major demands for compensation from quota-owners. That process will be further complicated by the concentration of dairy and egg producers in Quebec and Eastern Ontario. The good news for producers and consumers alike is that experience elsewhere has shown that eliminating supply management actually results in increased production and lower prices.

There is nothing to prevent governments from reforming the system independent of the pressures emanating from trade negotiations. Indeed the federal government is presently dismantling the Wheat Board on sound grounds of commercialization. Placing supply management on the negotiating table could provide the multiple benefits of eliminating archaic marketing schemes, reducing administration expenses, and improving consumer welfare as well as bargaining additional concessions from its trading partners.



I'M FROM THE GOVERNMENT – CHARGE ME MORE!

In most businesses, purchasing necessary supplies and services is a closely monitored component of the cost equation. Governments typically function under no such commercial restrictions. Many specifications are deliberately written to include non-financial subsidiary objectives—such as satisfying energy conservation considerations. In many instances competition is limited to, or at least favours, local suppliers.

There is a peculiar logic to this activity. If, for example, a province requires that transportation equipment purchased for its major centres be manufactured in the province—then the profits of that manufacturer are partly taxed-back by the province, as well as the wages of those employed in building the equipment. All too often, however, there may be only one qualifying supplier and the consequence of that monopoly position will undoubtedly be a higher bid price. If a local municipality favours a local builder, there will be limited competition and likely higher costs.

If each jurisdiction follows the same practice the collective cost of all government procurement will be higher than if the lowest-cost provider was always allowed to bid. That logic should dictate a national resolution of the issue—simply agree that all contracts will be open to competitive bids.

That is easier said than done. Despite the advances made on the international front, Canada is still dogged by serious inter-provincial trade barriers—and foremost among those are procurement constraints. At the national level there is a single negotiating voice. Sub-federal commitments require the concordance of the provinces and territories, their agencies and all the various local authorities over which they have control.

No wonder there have been so little advances through successive trade agreements—but there are a few interesting dynamics that improve the prospects of achieving some significant advances within CETA.

- The buy-America provisions in the post-crash US government revitalization program heightened general awareness of the damage created by limited procurement policies, and led to an agreement between Canada and the United States mandating provincial adherence to World Trade Organization (WTO) procurement provisions in exchange for Canadian access to US sub-federal commitments. In addition both sides agreed to explore even greater mutual procurement access.^{xii}
- For the first time in the history of free trade discussions, the provinces are represented. While that necessarily greatly complicates the process, it provides substantially greater prospect that any agreement will be meaningful. The prospect of harmonious agreement is also facilitated by the fact that the Government of Quebec was a prime initiator in seeking a Canada-EU trade pact.
- In 2008 the Atlantic Premier's Council reached an accord committing the provinces and their responsible sub-levels to avoid discriminatory conditions in contracting that would shut-out participation from businesses in the other provinces.^{xiii}
- Both the Canadian and EU negotiators have set as an explicit goal of harmonizing their mutual commitments under the WTO Government Procurement Agreement.^{xiv}



The European Union is founded on the basis of establishing a common market and has substantially greater experience in opening processes and overcoming beggar-thy-neighbour practices. Government procurement in the EU is valued in the order of 1.7 trillion Euros and Canadian federal procurement alone is estimated at \$15 billion.^{xv}

The appropriate section of the Joint EU-Canada Joint Study reads as if the primary authorship was in the hands of the Europeans and speaks glowingly of the economic benefits of opening procurement practices:

"This has delivered results. An impact assessment of the increased intra-EU competition for foreign procurement resulting from the EU's procurement directives is estimated to have delivered price reductions of around 30%, according to European Commission studies. The EU has already experienced improvements in the effectiveness of public procurement through increased foreign competition, both within Europe and from outside Europe.

...Given that suppliers in the EU represent an important segment of world suppliers, an increase to the Canadian market on their part could result in price reductions of the order of magnitude attained from the intra-EU exercise."^{xvi}

The prospect of 30 percent cost reductions and commensurate tax relief should convince all Canadians to soundly endorse this market liberalization. Such is not the case. Groups such as the Council of Canadians, the Centre for Policy Alternatives and various public sector unions appear to reserve their loudest opposition to CETA on the grounds that it would wreak untold havoc on the ability of Canadian governments of all levels to achieve desirable social and developmental objectives through selective procurement procedures.

Given the widely recognized influence of public sector unions throughout Europe their concerns may appear somewhat overstated. Their major apprehension appears directed towards the prospect of privatization. Certainly there are numerous European examples where private enterprise is undertaking functions previously viewed as "public services"—waste management, water and sanitary delivery as examples. There are many more examples—in the transportation sector for example—that demonstrate that private delivery mechanisms are far from being the European norm.

If the EU calculations are anywhere near correct, Canadian government could achieve very substantial savings in their procurement procedures—perhaps by privatizing deliveries and perhaps by reducing public sector wage pressures. But a trade agreement with Europe, or anywhere else, is not a necessary condition. We are free to do so on our own initiative. CETA may simply give us the reason to explore possibilities.

MAINTAINING A FOOT HOLD IN THE BURGEONING GLOBAL TECHNOLOGY AREA

The massive shift in international economic influence of erstwhile "developing" countries over recent decades is a reality that Canada must adapt to. Such countries long ago became the most efficient manufacturers and the advanced economies turned more and more towards service-based activities that increasingly rely on innovation and invention to provide value-added to Gross Domestic Product. Now a number of those "emerging tigers" are on the verge of pre-empting even the erstwhile dominance of the major research and development players in the United States and Europe. Unquestionably that tendency will persist. To retain its important position in global R&D it is crucial that Canada



ensure the highest level of protection for “intellectual property”.

Ricardo would probably have been puzzled by the concept of design and invention as properties that could be exchanged for financial gain and be somehow protected from emulation—if you saw something that worked, you simply copied it. Now that the advantage in goods production has swung away from the major powers, free trade negotiations have begun to focus on non-tariff issues and one of the most important of those is intellectual property protection.

As with any trade issue, the ideal might be to protect your own interests while obtaining access to other peoples markets. Canada has not been playing a fair game and our partners are not about to allow us off the hook.

Establishing global standards will prove difficult. The divergence in the objectives of poorly-developed consumption countries, advanced innovators and rapidly emerging knowledge economies is so wide that multilateral discussions have made slow progress. In consequence, much of the focus has shifted to bilateral resolution. There are three dominant players in the patent field: the United States Patent and Trademark Office (USPTO), the European Patent Office (EPO) and the Japanese Patent Office (JPO). In some important regards Canada's patent protection is viewed as weaker than in the major markets. That is why the Europeans want to make sure that CETA addresses the situation.

Pharmaceutical products are typically the outcome of a protracted period of trial and error investigation, extensive testing and regulatory scrutiny. Along the way many discoveries are rejected and the costs of bringing a single new entity to the marketplace are typically astronomical. Once an invention is proven and approved the cost of duplicating a generic version can literally be pennies on the dollar.

The benefits of many new drugs are almost beyond measure—not only can lifetimes be extended and quality of life restored but costs to the healthcare system can be trimmed by replacing expensive and invasive acute care procedures with life sustaining pharmaceutical regimes.

Governments operating public health systems everywhere face the conundrum of setting an appropriate balance between providing low cost generic drugs and/or recognizing intellectual and financial investments in new product developments by preserving sole-source market rights for an “appropriate” period.

For advanced countries it is imperative that the balance demonstrate a responsibility for promoting global pharmaceutical innovation as a contribution to human welfare. For countries, such as Canada, whose industrial structure is relatively knowledge intensive it is also important to preserve the hugely practical benefits that protected intellectual property delivers.

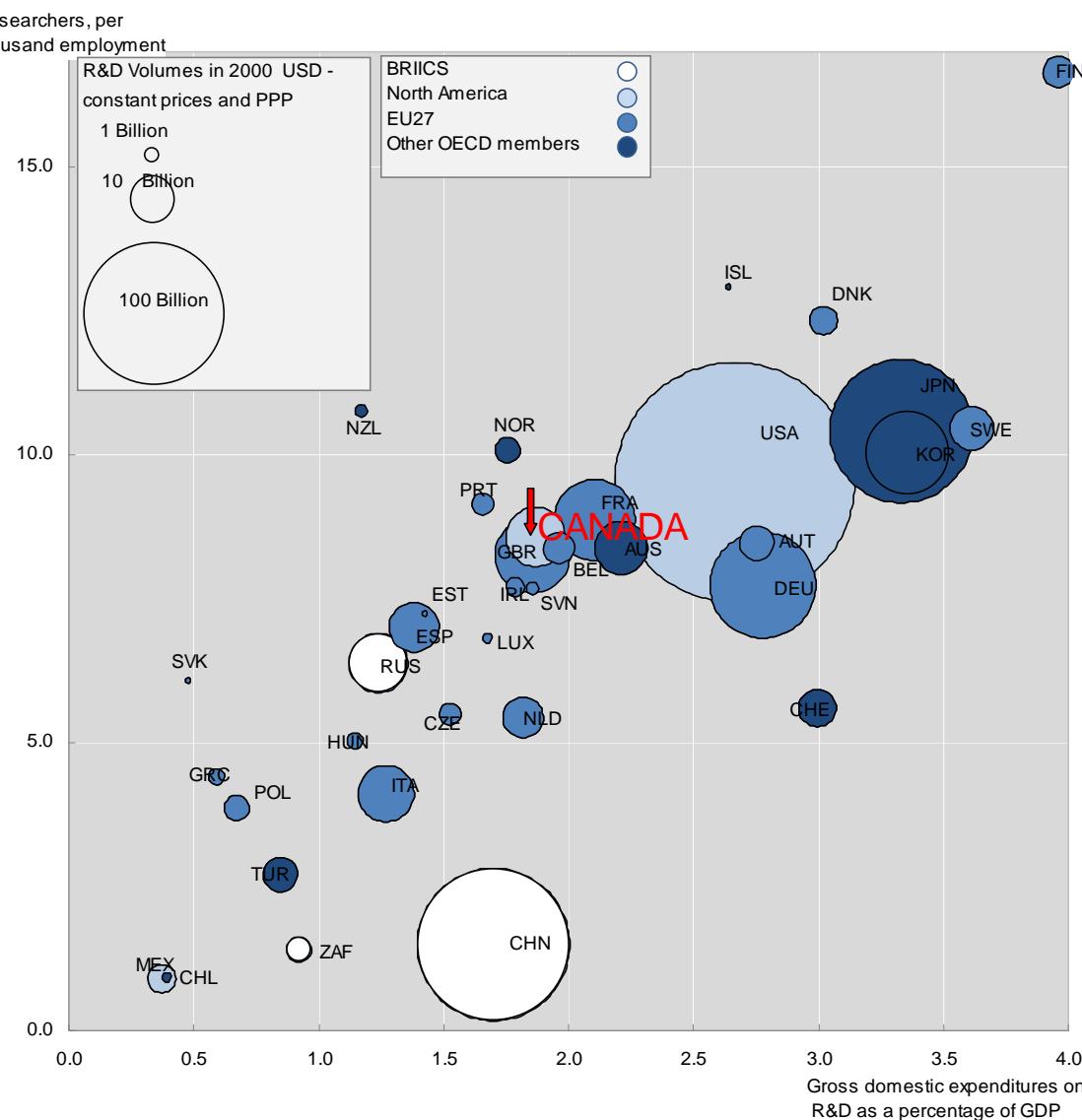
Without the guarantee of an income stream sufficient to recover sunken development costs and provide reasonable profits, new research will simply not be undertaken. In an abstract sense, that reality is widely understood, but it is sometimes perceived as less relevant to Canada. This country's share of the global pharmaceutical market is relatively insignificant—but as a player in the global research and development marketplace Canada is far from a bit player. The damage to Canada's reputation as a knowledge economy from failing to adhere to advanced world standards would be substantial.

Contrary to popular prejudice, Canada is not a peripheral participant in global R&D. As the following (regrettably complex) chart demonstrates, Canada's economic commitment is well in the middle of the pack—both in terms of the contribution to GDP and the proportion of workers engaged in research. Despite the



relatively small population, even in absolute value terms only a handful of developed countries spend more on R&D—and many a lot less.



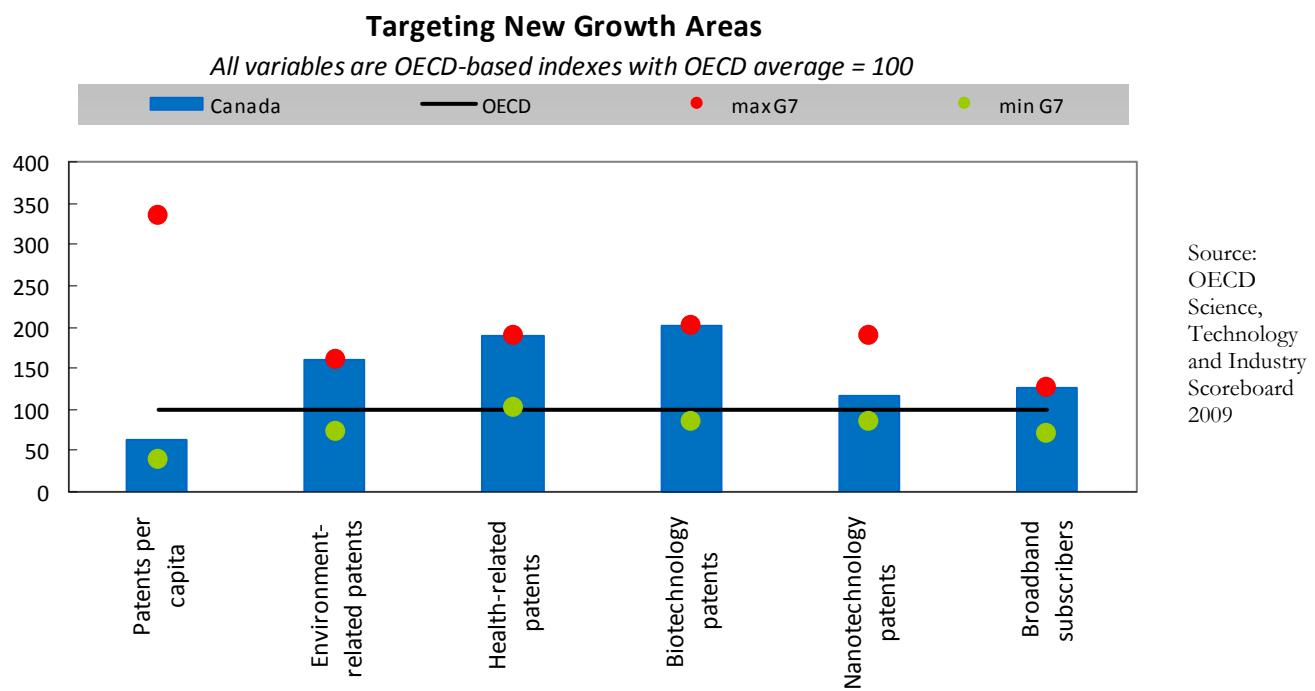


Source:
OECD
Science,
Technology
and
Industry
Scoreboard
2009 (for
complete
legend see
footnote 17)

Comforting as that conclusion may appear, the reality is that Canada's position in the high-tech world of the future is fragile and uncertain. *"In 2007 Canada registered one of the largest trade deficits in high and medium-high technology goods among OECD countries."*^{xvii} While Canada's R&D intensity has been declining, it has been holding ground with OECD experience. The real growth is in the Asian countries. As a percentage of gross domestic product, Japan and South Korea spend more on research than does the United States. China, although still a proportionately small player, has, in value terms, become the world's second largest spender.

There are, nevertheless, some notable bright spots for Canada:

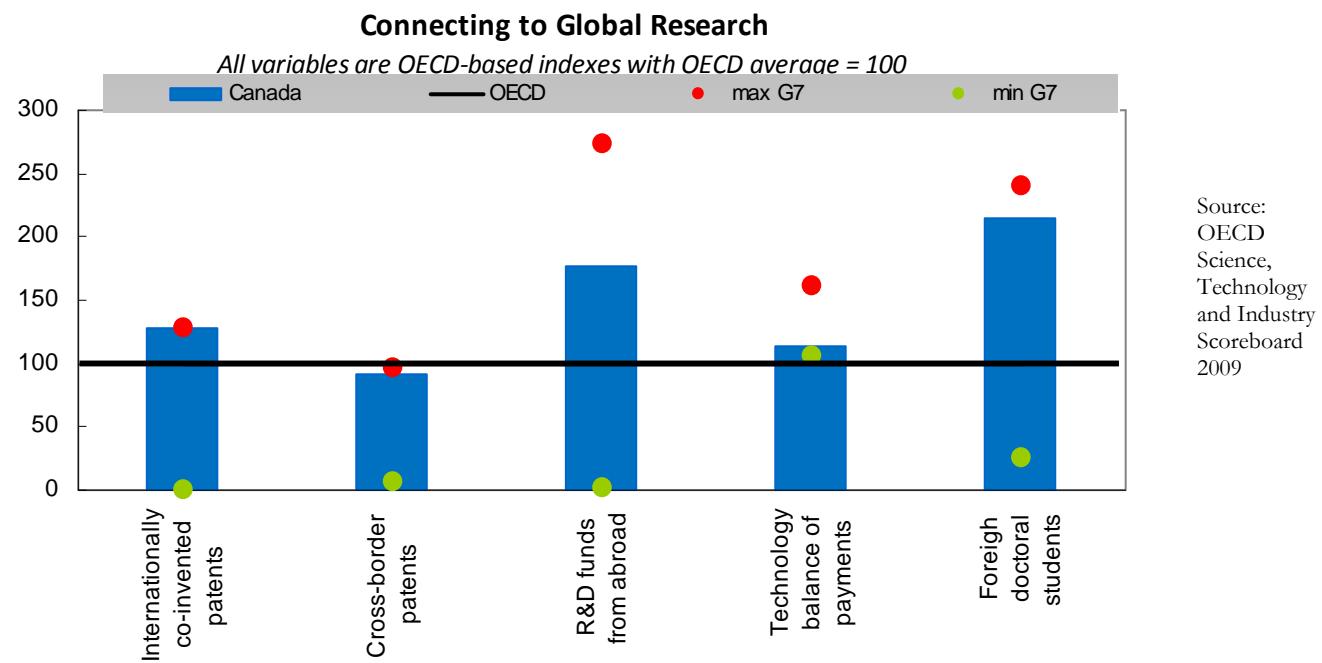
Although, in general Canada lags the OECD in its rate of patent protection, it has an above average specialization in environment, health and biotechnology fields. Indeed, it is the top of the G7 in per capita patent awards in healthcare-related, biotechnology-related and environmental areas.



Canada also benefits substantially in terms of its connectedness to international research—on several fronts. According to the OECD: “*R&D funds from abroad accounted for over 15% of total business enterprise R&D funding in Canada in 2007.*”

Moreover, foreign students account for almost 40 percent of all doctoral candidates in Canada^{xviii}—a phenomenon of particular value to

provinces like Nova Scotia, that not only gain from providing that education but have a key advantage in establishing and maintaining scientific links with those students. That benefit is explicitly recognized in Nova Scotia’s current immigration strategy as a means augmenting the province’s research expertise by encouraging such students to remain in the country.



What is Canada doing to protect and enhance its relatively beneficial standing as a global participant in R&D? Simply: not enough! The country has one of the most generous R&D tax supports—but one of the least active direct investment strategies. When it comes to intellectual property protection, among the major players, it is viewed as relatively weak, and that is precisely why the Europeans would like to see enhanced protection in CETA. (see for example the Montreal Gazette article: *Canada needs better patent protection for pharmaceuticals: CEO June 10 2011^{xix}*; *New National Poll Shows Canadians Strongly Support CETA and Upgrading Canada's Intellectual Property Regime*. RX&D^{xx}and the Joint Report on the EU-Canada Scoping Exercise March 5, 2009 that noted: “The Scoping Group recognised that the WTO Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) sets minimum levels of protection for intellectual property (IP) rights, and was of the view that any EU-Canada

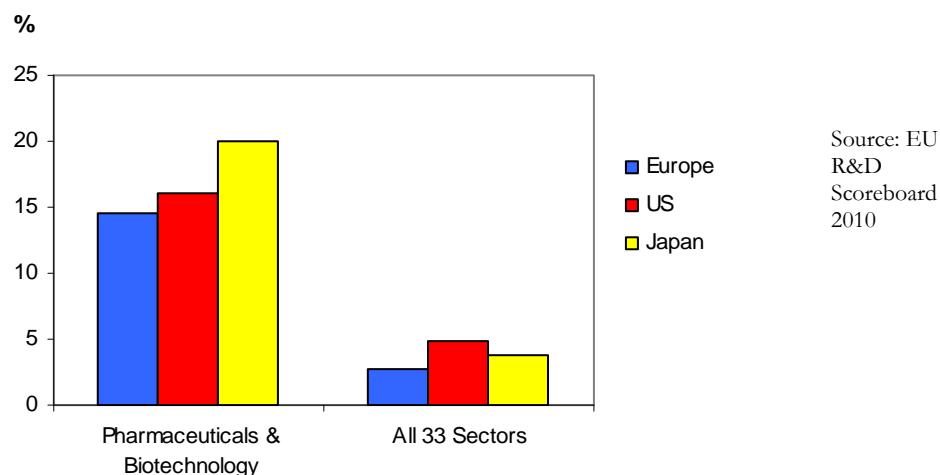
agreement should substantially improve on all categories of IP rights where need for increased protection and/or enforcement is identified. Furthermore, any agreement should establish and/or maintain very high standards of protection and enforcement of IP rights.”^{xxi}

As with so many elements of the proposed agreement—such as agricultural supply management, procurement etc.—it is in Canada’s interest to unilaterally secure its position in the global research market, whether or not it pursues CETA.

Take the pharmaceutical sector for example. While it is true that most of the major research-oriented pharma-companies are based in the United States and Europe their research activities are spread around the world—wherever expertise, cost and intellectual property protection best dictate. But it is totally dynamic. While Canadians might feel uneasy about

forming a closer alliance with a pharma-intensive Europe, it is equally true that European associations are expressing concern with the concentration of research in the United States. US companies and institutes have long expressed apprehension over the development-drain to Japan and now that concern is rapidly widening to recognize other key Asian players as competitors in high-technology development.^{xxii}



R&D Intensity (%Sales) 1400 Largest Global Firms

As with so many other areas of economic growth it is unrealistic to expect that rapidly emerging technologically-driven countries like China, South Korea, India or even Brazil will soon dissipate the momentum they have established. Rather than carving out new comparative advantage, Canada's policies should be directed towards maintaining as much share as possible.

The advantages are obvious. Research and development jobs are the type of high-value-added positions that create positive symbiosis. They generate strong tax revenues. They help draw-in foreign students. They attract highly-qualified newcomers to replace our aging population. They help populate and nurture communities such as Prince Edward Island's Bioscience Cluster. The academic significance of pharmaceutical research is evident in the fact that measured by the frequency of literature citations in pharmacology, toxicology and pharmaceuticals three Canadian universities placed in the top 50 schools worldwide. That outcome is given greater significance by the fact that the much larger Chinese establishment placed only six schools on the list.^{xxiii}

Within the CETA negotiations, the Europeans are asking that Canada bring its patent protections in line with EU standards—especially in the field of pharmaceuticals. This would mean restoring patent life (taking into account the protracted period between being granted a patent and the right to market the product) and the establishment of a longer time period during which proprietary data is held exclusive to the entity that created it. For the Europeans that represents a step in the direction of eventual harmonization between US and EU standards.

There is no value in Canada holding back from this request. Our interest is in establishing a common front among developed research-intensive countries that will insure the protection of intellectual property as the momentum shifts eastward. Not only are countries like China threatening to emerge as preeminent research centres in coming decades, the rapidly advancing populations of China and India will likely soon become the world's greatest consumers of pharmaceuticals. In the fields of biotechnologies, Canada must guard not just against losing ground—but about becoming irrelevant.

LABOUR CERTIFICATION: IF YOU CAN MEET THE DEMAND, WE NEED YOU

So far this paper has been focused on the observation that it is not necessary to engage in free trade discussions with Europe in order to achieve many of the anticipated advantages. Reforming the agricultural supply management system will earn kudos at the negotiating table—but it will also modernize our agricultural sector and reduce consumer costs. We can do that unilaterally.

Whether we do so in the context of a trade agreement or not, we still need to ensure adequate protection of intellectual property rights if want to defend our position in the high-tech world of research and development. Similarly, the cost containment achieved through rationalizing our procurement practices is ours to implement—the likely direct benefits from increased European-Canadian procurement would most likely be “icing on the cake”.

This final section discusses labour certification—and it is an example of how events have significantly forestalled the process. In 2008, when discussions between Canada and the EU were in their early stages, significant inter-provincial barriers to labour mobility persisted—including the recognition of out-of-jurisdiction certifications.

Independent of the external trade discussions, efforts to rationalize the plethora of barriers to trade within the country have made significant strides. Chapter 7 of the Agreement on Internal Trade (AIT) now provides, in many instances for cross-jurisdictional recognition of occupational licenses without requiring an individual to undergo additional training, experience, examination or assessment to re-certify. That said, the process is still incomplete and there remain more than 400 regulatory bodies governing 100 professions and government-regulated trades and occupations.^{xxiv}

The dictates of self-interest are even more pronounced when it comes to extending professional accreditations to immigrants. Policy makers are rapidly recognizing the reality of demographic shifts—especially in Atlantic Canada where actual declines in working-age numbers is happening earliest and with greatest severity.

All governments throughout the region—as elsewhere in Canada—have stepped up their interest in attracting newcomers—especially those in professions, such as medicine and engineering, where shortages are likely to become critical and growth-limiting. While the process is not yet formulated, there is increasing interest in fast-tracking evaluation of foreign credentials. This development is entirely independent of any response to improved international mobility recommended under CETA, but illustrates the extent to which self-interest can be synonymous with trade negotiations.

SUMMARY RECOMMENDATIONS

It seems with every successive series of trade negotiations that the phrase: “the status quo is not an option” is trotted out. It is tired and trite, but no less a truth in the current context.

- Canada can simply not expect to be taken seriously in international negotiations so long as the country is unprepared to place the serious irritant of agricultural supply management on the table. It will eventually have to be dismantled—why not sooner, especially when the benefits to Canadians is so obvious. Let’s do it now.
- Public procurement limitations fly in the face of economic logic and are direct contradictions to the spirit of trade liberalization. Let’s seize the opportunity



presented by CETA to at least provide mutual free access to each others' government contracts—and, in doing so demolish costly and divisive internal limitations. We stand to benefit far more domestically by transparent dealing and help present a united example to other countries.

- Canada's high-value technology industries along with those in the United States and Europe will face intense competition from Asian enterprise in the coming years. A harmonized agreement guaranteeing innovators with reliable strong protection of their intellectual properties represents the best opportunity for preventing free-fall, and gives Canada time to develop strategies to ensure a long term domestic R&D presence.
- Population shifts will create very different regional employment demand than have been evident over past decades. One of the chief advantages of nationhood is the ability of labour to relocate to the best opportunities. Where internal barriers have been allowed to interfere with that freedom now is the

right time to abolish them. CETA provides an opportunity to go further and enhance international mobility as well. To facilitate that outcome, efforts to appropriately recognize foreign credentials should be stepped-up—so that Canada is assured of the necessary human resources to facilitate growth.

As this analysis has hopefully demonstrated, the opportunity to undertake important economic reforms is not constrained by an agreement between Canada and the European Union. CETA, however, does provide an opportune platform upon which to implement them.



Atlantic Institute for Market Studies

**2000 Barrington St., Ste. 1302 Cogswell Tower,
Halifax NS B3J 3K1**
phone: (902) 429-1143 fax: (902) 425-1393
E-Mail: aims@aims.ca http://www.aims.ca

i EU-Canada SIA Final Report; European Union , June 2011
http://trade.ec.europa.eu/doclib/docs/2011/march/tradoc_147755.pdf

ii Assessing the Costs and Benefits of a Closer EU-Canada Economic Partnership; A Joint Study by the European Commission and the Government of Canada;
<http://www.international.gc.ca/trade-agreements-accords-commerciaux/assets/pdfs/EU-CanadaJointStudy-en.pdf>

iii <http://www.canadians.org/trade/issues/EU/index.html>

iv [John Ibbetson](#) Canada risks being shut out of Pacific trade pact, New Zealand PM warns; Globe and Mail April 15, 2010

v Montreal Economic Institute Reforming dairy supply management in Canada:
the Australian example; January 2006
http://www.iedm.org/files/janv06_en.pdf

vi see Roger Douglas, Unfinished Business; Random House New Zealand 1993

vii European Union: EU - Canada SIA draft Final Report March 2011
http://trade.ec.europa.eu/doclib/docs/2011/march/tradoc_147755.pdf

viii [Andrew Coyne](#), Maclean's 2011 The \$25,000 cow on Monday, August 15

<http://www2.macleans.ca/2011/08/15/the-25000-cow/>

ix Imran Abdool, Michael Olander, and Alexander Williams-Zannis CANADIAN TRADE AND INVESTMENT

POLICY REVIEW 2011 Prepared for the Standing Committee on Foreign Affairs and International Development House of Commons. April 2011.

<http://www4.carleton.ca/cifp/app/serve.php/1353.pdf>

x Foreign Affairs and International Trade Canada Departmental Response to eDiscussion on Canada-EU

Relations http://www.international.gc.ca/cip-pic/discussions/eu-ue/official_response-reponse_officielle.aspx?menu_id=153&view=d

xi European Union: EU - Canada SIA draft Final Report March 2011 op cit

xii Foreign Affairs and International Trade Canada; Government of Canada and the Government of the United States of America on Government Procurement <http://www.international.gc.ca/trade-agreements-accords-commerciaux/fo/gp.aspx?view=d>

xiii The Atlantic Procurement Agreement January 2008 <http://www.marcan.net/en/apa.pdf>

xiv EU-Canada Joint Study op cit

xv Op cit

xvi Op cit

xvii OECD Science, Technology and Industry Scoreboard 2009 http://www.oecd.org/document/52/0,3746,en_2649_34173_44265268_1_1_1,00.html

xviii op cit

xix <http://www.montrealgazette.com/business/Canada+need+s+better+patent+protection+pharmaceuticals/4922806/story.html#ixzz1ZkOjDPwm>

xx

https://www.canadapharma.org/en/documents/20110913_NewsRelease_Nanos_Poll_Final_EN.pdf

xxi http://trade.ec.europa.eu/doclib/docs/2009/march/tradoc_142470.pdf

xxii EU R&D Industrial Scoreboard 2010; http://iri.jrc.ec.europa.eu/research/docs/2010/SB2010_final_report.pdf

xxiii OECD Science, Technology and Industry Scoreboard 2011 <http://www.oecd.org/dataoecd/63/32/48712591.pdf>

xxiv Human Resources and Skills Development Canada http://www.hrsdc.gc.ca/eng/workplaceskills/labour_mobility/index.shtml

