

Submission In Support Of An Appearance Before:
Standing Committee on International Trade (CIIT): House of Commons
Respecting:
Canada-European Union Trade Agreement (CETA) Negotiations

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AIMS recognizes, on fundamental grounds, the benefits that accrue from trade liberalization. While we recognize that current patterns of trade between Canada and the European Union are of a relatively insignificant nature, we believe that any process that helps to reduce barriers to the movement of goods, services and investment between regions is inherently useful.

Concern has periodically been expressed over the inevitable concentration of trade flows between the contiguous countries of Canada and the United States—with the consequent risk of economic contagion when the US economy weakens. That, of course, was evident in the aftermath of the recent financial crisis. Recent developments in Europe, however, do not encourage us to believe that the extension of bilateral free trade between Canada and the EU—or indeed other fully mature blocks—would offer much promise of protection from global misfortunes.

AIMS does support efforts to reach a free trade agreement between Canada and Europe—largely because we believe that many of the provisions

that this country might be expected to concede in order to achieve such an accord are essentially in our own self-interest.

AGRICULTURAL SUPPLY MANAGEMENT

We believe that the system of supply management that limits Canadians' access to market-priced staples such as dairy products and eggs is an anachronistic structure that penalizes individuals without offering any offsetting benefit. Experience in other countries has demonstrated that eliminating quotas and coercive pricing results in increased consumption and improved efficiency.

We understand that dismantling these structures will entail necessary adjustments and probably entitle current beneficiaries to some sort of compensation. However, Canada's position as a virtual holdout means that the practice will inevitably have to end. Why not end it now while we can at least gain some negotiating benefit from doing so?

Of course, other trading blocks including the United States and Europe retain substantial barriers to fair agricultural trade. Canada should make every effort to exchange the elimination of our supply management for some modification of those practices. But the key point is that—in any case, eliminating them is in our own self-interest.

GOVERNMENT PROCUREMENT

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.

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.

According to European Union estimates, opening up their internal government contracts to broader competition has resulted in savings as

great as 30 percent in that region. Such savings alone would make it patently in the interest of Canadian taxpayers to convincingly pursue revisions to our procurement practices—whether or not we are able to obtain additional concessions from the EU.

HARMONIZATION OF INTELLECTUAL PROPERTY RIGHTS

One of the more crucial elements in Canada-EU trade discussions is the treatment of intellectual property rights. There exists considerable variability in national treatments on this matter. From the perspective of the European Union achievement of serious harmonization has the important advantage of helping to set a precedent for future US-EU discussions.

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.

Contrary to popular prejudice, Canada is not a peripheral participant in global R&D. 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.

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. Although holding its ground against OECD averages, Canada's R&D intensity has been declining.

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.

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.

In addressing trade negotiations it is often claimed with mind-numbing regularity that: “the status quo is not an option”! When it comes to pharmaceuticals the statement is an absolute truth. Frequently the debate is perceived as a trade-off between the degree of patent protection provided and the commitment of corporations to maintain a certain level of R&D activity in this country. That is not an enduring strategy.

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.

Countries like China and India already have unquestioned manufacturing capabilities in

medicines. As they approach advanced-economy status they stand poised to become serious, even preeminent, consumers of pharmaceuticals and their technological and scientific expertise suggest that many of the future medical advances will take place in those countries.

Whereas, in the past, Asian countries have sometimes been perceived as renegade entities in intellectual property protection, as they move further up the economic ladder such countries will develop ever greater vested interests in developing rigorous defensive frameworks to shield their inventions.

As that reality develops, Canada runs the risk of being further marginalized as a market for pharmaceutical products and may easily find itself with a much curtailed ability to attract high-value research and development activities—unless it endorses and adopts broad international standards of property protection. To do so is most clearly in Canada's interest—and that has little to do with the present negotiations.

LABOUR CERTIFICATION

One of the topics discussed in the context of CETA is the desirability of facilitating labour mobility between the two discussants. As skilled labour shortages begin to emerge in certain regions as the Canadian workforce ages increased domestic attention has been focussed on the often-ludicrous barriers to immigrant professionals receiving appropriate accreditation. While there is an obvious need to ensure that proper standards are assured, it is clearly in Canada's interest to fully utilize all of the human resources available to maximize economic activity.

CONCLUSION

AIMS strongly endorses the objectives of trade liberalization between Canada and the European Union. We believe that many of the issues on the negotiating table—such as those presented here—require actions that are of considerable unilateral advantage. If they can be incorporated into a significant bilateral accord then they are of even greater value.

A somewhat more detailed of these arguments entitled “Selling Ourselves on Self-Interest: Will a free trade agreement with Europe help us see the light?” by AIMS’ Director of Research, Don McIver, is available at:

<http://www.aims.ca/site/media/aims/SellingOurselvesonSelfInterest.pdf>



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