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Master of Science in Management Engineering

**DEEP INTEGRATION AGREEMENTS: THE EU-CANADA
COMPREHENSIVE ECONOMIC AND TRADE AGREEMENT**

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Abstract

The main aim of this thesis is to analyze and clarify the main differences between deep and shallow integration and to prove that a newly signed trade agreement between the EU and Canada, the Comprehensive Economic and Trade Agreement (CETA), is a true representative of deep integration. Also, the thesis tries to give a general overview of the bilateral, economic and foreign relationship between the EU and Canada by reflecting their positions in the international environment.

In support of the examination of this thesis, articles, books, research papers, and the internet were used when analyzing regional trade agreements, their main impacts, as well as the modern concept of deep integration and the CETA which belongs to this concept. After an examination of the economic performance of the EU and Canada in the global environment it became clear that the expected benefits from CETA overcome the potential losses for the both parties. Apparently, the CETA will also deliver benefits faster to the parties involved, and well beyond what can be achieved through the WTO. Afterwards the paper analyzes the main points which differentiate CETA from “traditional” trade agreements and make it the first of its kind.

All aspects of the paper reached a consensus that CETA, as the deepest trade agreement that the EU and Canada have ever signed, would be the most beneficial step in their further relations. It can be stated with a reasonable degree of certainty that CETA will strengthen and further improve diplomatic and economic relations between the two parties.

Riassunto

L'obiettivo principale di questa tesi è di analizzare e di spiegare le principali differenze tra integrazione profonda e quella superficiale e di dimostrare che l'accordo commerciale appena firmato tra l'UE e Canada, l'Accordo Economico e Commerciale Comprensivo (The Comprehensive Economic and Trade Agreement, CETA), rappresenta un vero esempio della profonda integrazione. Inoltre, questa tesi cerca di dare una visione generale del legame bilaterale, economico ed internazionale tra l'Unione Europea e il Canada, fornendo così un quadro della loro posizione nel contesto internazionale.

Per sostenere lo studio di questa tesi durante l'analisi degli accordi commerciali regionali ed i loro impatti principali, così come il moderno concetto di profonda integrazione ed il CETA che appartiene a questo concetto, sono stati utilizzati articoli, libri, documenti di ricerca ed Internet. Dopo aver esaminato l'impatto economico dell'UE e Canada sul contesto globale è divenuto evidente che i benefici attesi del CETA superano potenziali perdite per entrambe le parti. A quanto pare, CETA offrirà anche più velocemente i benefici alle parti interessate, e molto di più di ciò che possa essere raggiunto attraverso l'Organizzazione mondiale del commercio (World Trade Organization, WTO). Inoltre, questo documento analizza i principali punti che distinguono l'accordo CETA dagli accordi commerciali "tradizionali" e fanno di questo accordo il primo di questo genere.

Tutti gli aspetti di questo lavoro hanno raggiunto il consenso che il CETA, come l'accordo commerciale più profondo firmato tra l'UE e Canada, rappresenta il passo più utile nelle loro relazioni future. Con grande certezza si può affermare che il CETA rafforzerà e migliorerà ulteriormente le relazioni diplomatiche ed economiche tra le due parti.

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1. INTRODUCTION

Foreign trade has existed for a long time, even long before real money came into being. It's economic, social, and political importance has increased in recent centuries, mainly because of industrialization, advanced transportation and globalization. Globalization is often used to refer to economic globalization which is the integration of national economies through trade, Foreign Direct Investment (FDI), capital flows, migration, and the spread of technology. Economic globalization is nothing but the expansion of the market to encompass the entire globe within its sphere: in other words, the integration of various regional markets into a world market.

Several international organizations have risen in response to globalization, many trying to control what happens in international society. When it comes to international trade, the World Trade Organization (WTO) plays a key role, interfering, for example, with the Free Trade Agreements (FTAs) which have become such an important tool for countries to improve their positions in the international trade or financial environment. FTAs have developed rapidly as an approach to regional economic cooperation, facilitating free trade and investment. The proliferation of trade agreements after the Second World War is widely acknowledged in international trade literature and is a trend that will continue in the near future. Trade agreements increasingly mediate larger proportions of international trade and influence the volume and direction of trade flows.

"New trade theory" and the theory of "new regionalism" suggest that there may be significant gains arising from deeper regional and global economic integration that are much greater than those resulting from the shallow integration covered by standard international trade theory. The potential chain of relations linking deep integration to economic performance is: shallow integration, deep integration, expanded trade, externalities and scale economies, productivity increases, improved economic performance. It's important to understand that shallow integration is probably a necessary precursor to successful deep integration.

The EU and Canada share a strong and rapidly growing trade and economic relationship. Their economic partnership dates back to 1959, when Canada accredited its first Ambassador to the European Economic Community (EEC). They began as an economic relationship but soon evolved into a strategic alliance. Annual summits continue to be the cornerstone of their bilateral cooperation. The EU-Canada partnership focuses primarily on political issues and security cooperation (including combating terrorism, organized crime and drug trafficking), economy, trade, social and cultural issues and scientific exchange. The EU-Canada cooperation is driven by economic relations which play a key role in fostering the dialogue. Alongside the USA, the EU is Canada's most important trading partner, while Canada ranks 12th among the EU's key trading partners. Under the 1976 Framework Agreement for Commercial and Economic Cooperation, Canada and the European Economic Community committed "to promote the development and diversification of their reciprocal commercial exchanges to the

highest possible level". Since then, the EU and Canada have concluded several agreements covering a wide range of economic activities.

Today, The EU and Canada are committed to build on these strong economic ties. At the 2008 Summit, the EU and Canada agreed on the objective of progressing towards a strengthened, ambitious and balanced economic partnership. A scoping exercise to determine the shape and key elements of such an agreement, led to the adoption in 2009 of the Joint Report and thereafter to the drafting of negotiating directives. The negotiations towards a Comprehensive Economic and Trade Agreement were launched at the EU-Canada Summit on 6 May 2009. The EU-Canada relationship is currently being significantly reinforced and upgraded with the negotiations of two major agreements: the Comprehensive Economic and Trade Agreement (CETA), an ambitious free trade agreement that will cover goods, services and public sector procurement, and a new framework agreement, the Strategic Partnership Agreement covering political cooperation and policy dialogues across the broad spectrum of the relationship.

The main aim of this thesis is to give a general overview of how closely linked the European Union and Canada are in the international society, with a special emphasis to the newly signed free trade agreement between the two parties, the Comprehensive Economic and Trade Agreement (CETA), and the features of that agreement that made it the first of its kind. The other aim of this thesis is to study if such an agreement would benefit both parties and the implications of the agreement on their main trading partners (non-members of the agreement). The more focused aim of the paper is to analyze and clarify the main points which differentiate CETA from all the agreements that the EU and Canada have concluded before.

After describing the methodology used, a short description of globalization as trade liberalization is given. The chapter three of the paper includes a general discussion on trade theory and regional trade agreements as well as the presentation of the World Trade Organization, which is the most important body when it comes to international trade. A general discussion on preferential trade agreements (PTAs) as well as on their main causes and effects on involved parties is also included in this chapter. In the last subchapter of chapter three is explained the concept of deep integration and its main benefits comparing to shallow integration, which is very important for answering the main research questions in this thesis.

To give a good understanding of the positions of the EU and Canadian economies in the global environment, chapters four and five focus on analysis of their main trading partners, their position in international production sharing and influence of global economic crisis on their economies in recent years. The next chapter concentrates on how the EU and Canadian economies are integrated in the international environment with special emphasis on their bilateral relationship and their trade, in goods, services and investment. The subchapters of the chapter five present the most important trade agreements the two parties have concluded over the years.

The key element of this thesis is chapter seven. Not only does it give an overview of the CETA negotiations and its main content, but it further reveals the main outcomes of this paper. That is, it presents the findings and answers to the research questions, posed prior in the paper. Those research questions addressed the potential benefits of the CETA for both parties and whether those benefits will be greater than what can be achieved through the WTO, as well as the main points of this agreement which make it “deep” and the first of its kind. The overall outcome of the thesis is given in chapter eight with formal conclusions and recommendations.

2. METHODOLOGY

Most scientific fields have their own specific methods, which are supported by appropriate methodology. International economics, microeconomics' branch dedicated to the pure theory of trade, is concerned with the effects upon economic activity of international differences in productive resources and consumer preferences and the international institutions that affect them. It seeks to explain the patterns and consequences of transactions and interactions between the inhabitants of different countries, including trade, investment and migration.

Studies of economic integration arrangements that have sought to assess the benefits and costs of free trade agreements (FTAs) and other forms of trade liberalization have not adhered to the norms of any specific theoretical model or framework. In most studies one finds a wide variety of economic variables and relationships deemed fundamental to evaluating the impact of the FTA under consideration.

Although this thesis relies on certain quantitative indicators, it is a qualitative analysis which provides a judgment of the benefits and costs that CETA would bring to the EU and Canada. The aim of this study is not to quantitatively approximate expected welfare changes for both parties, but to find and describe the main aspects of the agreement which make it totally unique, the deepest agreement that the EU and Canada signed until now, and to describe the potential benefits for both parties from this deep integration as well as potential losses for third countries (non-members).

Due to the objective and the nature of the research questions, the study's design combines both a theoretical and an empirical analysis. The research design includes a literature review of trade liberalization and preferential trade theory, an analysis of the EU and Canada's trade data, overview of the CETA negotiations, the main impact of the agreement on members and non-members, and the core part of the thesis which is identification of the distinctive characteristics of the agreement from the existing "traditional" trade agreements. First, the study examines the literature on relevant trade theories and economic integration and uses this literature to derive hypotheses on the economic impact of PTAs.

Case study is a qualitative method that social scientists, in particular, have widely used to examine contemporary real-life situations, and that has been used as a methodology in this thesis.¹ Robert K. Yin defines the case study research method as: "an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of

¹ Yin, 2003

evidence are used.”² Many well-known researchers have written about case study research and suggested techniques for organizing and conducting the research successfully. A strong point of the case study method involves using multiple sources and techniques in the data-gathering process. Prior to the case study the researcher determines what evidence to gather and what analytical techniques to use with the data to answer the research questions. The data which is gathered is normally largely qualitative, but the tools applied to collect data can include interviews, surveys, documentation review, observation and even the collection of physical artifacts.³The tools used for collecting data for this study include comprehensive review of documentation and broad observation.

Most chapters in the thesis utilize the case study method to support their arguments. While each one of these chapters focuses on a distinct issue, collectively they are aimed at illuminating the answers to the three research questions proposed. In other words, even though these chapters may differ from one another in their substantive and analytic focus, they are all organized around the research questions, aiming to shed light on them. In order to gain a comprehensive understanding of CETA agreement and its impact for the EU, Canada and third (non-member) parties the following research questions were proposed in the thesis:

Research question 1: What are the main differences between deep and shallow integration, as well as the potential benefits from a deep PTA for its members in comparison to benefits from a shallow PTA?

Research question 2: Will the Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada benefit both parties, and how great those benefits will be comparing to benefits from the existing agreements?

Research question 3: What are the main characteristics of CETA which make it a deep PTA, and distinguish it from all “traditional” agreements signed until now?

² Yin, 1984, p. 23

³ Soy, 1997

3. TRADE LIBERALIZATION

In this chapter it will be discussed more deeply what is meant by the terms globalization and trade liberalization, what are the main drivers of trade liberalization and how this process can create opportunities and challenges for businesses worldwide. In addition, it will be considered how the regional trade agreements have developed during the years as well as their main effects on the world economies.

3.1 Description

Economic cooperation and integration have a long history. Formal and informal trade agreements have existed wherever people have traded. In the half-century before World War I some countries already enjoyed free trade in Europe. Though, this system of free trade did not emerge from any continent-wide agreement. Instead, mainly the series of bilateral treaties were established. Later broader trade liberalization began when the European integration started to develop in the 1950 in the form of European Economic Community (EEC) that nowadays is known as European Union. Since the early 1990s regional trade integration has been the main form of trade liberalization. These days, the most known regional trade agreements are the EU (European Union), NAFTA (North American Free Trade Agreement), MERCOSUR (Southern Common Market), ASEAN (The Association of Southeast Asian Nations) and COMESA (The Common Market for Eastern and Southern Africa).

Globalization refers to the shift toward a more integrated and independent world economy. The process of globalization has several facets, including the globalization of markets and globalization of production. The **globalization of markets** refers to the merging of historically distinct and separate national markets into one huge global marketplace. It has been argued for some time that the tastes and preferences of consumers in different nations are beginning to converge on some global norm, thereby helping to create a global market. The **globalization of production** refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (such as labor, energy, land and capital). By doing this, companies hope to lower their overall cost structure or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively.⁴

There are two main drivers that underlie the trend toward greater globalization. The first is the decline in barriers to the free flow of goods, services, and capital that has occurred since the end of the Second World War. The second factor is technological change, particularly dramatic

⁴ Appleyard, D., Field, A.J., Cobb, S. (2009): *International Economics*, McGraw-Hill, 7th edition, Chapter 1 - Globalization

developments in recent years in communication, information processing, and transportation technologies.

The process of globalization can be defined and explained in multiple ways, but Scholte (2005) draws up four very interesting definitions with distinctive focus drawn from ideas of internationalization, liberalization, universalization and westernization. Only the liberalization definition will have its discussion in this chapter.

When globalization is interpreted as liberalization, it stands for a process of removing officially imposed constraints on movements of resources between countries in order to form an open and borderless world economy. Trade liberalization is a form of trade policy. In the trade liberalization, the countries that have opened their trade to international trade remove both tariff barriers and non-tariff barriers (NTBs) to trade. The trade liberalization increases by the formation of new trade areas or by the expansion of the existing trade areas. More specifically, the process can be explained as authorities reducing or abolishing regulatory measures such as trade barriers, foreign-exchange restrictions, capital controls and visa requirements.⁵ This definition of globalization can also be seen as a debate about contemporary neo-liberalist macroeconomic policies. As the name suggests, “neo”-liberalism advances a new line on an old story. Neo-liberalism is the most common label for the economic theory and practice that has swept the world since the early 1970s. Its proclaimed purpose is to reduce global poverty, and to achieve that by allowing international trade and capital to flow unrestrictedly.⁶ Liberal trade theorists have argued since the 17th century that state borders should not form an artificial barrier because of tariffs and other officially imposed restrictions to the efficient allocation of resources in the world economy.⁷ Neo-liberalists have fought for the abolition of most state-imposed limitations on movements of money, goods, services and capital between countries.

Most governments and in particular those of the major states, have adopted a neo-liberalist orientation toward globalization over the past quarter-century. Global institutions such as the International Monetary Fund (IMF), the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation (APEC) and the Organization for Economic Cooperation and Developments (OECD) have repeatedly equated globalization with liberalization, and since the 1990s UN agencies have also largely come to a neo-liberalist orientation.⁸

There are thousands of international organizations in the world and a great many of them concern free trade. To expand the understanding of the EU’s and Canada’s relations in the international environment, the most important neo-liberal international organization, the

⁵ Scholte, 2005

⁶ Shaikh, 2007

⁷ Scholte, 2005

⁸ Scholte, 2005

World Trade Organization, with its functions closely linked to the topic of this paper, will be discussed below (see chapter 3.3).

3.2 Trade Theory and Regional Trade Agreements (RTAs)

The formation of RTAs is based on *the theory of comparative advantage* first developed by David Ricardo who argued that the relative factor endowment would make it advantageous for all countries to trade. The Ricardian model of trade only included one factor of production and was further developed by Heckscher, Ohlin and Samuelson who attributed disparities in comparative costs to the relative scarcity or abundance of production factors and criticized the classical Ricardian trade theory assumption of immobile factors as well as the single-dimension production factor. According to the theory of comparative advantage countries will have comparative advantages in the production of particular goods and international trade will arise as countries use these advantages to trade with each other regardless of any country having an absolute advantage or not. The Heckscher-Ohlin-Samuelson general equilibrium model has a few basic assumptions: there are free trade in goods, differing factor endowments but factor price equalization and identical technologies and preferences across countries. Furthermore, there is costless labor and capital movement within countries but immobility between countries. In the Heckscher-Ohlin model, perfect specialization results only when bilateral differences in factor proportions are large enough. Countries with relative abundant labor will export labor-intensive products while countries with relative capital abundance will import the labor-intensive products in exchange for the capital-intensive products. Consequently, by trading, countries will reach a new equilibrium in which each country is allowed to focus its primary production on the sector in which it has relative factor abundance. Thus, compared to autarky, countries will benefit from international trade.

A multilateral agreement including all countries would in its perfect form create a Pareto optimum⁹ in which no country would be better off by leaving the agreement. There are, for multiple reasons, only small chances of reaching such an agreement primarily due to political reasons. Furthermore, Krugman (1993) explained the failure of global negotiations by the large number of participating countries in these negotiations as well as the increasing scope of negotiated topics as both increases the complexity. Consequently, the formation of RTAs can be viewed as a second-best solution. According to Kemp and Wan (1976), given any initial trade equilibrium, every new creation or enlargement of RTAs can be Pareto improving. Consequently, at least one country, member or non-member, should benefit from the agreement while no countries will be worse off.

⁹ Pareto efficiency or Pareto optimum is an economic state where resources are allocated in the most efficient manner. Pareto efficiency is obtained when a distribution strategy exists where one party's situation cannot be improved without making another party's situation worse.

Regional Economic Integration is economic arrangement between different regions to reduce, and ultimately eliminate tariff and non-tariff barriers and to coordinate monetary and fiscal policies of the member countries. The aim of economic integration is to increase trade between the countries or regions taking part in the agreement by enabling a free flow of goods, services and factors of production. The more integrated the economies become the fewer trade barriers exist and at the same time the less power the governments of the member nations have to make adjustments to benefit themselves. For these reasons, agreements designed to promote free trade and to reduce costs for both consumers and producers, are believed to result in gains from trade for all member countries.

While the increased potential in bilateral trade caused by fewer internal restrictions is often seen as the main objective of forming RTAs, other reasons might also explain the formation of RTAs. Whalley (1996) points to the fact that RTAs can be formed based on strategic considerations, for instance as a need to strengthen domestic policy reforms: by committing to a multilateral agreement, participating countries are less exposed to future reversals of domestic policy reforms. Furthermore and perhaps more important, forming a RTA can improve access to foreign markets.

The United Nations Conference on Trade and Development (UNCTAD) argues that regional trade brings a large potential in areas with little hope of reaching agreements on a global level. Though it might be the best for developing countries to integrate with advanced regions this is a distant goal as most advanced regions and trading blocs are not ready and willing to open up their economies for low cost producers. Some theorists (e.g. Krugman (1991) and Summers (1991)), after investigating different types of RTAs, have even argued that RTAs between geographically proximate countries should be favored.

As there is no limitation to the number of RTAs a country can sign, the overlapping RTAs create a “spaghetti bowl” of trade agreements and Chong and Hur (2008) identify this as a hub-and-spoke function. The region becomes a hub linking up the different FTAs in which countries (spokes) trade on a preferential basis. Countries with several memberships will have preferential access to more markets.

To conclude, the theory explaining the formation of RTAs is in many ways similar to the theory explaining global trade. Due to obstacles in reaching global trade agreements, however, the RTAs become second-best option. Furthermore, regional agreements might serve other purposes such as regional stability and security policy issues.

3.3 The World Trade Organization (WTO)

The World Trade Organization is the only global international organization dealing with global rules of trade between states. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible by helping producers of goods and services, exporters and importers to conduct their business. The WTO is run by its member governments. All major decisions are made by the membership as a whole, either by ministers (who usually meet at least once every two years) or by their ambassadors or delegates (who meet regularly in Geneva). The WTO has 160 members since 26 June 2014 that account for over 97% of world trade.

The WTO is the successor to the General Agreement on Tariffs and Trade (GATT), which was the forum for negotiating lower customs duty rates and other trade barriers on goods from 1947 to 1994. The Uruguay Round that started in September 1986 and continued until April 1994 transformed the GATT into the WTO that came fully into force by 1995. The WTO recently was the host to new negotiations, under the 'Doha Development Agenda' launched in 2001. The Doha Round is the latest round of trade negotiations among the WTO membership. Its aim was to achieve major reform of the international trading system through the introduction of lower trade barriers and revised trade rules. The work programme covered about 20 areas of trade. Many countries have been opposed to Doha, because a reduction of subsidies will increase the GINI coefficient¹⁰, or in other words, increase the gap between rich and poor countries. In July 2008 Doha negotiations broke down.

Even though the multilateral trading system is more than 50 years old, WTO is one of the youngest international organizations. GATT and the WTO have helped to create a strong and prosperous trading system contributing to exceptional growth in world trade. The following figures emphasize this: in 50 years, merchandise exports grew at an annual average of 6%, and the level of total trade in 1997 was 14 times that of 1950. Since WTO came into being, the GATT has served as a base for its regulatory system because in its annexes one can find rules that declare, for example, how to deal with specific sectors and issues.

The **Most Favored Nation (MFN)** principle is, for example, one of the core foundations of the WTO system. This principle was embedded in the first article of the GATT back in 1948, and is the cornerstone of multilateral liberalization efforts. It requires that members of the WTO treat all other members of the WTO the same.¹¹Originally these principles of freer and fairer trade

¹⁰ GINI coefficient is a measurement of the income distribution of a country's residents. This number, which ranges between 0 and 1 and is based on residents' net income, helps to define the gap between the rich and the poor, with 0 representing perfect equality and 1 representing perfect inequality.

¹¹ Humphreys & Stoeckel, 2005

were only applied to trade in goods, but now various service sectors can also enjoy them as those principles appear in the new General Agreement on Trade in Services (GATS).

The WTO is not just about opening markets, but in some circumstances its rules support maintaining trade barriers, for example to protect consumers or prevent the spread of disease. At its core are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. These documents provide the legal ground rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters, and importers conduct their business, while allowing governments to meet social and environmental objectives.¹²

All WTO agreements contain special provisions for the developing or least-developed countries that represent over three quarters of all WTO members. Those special provisions include, for instance longer time periods to implement agreements, commitments and technical standards. The Doha Development Round set out tasks that included negotiations for a wide range of issues concerning developing countries. The main issues at stake were:

- Reforming agricultural subsidies;
- Ensuring that new liberalization in the global economy respects the need for sustainable economic growth in developing countries;
- Improving developing countries' access to global markets for their exports.

In some cases subsidies can play a large role in distorting trade, and there have been big conflicts towards subsidies and the Doha Round in general from its beginning to its end. Subsidies are provided directly to domestic producers to increase their competitiveness against all foreign producers equally. Since it is difficult to provide a general subsidy that discriminates against some foreign competitors but not others, subsidies are often considered to be a multilateral issue.

The WTO agreements are lengthy and complex because they are legal texts covering a wide range of activities. But there is number of simple, fundamental principles run throughout all of these documents. These principles are:¹³

1. **Non-discrimination** - A country should not discriminate between its trading partners and it should not discriminate between its own and foreign products, services or nationals;
2. **More open** - Lowering trade barriers is one of the most obvious ways of encouraging trade; these barriers include customs duties (or tariffs) and measures such as import bans or quotas that restrict quantities selectively;

¹² World Trade Organization (2015), https://www.wto.org/english/thewto_e/whatis_e/who_we_are_e.htm

¹³ World Trade Organization (2015), https://www.wto.org/english/thewto_e/whatis_e/who_we_are_e.htm

3. **Predictable and transparent** - Foreign companies, investors and governments should be confident that trade barriers should not be raised arbitrarily. With stability and predictability, investment is encouraged, jobs are created and consumers can fully enjoy the benefits of competition, choice and lower prices;
4. **More competitive** - Discouraging 'unfair' practices, such as export subsidies and dumping products at below cost to gain market share; the issues are complex, and the rules try to establish what is fair or unfair, and how governments can respond, in particular by charging additional import duties calculated to compensate for damage caused by unfair trade;
5. **More beneficial for less developed countries** - Giving them more time to adjust, greater flexibility and special privileges; over three-quarters of WTO members are developing countries and countries in transition to market economies. The WTO agreements give them transition periods to adjust to the more unfamiliar and, perhaps, difficult WTO provisions;
6. **Protect the environment** - The WTO's agreements permit members to take measures to protect not only the environment but also public health, animal health and plant health. However, these measures must be applied in the same way to both national and foreign businesses. In other words, members must not use environmental protection measures as means of disguising protectionist policies.

3.4 The Levels of Integration

The fundamental question for the future of trade policy is how trade should be liberalized. There are three alternative ways of achieving free trade: **unilaterally, multilaterally or regionally/bilaterally**. When a country liberalizes unilaterally, trade reform can be pursued as domestic policy, and a country can liberalize without regard to the policies of other nations. The other two alternatives for countries to establish free trade are to liberalize trade on a multilateral basis through WTO or by liberalizing bilaterally or regionally by forming free trade agreements with one or more countries.

Since it would be more beneficial if all countries gave up their trade restrictions and liberalized at the same time, multilateral liberalization should be the best alternative for creating free trade.¹⁴ However, multilateral liberalization through the WTO has attracted a significant amount of protest, both from people opposed to trade and people who disagree with how the WTO works. Some people protest that the greater freedom to trade (in effect, globalization) has adverse impacts on wages, jobs and the environment. Nevertheless, the more relevant problem is that the WTO multilateral trade negotiations progress slowly because the WTO has difficulty getting a consensus between all its member economies. As the unilateral and bilateral/regional liberalization can bypass this problem they are gaining popularity as processes towards free trade.¹⁵

Bilateral or regional agreements reduce trade restrictions only for member countries. This approach is in fact preferential rather than free, as it discriminates against countries that are not members of the agreement. Consequently, bilateral and regional agreements such as Free Trade Areas (FTAs) can be referred to as Preferential Trade Agreements (PTAs).¹⁶ In the next chapters the concept of PTAs will be explained more in detail.

Regional Trade Agreements (RTAs) have become increasingly widespread in the last two decades. The members of the World Trade Organization (WTO) are obliged to notify the WTO of any RTA in which they participate. As of 7 April 2015, 612 notifications of RTAs (counting goods, services and accessions separately) had been received by the GATT/WTO, of which 406 were in force. These WTO figures correspond to 449 physical RTAs (counting goods, services and accessions together), of which 261 are currently in force.

There are several levels of regional economic integration: the already mentioned preferential trade agreements (PTA), free trade areas (FTA), customs unions, common markets, economic unions, and full political unions.

¹⁴ Humphreys & Stoeckel, 2005

¹⁵ Humphreys & Stoeckel, 2005

¹⁶ Humphreys & Stoeckel, 2005

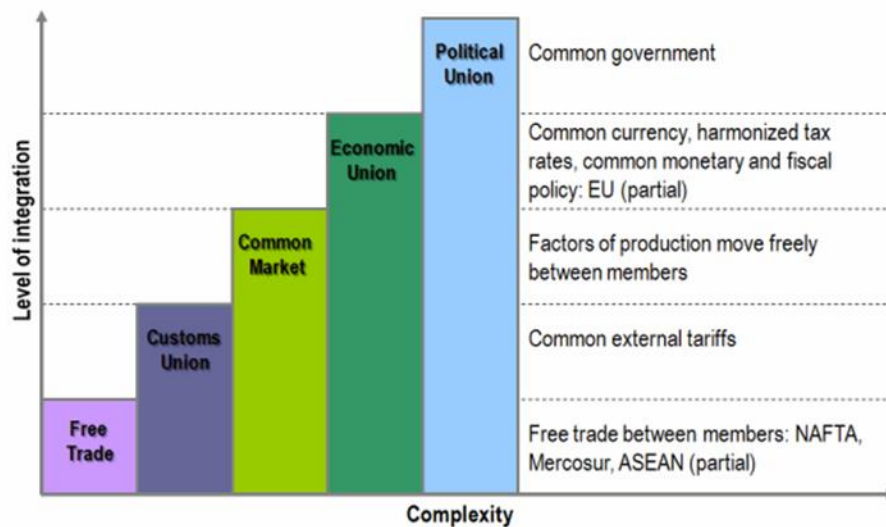


Figure 1 Levels of economic integration, Source: *Economics Online* (www.economicsonline.co.uk)

Preferential Trade Agreements (PTAs) are trade pacts between countries that give preferential access to certain products by reducing tariffs to the countries who sign the agreement. While the tariffs are not necessarily eliminated, they are lower than for countries which do not take part in the agreement.

Free Trade Area (FTA) is a group of countries among which all barriers to trade of goods and services are eliminated. In the theoretically ideal free trade area, no discriminatory tariffs, quotas, subsidies, or administrative impediments are allowed to distort trade between members. Free trade areas allow the agreeing nations to focus on their comparative advantages and to produce the goods they are comparatively more efficient at making, thus increasing the efficiency and profitability of each country. One of the most well-known and largest free trade areas was created by signing of the North American Free Trade Agreement (NAFTA) on January 1, 1994. This agreement between Canada, the United States and Mexico encouraged trade between these North American countries.

Customs unions are arrangements among countries in which the parties do two things: (1) agree to allow free trade on products within the customs union, and (2) agree to a common external tariff (CET) with respect to imports from the rest of the world.¹⁷ Most countries that enter into a customs union strive to even greater economic integration down the road. The EU started as a custom union, but over the years has moved beyond that stage.

¹⁷ World Economy Encyclopedia (2011): *Customs unions*, <http://world-economics.org/78-customs-unions.html>

A **common market** ensures free trade, includes a common external trade policy and allows free movement of labor and capital among its members. Factors of production are free to move because there are no restrictions on immigration, emigration, or cross-border flows of capital between member countries. Establishing a common market demands a significant degree of harmony and cooperation on fiscal, monetary and employment policies.

An **economic union** implies even closer economic integration than a common market, by including a free flow of products and factors of production between member countries and adoption of a common external trade policy, but it also requires a common currency, harmonization of members' tax rates, and a common monetary and fiscal policy. Such a high degree of integration demands a coordinating bureaucracy and the sacrifice of significant amounts of national sovereignty to that bureaucracy. The European Union (EU) is an economic union, although an imperfect one since not all members of the EU have adopted its currency, the euro, and differences in tax rates and regulations across countries still remain.

In a **political union** a central political apparatus coordinates the economic, social and foreign policy of the member states and in that way resolves the main problem of an economic union to make a coordinating bureaucracy accountable to the citizens of member nations. The EU is on the road toward at least partial political union.

3.5 The Benefits of Integration

Regional Trade Agreements are designed to create better trading opportunities by:

1. Opening new markets for goods and services;
2. Increasing investment opportunities and protection of investments;
3. Making trade cheaper - by eliminating substantially all customs duties;
4. Making trade faster - by facilitating transit through customs and setting common rules on technical and sanitary standards;
5. Making the policy of the environment more predictable - by taking joint commitments on areas that affect trade such as intellectual property rights, competition rules and the framework for public purchasing decisions;
6. Supporting sustainable development – by fostering cooperation, transparency and dialogue between partners on social and environmental issues.¹⁸

Free trade agreements lead to increased production, economic development, international cooperation, resource allocation and business incentives.¹⁹

¹⁸ European Commission (2013): *Trade negotiations step by step*, Brussels (Belgium)

- ***Increased Production***

Producers within a regional integration grouping can benefit from increased market size. Market size, in turn, is an important factor facilitating innovation, the fixed costs of which can be spread across a larger customer base. At the same time, consumers will also benefit from greater competition in product markets. So, free trade fosters competition, encouraging companies to innovate and develop better products, keeping prices low and quality high. These effects crucially depend not just on the creation of a single customs area, but also on the elimination of barriers to market access. Free trade allows countries or regions as well as companies to focus on products and services in the fields of their specialization. The company's market share will be increased what causes lower cost and increased productivity, leading to higher rates of production.

- ***Economic Development***

As it was mentioned before, free trade results in increased sales and market share. Exporting within a regional area may serve as a first step towards the expansion of exports worldwide, by initially building export capacity taking advantage of low tariff and non-tariff barriers within a union, and then leveraging this capability to achieve competitive advantage in exporting to other countries. When larger countries take advantage of free trade their economies grow and that growth often transfer also to smaller countries which are open to trade.

- ***International Cooperation***

Free trade forces companies and countries to support the rule of law. Countries that do not enforce contracts and respect the rules imposed lose business, and investors move their money elsewhere. Free trade also allows transfer of values and ideas which result in stronger and more stable governments in smaller countries. Deeper regional economic integration can help member countries to strengthen their economic and political institutions. As some competencies delegated by newly created supranational bodies and other areas of economic policy undergo cross-country synchronization, the opportunity arises to review and revise laws and regulations and to strengthen their implementation, in turn promoting business environment improvement and liberalization.

¹⁹ European Bank, Transition Report (2012): *Integration Across Borders*, Chapter 4 – Regional Trade Integration: Benefits and Challenges, <http://tr.ebrd.com/tr12/index.php/chapter-4/regional-trade-integration-benefits-and-challenges>

- ***Resource Allocation***

Free trade improves the allocation of global resources. Countries within a regional integration area can build cross-border production chains by leveraging each other's comparative advantages and subsequently exporting finished products outside of that area. Countries and people are enabled to trade for the products they need, so they can put their emphasis on the ones they do the best. The prices of imported goods will be lower and the saved money can be used to buy things made in the home country.

- ***Business Incentives***

Free trade agreements include engagement to protect intellectual property rights and labor rights and open regions for cooperation and competition. They open markets to trade of goods and services and offer business incentives. Besides, global investment allows for greater diversification and risk sharing.

3.6 Preferential Trade Agreements (PTAs)

In order to better understand the features of the newly signed trade agreement between the EU and Canada, and to be able to find the key points that differ it from all existing trade agreements and making it the deepest agreement the two parties signed until now, in the continuation of the paper the focus was put on the analysis of PTAs and especially on the analysis of deep PTAs, since CETA belongs to that group.

A cornerstone of the World Trade Organization (WTO) is the principle of non-discrimination: member countries may not discriminate against goods entering their borders based upon the country of origin. However, as an important exception to its own central prescript, the WTO, through Article XXIV of its General Agreement on Tariffs and Trade (GATT), does permit countries to enter into preferential trade agreements (PTAs) with one another. Specifically, under Article XXIV, countries may enter into preferential trade agreements by fully liberalizing substantially all trade between them while not raising trade barriers on outsiders. Preferential trade arrangements (PTAs) in the WTO are unilateral trade preferences. They include Generalized System of Preferences schemes (under which developed countries grant preferential tariffs to imports from developing countries), as well as other non-reciprocal preferential schemes granted a waiver by the General Council.

PTAs are a part of the modern trading environment that opens up a new range of opportunities and challenges. Their main purpose is to facilitate free trade and investment by removing barriers through the creation of a free flow of goods, services, investment and people. PTAs can be very different in scope. Some cover only partial issues of trade while others are much more comprehensive and cover other issues including services and investment. The comprehensive ones usually take the existing WTO agreements as a benchmark and strive to go further than what is set out in the WTO rules.

Much of the current debate about the economic impact of PTAs can be traced back to the seminal work of Jacob Viner.²⁰ In the late 1950s he wanted to find out whether a PTA is beneficial for all countries involved or not. According to Viner, preferential, or discriminatory, liberalization exhibits two basic effects: **trade creation and trade diversion**. Importantly, the net balance of both effects establishes whether a PTA increases or decreases the welfare for all countries involved. Consider the following example: Country A and country B form a preferential trading scheme and mutually grant each other duty-free market access. As a result of that, some local imports replace production in country A coming from the more efficient companies located in country B. That said, trade is being created and the overall welfare rises. Yet any preferential trading scheme also discriminates against third countries or non-members. Hence, since goods from country B get a competitive edge through the elimination of tariffs or

²⁰ Viner, J. (1950): *The Customs Union Issue*, New York: Carnegie Endowment for International Peace

quotas, exports from the most efficient non-member country are negatively affected. Put differently, the preferential reduction of trade barriers (both tariffs and quotas) induce both consumers and producers to source from the partner country at the expense of both locally produced goods as well as imports from third countries (i.e. non-member countries). More importantly, both country A and B end up paying more for the very same goods they previously sourced from a more efficient outside producer. This harms the overall welfare of members of the preferential trading scheme and is, therefore, referred to as trade diversion. Both effects run in opposite directions, making it difficult to gauge the welfare impact of preferential liberalization as a whole.

Two basic effects of PTAs can be identified: **static efficiency effects**, that is one-off efficiency gains due to a better allocation of production factors; and **dynamic effects**, that is the realization of economies of scale as a result of enhanced competition and a reduction of costly duplication requirements as well as the creation of positive and/or the prevention of negative externalities respectively.

Static effects rest on the logic of trade diversion and its associated welfare losses. Negative welfare outcomes occur when the loss of domestic rents to exporters is not compensated by the benefits from lower prices resulting from liberalization. Given that in many instances there are no such domestic rents, and if so they are rather small, the impact of preferential trade facilitation efforts will unavoidably be welfare augmenting. In essence, trade facilitation results in a reduction of trade costs (i.e. transaction costs) and domestic consumers benefit due to the availability of a larger quantity of cheaper products. On the other hand trade facilitation activities may also create some losers: excluded non-member countries (e.g. through the application of preferential origin administration or fee exemptions for PTA partners); those private companies that were protected due to high trade (e.g. transaction) costs and those who benefited from a lack of international competition; and those economic actors that managed to reap rents as a result of a non-transparent and complex trading environment.

Dynamic effects are primarily based upon the economic benefits of international, or more accurately, regional cooperation. In this regard two effects stand out. First effect is the realization of economies of scale (i.e. distributes the production costs over a larger quantity produced and thus reduces the production costs as a whole) through, for instance, removal of duplicative and thus costly requirements or enhanced competition. Second effect is the creation of positive and/or the prevention of negative externalities respectively.

From the 1950s onward the number of active PTAs increased more or less continuously to about 70 in 1990. Thereafter, PTA activity accelerated noticeably. The number of PTAs in force as of April 2015 was 406.

In recent years PTA activity has transcended regional boundaries. More than one half of the PTAs currently in force are not strictly “regional”. The phenomenon of cross-regional PTAs has been particularly pronounced in the last decade. The trend towards a broader geographical scope of PTAs is even more pronounced for those PTAs that are currently under negotiations or have recently been signed. Practically all of these are of the cross-regional type.

The coverage of PTAs in terms of policy areas has widened and deepened over time. The most recent PTAs go beyond traditional tariff-cutting exercises and may include such policy areas as services trade, investment, intellectual property rights, technical barriers to trade and dispute settlement.

The value of world trade between members of PTAs has increased as the number of PTAs expanded. The analysis provided by the recent World Trade Report (WTR, 2011) shows that there has been a significant increase in the value of trade taking place between PTAs members. In 1990, trade between PTA partners made up around 18 percent of world trade and this figure rose to 35 percent by 2008 (in both cases, the figures indicated exclude intra-EU trade). When the European Union is included, intra-PTA trade rose from about 28 percent in 1990 to a little over 50 percent of world trade by 2008. Preferential trade – that is, trade actually receiving preferential tariff treatment, represents a much smaller share of world trade. Trade among PTA members is not all preferential on account of the fact that a significant portion of intra-PTA trade is MFN duty-free. Specifically, WTR calculations indicate that despite the recent explosion in PTAs, only about 16 percent of world trade takes place on a preferential basis (the figure raises to 30 percent when intra-EU trade is included in the calculations). In other words 84 percent of world merchandise trade still takes place on a non-discriminatory Most Favored Nation (MFN) basis. Secondly, PTAs tend to exempt high MFN-tariff items from preferential treatment and continue to trade these products at MFN rates.

3.7 Causes and Effects of Preferential Trade Agreements

There are various explanations for why countries establish PTAs. Unilateral trade policy may have “beggar-thy-neighbor” consequences, such as unfavorably affecting the ratio of import to export prices (terms-of-trade effect) or a production relocation effect. Countries might be stuck in a situation characterized by high restrictions and inefficiently low levels of trade. A trade agreement may neutralize these negative effects and achieve higher welfare.

Gains in credibility are the second reason for signing a PTA. A government may choose to “tight its hands” through an international agreement in order to prevent a future policy reversals that may be convenient in the short run but inefficient in the long term. A PTA may provide a stronger commitment than a multilateral agreement when a country is small in a world market.

“Non-traditional” reasons for why countries form PTAs include accessing larger markets, ensuring against preference erosion, increasing predictability of future trade policy, signaling stability to investors, and achieving deeper policy commitments.

The potential loss of market share for non-members of existing PTAs induces them to form new PTAs or join the existing ones. These domino effects of PTAs formation can be further strengthened with multilateral trade opening.

Among the factors that influence the patterns of PTAs formation and enlargement over time are the physical distances between countries, economic size, similarity in economies, proximity of potential entrants to an existing PTA, and the existing number of members in a PTA.²¹

There are many reasons to believe that signing a preferential trade agreement will have a **positive impact on FDI flows** for countries entering that agreement. Investors may be reassured that the economic landscape in the host country is stable, and that their investment has a much lower chance to be institutionally discriminated against by the host country, because the host has established closer ties with investor countries, often including specific investment provisions in the agreement, in part under the assumption of closer economic integration.²² On the other hand many theorists argued that FDI itself could cause trade agreements to be signed. The concern arises from the “virtuous circle” hypothesis outlined by Medvedev (2006): faster-growing economies need more investment, including foreign, while, simultaneously, foreign investors seek to invest in countries with higher growth rates in order to maximize their expected profits. Stemming from that line of reasoning, larger and/or faster-growing economies might also be more likely to join trade agreements where they could, perhaps, be better suited to take advantage of regional integration. Therefore, “preferential liberalization may thus be an effect rather than a cause”.²³ In sum, economic theory suggests that free trade and investment is a positive-sum game in which all participating countries stand to gain.

In forming PTAs, governments may not be influenced exclusively by the welfare implications. Linking neighboring economies and making them increasingly dependent on each other creates incentives for political cooperation between neighboring states and reduces the potential for conflicts to arise. In addition, by grouping their economies, the countries can enhance their political weight in the world. When governments have political economy reasons for signing a PTA, the question arises whether a PTA reduces or increases the incentive to set inefficiently high external tariffs. Conflicting political economy forces may act upon external tariffs agreed in a PTA. On the one hand, a PTA destroys protectionist benefits and lowers the demand for high external tariffs. On the other hand, high external tariffs may be used in a PTA to sustain cooperation on non-trade issues.

²¹ World Trade Organization (2011): *World Trade Report*

²² Bütte and Milner, 2008

²³ Medvedev, 2006


3.8 The Concept of Deep Integration (Deep vs. Shallow Integration)

The special emphasis in the paper was put on the analysis of deep PTAs, since CETA belongs to this group, but also has some additional features that make this agreement even deeper.

Nowadays, more and more PTAs are deep rather than shallow agreements. Deep agreements include a wide range of issues beyond tariffs, such as services, investment, intellectual property protection, and competition policy. These policy areas involve domestic regulations (or behind-the-border measures). Trade agreements that mostly deal with border measures are often defined as “shallow” agreements. In contrast, PTAs that include rules on other domestic policies are referred to as “deep” agreements. There is no agreed definition of the scope of such deep agreements, and indeed the concept is widely used to refer to any arrangement that goes beyond simply extending preferential tariff concessions. However, there are at least two distinct dimensions of deep integration such as the “*extensive*” and “*intensive*” margin. The extensive margin refers to an increase in the policy areas covered by the agreement, while the intensive margin refers to the institutional depth of the agreement, such as the extent to which certain policy prerogatives are delegated to a supranational level of government (e.g. the creation of customs or monetary union). These two dimensions are often related. That is to say, extending the coverage of an agreement may also require creating common institutions and new, more sophisticated ways of sharing sovereignty in order to administer it. The table below provides a schematic picture of different forms of integration (Table 1).

Like shallow integration arrangements, deep agreements can be among developed, advanced economies (North-North), advanced and developing economies (North-South), or just developing economies (South-South). Similarly, membership in deep agreements can be wide or narrow, ranging from regional agreements involving several neighboring countries to bilateral agreements between two distant partners.

Table 1 Shallow versus Deep Integration, *Source: WTR 2011*

Integration Level	Type of PTA	Features	Example
SHALLOW INTEGRATION  DEEP INTEGRATION	Free Trade Agreement (FTA)	Members liberalize internal trade but retain their independent external tariffs	US-Israel FTA
	FTA+	A FTA that in addition harmonizes some beyond the border standards (e.g. environmental standards)	NAFTA
	Customs Union (CU)	Members liberalize trade within the union and adopt common external tariffs against the rest of the world	SACU ²⁴
	Common Market	Establishment of the free movement of all factors of production within the PTA, including labor and capital	EU
	Monetary Union	Establishment of a common currency and completely integrated monetary and exchange rate policy	Euro Area
	Fiscal Union	Establishment of a common fiscal policy	US

Deep integration and trade are closely related. Deep arrangements may be necessary to promote trade in certain sectors across economies more broadly. For instance, harmonization or mutual recognition of certain regulations may be a prerequisite for trade in services, or competition policy rules may be required to allow comparative advantage to materialize. Conversely, trade liberalization and the evolving structure of trade (e.g. the growth of production networks), can make the need for deeper policy integration. We can conclude that the relationship between deep integration and trade works in both ways, in the sense that one may be the cause and/or consequence of the other. The relationship is also dynamic, in the sense that it is likely to develop over time.

²⁴ SACU - Southern African Customs Union

Economic theory also suggests that the degree of trade openness is a determinant of deep agreements. In this respect, shallow and deep integration may be seen as complementary processes, as the first generates a demand for governance that the second can provide. An institutional challenge for WTO is to find an approach that facilitates deeper integration sought by its members while maintaining compatibility with the non-discrimination principle.

Developed countries were the first movers in the attempt to establish deeper forms of integration. Agreements such as the EU Single Market Programme or the US-Canada Free Trade Area can be explained (at least partially) in terms of increased demand for deeper integration generated by the needs of international production sharing arrangements. The continuous expansion of production sharing between developed and developing countries requires deeper agreements to fill the governance gap between countries. For example, The North American Free Trade Agreement (NAFTA) includes disciplines going beyond preferential tariffs that are required to facilitate production sharing between the United States and Mexico. In Europe the Euro-Mediterranean agreements fulfill the same objectives.

3.8.1 International Production Networks and Deep Integration

Twenty-first century trade is a very complex phenomenon and that complexity is the result of the increased role of production networks in the global economy. They are characterized by the increased splitting of production stages across borders. Multinational firms are not only distributing manufacturing stages to decrease costs and exploit comparative advantages, but they are also unbundling and outsourcing services work, primarily office tasks, making production networks even more complex. International production networks are not a new phenomenon, but their importance is increasing in particular regions of the world, and their pattern and composition has changed over time.

Many empirical and theoretical studies have shown that there is a link between the recent growth of production networks and the demand for deeper integration. The expansion of production networks contributed to the proliferation of deeper agreements which are aimed at filling a governance gap between countries. Agreements that include provisions related to the institutional framework, competition policy, the product and labor market regulations, infrastructure development and other areas could make production sharing activities more secure and less vulnerable to disruptions or restrictions.

Lawrence (1996) was the first to highlight the systematic implications of international production networks and deep integration. With increased international competition, resulting from reduced barriers to trade, the ability to operate abroad and to locate complex production in the most cost-efficient regions, becomes increasingly important to firms' competitiveness. In

order for international production networks to operate smoothly, certain national policies need to be harmonized across jurisdictions, what generates a demand for deep forms of integration.

Recently, Antras and Staiger (2008) have managed to model the interaction between international production networks and deep integration. They showed that the rise of offshoring creates new forms of cross-border policy effects that go well beyond the standard trade policy externalities, when goods are produced in a single location. An implication of this model is that the changing nature of trade (from trade in final goods to trade in intermediate goods) is directly responsible for the growing demand for deep agreements that can address these cross-border effects. Specifically, externalities associated with production offshoring are different from those associated with traditional market access and cannot be easily addressed with general rules such as non-discrimination and reciprocity. The recent wave of deeper PTAs may be an institutional response to these new problems associated with the growth in offshoring. On the one hand, this suggests that PTAs are efficiency-enhancing rather than “beggar-thy-neighbor” agreements. On the other hand, PTAs can make it more difficult for WTO to perform its traditional role of providing reciprocal market access opening. Essentially, there is a challenge for WTO to find an approach that can facilitate the deeper integration that its member-countries are seeking for while at the same time upholds the core principle of non-discrimination.

3.8.2 The Trade-offs Involved in Deep Integration

Unlike shallow, deep integration requires common policies and regulations among member countries across a number of areas which raises a completely different set of questions, such as:

- What are the costs and benefits of common policies?
- Which countries should form a deep agreement?
- Which policies should remain in national domain and which should be harmonized?

Economists have developed a simple principle to understand the costs and benefits of common policies, known as Oates’ Decentralization Theorem. The theorem suggests that there is a trade-off between the benefits and costs of deep integration which depends on the extent of policy preference differences across member countries. For individual countries, the cost of the common decision-making is that it moves the common policy away from its preferred national policy, and the benefit is that the policy spillovers are internalized. So, the countries which have similar policy preferences would benefit the most from deep integration, as this would limit the political cost of integration.

Regarding the third question, countries should take common policy decisions in areas characterized by large cross-border effects and maintain national policy prerogatives in areas with low cross-border impacts (and where policy preferences are not similar).

The fiscal federalism theory also confirms the observed patterns in deep integration arrangements. First, the theory predicts that countries sharing similar policy preferences and greater levels of interconnection are the ones that should choose deeper over shallow integration. Secondly, this theory claims that policies characterized by high cross-border spillovers and low heterogeneity of preferences for different countries should be centralized, while the provision of all other services should be decentralized.

Three other issues are relevant to the debate on deep integration:

- The welfare effects of deep agreements on member countries;
- The trade-offs of bilateral agreements between advanced and developing countries; and
- The systematic effects of deep regional integration.

Like shallow agreements, deep agreements reduce the costs of trade, and thus can be expected to increase trade among members. However, unlike shallow agreements, deep integration agreements may also provide supranational public goods (common rules, a stable monetary system, etc.) that the markets or national governments cannot offer. The welfare effects of these public goods can go well beyond the trade effects and at the same time are more complicated to be measured.

From the perspective of developing countries, deep integration with advanced economies may create certain advantages and disadvantages. As regards advantages, for instance, developing countries may import international regulatory systems that represent the best practices without having to pay the costs of developing them from scratch. As regards disadvantages, developing countries may be pressurized to adopt common rules which are inappropriate for their level of development, such as certain environmental and labor standards. The risk is higher because the bargaining power of developing countries in the negotiations with their advanced trading partners is weak. Brou and Ruta (2006) showed in their study that more advanced economies tend to be more politically organized and have a stronger influence on common policies, and usually the common policies shift from the interests of the less developed members.

Regarding the systematic effects of deep integration, there is a long standing debate in the trade literature on whether deep PTAs are friends or enemies of the multilateral trading system. Recently, some studies have shown that deep regional integration may be a complement to rather than a substitute for the process of global integration. Deep agreements address behind-the-border measures that are more difficult to negotiate at the global level, because of the widely different policy preferences and needs among countries. Deep regional integration may offer supranational public goods that governments so far fail to supply, giving

them an appropriate intermediate level role in integration between the national and global level.

4. EU PERFORMANCE IN THE GLOBAL ECONOMY

The EU has achieved a strong position in the world economy by acting together with one voice on the global stage, rather than with 28 separate trade strategies. Europe has become deeply integrated into global markets. Thanks to the ease of modern transport and communications, it is now easier to produce, buy and sell goods around the world which gives European companies of every size the potential to trade outside Europe.

In recent years, the global economic crisis has taken its toll on the EU's prime position in international trade. While the EU still has the largest relative market shares, its position has deteriorated since the crisis, much more so than the US, and its comparative advantage in knowledge-intensive goods has been partly eroded. Globally, participation in international production sharing has increased significantly between 1995 and 2005. However, the pace of global outsourcing slowed down during the crisis. China seems to drive the structural shifts not only in the last two decades but also in the most recent period, capturing increasing shares in the global market to the detriment of advanced economies. Concerns have arisen as to whether the EU will be able to keep pace with the changing global environment and maintain its strong position in global value chains.

However, a simple ranking based on export and import values in 2013 shows that the EU secured its global position in both merchandise (Table 2) and services trade (Table 3) despite its “lazy” economic performance in that year. In particular, the EU has a strong advantage over its trading competitors in commercial services. Trade in services seems to be less cyclical than trade in goods, which had some positive impacts on the EU trade performance during the crisis.

Table 2 Top 5 world exporters and importers in 2013 (goods), *Source: WTO*

Exporter	Value	Share	Importer	Value	Share
1 EU-28*	2.307	15.3	1 US	2.329	15.4
2 China	2.209	14.7	2 EU-28*	2.235	14.8
3 US	1.580	10.5	3 China	1.950	12.9
4 Japan	715	4.8	4 Japan	833	5.5
5 Korea	560	3.7	5 Hong Kong	622	4.1

Table 3 Top 5 world exporters and importers in 2013 (services), *Source: WTO*

Exporter	Value	Share	Importer	Value	Share
1 EU-28*	891	25.2	1 EU-28*	668	19.7
2 US	662	18.7	2 US	432	12.7
3 China	205	5.8	3 China	329	9.7
4 India	151	4.3	4 Japan	162	4.8
5 Japan	145	4.1	5 Singapore	128	3.8

The development of trade, if properly managed, is an opportunity for economic growth. So the EU trade policy seeks to create growth and jobs by increasing the opportunities for trade and investment with the rest of the world. By working together, Europe has the weight to shape an open global trading system based on fair rules, and to ensure that those rules are respected. The EU's success is inseparably bound up with the success of their trading partners, both in the developed and developing world. For this reason, sustainable development is central part of the EU's trade policy.

The US has been for decades the major trading partner of the EU but its dominance has diminished significantly over time. For instance, in 1999, the share of the US in extra-EU trade was almost twice as high (27%) compared to 2013 (14.2%). China captured only 5% of extra-EU trade in 1999 while it was responsible for a share of 12.5% in 2013. From the Figure 2 which shows the EU's trade with its main trading partners in 2013, we can see that Canada occupied 12th position.



Figure 2 EU trade with main trading partners in 2013, € billions, *Source: European Commission*

Despite large divergences between the EU Member States in terms of trade performance, the overall EU trade balance in goods has remained relatively stable, compared to more pronounced trade imbalances in the world economy. Looking at the geographical breakdown of the EU trade balance (Figure 3), the deficit with China stands out. It increased gradually up to 2008 and declined thereafter. In contrast, the EU trade balance with the US is marked by a long term surplus. Even if it fell between 2006 and 2011, the surplus started to widen slightly in 2011. In 2013, and for the first time in the last decade, the EU registered a significant surplus with the remaining group of countries (RoW).

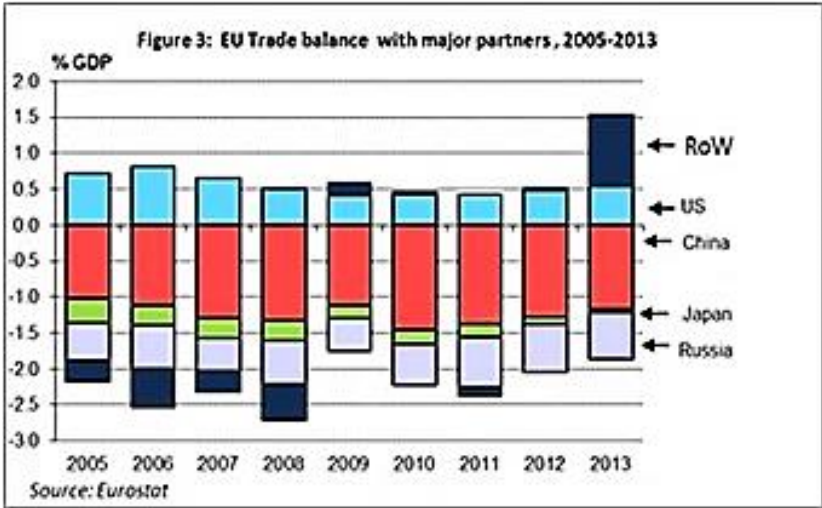


Figure 3 EU trade balance with major partners, 2005-2013, Source: Eurostat

The evolution of the EU relative market shares significantly differs from those of the US and Japan (trade in goods) between 1999 and 2013. While the EU captured relatively stable market shares, around 20% between 2000 and 2007, the severe consequences of the crisis lasted longer in the EU than in the US. Thus, the drop of market shares just after the crisis was much stronger in the case of the EU. In contrast, the US lost rather significant export market shares already in the pre-crisis period of 2000-2007, but in the aftermath of the global crisis it has recovered relatively quickly as it is shown in its stable market shares after 2009. Japan follows a market share profile similar to that of the US. Figure 4 shows market shares in goods and services for Brazil, China, EU, India, Japan, Russia and The United States in the world trade.

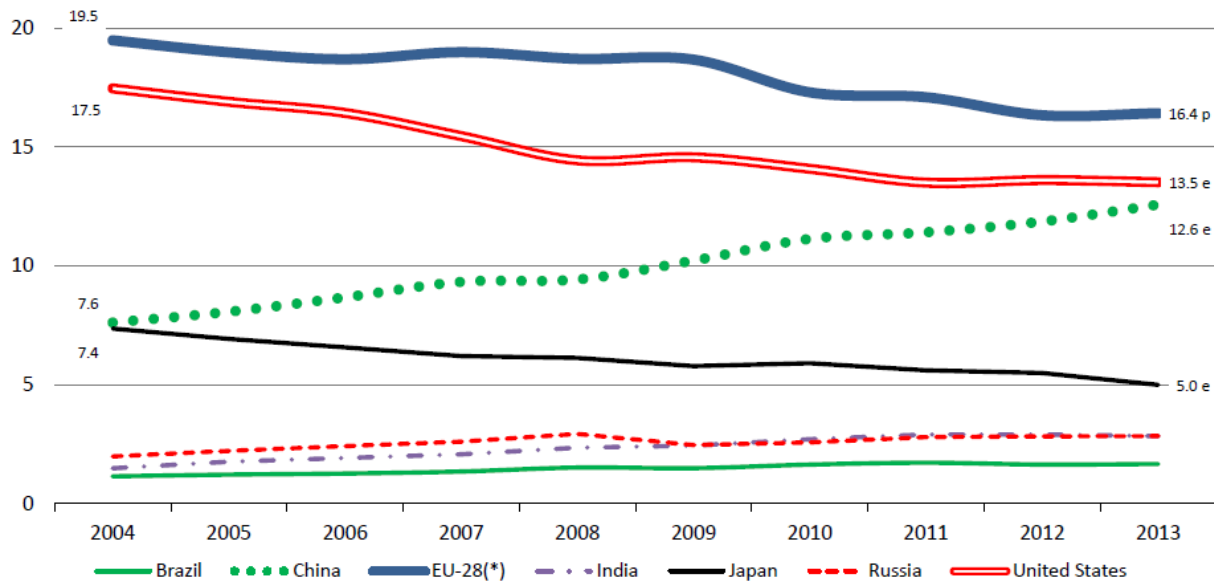


Figure 4 Share in world trade in goods and services in selected countries (%), Source: Eurostat

Note: Shares in world trade excluding intra-EU trade; Services are for EU-27, before 2010; e-estimate, p-preliminary data (for services)

Some Facts and Figures on the EU's position in global markets:

- The EU is the largest economy in the world. Although growth is projected to be slow, the EU remains the largest economy in the world with a GDP per capita of €25,000 for its 500 million consumers.
- The EU is the world's largest trading block and the world's largest trader of manufactured goods and services.
- The EU ranks first in both inbound and outbound international investments.
- The EU is the top trading partner for 80 countries. By comparison, the US is the top trading partner for a little over 20 countries.
- The EU is the most open to developing countries. Excludes fuels, the EU imports more from developing countries than the USA, Canada, Japan and China put together.
- The EU benefits from being one of the most open economies in the world and remains committed to free trade.

The average applied tariff for goods imported into the EU is very low. More than 70% of imports enter the EU at zero or reduced tariffs. The EU's services markets are highly open and it has arguably the most open investment regime in the world. The EU has not reacted to the crisis by closing markets. However, some of the EU's trading partners have not been that restrained as the EU has highlighted in the Trade and Investment Barriers Report and the

Report on Protectionism. In fact the EU has retained its capacity to conclude and implement trade agreements. The recent free trade agreements with South Korea, Singapore and Canada are examples of this and the EU has an ambitious agenda of future trade agreements.

5. CANADA'S PERFORMANCE IN THE GLOBAL ECONOMY

Canada's economic expansion strengthened in the second half of 2013, with growth rising to 2.8 percent on average, after a soft patch that began in late 2011. This acceleration has been led by private consumption, underpinned by income and wealth gains. Employment also grew to the point where there were more than a million new jobs in Canada since the economic downturn in 2009, pushing the unemployment rate down. Real gross domestic product (GDP) picked up to 2.0 percent in 2013, after increasing 1.7 percent in 2012, with slightly better performance in the second half of the year than in the first half. Output increased for all major industrial sectors, with the exception of manufacturing and fishing.

Canada's trade is equivalent to more than 60 percent of its annual gross domestic product, and one in every five jobs is directly linked to exports. Put in another way, it means that if the world suddenly stopped trading, 3.3 million jobs in Canada would vanish and the unemployment rate would jump to 25 percent. That is how important trade is to Canada. Canada's exports in 2014 were high but still well below levels that might be expected at that stage of the recovery, with non-commodity exports being particularly weak. This weakness was partly attributable to the hesitant global economic expansion, notably in the United States, but was also due to a loss of international competitiveness. However, total Canadian merchandise exports increased \$53.063 billion (11.24 percent) to \$525.011 billion in 2014 (Figure 5). At the same time, Canadian merchandise imports advanced \$35.89 billion (7.5 percent) to \$511.523 billion in 2014 (Figure 6). The economic recovery that is under way in the United States helped raise demand for Canadian products in that country as exports to the US increased by \$45.16 billion. It was the fourth year in a row that Canadian exports to the United States increased.

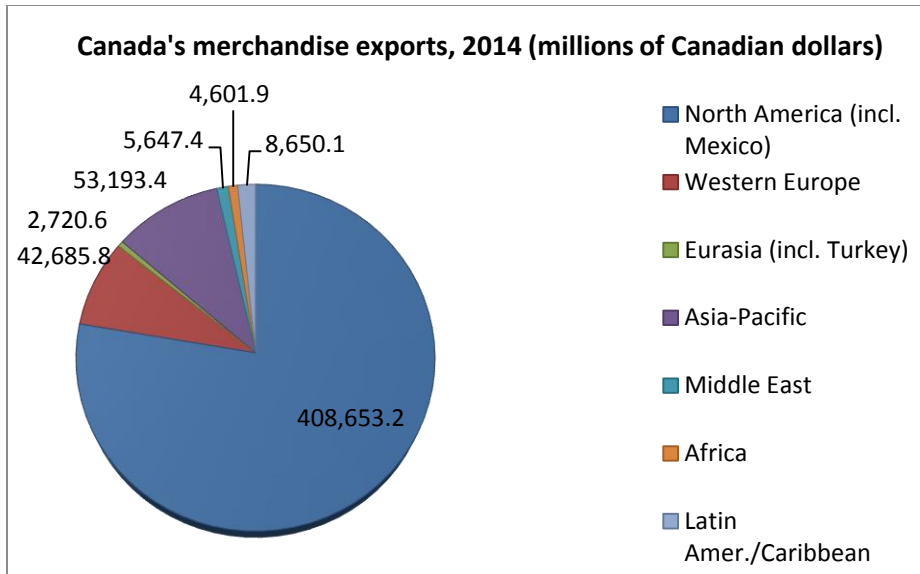


Figure 5 Canada's merchandise exports, 2014, *Source: Government of Canada*

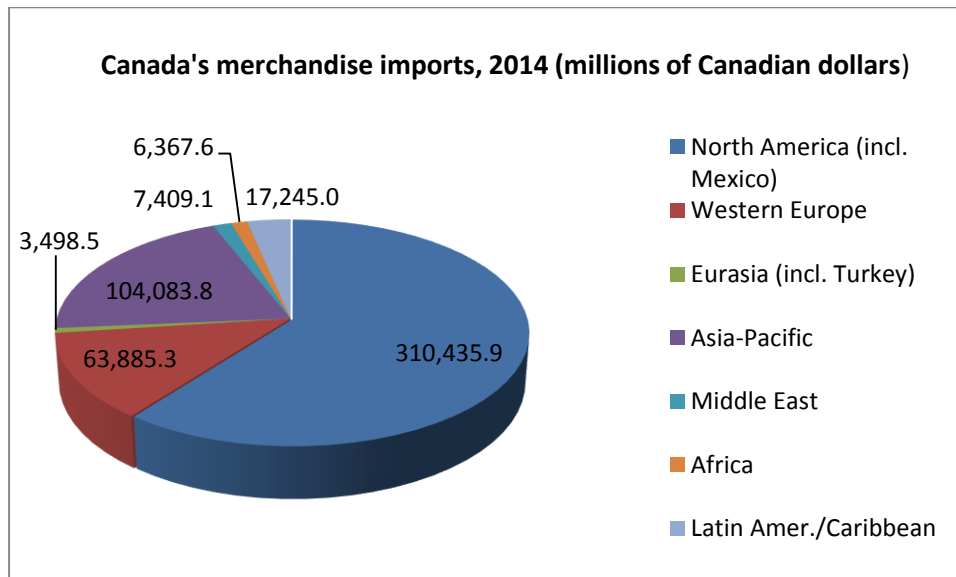


Figure 6 Canada's merchandise imports, 2014, *Source: Government of Canada*

In November 2014, Canada launched the **Global Markets Action Plan**, its blueprint for creating jobs and opportunities for Canadians through trade and investment. It reflects the changing global economic landscape, focuses on Canada's core strengths, and aligns Canada's diplomatic resources to advance the country's commercial interests in key foreign markets.

A key part of the Global Markets Action Plan is Canada's free trade agenda. In 2013 and 2014, Canada reached historic agreements with Panama, Chile, Honduras, South Korea and, the most

importantly, the European Union. When the Canada-EU Comprehensive Economic and Trade Agreement comes into force, it will translate into increased profits and market opportunities for Canadian businesses of all sizes, in every part of the country. In fact, a Joint Study conducted with the European Union, which supported the launch of negotiations, concluded that an agreement could boost Canada's income by \$12 billion annually and bilateral trade by 20 percent. That is equivalent to creating almost 80,000 new jobs or increasing the average Canadian family's annual income by \$1,000.

The United States and Canada share one of the most extensive bilateral relationships in the world and have successfully negotiated and implemented comprehensive trade and intergovernmental agreements to facilitate the movement of goods, services, investment, and people. Canada and the US have a number of highly integrated sectors and move over \$1.3 billion worth of goods across the border daily. Canada's exports to the US are equivalent to approximately one-quarter of Canadian GDP and the US receives roughly 75% of Canada's exports and supplies more than 50% of its imports. It is estimated that one in seven Canadian jobs is related to trade with the US.²⁵ Direct investment flows between Canada and the US are also extensive. However, trade and direct investment figures do not fully capture the integrated nature of supply chains between Canada and the United States as it is estimated that over one half of manufactured products imported from Canada by the US are intermediate inputs used by US companies to produce other goods and provide services.

Canada and Asia also have strong and growing connections to build upon. These include expanding economic connections reflected by trade and investment flows and vibrant and diversified gateway infrastructure building out from world-class airports, ports and transportation networks with the capacity to move people and goods to and from Asian markets. For a trade- and investment-dependent country like Canada, Asia represents an enormous opportunity to enhance its future prosperity.

Until now, Canada's international trade and investment has been supported by two pillars:

- A strong commitment to the World Trade Organization (WTO) agreements; and
- The North American Free Trade Agreement among Canada, Mexico, and the United States. During the first 15 years since NAFTA was implemented, total two-way merchandise trade between the US and Canada nearly tripled reflecting the value that a strong and comprehensive rules-based agreement can provide for trading nations.

²⁵Government of Canada (2014): *Beyond the Border: A Shared Vision for Perimeter Security and Economic Competitiveness*

Canada's government found these two pillars as the critical elements of Canada's international trade and investment strategy; however, a more aggressive approach to seeking improved market access through more bilateral and multilateral agreements is necessary if Canada is to remain competitive. In recent years, Canada has made some progress in this area:

- Canada and the US are working to remove barriers to trade within North America. The Canada-US Declaration on a Shared Vision for Perimeter Security and Economic Competitiveness, announced by Canada's Prime Minister Harper and the US President Obama on February 4, 2011, is a promising development.
- The Canada-EU CETA negotiations will add a third pillar to Canada's global trade and investment framework and signal a new approach for Canada's trade negotiations. The CETA, as envisioned, will be a new generation agreement addressing matters under exclusive or shared provincial and territorial jurisdiction (chapter 7).

Despite these developments, Canada is still missing formal bilateral free trade agreements with Asian countries. Agreements to liberalize trade and investment access with Asia constitute a critical and missing fourth pillar in Canada's trade and investment framework. To address this gap, the federal government, provinces and territories need to set a new, ambitious trade and investment liberalization agenda to change that and guide Canada's engagement with Asian countries.

Recently, Canada has begun or is in the process of negotiating agreements with several Asian countries:

- Canada-India Comprehensive Economic Partnership Agreement negotiations;
- Negotiations with Singapore;
- Canada-Japan Economic Partnership Agreement.

Beside these negotiations, the bilateral free trade agreement between Canada and Korea was brought into force on January 1, 2015.

Any trade and investment strategy for Asia would not be complete without an approach to China. Building on the work of the Canada-China Joint Economic and Trade Committee, Canada must develop an ambitious trade and investment strategy for China, identifying strategic opportunities and challenges.

6. THE EU – CANADA ECONOMIC RELATIONSHIP

The European Union is a strategic partner for Canada and they enjoy a vibrant and centuries old economic relationship. Their relationship is the EU's oldest formal relationship with any industrialized country, officially dating back to 1959 when the two signed the Agreement for Cooperation in the Peaceful Uses of Atomic Energy. In 1976 the **Framework Agreement for Commercial and Economic Cooperation** was signed. Under this Agreement, the EU-Canada Joint Cooperation Committee (JCC) meets annually to review cooperation over the past year and to identify means of taking forward the collaborative bilateral dialogue.

Since then, the relations between the two parties have been significantly strengthened with multiple agreements, including:

- The Transatlantic Declaration of 1990, which established how Canada and the EU consult with each other;
- The Joint Canada-EU Political Declaration and Action Plan of 1996, which outlined commitments to working together in many areas;
- The Veterinary Agreement of 1999 aimed at improving bilateral trade in live animals and animal products;
- The Canada-EU Partnership Agenda of 2004;
- The most recent agreements are the Wine and Spirits Agreement (2003), the Civil Aviation Safety Agreement (2009), the Comprehensive Air Transport Agreement (2009) and the Comprehensive Economic and Trade Agreement (CETA).

Today the EU, with its 28 Member States, is Canada's second largest trading partner after the United States, its second most important source of Foreign Direct Investment (FDI) and the second most important destination for Canadian Direct Investment Abroad (CDIA). The EU is also Canada's second most important source of new technologies and a key partner in science and technology cooperation.

Although the large EU market offers important commercial opportunities for Canada, it also presents certain challenges. Among these are restrictions by some Member States on mergers and acquisitions, market distortions in agriculture, uneven harmonization of regulations for a single market, and a number of EU-imposed bans and restrictions related to health, environmental and consumer protection concerns.

In an effort to deepen and broaden the Canada-EU commercial relationship, negotiations on a Comprehensive Economic and Trade Agreement (CETA) were launched in May 2009 at the EU-Canada Summit in Prague. As a strong supporter of free trade, Canada has always been a natural ally and important trade partner for the EU. Strengthening the economic and trade relationship with Canada is therefore an important priority.

6.1 The EU – Canada Trade Picture

In 2013 Canada was the EU's 12th most important trading partner, accounting for 1.7 percent of the EU's total external trade. In the same year the EU was Canada's second most important trading partner, after the US, with around 9.8 percent of Canada's total external trade. The value of the total trade in goods between the EU and Canada in the same year was €58.912 billion (Table 4). Figure 7 below shows the EU-Canada trade from 2004 until 2013.

Table 4 European Union trade with Canada, key figures, *Source: European Commission*

Indicator	Unit	Period	Imports	Exports	Total trade	Balance
Last year	Million euros	2013	27,289	31,623	58,912	4,334
Rank as EU partner		2013	14	15	12	
Share in EU trade	%	2013	1.6	1.8	1.7	
Annual growth rate	%	2012-2013	-9.8	0.7		
Annual average growth rate	%	2009-2013	9.0	9.6		

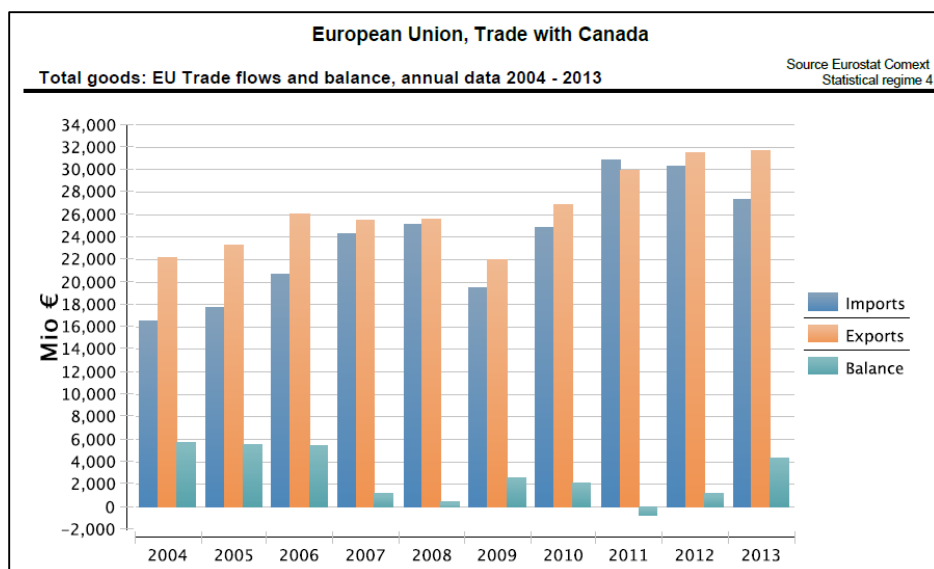


Figure 7 EU trade with Canada, annual data 2004-2013, Source: Eurostat

From the graphs below (Figure 8) we can see that machinery and transport equipment (39.9 percent) as well as chemicals (18.8 percent) dominate the EU's exports of goods to Canada, and also constitute an important part of the EU's imports of goods from Canada. Regarding the EU's imports from Canada in 2013, we can see that commodities and transactions are on the first place with 21.9 percent, while machinery and transport equipment are the second most imported group of products.

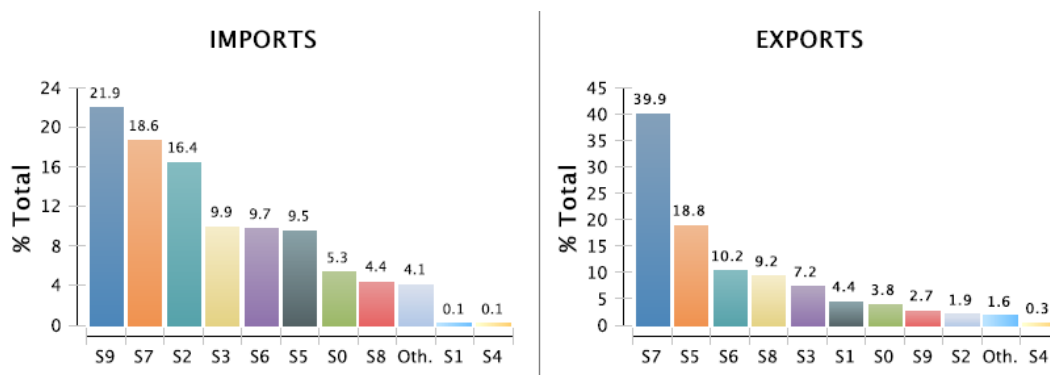


Figure 8 Total goods: EU trade flows to Canada by SITC²⁶ section, annual data 2013, Source: Eurostat

²⁶ SITC is the abbreviation for the **Standard International Trade Classification** - classification of goods used to classify the exports and imports of a country to enable comparing different countries and years. The classification system is maintained by the United Nations.

SITC Sections

Section	Label	Section	Label
S0	Food and live animals	S6	Manufactured goods classified chiefly by material
S1	Beverages and tobacco	S7	Machinery and transport equipment
S2	Crude materials, inedible, except fuels	S8	Miscellaneous manufactured articles
S3	Mineral fuels, lubricants and related materials	S9	Commodities and transactions
S4	Animal and vegetable oils, fats and waxes	Oth.	Other
S5	Chemicals and related products		

Also, trade in services (Figure 9) represents an important area of the EU-Canada trade relationship. The value of bilateral trade in services between the two partners amounted around €29 billion in 2013. Examples of often traded services between Canada and the EU are transportation, travel, insurance and communication.

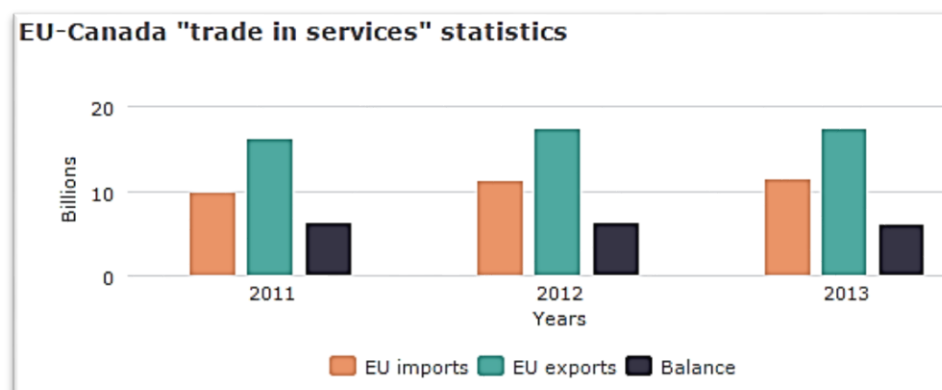


Figure 9 EU-Canada Trade in services in 2011, 2012 and 2013, € billions, *Source: Eurostat*

The investment relationship between the two parties is equally highly important. In 2011, European investors held investments worth €258.0 billion in Canada while Canadian direct investment stocks in the EU amounted to almost €142.6 billion. In 2013, European investors

held investments worth €225.2 billion in Canada, while the EU inward stock from Canadian investors in the same year was worth €117.0 billion.

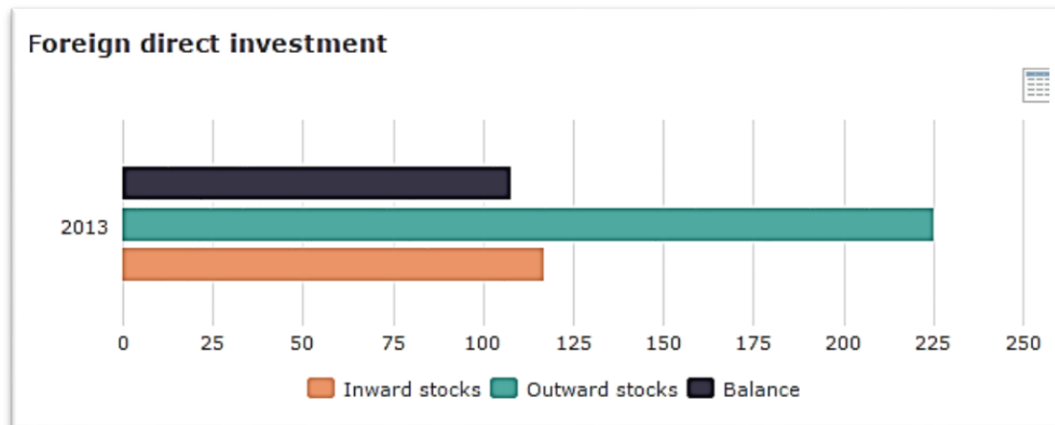


Figure 10 EU-Canada Foreign direct investment in 2013, € billions, *Source: Eurostat*

6.2 The Most Important Trade Agreements between the EU and Canada

6.2.1 *The Framework Agreement for Commercial and Economic Cooperation between Canada and the European Community (1976)*

Currently trade relations between the EU and Canada are guided by **The Framework Agreement for Commercial and Economic Cooperation** which was signed in 1976 in Ottawa. The agreement was signed with the main purpose to strengthen their relations and to contribute together to international economic cooperation. For nearly 40 years, the Agreement has provided the foundation for the management and development of the EU-Canada relationship in an increasing number of fields, including trade. It is a non-preferential agreement and it is the first formal agreement of its kind between the EU and an industrialized third country. Under this agreement the two parties are committed to “develop and diversify their reciprocal commercial exchanges and to foster economic cooperation”.

It is also under the auspices of the 1976 Framework Agreement (article IV) that senior European Commission and Canadian Federal Government officials have been meeting once a year in the **Joint Cooperation Committee (JCC)** to review the full range of issues relating to EU-Canada economic and trade relations. Such meetings have been taking place in the presence of representatives of the Canadian provinces and of the EU Member States.

Under the JCC, a ***Trade and Investment Sub-Committee (TISC)*** was established to review various EU-Canada bilateral agreements and initiatives and to settle market access issues existing between them. The TISC meets twice a year.

As it was mentioned before in the paper, during the years a number of additional bilateral agreements between the EU and Canada were signed, and the most recent are: The Wine and Spirits Agreement (2003), the Civil Aviation Safety Agreement (2009) and the Comprehensive Air Transport Agreement (2009).

6.2.2 The Wine and Spirits Agreement (2003)

Agreement between the European Community and Canada on trade in wines and spirit drinks was signed on 16th September, 2003, and it entered into force on 1st June, 2004.

This agreement resolves past issues in the wine and spirits sectors and facilitates Canada's product access to the EU market. Also it provides a simplified certification process for Canadian wine exports and protection for Canadian and European wine and spirit geographical indications. Protection for geographical indications of Canadian wine and spirits include for instance the Okanagan Valley, Niagara Peninsula and Canadian rye whisky, etc. The EU also benefits from the agreement's improved transparency provisions regarding liquor distribution systems in Canada.

6.2.3 The Civil Aviation Safety Agreement (2009)

Agreement on Civil Aviation Safety between the European Community and Canada was signed on 6th May, 2009 in Prague (Czech Republic) and it entered into force on 26th July, 2011.

Under this agreement, the European Aviation Safety Agency (EASA) recognized certification of Canadian aviation products and services, allowing the Canadian aviation industry to be much more competitive in the European market. Civil aviation safety has also been enhanced, as EASA and Transport Canada work cooperatively to resolve safety issues.

The main objectives of the Agreement are:

- To establish, consistent with the legislation in force within each Party, principles and arrangements in order to enable the reciprocal acceptance of approvals issued by either Party's competent authorities in the fields covered by the agreement;
- To allow the Parties to adapt to the emerging trend toward multinational design, manufacture, maintenance, and interchange of civil aeronautical products, involving the common interests of the Parties concerning civil aviation safety and environmental quality;
- To promote cooperation toward sustaining safety and environmental quality objectives;
- To promote and facilitate the continuing exchange of civil aeronautical products and services.²⁷

The Agreement on civil aviation safety between the European Community and Canada will directly contribute to the further development of trade between the two parties. Aviation is crucial for bringing Canada and the EU closer together by facilitating the flow of people and valuable goods.

The Civil Aviation Safety Agreement transforms this important market to the benefit of European and Canadian consumers and airlines. It also brings legal certainty to operations between the EU and Canada by recognizing the principles of the EU internal aviation market and of Community carriers.

6.2.4 The Comprehensive Air Transport Agreement (2009)

In December 2009, Canada and the EU signed and finalized The Comprehensive Air Transport Agreement. The EU represents Canada's second largest bilateral air market after the United States, with a total of 6.7 million one-way passenger trips.

The agreement significantly improved both, the connections between respective markets and people-to-people links, and created new investment opportunities through a gradual liberalization of foreign ownership rules with respect to airlines. It included a gradual phasing-in

²⁷ European Union Treaties Office, 2009 (last update 2013): *The Civil Aviation Safety Agreement*, <http://ec.europa.eu/>

of traffic rights, mutual investment opportunities, as well as far reaching cooperation on a number of issues including aviation safety, security, social matters, consumer protection, environment, air traffic management, competition law and state aid.

Under this agreement the EU and Canadian airlines are allowed to operate direct flights between any point in Canada and any point within the EU. The agreement also removed all restrictions on the number of weekly flights between Canada and the EU, and the capacity and prices offered by airlines. Finally, it established a fully Open Aviation Area between the EU and Canada, what means that EU nationals are allowed to establish operations in Canada and freely invest in Canadian airlines and vice versa.

This Comprehensive Air Transport Agreement has benefited travellers and shippers by providing more choices in terms of destinations, flights and routes, more direct services, and the potential for lower fares.

7. THE EU-CANADA COMPREHENSIVE ECONOMIC AND TRADE AGREEMENT (CETA)

7.1 Negotiations on the Comprehensive Economic and Trade Agreement

The negotiations between the EU and Canada on the Comprehensive Economic and Trade Agreement (CETA), launched during the EU-Canada Summit in Prague on 6 May 2009, were concluded at the EU-Canada Summit in Ottawa on 26 September 2014. CETA will be the EU's first comprehensive agreement with another highly industrialized country to facilitate market access for goods, services and investment by abolishing almost all tariffs and reducing a wide array of non-tariff barriers. CETA is also the first agreement to have been negotiated with a sound chapter on investment protection, (including *Investor-State Dispute Settlement (ISDS)* provisions), an area that is, since the entry into force of the Lisbon Treaty, the EU competence. The EU and Canada have agreed to improve regulatory cooperation without compromising existing safety standards. The parties have, however, retained some restrictions to free market access, including a few agricultural products, public services, audio-visual services and transport services. CETA also includes protection for more than 145 food products with geographical indications (GIs). The agreement preserves the governments' right to regulate in the public interest, in areas of public health and safety, the environment, public morals and cultural diversity.

The negotiations on the Comprehensive Economic and Trade Agreement concluded among others, that:

- Most, if not all industrial, agricultural and fisheries duties will be eliminated when the agreement enters into force;
- The EU and Canada will foster closer contacts in the field of technical regulations;
- Canada will recognize a list of the EU car standards, from which EU car exports to Canada will benefit;
- EU companies will have better access to key Canadian sectors such as financial services, telecommunications, energy and maritime transport.

CETA should deliver opportunities for both sides by liberalizing markets and enhancing cooperation, while reducing the costs of business transactions. Since small and medium-sized enterprises (SMEs) are more sensitive to transaction costs, CETA should be of particular benefit for this business group.

The EU-Canada Joint Study of October 2008 showed that once implemented, the agreement is expected to increase two-way bilateral trade in goods and services by 23 percent or €26 billion. Both sides, the EU and Canada, can expect to gain multiple benefits from the agreement,

because CETA will contribute to economic growth and the creation of jobs. Some of the expected benefits which predicted the economic model of the Joint Study are:

1. Annual real income gains of approximately €11.6 billion for the EU and €8.2 billion for Canada within seven years following the implementation of the agreement.
2. Total EU exports to Canada are estimated to go up by 24.3 percent or €17 billion, while Canadian bilateral exports to the EU are predicted to increase by 20.6 percent or €8.6 billion.
3. 50 percent of the total expected gains for the EU are related to trade in services, 25 percent to the removal of tariffs and the remaining 25 percent of the GDP gains can be reached by the dismantling of non-tariff barriers (NTB). In the service sector new opportunities will arise both for European and Canadian companies.
4. The benefits from the agreement in the area of NTBs are estimated to result in a €2.9 billion gain for the EU and €1.7 billion for Canada.
5. Companies on both sides will benefit from the disciplines on investment protection which will make the investments even safer.

In October 2013, the parties reached a political breakthrough on key issues considered by the agreement. In early August 2014, the basic text of the agreement, classified as confidential, was sent to the European Parliament's Committee on International Trade (INTA). After that, the partners declared that negotiations had been concluded, and the consolidated CETA text was made available to the public.²⁸

The text of the agreement must now undergo a formal consent procedure before the European Parliament. In the time this will take, about two years, the Parliament will be able to ask the Commission to explain the process of negotiating the ISDS provisions, since these provisions have been identified as a critical point of the agreement by many EU countries. The Parliament can then analyze whether CETA's investment protection provisions have struck the proper balance between adequately protecting investors and preserving the government's right to regulate in the public interest. Moreover, since investment is not only one of the areas covered by CETA, the Parliament should also study market opening and other non-tariff measures. This would allow the institution to evaluate the agreement's potential gains, as well as the risks that some European citizens fear it will bring.

²⁸ European Commission (26 September, 2014): *Consolidated CETA text*

7.2 The Content of CETA

According to the European Commission, which negotiated CETA on behalf of the Member States based on negotiating directives, “this agreement will allow EU companies to compete with the US exporters on the Canadian market on a level playing field, as the US and Canada have already liberalized their trade under the North American Free Trade Agreement (NAFTA)”. Below in the paper are presented different sections in which CETA will bring the most important changes for both Parties.²⁹

- *Trade in goods*

All products traded between the EU and Canada will profit from CETA, as customs tariffs on nearly 99% of all tariff lines on both sides will ultimately be liberalized. Tariff lines for 98% of goods will be scrapped upon CETA's entry into force. The European Commission has highlighted the projected results for sectors such as processed agricultural products (including soft drinks, confectionary products and cereal-based preparations – e.g. biscuits), for which most duties will be eliminated. Similarly positive results are expected for European wine and spirits exporters, as both tariffs and non-tariff barriers are to be removed. For the remaining tariff lines, which mainly concern agricultural goods, some protection was retained in the form of quotas.

- *Trade in services*

CETA will provide a new market access for European service providers, notably in the maritime and professional domains. It will also improve the market conditions for postal and express delivery services. The agreement represents the first time that the EU has agreed to open market access in the services sector on the basis of a “negative list” approach; this means that all service markets are liberalized except those explicitly excluded. Exclusions include public services such as health care, education and other social services, as well as water distribution (only some water treatment services will be liberalized), audio-visual services and some air services.

The agreement will also facilitate the temporary cross-border movement of key personnel and service providers and will also establish a framework to simplify the recognition of profession qualifications from both sides.

²⁹ European Parliament (October 2014): *IN-DEPTH ANALYSIS: Negotiations on the EU-Canada Comprehensive Economic and Trade Agreement (CETA) concluded*, http://www.europarl.europa.eu/RegData/etudes/IDAN/2014/536410/EXPO_IDA%282014%29536410_EN.pdf

- *Investments*

The agreement's investment chapter covers the establishment and protection of investors and investments at both central and sub-central government levels, with the exceptions of some sectors that are not fully covered by the investment chapter of the agreement, such as air services and audio-visual services.

Since Canada is the fourth-largest investor in the EU and has bilateral investment treaties (BITs) with eight EU Member States in place³⁰, including a far-reaching investment chapter in CETA was an important Canadian request; the country hoped to create consistency across the EU. CETA is one of the first EU agreements which not only facilitates market access for foreign direct investment in the other market, but also includes rules to protect investments. The EU worked notably to ensure that all EU investors in Canada are equally protected.

CETA's investment chapter contains the following major elements:

- **Market access:** While this is subject to some exceptions in specific circumstances, market access cannot be limited or restricted through quantitative restrictions – e.g. by requiring enterprises from one side to be a specific type of legal entity or joint venture in order to carry out economic activity on the other's territory.
- **National treatment (NT) clause:** This guarantee that European and Canadian investors (as defined by CETA) are treated no less favorably than domestic investors.
- **Most-favored nation (MFN) treatment:** This ensures that EU and Canadian investors will be treated no worse than other foreign investors (a standard MFN clause).
- **Investment protection:** In addition to national treatment and most-favored treatment provisions which should protect investors against discrimination relative to national or third-state investors, the obligation to provide “fair and equitable treatment” is precisely defined in the agreement. CETA is the first international investment agreement to define the circumstances that constitute a breach of this obligation.³¹

³⁰ Croatia, Czech Republic, Hungary, Latvia, Malta, Poland, Romania and Slovakia

³¹ European Commission (26 September, 2014): *Investment provisions in the EU-Canada Free Trade Agreement*

- **Compensation for loss:** Under the CETA, losses on investments are covered when are caused due to armed conflict, civil strife, a state of emergency or natural disaster in one partner's territory. Compensation must be no less favorable than that accorded to domestic investors (national treatment-NT) or to investors from any third country (MFN treatment).
- **Expropriations (direct or indirect) and nationalization of investments:** This is possible for investments covered by CETA, but only when are undertaken for a specific public purpose, under due process of law, when carried out in a non-discriminatory manner in relation to other investors and when compensated by payment. Indirect expropriation is clearly defined in such a way that non-discriminatory actions, including regulatory actions, will not be considered expropriation, and compensation will not be due.
- **Transfers of funds:** When related to investments covered by CETA, these transfers are permitted without restriction.
- **Financial services sector:** The sector is fully covered by all the substantive investment protection provisions, including investor-state dispute settlement (ISDS), subject to a “prudential exceptions”.
- **A “filter” for measures challenged by investors:** CETA introduces a “filter” that allows the two parties to decide jointly whether the “prudential carve-out”³² would apply to measures investors challenge – that is to say, whether regulators have the right to impose a measure (even if contested by investors) because they believe it ensures stability. If both parties agree that the measure is prudential, the investor’s claim will not go to arbitration.
- **Investor-State Dispute Settlement (ISDS):** ISDS is only permitted when an investor can prove that there has been a breach of one of the limited investment protection obligations, such as non-discrimination, fair and equitable treatment or expropriation without an appropriate compensation, which has resulted in loss or damage. Before a claim can be submitted to an arbitration tribunal, the investor and the state must seek amicable settlement, through a defined procedure and within a set time frame. If the dispute cannot be resolved through consultation, the investor may submit a claim to an arbitration tribunal. The ISDS provisions in CETA stipulate binding conditions for full transparency in the dispute settlement proceedings: all documents, such as the Parties' submissions and the tribunal's decisions, must be publically available on a website (which the EU will finance); all hearings must be open to the public; and,

³² The concept of “prudential carve out” is found in the WTO's General Agreement on Trade in Services (GATS) and has been a standard part of the EU's free trade agreements.

all interested parties, such as non-governmental organizations (NGOs) and trade unions can make submissions.

- ***Innovative elements in the ISDS provisions:*** CETA contains a number of ISDS-related elements that appear for the first time in an international investment agreement. To name a few: an investor cannot bring multiple claims; an ISDS tribunal is prohibited from ordering the reversal of domestic laws or regulations; arbitrators are subject to a binding code of conduct; a roster of well-qualified and pre-vetted arbitrators will be established; a system is created to prevent frivolous or unfounded claims; costs are not borne by both parties, but by the unsuccessful party; an appellate mechanism will be created; claims by shell companies will not be permitted.

- ***Sanitary and phytosanitary (SPS) issues***

The chapter on sanitary and phytosanitary (SPS) issues fully integrates the existing Canada-EU Veterinary Agreement into the CETA. CETA has also established rules for approval procedures for plant products that lead to a facilitated Canadian system. It also reaffirms and enhances the provisions of the WTO Agreement on Sanitary and Phytosanitary Measures. However, both sides have similar, high levels of safety standards, which will be fully retained.

- ***Technical barriers to trade (TBTs)***

CETA builds on the provisions of the WTO Agreement on Technical Barriers to Trade (TBTs), including in the areas of transparency, international standards, technical regulations and conformity assessment. More specifically, TBT-related provisions strengthen cooperation on technical regulations so as to reduce regulatory divergences that can disadvantage producers and consumers in both the EU and Canada. As the partners' existing regulatory systems differ, the agreement's closer regulatory cooperation, in which the standard-setting organizations will directly participate. Transparency will also be enhanced by allowing the public to participate in the development of technical regulations.

- ***Government procurement***

From the beginning, the EU held that CETA should substantially improve access to public procurement markets. The partners aimed to achieve full coverage of central and sub-central government procurement in all sectors, and to ensure, treatment no less favorable than that accorded to local suppliers. In this way, the EU, whose public procurement market is already open to Canadian suppliers, gained access to Canadian public procurement: in addition to calls

from the central government, calls from federal entities, provincial and territorial entities, and certain larger municipalities will now be open to EU tenderers. Canada has granted European companies procurement opportunities that are similar to those of Canadian competitors and that, according to the European Commission, go well beyond the market access concessions that the NAFTA partners have granted to one another.

- *Intellectual Property Rights (IPR) including Geographical Indications (GIs)*

The WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) constitutes the starting point for protection of intellectual property (IP) rights within CETA. Yet CETA substantially improves protection on all those categories of IP rights where negotiators identified a need to increase protection and/or enforcement. For instance, IPR protection for pharmaceutical patents has shown to be the most difficult issue, and the agreement includes elements to attract and retain investments in the sector.

With regard to the EU geographical indications(GIs)³³, the EU attained recognition of more than 145 EU GIs, including Bayerisches Bier from Germany, Danablu cheese from Denmark, Oli de Terra Alta from Spain, Brie de Meaux from France, Mortadella Bologna from Italy, Tiroler Speck from Austria and Magiun de prune Topoloveni from Romania and so on. This comprehensive GI list is an achievement that will particularly benefit European small and medium-sized enterprises (SMEs), as food processing for these items is often carried out by small producers.

- *Rules of origin*

Agreement about rules of origin, which generally define the necessary conditions for a product to qualify as either Canadian or European (and thereby benefit from CETA's preferences) proved difficult to reach because the EU and Canadian systems differ widely from each other for certain products. These differences were ultimately bridged in a way that agreement preserves the EU's rules of origin. Only a few exceptions were granted to Canada. From Canada's perspective CETA has relatively liberal rules of origin, recognizing that Canada is highly integrated with American supply chains. There are special exceptions allowing higher levels of foreign value-added for Canadian automobiles and processed fish, for instance.

³³ World Trade Organization definition on Geographical Indications: Geographical indications are place names (in some countries also words associated with a place) used to identify products that come from these places and have these characteristics (for example, "Champagne", "Tequila" or "Roquefort").

- *Sustainable development*

CETA incorporates sustainable development issues through provisions on the environment and labor rights; these include the core labor standards embodied in the 1998 International Labor Organization (ILO) Declaration, as well as provisions supporting internationally recognized standards of corporate social responsibility. According to the European Commission, the rules in CETA are not lower than those in the North American Free Trade Agreement (NAFTA). Moreover, the sustainable development chapter in CETA contains a dedicated dispute settlement mechanism based on government consultation and a panel of independent experts, whose reports are to be made public and require follow-up. In cases in which the rules are breached, however, CETA does not foresee sanctions.

7.3 The main points which differentiate CETA from “traditional” trade agreements

CETA is seen as the most ambitious and far reaching agreement since the North American Free Trade Agreement (NAFTA) between Canada, US and Mexico. CETA moves beyond traditional free trade arrangements which emphasize tariff and customs duties reduction and/or elimination. It is being touted as a “second generation” trade agreement focusing on removing obstructive non-tariff barriers (NTBs) such as domestic regulations, standards and procedures that impede the flow of goods and services between the Parties.

Modern trade negotiations recognized that the nature of international trade had evolved to the point where traditional free trade agreements with their focus on goods moving across borders were no longer sufficient. The liberalization of other aspects of international trade such as trade in services and FDI has the potential to produce gains that eclipse the potential gains from a simple reduction of tariffs and goods-related NTBs. Agreements such as NAFTA and negotiations under GATT/WTO have addressed or attempted to address these issues. CETA, however, managed to live up to its title and be truly comprehensive, going beyond all past negotiations.

Both Parties agreed that CETA is extremely ambitious in scope and both were committed to its successful conclusion as they had invested a great deal of political capital in it. The provinces and territories were participating as full partners in negotiations alongside federal officials for the first time in the annals of Canada's foreign trade policy. This was critical as the provinces had to implement most non-tariff barrier provisions (labor, environment, public procurement, etc.) as they fall within their jurisdiction. Consequently, the EU insisted that provinces participate in negotiations to assure compliance with the CETA. This was the key difference that set CETA apart.

Another difference that was already mentioned is the “negative list” approach, which started from the position that trade in all services should be liberalized except those specifically identified as exceptions. Prior to CETA, the EU had always insisted on a “positive list”, an approach that required a listing of specific services. The negative list is the approach used by NAFTA and for government procurement under the WTO. The advantage of this approach is broader coverage of sectors.

The common narrative about CETA is that tariffs do not matter. This is a small part of the story. Indeed, average tariff levels are relatively low in each instance. The real story resides in the “twenty-first century elements” of the agreements, such as regulatory convergence, investor-state dispute settlement, etc. CETA contains the first regulatory cooperation chapter in any Canadian FTA. It goes on to say that CETA provisions create a formal mechanism that will facilitate joint initiatives between Canadian and the EU regulatory authorities; includes comparing data collection and analysis practices, reviewing lessons learned, conducting risk and regulatory impact assessments; and facilitates earlier access to regulatory development processes to reduce differences in approach in order to achieve more compatible measures and fewer trade barriers. CETA will also promote cooperation related to animal welfare. This is not insignificant. It places a new emphasis on regulation as compared to traditional trade agreements.

As it was mentioned above, CETA also contains provisions related to investor-state dispute settlement (ISDS) mechanism. The CETA ISDS mechanism is apparently less permissive than some. For example, it reportedly carves out a higher threshold for arbitration in the financial services sector. An investor’s claim regarding financial services would only go forward after a joint expert committee determines that the measures in dispute were not of a “prudential” nature. Those who favor inclusion of ISDS provisions in CETA argue that it must contain a benchmark provision that can serve as a reference point in negotiations with other trading partners in future agreements where such protection might be considered much more necessary. Those in favor of ISDS see an opportunity to protect against the sorts of abuses that opponents fear.

CETA recognizes the realities of twenty-first century international commerce, with complex networks of value-chains and flows of people, services, and ideas across borders. It is a model or prototype for a new generation of trade agreements which move beyond the elimination or reduction of tariff barriers to the dismantling of NTBs. The EU invested an enormous energy in the CETA as this would create a template for future economic and trade pacts with other nations or groups of countries. It could conceivably set the stage for the Transatlantic Trade and Investment Partnership (TTIP) between the US and EU.

7.4 Comparison between CETA and NAFTA

This subchapter summarizes the most important differences between CETA and NAFTA with the main purpose to show how CETA, as twenty-first century agreement, had exceeded NAFTA in almost all aspects.

In January 1994, the United States, Mexico and Canada entered into the North American Free Trade Agreement (NAFTA), creating the largest free trade area and richest market in the world. The NAFTA is the most comprehensive regional trade agreement ever negotiated by the United States. The main goals of this agreement were:

- to reduce barriers to trade;
- to increase cooperation for improving working conditions in North America;
- to create an expanded and safe market for goods and services produced in North America;
- to establish clear and mutually advantageous trade rules; and
- to help develop and expand world trade and provide a catalyst to broader international cooperation.

The main points of difference between CETA and NAFTA are:

1. Trade in goods

A central component of free trade agreements (FTAs) is the reduction of trade barriers between the members. Trade barriers can be in the form of quotas, tariffs or non-trade barriers (could be technical standards used as barriers). While NAFTA planned for a phasing out of most barriers in a fifteen year time frame, CETA set this phasing out period at seven years for the most sensitive goods. To have an indication of the speed of the phasing out, over 95 percent of all goods are to face no tariffs upon entry into force of CETA. With NAFTA, the process was much slower and haphazard. For example, only 40 percent of goods faced tariffs of 0 percent between Mexico and the US when NAFTA came into force. Further, piecemeal deals between the three countries had to be reached in order to further reduce trade barriers. CETA on the other hand is more comprehensive and tends to treat the EU as one economic entity (as it should) which eliminates the need for side deals.

CETA also seems to have an upper hand in terms of reducing barriers for agricultural goods, normally an issue of great contention between trade partners. In fact, World Trade Organization trade talks between member countries have been constantly failing in large part due to failure to arrive at a compromise on agricultural goods. CETA is set to have most agricultural goods trade freely between the EU and Canada within seven years. NAFTA was not as successful on this count since the tripartite side deals concerned sensitive agricultural goods.

A very interesting aspect of CETA is the rules of origins that favor the use of foreign components. Rules of origins are used to determine the country of origin of traded goods. If a good is deemed to be produced outside the FTA, then tariffs may be levied. Without getting in the nuts and bolts of rules of origin, suffice it to say that CETA would allow auto components that only have 45% Canadian content to count as a good produced in Canada. In contrast, NAFTA required a domestic content of 62.5% at entry into force. Auto manufacturers would claim that this will erode domestic business and jobs while third-party foreign manufacturers could see this as an indirect way of benefiting from CETA.

One important distinction between NAFTA and CETA is the FTA between Canada and the US which existed before NAFTA. Many observers note that Mexico felt the greatest economic effects from the agreement since Canada and the US had already extensively reduced trade barriers before NAFTA. This is not the case with CETA. Consequently, there are chances that the economic effects of CETA be felt more rapidly and be more important than with NAFTA.

Another important difference is the economic climate of Canada. When NAFTA came into force, Canada's manufacturing industry was much more powerful. Today, the manufacturing sector is sluggish due to a Canadian dollar hovering at parity with the American dollar and NAFTA which lifted the protectionist shield of uncompetitive manufacturers. Also, Canada's resource-based economy is stronger now than twenty years ago. As a result, there is a fear that Canada will be exporting natural resources to the EU and in return, high-value finished goods will be imported. Critics of CETA warn that this could lead to a growing trade deficit.

2. Labor Mobility

While CETA boasts a framework that streamlines regulations to allow mobility of professions between member countries, this is merely a voluntary endeavor left at the discretion of the respective governing bodies. There are nine main categories of workers covered by the CETA: business visitors for investment purposes, investors, senior personnel, specialists, graduate trainees, contractual service suppliers, independent professionals, short term business visitors and spouses. NAFTA was slow on this issue, but as of 2008, the three countries had agreed on the core competences of 64 professions in order to issue NAFTA visas that allow workers to work temporarily in a member country for up to three years. There have already been some initiatives between Canada and the EU prior to CETA with lawyers and architects.

3. Trade in Investments

The point of interest here is a commitment in CETA to provide a dispute-resolution mechanism that is transparent and in which interested third-parties can part-take in. This diverges greatly from NAFTA chapter 20 which provides a closed dispute settlement mechanism for foreign investors.

4. Intellectual Property Protection

NAFTA based its IP regime on the then TRIPS³⁴ negotiations. Canada nonetheless has continued to be viewed as weak in terms of IP protection. CETA contains nothing ground breaking in terms of Copyrights and Trademarks, but there is a commitment to allow pharmaceutical companies to restore up to two years of patent protections that was lost by regulatory processes, and also allow innovative pharmaceuticals (as opposed to generic) to have a right of appeal for decisions made under the Patented Medicines Regulations, a right that was only available to generic pharmaceutical companies. This change is welcomed and had been long awaited by pharmaceutical companies.

7.5 CETA as a True Representative of Deep Integration

Traditional PTAs, as it was mentioned before in the paper, are trade agreements usually thought of as reciprocal market access exchanges involving tariff cuts and the reduction of other border measures. But most modern day trade agreements, such as CETA, contain provisions that cover a wide array of non-tariff measures, both at the border and behind-the-border. An incomplete list includes: technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures, rules on investment and intellectual property rights (IPR) protection, provisions on anti-corruption, competition policy, labor standards, etc. While some of these areas are regulated at the World Trade Organization (WTO), CETA goes a way beyond multilateral rules.

In order to analyze the depth of CETA and to prove that it is one of the deepest agreements ever signed, I will go through its most important chapters, which can serve as an evidence for this claim.

The key points that make CETA a deep agreement are:

- ***RULES ON INVESTMENTS***

- ***Investor-State Dispute Settlement***

The CETA includes a far reaching investment chapter that will empower foreign investors and multinational corporations. This is widely seen as “the new EU model” investment treaty and as a blueprint for what will the EU try to insert into the EU-US Transatlantic Trade and Investment

³⁴ Agreement on Trade-Related Aspects of Intellectual Property Rights, signed in Marrakesh, Morocco on 15 April 1994

Partnership (TTIP). Under this chapter Canada and the EU commit themselves to strong market access rules, prohibition of performance requirements, non-discriminatory treatment of foreign investors and high standards of investor protection. Through the proposed investor-state dispute settlement (ISDS) mechanism, foreign investors will be granted the special privilege of suing host governments and claiming compensation for all kinds of state actions, while bypassing domestic judicial systems and their independent courts. In this way, CETA goes beyond the NAFTA in its investor-friendly formulation of the “fair and equitable treatment” standard.

➤ ***Financial Services***

The CETA financial services chapter creates several new layers of investor rights and dispute settlement recourse that will hamstring financial regulators charged with protecting consumers and the overall stability of the financial system. Under the CETA, foreign investors would have broader rights to challenge financial regulations through investor-state dispute settlement (ISDS). The CETA expands the grounds for foreign investors to challenge government measures regulating financial services sectors. In addition, the agreement includes new disciplines on domestic regulation that apply to financial services. These apply to non-discriminatory regulations related to licensing requirements and procedures and qualification requirements and procedures for financial services, greatly expanding the degree to which non-discriminatory regulations are subject to binding trade treaty restrictions.

• ***PROVINCIAL AND MUNICIPAL COVERAGE***

Government procurement, the public purchasing of goods and services of all kinds, can be an important economic development tool, especially when used to encourage broader policy goals such as transition to green energy. These purchases make up a significant portion of public budgets. The WTO estimates government purchasing at from 10 to 15 percent of GDP in developed countries. Typically, governments are the single largest purchasers of goods and services in the economy. The large amount of public money involved is one reason why government procurement is an important issue.

Public procurement in Canada by all levels of the government is already open, transparent and fair, with recourse for companies that feel they have been treated unfairly. Few if any jurisdictions in Canada prohibit foreign firms from bidding on goods, services or construction projects. Similarly, Canadian firms with a market presence in Europe must legally be treated the same as European firms under the EU procurement directives.

The real objective of EU negotiators in the CETA with respect to procurement was not to achieve non-discriminatory access at all levels of government, which already exists for the EU

companies in Canada. The EU negotiators sought “unconditional access,” which is something quite different. In this respect, the EU won handily while Canadian firms operating in Europe picked up few new opportunities. In other words, on procurement, Canada made unilateral concessions to the EU that will mostly affect municipal governments and other provincial entities previously excluded from trade deals. The procurement commitments that Canada has agreed to in the CETA are extensive and will substantially restrict the vast majority of provincial and municipal government bodies from using public spending as a catalyst for achieving other societal goals, from creating good jobs to supporting local farmers to addressing the climate crisis.

The CETA requires provincial governments to establish a new process through which European and Canadian companies can dispute procurement decisions made by covered government entities on contracts above the thresholds established. It also requires that notices of intended procurement must be directly accessible.

- ***PUBLIC SERVICES***

CETA provides multiple grounds for challenges public services and makes privatization a one-way street. The ambiguous wording of exceptions for public services in the NAFTA and the GATS has been carried over into the CETA. The threat to public services in the CETA is compounded by the fact that it combines the most far-reaching provisions of these agreements and extends them to more areas. The CETA has a “ratchet” mechanism so that any existing measures that the Parties have reserved can only be changed in the direction of more liberalization and privatization.

- ***REGULATION***

- ***Domestic Regulation***

The CETA imposes novel obligations on governments that go far beyond the traditional trade agreements’ requirements not to discriminate between foreign and local corporations. The CETA’s Domestic Regulation chapter (Chapter 14) draws on language in the WTO General Agreement on Trade in Services (GATS), defining its scope very broadly not only as covering licensing requirements and procedures and qualification requirements and procedures, but also all measures relating to these regulations and procedures. The CETA departs in a highly significant way from the GATS, applying domestic regulation restrictions not only to services but also to “the pursuit of any other economic activity”. With its broadly worded restrictions on non-discriminatory regulations, the CETA reaches into areas that are not trade-related to dictate to governments specific criteria their regulations must meet.

The CETA imposes requirements on governments to provide corporations with licensing procedures that are “as simple as possible” and do not “unduly complicate or delay” their activities. Making licensing procedures “as simple as possible” sets an absolute value on the ease with which corporations can get their projects approved to the detriment of all other considerations. Every level of government, central, regional and local is covered by the Regulation chapter of the agreement, as well as any non-governmental body in the exercise of powers delegated by central, regional or local governments or authorities that grant an authorization.

➤ ***Regulatory Cooperation***

One of this chapter’s key principles is that regulatory cooperation should prevent and eliminate unnecessary barriers to trade, enhance competitiveness and enhance innovation. Article X.2.4 states that the “Parties may undertake regulatory cooperation activities on a voluntary basis.” However, “if a Party refuses to initiate regulatory cooperation or withdraws from such cooperation, it should be prepared to explain the reasons for its decision to the other Party.” Therefore, the Parties must provide an explicit justification if they decide not to accept a regulation as equal.

Article X.4.4 of the agreement states that the Parties will endeavor to share “proposed technical or sanitary and phytosanitary regulations that may have an impact on trade with the other Party at as early stage as possible so that comments and proposals for amendments may be taken into account.” This means that information on future legislation could be shared with the other Party even before it has been shared with their Parliaments. Even though this can represent a serious problem for both Parties, because if that were the case, the other Party could make amendments and comments before the country’s own parliament got their hands on the draft legislation, at the same time it also represents another evidence of the great depth of this agreement.

• ***INTELLECTUAL PROPERTY RIGHTS***

➤ ***Pharmaceuticals***

The CETA is the first Canadian trade agreement since the NAFTA to include an Intellectual Property Rights (IPR) chapter. The important fact is that Canadian negotiators made unilateral concessions in the CETA that will only affect Canada and will not require changes to the intellectual property rights regime for pharmaceuticals in the European Union.

Brand name manufacturers will be able to apply for patent term extension when they submit new drugs for market authorization. When a drug is protected by more than one patent, no

“stacking” of patent term extensions will be permitted. But, in such instances, brand name drug manufacturers will be able to choose the most favorable patent for extension. The increased costs related to patent term extension will begin to kick in eight to ten years after the CETA enters into force. It is curious that the CETA labels this system as *sui generis* (of its own kind; unique), since it replicates the European system of patent term restoration, with the exception that Canada has capped the term at two years, rather than five, as in the EU.

The CETA locks in Canada’s current terms of data protection for all drugs at eight years, with an extra six months for pediatric drugs. This refers to the data submitted to Health Canada by a drug company seeking an authorization for a new drug in order to demonstrate that it is safe and effective. These provisions go beyond the NAFTA and the WTO Agreement on Trade-related Intellectual Property Rights (TRIPS), which only require five-year terms of data protection.

➤ **Geographical Indications – GIs**

The central idea behind protections for Geographical Indications (GIs) is that certain products have inherent qualities related to their place of production such as soil or climatic conditions (called *terroir*) as well as cultural knowledge and traditions, that differentiate them from similar products. That designation creates a kind of place-based “brand” that informs consumers about their special qualities and allows producers to charge a premium price. As opposed to the trademark system used in Canada and the US (e.g. Idaho Potatoes or Maine Lobster), where the names are owned by a particular company or trade association, GIs are a collective right. They cannot be bought, sold or assigned to other rights holders.

The EU has separate registration and protection regimes for more than 1,200 wines, spirits, and agricultural and food products. They are produced and marketed locally or regionally, but some categories, especially wines and cheeses, are widely exported as well. For this reason, the EU has sought to expand protections of geographical indications in the CETA as well as in its other bilateral free trade agreements.

The CETA established protections for a broad range of European products. The chapter on Geographical Indications lists protections for 173 European food names for products sold in Canada. The governments would take action to prevent the use of a GI unless the related products are produced according to specific standards and from the specific countries identified in the Annex 1, even when the product is identified as being from Canada. Even though European markets are already covered by existing GI protections, they would be a completely new for Canada. Carleton University analyst Crina Viju notes that, “Unless the US recognizes the EU’s GIs, Canada will be in the middle and will most probably suffer the consequences of

recognizing different intellectual property obligations in two different major bilateral trade agreements, the NAFTA and the CETA.”³⁵

A leaked technical summary by the European Commission declared about the outcomes of the CETA talks: “Another very positive result is the outcome on Geographical Indications (GIs). It is remarkable that Canada, not traditionally a friend of GIs, has accepted that all types of food products will be protected at a comparable level to that offered by the EU law and that additional GIs can be added in the future. This is a very satisfactory achievement in itself, but at the same time also a useful precedent for future negotiations with other countries.”³⁶

- **TRADE, TARIFFS AND TRANSPORT**

The CETA is designed to provide unconditional access to the Canadian and EU economies by investors from both Parties. The agreement removes virtually all (99 percent) tariff supports for sectors of the economies of both Parties with some tariffs being removed immediately upon implementation of the agreement and others within the span of one to seven years. But perhaps more importantly, the CETA removes the ability of future governments to utilize tariffs to support national and regional economic development objectives. Tariffs on most Canada-EU trade of industrial goods have already been removed or substantially reduced and are generally low with tariff rates of on average 3.5 percent for the EU exports to Canada and 2.2 percent for Canadian exports to the EU. Ultimately the economic gains from tariff removal will be minimal, but given that average tariffs are currently higher on the EU exports than Canadian exports, the EU economy would gain more from mutual tariff removal. The removal of tariffs will create winners and losers in Canada. Canadian sectors facing reduced EU tariffs could benefit through lowering the price of their goods on the European market. Conversely, some producers for the Canadian market will find it difficult to compete with cheaper EU imports following tariff removal.

Auto Manufacturing - Automotive trade is an important part of Canada’s overall trade relationships with the EU. In 2013, Canada imported \$5.6 billion worth of automotive products from the EU, almost four-fifths of that consisting of finished vehicles, the rest of parts, and exported back \$252 million worth of automotive products, mostly parts. Chapter 3 of the CETA, dealing with National Treatment and Market Access for Goods, specifies that full national treatment will be accorded to imports from the other country. This market access commitment

³⁵ Viju, C. (2013): *CETA and Geographical Indicators: Why a Sensitive Issue?*, CETA Policy Briefs Series, Canada-Europe Transatlantic Dialogue

³⁶ European Commission (October, 2013): *CETA — Summary of negotiating results following the break-through* <http://www.tradejustice.ca/en/>

confirms that the current state of affairs in this sector is both legitimate and permanent. This represents the first time that Canada has made this commitment in the strategically important auto sector with any major auto producer outside of North America.

Marine Transport – The CETA provisions related to marine transport include the following:

- ❖ The CETA will allow EU-based or EU-owned firms to ship empty containers between ports in Canada on a non-revenue basis by using vessels of any registry.
- ❖ The CETA will allow EU contractors to bid on any federally procured dredging contracts exceeding the procurement thresholds for construction services.
- ❖ The CETA will allow EU contractors to bid on private dredging contracts of any size.

Air Transport - Air transportation between Canada and the EU was already largely liberalized by the 2009 Air Transport Agreement. The CETA alters the provisions of that framework but existing rights and obligations under the Agreement on Air Transport between Canada and the European Community will remain unchanged. In terms of the scope of the CETA, it will apply to: (i) aircraft repair and maintenance services; (ii) the selling and marketing of air transport services; (iii) computer reservation system services; (iv) ground handling services; and (v) airport operation services.

Parties to the agreement are obligated to provide national treatment, which means treatment no less favorable than the most favorable treatment accorded, in like situations, by that government to its own service suppliers and services in air transport. Parties are also obligated to provide the most favored nation treatment when it comes to service suppliers and services of the other Party. This means treatment no less favorable than that it accords, in like situations, to service suppliers and services of any non-Party.

The market access provision eliminates restrictions on the number of service suppliers (whether in the form of numerical quotas, monopolies, exclusive service suppliers or the requirement of an economic needs test), the total value of service transactions or assets in the form of numerical quotas or the requirement of an economic needs test, and the total number of service operations or the total quantity of services output expressed in terms of designated numerical units in the form of quotas or an economic needs test.

- **AGRICULTURE AND FOOD SOVEREIGNTY**

The expanded intellectual property rights enforcement tools under the CETA will give multinational seed companies more control of Canadian farms, increase seed costs and limit farmers' autonomy, especially when taken in conjunction with Canadian Bill C-18 (The Agricultural Growth Act).

Chapter 22, Article 18 of the CETA gives intellectual property rights holders the ability to use the courts to seek injunctions against suspected infringers, such as farmers suspected of selling or storing farm-saved seed, before determining whether there has been an actual violation. Judges will be granted the authority to order the seizure of assets, equipment and inventory of suspected infringers and any third parties they believe are helping the suspected infringement before the case is ever heard in court.

➤ **Fish Products**

The CETA would eliminate (after three years) the existing Newfoundland and Labrador prohibition on exports of raw fish as it applies to EU-bound exports. This provision is described in Article 12 on National Treatment and Market Access of Goods.

The schedule for tariff reduction on fisheries products is specified in a partial tariff offer schedule included within the leaked documents. For most fisheries products, the EU applies a phase out Schedule D, with tariffs phased out evenly over eight years. In some cases the phase-out is faster: four years for frozen lobster and crab, six years for prepared lobster, mussels, and snails. Canadian tariffs on fish and seafood imports are eliminated immediately, since any sectors not included in the tariff offer schedule are allocated to Schedule A, which is immediate elimination. Since Canada's fish imports from Europe are small and do not generally compete directly against Canadian equivalents the impact of this Canadian tariff elimination will also be small. The elimination of EU tariffs will likely provide a significant boost to Canada's fish product exports to the EU.

➤ **Local Food Support Programs**

Public procurement of food is an important driver of local food security because it ensures market access for small-scale food producers and reduces the risk associated with the volatility of export markets.³⁷ Buy-local public procurement also increases consumer choice, stimulates regional economies and represents an alternative to conventional distribution channels.

Under the CETA, market access for procurement is extended to all levels of government, which includes the broader MASH³⁸ sector. This means that it will no longer be permissible for governments at the federal, provincial or municipal level to give purchasing preference to

³⁷ De Schutter, O. (April 2014): *The Power of Procurement: Public Purchasing in the Service of Realizing the Right to Food*, UN Rapporteur on the Right to Food, Briefing Note 08

³⁸ The MASH sector includes municipalities, municipal organizations, school boards and publicly-funded academic, health and social service entities, as well as any corporation or entity owned or controlled by one or more of the preceding. The MASH sector came under the Agreement on Internal Trade on July 1, 1999 with the introduction of Annex 502.4 and under the Trade, Investment and Labor Mobility Agreement effective April 1, 2009

goods or services from local companies or individuals if the contract exceeds a given threshold. The CETA goes against provincial commitments to increase local food provision³⁹ and limits the ability of municipalities, provinces and public institutions to procure local food and food services.

CETA enforces previously established rules between the two Parties in the procurement sector in such a way that under the procurement rules of CETA, prospective foreign suppliers will gain new rights to dispute any perceived unfairness or local bias in tendering decisions before a federal or provincial administrative tribunal. Such semi-judicial bodies have the authority to award compensation to foreign suppliers and to compel governments to re-tender the contract. In addition, the CETA's investment rules would allow foreign investors to bypass domestic court systems and instead use the investor-state dispute settlement process. The tribunals can order governments to compensate investors allegedly harmed by public policies, laws, or regulations.

- **WORKERS AND THE ENVIRONMENT**

- **Temporary Entry**

The CETA will ease the movement of certain categories of workers between Parties on a temporary basis. Generally speaking, the temporary entry chapter in the CETA follows the same basic structure as Canada's other free trade agreements (FTAs), including the NAFTA, that covers the movement of people between the Parties for business purposes. However, the CETA goes beyond these existing agreements in some important ways.

The four main categories of workers covered by the CETA are key personnel, contractual service suppliers, independent professionals, and short-term business visitors. Key personnel are divided into business visitors for investment purposes, investors, and intra-corporate transferees (ICTs). ICTs are further sub-divided into senior personnel, specialists, and graduate trainees. Chapter 12 of the agreement also contains an annex addressing the spouses of ICTs. In total, there are nine distinct categories of workers covered by this chapter's provisions (see Table 5), which is broader than any previous Canadian or the EU agreement.

Workers entering a country through the CETA's temporary entry provisions are beholden to all labor laws and other regulations in the host country, regardless of the rules and regulations in their home country. The CETA ensures that European or Canadian workers providing services in the other Party are subject to the same national treatment, market access, and most-favored

³⁹ Shrybman, S. (May 28, 2010): *Municipal Procurement Implications of the Proposed Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union*, Centre for Civic Governance at Columbia Institute.

nation provisions as those granted to other cross-border service suppliers. The CETA is the first Canadian FTA to make these economic rights for business visitors explicit.

Despite the appearance of a labor mobility agreement, this chapter is not intended to provide meaningful economic opportunities to the workers of any Party. Ultimately, Chapter 12 is designed to empower multinational corporations by creating a more flexible labor force. In the text is clearly stated that any mobility rights guaranteed by this chapter are not extended to workers directly. Instead, the text gives businesses the right to move their employees across borders with greater impunity. Any benefits to workers in terms of employment or travel opportunities are merely a side effect.

Table 5 Categories of workers covered by the CETA’s Temporary Entry Provisions, *Source: Canadian Centre for Policy Alternatives (CCPA)*

Category of worker	Business Visitors for Investment Purposes	Investors	Senior Personnel	Specialists	Graduate Trainees	Contractual Service Suppliers	Independent Professionals	Short-Term Business Visitors	Spouses
Employed in host country	No	Yes	Yes	Yes	Yes	No	No	No	Yes
Quotas or economic needs tests permitted	No	No	No	No	No	No	No	No	No
Maximum length of stay	90 days	1 year	3 years	3 years	1 year	1 year	1 year	90 days	1 to 3 years

➤ ***Sustainable Development and Environmental Protection***

The Comprehensive Economic and Trade Agreement (CETA) is the largest and the most powerful free trade agreement Canada has negotiated since the North American Free Trade Agreement (NAFTA). The CETA will significantly impact environmental protection and sustainable development in Canada and the EU. In particular through:

- The inclusion of an investor-state dispute settlement (ISDS) mechanism;
- The liberalization of trade in services; and
- The deregulation of government procurement rules that will impact the authority to protect the environment, promote resource conservation, or use green procurement as a mean of advancing environmental policies and objectives.

As it was mentioned before in the text, the CETA is the first time the EU has signed a trade agreement with a “negative listing” approach to trade in services, a reversal of the traditional “positive listing” approach used in other EU trade agreements and the GATS.

The CETA is the first Canadian trade agreement to include municipalities and only the second trade agreement in Canadian history to include the provinces. This agreement will, for the first time, bind municipal public procurement to international trade and procurement rules. These rules include a ban on offsets, which precludes the use of conditions such as domestic content requirement to encourage local development. The CETA is unique in that it is the first time in Canada that a free trade agreement has included a chapter on sustainable development. However, the agreement only references conservation and sustainability in relation to the forestry and fisheries sectors.

➤ *Trade and Sustainable Development*

Inclusion of provisions on trade and sustainable development is a positive step and recognizes the importance of promoting trade policies in a way that contributes to sustainable development in Canada and the EU. Under the agreement, the Parties aim to:

- Promote sustainable development through the coordination and integration of the Parties respective environmental measures;
- Promote dialogue and cooperation between the Parties with a view to developing trade in a manner supportive of environmental protection measures and to uphold environmental objectives in the context of more open trade;
- Enhance enforcement of domestic environmental laws and to respect environmental international agreements;
- Promote full uses of economic instruments such as impact assessment and stakeholder consultation in regulation of trade; and
- Promote public consultation and participation in the discussion of sustainable development issues arising from the agreement and in development of relevant domestic laws and policies.

However, as it was mentioned before, the CETA references conservation and sustainable management in relation to only two sectors: forestry and fisheries. Other sectors, such as mining, energy and transportation, which have also caused extensive damage to the environment, are omitted from the agreement.

➤ **Trade and Environment**

This chapter sets out commitments by the Parties to:

- maintain high levels of environmental protection;
- ensure the effective enforcement of domestic environmental laws;
- not derogate from environmental laws in order to attract trade or investment;
- provide for domestic sanctions or remedies for violations of environmental laws; and
- require the parties to ensure a legal framework exists to permit effective action against infringements of its environmental laws.

Impact on Green Procurement - The procurement process is an important mechanism through which Canada's federal, provincial and municipal governments have pursued important public policy objectives. The CETA procurement provisions will give European companies, for the first time, unconditional access to municipal government procurement.

➤ **Water and Water Services**

The treatment of water and water services in international trade agreements remains a controversial issue globally. Where trade and investment treaties like the CETA are designed to govern the supply of goods and services, and the regulation thereof, based on free-market principles, access to clean drinking water and sanitation is considered a basic human right by the United Nations, to be delivered by governments or other not-for-profit entities.

Investment protection chapters within free trade agreements, or standalone bilateral investment treaties (BITS or FIPAs), effectively protect industrial activities that are harmful to water sources (through pollution or depletion) while offering no recourse for holding polluting companies accountable for their actions. The agreements, including the CETA, do this by granting foreign investors the right to be compensated when a government decision (e.g. a new environmental regulation) has the effect, even unintentionally and when the decision treats domestic and foreign companies equally—of reducing the profitability of an investment. The language in the CETA and other agreements on the need for sustainable development is extremely weak compared to these enforceable investment protections.

Though Canadian and EU procurement commitments related to water services as they appeared in leaked text of the agreement are confusing and at times ambiguous, but the procurement of at least some water services by local governments, utilities and Crown corporations is covered, and this will likely give private water companies an opportunity to establish and expand the private delivery or treatment of water.

For all these reasons, there was public pressure on Canadian and European Union negotiators to exclude government policy or decisions related to water and water services from any of the trade, investment or procurement disciplines in the CETA.

The CETA incorporates a NAFTA-like limited exclusion for “water in its natural state” from the terms of the agreement. The same article (Chapter 2, Article X.08) affirms that, “nothing in this agreement obliges a Party to permit the commercial use of water for any purpose, including its withdrawal, extraction or diversion for export in bulk.” However, “When a Party permits the commercial use of a specific water source; it shall do so in a manner consistent with the Agreement.” In other words, once water leaves its natural state and enters into commerce, it is covered by the CETA. What this means in practice is that no government (federal, provincial, municipal, First Nations) is obliged to allow a company or investor to take water out of its natural state for export or use in some kind of commercial venture such as bottling, manufacturing, tar sands production, etc. However, where one company is permitted to do so, the CETA’s market access rules (e.g. national treatment, a ban on performance requirements) and investment protections (e.g. minimum standards of treatment) kick in. Water ceases to be an excluded public good but becomes bound up, as a commodity, within the CETA text.

7.6 The main effects of CETA – “WINNERS AND LOSERS”

Every free trade deal has winners and losers, and the much-anticipated the Canada-EU Comprehensive Economic and Trade Agreement is no exception. CETA presents Canadians with dubious trade benefits and a number of potential downsides. The challenge for Canada’s pattern of trade is to move beyond a reliance on natural resource exports by developing its high technology sectors. Roughly speaking, Canada presently exchanges gold and diamonds for the EU pharmaceuticals and motor vehicles, an imbalance that could be reinforced by CETA.

According to the OECD “low-technology manufacturing will decline in importance in industrialized countries,” suggesting that Canada needs broader industrial policies that increase innovation and productivity. However, prognoses of some Canadian economists suggest that CETA would reduce Canada’s policy options for developing its industrial sector. All levels of government would face increased restrictions on their ability to use procurement policies to support the creation and regional adaptation of cutting edge technologies among Canadian firms. Government would also be constrained from requiring that foreign investors create jobs, do product research and development and create business opportunities in Canada.

Canada’s experience with NAFTA is a warning that CETA could further undermine Canada’s ability to reduce its reliance on natural resource-based exports. NAFTA has not, as promised, closed the productivity gap between Canada and the US. Furthermore, the evidence indicates that Canada’s exports to the US are increasingly shifting from sophisticated manufactured goods to the export of petroleum products.

From the EU perspective most concerns are related to an investor-state dispute settlement (ISDS) mechanism in the Canada-EU deal. As it was explained before in the paper ISDS provisions allow multinational corporations that believe they are being treated unfairly to sue a government through a special tribunal rather than the normal court system. While supporters say that such measures ensure investor security, opponents say they allow corporations to thwart government attempts to regulate on behalf of the public. The greatest opponent of the ISDS mechanism in CETA among the EU countries is Germany. Germany believes that special tribunals to adjudicate investor-state disputes are unnecessary in countries like Canada and those in Europe where the regular court systems are capable of handling such legal conflicts.

The CETA belongs to a new generation of international agreements targeting policies that regulate the flow of capital internationally. They push for deeper international economic integration, as it was explained in the previous chapter, and the conformity of public policies with such agreements, including, in the case of CETA, the policies of provincial and municipal governments. Corporate interests and investor rights are thereby increasingly privileged over policies of democratically-elected governments. Ultimately this diminishes the ability of governments to serve the public interest.

7.6.1 The EU-Canada Sustainability Assessment (SIA) regarding CETA

European Commission Trade Sustainability Impact Assessment (SIA) analyzed the potential impacts of proposed trade liberalization agreement on all pillars of sustainable development. The Trade SIA is designed to provide trade negotiators and policy-makers with an evidence-based ex ante assessment of the potential economic, social and environmental impacts that are likely to arise from a proposed change in trade policy. In this regard, the EU-Canada SIA was carried out with the intention of assessing how the Comprehensive Economic and Trade Agreement (CETA) between the two sides might affect economic, social and environmental issues in the EU and Canada, as well as in other relevant countries.

The analysis found that the CETA will lead to overall gains in welfare, real GDP, total exports and real wages in both Canada and the EU over the long-term. Third countries are estimated to experience minor degrees of welfare loss as a result of the agreement, though the overall impact on these countries is insignificant. However, CETA negotiations have been carefully observed by the two sides' other notable partners: the other countries of the North American Free Trade Agreement (NAFTA), the USA and Mexico, and Turkey, which shares a customs union with the EU. All three countries fear from a negative impact from CETA: the USA and Mexico worry that NAFTA will lose its economic primacy to CETA, while Turkey is concerned about a lack of parallelism in its bilateral relations with the EU's comprehensive trade agreement partners (the idea of a Turkish-Canadian FTA has been explored but has not materialized).

At the sectorial level, the greatest gains in output and trade appear to be stimulated by services liberalization and by the removal of tariffs applied on sensitive agricultural products. Both Canada and the EU would benefit from CETA that provided a high degree of liberalization in the services sector, particularly with respect to transport, telecom and business services. In terms of agriculture, Canada could realize significant gains from notable improvements in access to the EU market for beef and pork products, while this would also likely negatively impact domestic producers and processors in the EU. Alternatively, the EU dairy producers could experience significant increases in output and exports with the full removal of tariffs in Canada; though this would likely coincide with decreases in production and employment in the Canadian dairy sector. For a number of agriculture and agri-food products, the overall impact was heavily influenced by the rules of origin (ROs) that are agreed to under the CETA. In terms of industrial products, the low existing tariffs applied on the EU-Canada trade in merchandise would likely limit the impact that CETA will have. Investment liberalization could lead to greater EU investment in Canadian industries such as oil and mining, though it does not appear that the current restrictions have overly inhibited investment. The auto and textiles industries in both the EU and Canada would likely benefit from the removal of tariffs and other non-tariff barriers.

A number of key impacts are identified in the areas of government procurement (GP) and intellectual property rights (IPR). A GP chapter in CETA will have a variety of economic impacts

that are positive for some and negative for others, particularly felt in terms of government savings, market share, employment, and quality and decency of work. In terms of IPR, it is assumed that CETA will lead to an upward harmonization and call primarily for change in Canadian IPR laws. IPR-related provisions of CETA could have a minor positive economic impact on Canadian GDP growth, and may also have a minor positive impact on European GDP.

Several key impacts are identified in the areas of investment and competition policy. The economic impact of CETA as a whole on investment in Canada will likely be positive, and could be of a 'notable' magnitude. As a whole, likely there will be some positive, and potentially some negative, social and environmental impacts from such investment provisions. Regarding investor-state dispute settlement (ISDS) specifically, the conflicting costs and benefits of such a mechanism make it doubtful that its inclusion in CETA would create a net/overall (economic, social and environmental) sustainability benefit for the EU and/or Canada. In terms of competition policy, if CETA removes discriminatory practices of the Canadian liquor control boards this would support economic gains by encouraging competition. Removal of discriminatory practices by the Canadian Wheat Board could improve sales and wages of competitive wheat farmers. No significant negative impacts or unclear impacts are predicted for liberalization in international letter delivery in Canada and revising state aid policies, respectively.

Some impacts are identified in the areas of trade facilitation, labor mobility and free circulation of goods. It is unlikely that there will be significant economic, social or environmental impacts from trade facilitation reform under the CETA. Labor mobility provisions in the CETA focused on workers in professional business services could result in economic gains in the form of a more efficient allocation of skills and increased productivity in Canada and the EU, as well as increase innovation that could lead to social and environmental benefits. Provisions in CETA allowing freer circulation of goods, which will likely focus on the agriculture and agri-foods sector, given the barriers in that sector, could result in positive economic impacts through an improvement in Canada's productivity performance and allowing benefits to EU exporters.

7.6.2 The expected benefits from CETA- the EU's perspective

- ***Ending customs duties***

All industrial duties will be eliminated by the agreement saving European exporters around €470 million a year. Some of them will be eliminated as soon as the agreement is implemented and seven years later, there will be no more customs duties between the EU and Canada for any industrial products.

Removal of customs duties will be applied also to the agriculture sector and 92% of the EU agriculture and food products will be exported to Canada duty-free. The result of the CETA negotiations is especially promising for processed agricultural products (PAPs), which is one of the EU's main export interests. With nearly all Canadian duties for these products eliminated, the EU food-processing industry is expected to considerably gain from the agreement. The elimination of customs duties will result in lowering the prices and providing consumers with more choice.

- ***Allowing EU businesses bid for Canadian public contracts***

With the agreement, EU companies will be able to bid for public contracts in Canada at all levels of government. This includes the provincial authorities responsible for a large public spending. European businesses will be the first foreign companies to get that high level of access to Canadian public procurement markets. CETA is the first international agreement concluded by Canada that offers this opportunity. Canada will also create a single electronic procurement website that combines information on all tenders to ensure that the EU companies can effectively take advantage of these new opportunities.

- ***The intensification of a regulatory cooperation***

CETA contains a specific chapter related to technical barriers to trade (TBT). In this chapter are included regulations that will encourage stronger relationships between the EU and Canada in the field of technical regulations. By reducing the cost of complying with technical regulations, standards and conformity assessment procedures, the agreement will facilitate trade and benefit industry generally. According to estimates, this could amount to GDP gains of up to €2.9 billion a year for the EU.

- ***Protecting European innovations & traditional products***

The EU has a strong interest in better protecting its brands and products on the Canadian market. Many EU products rely heavily on innovation, creativity, quality, and brand exclusivity and these constitute some of their main comparative advantages on the world market. A failure to protect and enforce this intellectual property in a fair and measured way harms the legitimate value added of many European products and services.

With CETA European innovations, artworks and brands will be better protected against being unlawfully copied, since the rules related to the protection and enforcement of intellectual property rights will be adopted. These rules will benefit all sectors and especially the EU agricultural and pharmaceutical sectors. Numerous European agricultural products from a specific geographical origin will be protected by the use of geographical indications (GIs) such as Grana Padano, Roquefort, Elia Kalamatas Olives or Aceto balsamico di Modena, etc. In addition, thanks to the agreement, some prominent EU GIs such as Prosciutto di Parma and Prosciutto di San Daniele will finally be authorized to use their name when sold in Canada, which has not been the case for more than 20 years.

- ***Streamlining trade in services***

Liberalization of trade in services will bring new opportunities for European companies by creating access to the Canadian market in key sectors such as financial services, telecommunications, energy and maritime transport. In addition, CETA provides a framework for a future mutual recognition of qualifications in regulated professions as well as easier access of personnel of the EU companies to Canadian market. This is particularly important for firms with overseas operations. Once the agreement is fully implemented, around half of the overall GDP gains for the EU are expected to come from liberalizing trade in services.

- ***Promoting and protecting investments***

CETA removes barriers for European investors to enter the Canadian market and ensures that all investors are treated equally and fairly. In the agreement, both Canada and the EU are committed to provide non-discrimination between domestic and foreign investors and agreed not to impose any new restrictions on foreign shareholding. Additionally, the EU has introduced strong guarantees to make sure that the investment protection provisions fully preserve the right of governments to regulate, implement public policy objectives and avoid any abuse of the

rules, such as for example an expropriation of a foreign investor without a proper compensation.

- ***Ensuring good cooperation in the future***

A specific chapter of the agreement is dedicated to resolve any future disagreements that may occur between the EU and Canada in the implementation of the agreement. The rules established in it provide both parties with detailed instructions how to interpret and establish CETA. Should parties fail to reach an agreement through formal consultations, they can request the establishment of a panel, made up of independent legal experts.

- ***Protecting democracy, consumers and environment***

The agreement contains all the necessary guarantees to make sure that economic gains do not come at expense of democracy, consumer health and safety, social and labor rights, or the environment.

CETA will ultimately replace the existing bilateral investment agreements between individual EU Member States and Canada. In this respect, CETA has provided the EU with the opportunity to introduce further guarantees to prevent any abuse of the investment protection rules and investor-state dispute settlement systems.

7.6.3 The expected benefits from CETA- Canada's perspective

From the Canada's perspective CETA is the most ambitious trade initiative ever. A joint Canada-EU study, which supported the launch of negotiations, found that the agreement could increase Canada's income by \$12 billion annually and bilateral trade by 20 percent. Put in another way, the economic benefit of this far reaching agreement would be equivalent to creating almost 80,000 new jobs or increasing the average Canadian household's annual income by \$1,000. With CETA, Canada will be the only G-7 country to have preferential access to the world's two largest markets, the EU and the United States—what means an access to more than 800 million of the world's most affluent consumers.

Under the CETA, Canadians will have the tools and support they need to succeed in this profitable market of the EU. The enormous benefits will be shared by Canadians across the country, from those who produce primary products (for example, minerals and agricultural products) to those who turn them into value-added processed and manufactured goods.

When the agreement enters into force, more than 9,000 EU’s tariff lines, approximately 98 percent will be duty-free for Canadian goods and services. The EU tariffs can be so high to limit considerably the ability of Canadian exporters to compete in the EU market. This tariff elimination represents a huge benefit for Canada since the value of Canada’s export to the EU in 2013 was more than 30 billion Canadian dollars (Figure 11). With CETA, tariffs on all agricultural as well as non-agricultural products will be completely eliminated. Removal of tariffs is also very important for manufacturing sector—including sectors like the automotive and chemicals and plastics industries.

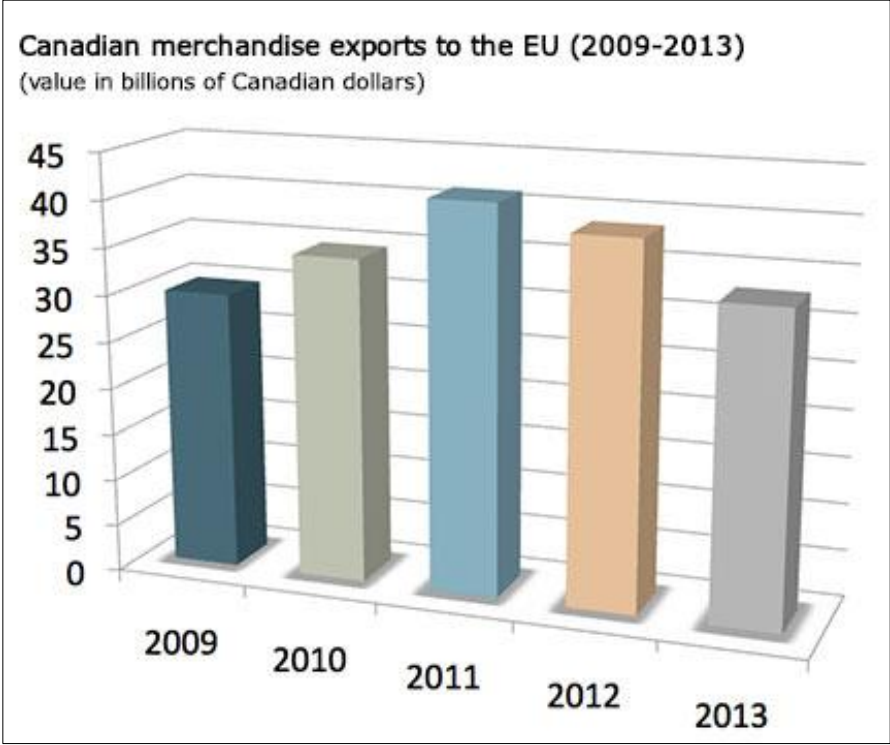


Figure 11 Canadian merchandise exports to the EU (2009-2013), Source: Government of Canada

1. New export opportunities in Europe

- ***Increasing Exports of Agriculture and Agri-Food Products***

Canada's agricultural and agri-food sector is one of the most dynamic in the world. In many countries, a label that reads "Made in Canada" immediately indicates that a product is in the premium category.

This sector employed 578,000 people in 2013, accounting for close to 3 percent of Canada's GDP. In 2013, Canada was the fifth-largest exporter of agricultural and agri-food products in the world. Canada's agricultural exports to the EU totaled an annual average of \$2.5 billion between 2011 and 2013. More than a third of Canadians employed in the sector work in the processing, turning raw ingredients into processed foods, ready-to-eat meals, beverages, nutritional supplements and a huge variety of other high-quality products. CETA will not only open new markets for raw ingredients, but it will also open up new markets for the food processing and beverage industry.

Canadian agricultural exports to the EU currently face high tariff rates, with average EU agricultural tariffs of 13.9 percent. When CETA comes into force, almost 94 percent of the EU agricultural tariff lines will be duty-free, and seven years later, that number will rise to 98 percent. This duty-free access will give Canadian agricultural products, including for a specified amount of Canadian beef, pork and bison, preferential access to the EU market and a competitive advantage over producers from other countries that do not have a free trade agreement with the EU. This will create new opportunities for increased sales that will directly benefit hard-working Canadians through more jobs, higher wages and greater long-term prosperity.

The EU is the world's largest importer of agricultural and agri-food products, importing more than \$138 billion worth of such products in 2013. New and expanded export opportunities in this market will be very important for the growth of Canada's agricultural sector, not only in areas of traditional strength but also in new and innovative niche products. For example, the EU market for specialty foods and beverages, in particular those in the health and wellness sector, is growing at a sustained pace, driven by consumers seeking healthier, more nutritious food and beverages. Canada's expertise in these areas and their dynamic and innovative agri-food sector ensures their ability to meet this demand.

- ***Increasing Exports of Manufactured Products***

Canada's dynamic and highly developed manufacturing sector in 2013 employed close to 1.7 million people. Canada is a world leader in the research, innovation and production of a broad range of advanced manufactured products, including industrial and power-generating

machinery, aerospace and rail products, agricultural and construction equipment, electrical equipment, automotive products, medical devices and scientific and precision instruments.

When CETA comes into force, approximately 99 percent of the EU tariff lines will be duty-free for Canadian industrial products. Seven years later, 100% of these tariff lines will be duty-free. Additionally, CETA will make Canada an even more attractive destination for investors and manufacturers looking to benefit from this preferential access to the EU market. The expanded opportunities for Canadian companies and new investors will lead to more high-paying manufacturing jobs for Canadian workers.

Canada's annual exports of advanced manufacturing products to the EU totaled \$6.0 billion on average from 2011 to 2013. Aerospace and rail products represented almost half of these exports, followed by machinery and equipment. Nowadays exports of advanced manufacturing products to the EU face very high tariffs reaching as high as 22 percent on some products.

CETA will immediately eliminate the vast majority of existing EU tariffs on advanced manufactured products, making these high quality Canadian products more competitive and creating the conditions for increased sales. This will directly increase export of advanced manufacturing products to the EU and benefit hard-working Canadians through more jobs..

- ***Increasing Exports of Metal and Mineral Products***

The metal and mineral industry is a significant driver of Canada's economic growth, which contributed close to \$149.7 billion to Canada's GDP in 2013. This sector employs more than 392,400 Canadians.

Canada exported \$20.3 billion worth of metal and mineral products to the EU on an average annual basis between 2011 and 2013. Key exports included gold, nickel, diamonds, aluminum and iron ore.

Most raw minerals are already exported to the EU duty-free. However, processed products such as petroleum oils, metals and metal products, which accounted for an annual average of \$2 billion worth of Canadian exports between 2011 and 2013, were subject to EU tariffs. With raw minerals accounting for most of the Canadian exports in this sector, the extractive industries are the only significant beneficiaries of current Canada-EU trade. CETA will change this landscape by ensuring that not only those who extract minerals from the ground will benefit from new market opportunities in the EU, but those who fashion them into higher-value products will benefit as well. Upon entry into force, CETA will eliminate existing EU tariffs on metal and mineral products, making these world-class products more competitive and creating the conditions for increased sales.

The export of metal and mineral products to the EU is an important economic activity for Canada, with products going to every corner of Europe, from Bulgaria to Spain. With its production of strategically significant minerals, Canada is ideally positioned as both a supplier of choice and an attractive location for investment. Mineral production or processing takes place in every region of Canada. CETA will open new markets in Europe by securing a competitive edge for the industry that will benefit both urban and rural workers from coast to coast, including those in many Aboriginal and northern communities.

- ***Increasing Exports of Fish and Seafood Products***

Canada is the world's seventh-largest exporter of fish and seafood products, exporting approximately 70 percent, by value, of its fish and seafood production. Its fishing industry contributed in more than \$2.2 billion to Canada's GDP in 2013 and provided close to 38,300 jobs to Canadians.

Canada's fish and seafood exports to the EU were worth an average of \$390 million per year between 2011 and 2013. These exports face average EU tariffs of 11 percent, with peaks of 25 percent.

When CETA comes into force, almost 96 percent of the EU tariff lines for fish and seafood products will be duty-free. Seven years later, 100 percent of these tariff lines will be duty-free, making these world-class products more competitive and increasing the sales.

The EU is the world's largest importer of fish and seafood, with a global import market averaging \$21 billion annually between 2011 and 2013 and average seafood consumption of 11 kg per capita in 2013. CETA will provide Canada's world-class fish and seafood industry with a competitive advantage. By opening new markets in the EU and improving access for fish and seafood, CETA will increase Canadian exports of these products and benefit workers in the sector.

2. Creating new Opportunities for Research, Innovation and Life Sciences

Canada and the EU are aware of the fact that cooperation in science, technology, research and innovation contributes to competitiveness and prosperity and usually leads to increased trade and investment of both parties. This is why they already have a well-established science and technology relationship. CETA will encourage further cooperation in this area. The agreement builds upon an existing framework for cooperation on science, technology, research and innovation and establishes new regulations to encourage and strengthen cooperation in the future.

The agreement is strongly committed to intellectual property (IP) rights, including for patents and copyrights, and rules for their enforcement and this commitment will bring benefits to investors, innovators and consumers alike. In this way, CETA will create the right conditions for Canada to maintain its leadership in innovation-driven industries such as information and communications technology, aerospace, pioneering technologies, including genomics, nanotechnology and photonics, and key 21st-century industries including health, energy and sustainable technologies.

Canada's information and communications technology (ICT) industry includes leaders in every sector, from the manufacturing of telecom equipment to software development and services, to digital media, web and microelectronics. This sector contributed with \$7.1 billion to Canada's GDP in 2013. ICT companies in Canada employ 70,700 Canadians in a knowledge-intensive industry that boasts world-class high-tech manufacturing capabilities.

Canadian exports of ICT products to the EU were worth an average of \$1.6 billion annually between 2011 and 2013. These exports face tariffs as high as 14 percent on some goods.

CETA will immediately eliminate existing EU tariffs on ICT products, making these world-class products more competitive and creating the conditions for increased sales. In addition to tariff removal, the new access secured by CETA to the EU procurement market will ensure that Canadian ICT companies can bid on for contracts to supply either ICT products or software services, including consulting services, design, programming and maintenance services. The EU market has a significant growth in areas such as cyber security, gaming and smartphone applications while Canada has a lot to offer in these sectors.

3. *Benefit Trade in Services*

- ***Opening New Markets in Europe for Canada's World-Class Services***

Canada is one of the largest services exporters in the world and service industries are very important for the overall economy. Service sector, including management services, computer and information services, architectural, engineering, and other technical services, research and development services, and so on, employed 13.8 million Canadians and accounted for 70 percent of Canada's total GDP in 2013, making it by far the largest sector in Canada. Canada's annual services exports to the EU were worth an average of \$14.4 billion between 2011 and 2013.

CETA regulations will contribute to greater transparency in the EU services market, resulting in better, more secure and predictable market access. Providing Canadian service providers with better and more secure access to the EU market will allow Canadian companies to compete on

a level playing field with their competitors in the EU and give them an advantage over their competitors from other countries. This advantage will benefit the entire Canadian economy.

4. Benefit investments

- ***Opening New Markets in the EU for Canadian Investment***

Investments are a very significant part of the Canadian economy and are crucial to creating jobs, spurring creativity and technology, and linking Canada to global value chains. The stock of known foreign direct investment by Canadian companies in the EU totaled \$187.3 billion at the end of 2013, representing 24 percent of Canadian direct investment abroad. The same year, the stock of known foreign direct investment from European companies in Canada totaled \$191.4 billion, representing 27.9 percent of total foreign direct investment in Canada.

CETA's investment chapter will provide Canadian and EU investors with greater certainty, stability, transparency and protection for their investments while preserving full rights for governments to legislate and regulate in the public interest. Predictable investment rules, including a requirement that Canadian businesses are treated no less favorably in the EU than EU businesses, will further reduce the risks associated with investing abroad. Key sectors of interest to Canadian investors that will benefit from the agreement include energy, mining, manufacturing, financial services, automotive, aerospace, transportation, and business and professional services.

Greater Canadian foreign direct investment (FDI) in the EU will improve its access to the EU markets, technology and expertise and enhance the competitiveness of Canadian firms. Greater EU investment in Canada will stimulate economic growth and job creation, provide new technologies and increase competition in the Canadian marketplace, eventually benefiting Canadian consumers. Attracting investments in Canada will result in job creation and economic prosperity. Canada has always been open to investment, encouraging foreign companies to invest in Canada. Canada's foreign investment policy framework provides a welcoming environment that seeks to maximize the benefits of foreign direct investment for Canadians, while preserving other public policy interests. Part of this framework includes the ***Investment Canada Act (ICA)***, which provides for the review of significant investments in Canada by non-Canadians in a fast-changing global investment landscape. CETA recognizes the importance of the ICA and protects it.

CETA also includes rules for the protection of investors. Investor protection rules ensure that foreign investors will be treated equally as similarly situated domestic investors or other foreign investors, and they will not have investments expropriated without an adequate compensation.

5. *Benefit Government Procurement*

- ***Opening New Government Procurement Markets in Europe to World-Class Canadian Companies***

CETA gives Canadian suppliers of goods and services secure and preferential access to the EU's \$3.3-trillion government procurement market, providing them with significant new export opportunities. The agreement will expand and secure opportunities for Canadian firms to supply their products and services to the three main EU-level institutions, European Commission, European Parliament and European Council, the 28 EU member states and thousands of regional and local government entities within the EU. Approximately 18 percent of EU contracts are for business services. This means that workers in Canada employed in the fields of architecture, construction, environmental services, technology, marketing consultancy and research and development, among many other areas, will benefit from greater access to the EU's procurement market. CETA will also ensure that Canadian exporters are eligible to supply any EU firm engaged in government procurement contracts in the EU.

7.6.4 The Potential Losers from CETA – Canada's perspective

- ***Cheese makers*** – CETA will double the current amount of European cheese entering the Canadian market, to an estimated 30,000 tonnes. Their consolation is unfettered access to the EU dairy marketplace, but it's unclear how great a challenge selling into Europe will be.
- ***Provinces*** – One downside of the patent extension on brand name drugs is higher health-care costs for provinces which will be forced to shell out rather than buy generic alternatives. Ottawa has already signaled it is willing to compensate provincial governments.
- ***Wineries*** – Wineries in British Columbia, southern Ontario and elsewhere will face stiffer competition from European winemakers no longer facing high import tariffs.
- ***Canadian construction/engineering companies*** – Government contracts now almost automatically awarded to a Canadian firm will see heightened competition from the EU firms. On the flip side, the EU governments' contracts will become more open for bidding to Canadian firms.

CETA, which Stephen Harper, Canada's Prime Minister, called a "historic win", also includes plenty of new changes for the country's automotive sector, but it's unclear yet whether it will advantage or disadvantage domestic production and jobs growth.

7.6.5 The Potential Losers from CETA – the EU's perspective

As in other cases (notably the Transatlantic Trade and Investment Partnership (TTIP) which is currently being negotiated) CETA's ISDS chapter provoked an outburst of criticism from NGOs, trade unions and other interested parties (including inter alia some local authorities in the EU and Canada). These stakeholders feared that certain public concerns (regarding environment, safety and public health) would be run over by commercial interests and agendas. In the European context, anti-ISDS objections have been raised by umbrella organizations representing consumer groups in Europe. These organizations have strongly opposed the inclusion of ISDS mechanisms, claiming that the provisions could make it easier for the US companies to file ISDS claims in Europe through their Canadian affiliates. During the final phase of CETA negotiations, some EU Member States threatened to block the finalization of the agreement. Many of their concerns echoed those of their civil society organizations. Germany refused to sign CETA in September 2014 and urged the Commission to exclude the ISDS element from the text. The country's protest was triggered by its experience with the Swedish energy company; the company had made a claim – based on the European Energy Charter – for financial compensation following Germany's abrupt decision to phase out nuclear energy. The German Federal Minister of Economics indicated that the ISDS clause in CETA should be further examined, as its inclusion was problematic for Germany.

From the EU side there are also some concerns about the CETA's influence on the agricultural sector. In terms of agriculture, Canada could realize significant gains from notable improvements in access to the EU market for beef and pork products, while this would also likely negatively impact domestic producers and processors in the EU. French farmers in the beef and pork sectors, farmers in Ireland and Denmark are all very concerned that their interests have been sacrificed.

The Regulatory Cooperation chapter of the agreement will assign North American energy, resource, agricultural and chemical industry associations a more direct role in the creation of EU policy. A WTO-plus chapter on technical barriers to trade would further limit the types of precautionary food and consumer protection measures (e.g. GMO labeling) the EU and member states can enforce.

The CETA will lock in any changes made by the governments of the EU's countries on the day that opens up markets. It will specifically lock in changes made by Canada's current government that will allow foreign-controlled corporations to buy a majority stake in telecommunications companies holding up to 10 percent of the Canadian market (and then grow without limit from

there). It is also clear that the agreement will make it more difficult for municipalities to set up new publicly operated social services. It is easy to understand the pro-corporation as the EU Commission celebrating this, but for the people of Europe, this means they are facing the situation where any existing privatization is locked in permanently, where services cannot be reclaimed into the public sector, and where there can never be a move to create new public services.

7.6.6 Reactions on the CETA from NAFTA countries (the US and Mexico) and Turkey

The five years of negotiations that CETA required resulted in an agreement with a scope that reached far beyond that of the trilateral NAFTA agreement between Canada, US and Mexico, which dates back to 1994. The NAFTA agreement helped to abolish duties and quantitative restrictions among its members, while also facilitating foreign investment. Since then, Canada has maintained a negative trade balance with Mexico, while counterbalancing it with a positive trade balance with the US. In 2013, Canadian exports to the US amounted to 357.5 billion Canadian dollars, while imports amounted to 247.4 Canadian dollars. In comparison, the same year, Canada's exports to Mexico amounted to 5.4 billion Canadian dollars. Canada's imports from Mexico were much extensive, valued at 25.5 billion Canadian dollars.

CETA will undoubtedly have an effect on the trade relations between Canada and its NAFTA partners. CETA's tariff eliminations will affect almost 99 percent of possible barriers; in this regard the agreement is three times as powerful as NAFTA, which enabled its partners to abolish only 26 percent of barriers.

The US automotive sector has voiced its own worries about CETA. The agreement is likely to deeply affect the automotive industry, as the Canadian and US auto markets are closely interconnected. Much of Canadian manufacturing is executed under a policy shared with its NAFTA partners, with different parts of the automotive sector controlled in different countries. For this reason, CETA introduces rules of origin, obliging Canadian cars to be at least 50 % manufactured on Canadian soil in order to be considered Canadian and gain access to EU markets. To minimize potential threats to the sector, which is highly integrated with Canada's North American partners, Canada will inevitably have to introduce adjustments to its manufacturing process. For US producers, this hints at potential threats and difficulties in coordinating cooperation in the sector.

Bilateral relations between Canada and Mexico have suffered since Canada introduced stricter visa requirements on Mexicans in 2009. The decision to introduce stricter visa requirements was a response to concerns about organized crime, but the link between Canada and Mexico is believed to have lost dynamism as a result. Once the restrictions were put in place, an unprecedented drop in visa requests was registered: the number of Mexicans visiting Canada annually decreased from 200,000 to about 130,000. Although Mexico is one of the most dynamic emerging markets, trade relations between Mexico and Canada have also weakened, as the instability of political relations has apparently overshadowed the economic and trade relations between the two NAFTA partners.

Turkey has had a customs union with the EU since 1995, and this has led that bilateral trade between the two increases more than fourfold since 1996. While recognizing the benefits of the customs union, Turkey has not pursued bilateral FTAs with the EU's new FTA partners. The

slow progress of the WTO's Doha Round of multilateral trade negotiations has also taken its toll. As Turkey has not secured parallel FTAs with the EU's partner countries and regions, the asymmetry of the EU's and Turkey's trade relations has deepened. This has proved costly for both Turkey and the EU, and both parties are now weighing the introduction of product origins controls, the absence of which has been a key benefit of the joint customs union.

In October 2009, Turkey indicated its interest in opening free trade negotiations with Canada, paralleling the EU's effort. In February 2010, a bilateral consultation took place in Ottawa, allowing the two sides to explore the feasibility of such an undertaking. Some official outreach and public consultations took place in August 2010, and formal exploratory talks were held in Ankara in October 2010. FTA between Canada and Turkey is still under negotiations.

8 CONCLUSION

In the first part of this thesis are provided general discussions on PTAs, their main impacts on involved parties and on third parties (non-members), then discussions on deep integration in trade agreements and its main benefits comparing to shallow integration. The analysis also included an introduction to WTO. Such discussions were given in order to be able to answer the set of research questions defined prior in the paper and all these discussions were the foundation for subsequent analysis of the EU-Canada Comprehensive Economic and Trade Agreement (CETA). The first research question asked to define and analyze the main differences between deep and shallow integration in general, and it was answered in the subchapter 3.8 of the thesis. The other two research questions asked if the CETA will benefit both parties and how great those benefits would be in comparison to benefits from “traditional” trade agreements, as well as to define the main points which differentiate CETA from the agreements the EU and Canada have concluded before and make it a true representative of deep integration. To be able to support the answers to these questions, an examination of the EU-Canada’s current trade agreements in force has conducted, as well as the analysis of the EU and Canadian foreign trade in general. After all these analysis it became clear that the benefits from CETA will overcome the potential losses for involved parties and that those benefits will go a way beyond what can be achieved through WTO.

Research question 1: What are the main differences between deep and shallow integration, as well as the potential benefits from a deep PTA for its members in comparison to benefits from a shallow PTA?

To summarize the answer to this question, we can simply conclude that deep agreements are all those which scope goes behind the borders of involved parties, what means that they also include rules on domestic regulations. Deep agreements include a wide range of issues beyond tariffs, such as services, investment, intellectual property protection, and competition policy. In contrast to deep agreements, trade agreements that mostly deal with border measures are defined as “shallow” agreements. Regarding the potential benefits from deep trade agreements comparing to shallow ones, first of all we can conclude that deep integration and trade are closely related, because deep arrangements may be necessary to promote trade in certain sectors across economies more broadly. For instance, harmonization or mutual recognition of certain regulations may be a prerequisite for trade in services, or competition policy rules may be required to allow comparative advantage to materialize. Secondly, these agreements can make production sharing activities more secure and less vulnerable to disruptions or restrictions. Thirdly, they contribute to increased international competitiveness of domestic firms, resulting from reduced barriers to trade, the ability to operate abroad and to locate complex production in the most cost-efficient regions. Deep forms of integration provide a harmonization of certain national policies across jurisdictions what allows for international production networks to operate smoothly. Additionally, deeper PTAs may be an institutional response to the new problems associated with the growth in production offshoring because

externalities associated with production offshoring are different from those associated with traditional market access and cannot be easily addressed with general rules such as non-discrimination and reciprocity.

Research question 2: Will the Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada benefit both parties, and how great these benefits will be comparing to benefits from the existing agreements?

After analyzing the potential benefits and losses from the CETA for the EU and Canada, we can say that this thesis gives an affirmative answer to research question two, and that benefits from the CETA will overcome the potential losses for both parties and that the agreement will strengthen and further improve cooperation in most areas of their economy. From the Canadian perspective, this agreement will create jobs, open new markets and unlock new opportunities in Europe for the benefit of Canadian workers and businesses in every region of the country. For Canada, CETA is a 21st-century, gold-standard agreement and is Canada's most ambitious trade initiative ever. From the EU perspective, CETA will definitely make business with Canada easier. It will remove customs duties, end limitations in access to public contracts, open-up services' market, offer predictable conditions for investors and, last but not least, help prevent illegal copying of the EU innovations and traditional products. Also, from the analysis conducted it is clear that the CETA, by providing the liberalization of other aspects of international trade between the two parties, such as trade in services and FDI has the potential to produce gains that eclipse the potential gains from a simple reduction of tariffs and goods-related NTBs.

Research question 3: What are the main characteristics of CETA which make it a deep PTA, and distinguish it from all traditional agreements signed until now?

Subchapter 7.5 of the thesis provides a detailed answer to this research question. CETA is a modern trade agreement which contains provisions that cover a wide array of non-tariff measures, both at the border and behind-the-border. An incomplete list includes: technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures, rules on investment and intellectual property rights (IPR) protection, provisions on anti-corruption, competition policy, labor standards, etc. CETA goes a way beyond multilateral rules. The main points that make CETA a deep trade agreement and differentiate it from "traditional" trade agreements are:

- A far reaching **investment chapter** with proposed **ISDS mechanism** which enables foreign investors to sue host governments and claim compensation for all kinds of state actions, while bypassing domestic judicial systems and their independent courts.
- Regarding **public procurement**, EU negotiators in the CETA demanded unconditional access to Canadian market at all levels of government. Anyway the CETA requires provincial governments to establish a new process through which European and

Canadian companies can dispute procurement decisions made by covered government entities on contracts above the thresholds established.

- Regarding **domestic regulations** the CETA sets obligations on governments that go far beyond the traditional trade agreements' requirement not to discriminate between foreign and local corporations. These requirements include providing corporations with licensing procedures that are "as simple as possible" and do not "unduly complicate or delay" their activities. Every level of government, central, regional and local is covered by the Regulation chapter of the agreement.
- The CETA also includes **Intellectual property rights** chapter. Provisions provided in this chapter go beyond the NAFTA and the WTO Agreement on Trade-related Intellectual Property Rights (TRIPS). Geographical indication provisions are of particular relevance for the EU which has separate registration and protection regimes for more than 1,200 wines, spirits, and agricultural and food products.
- Regarding **trade and tariffs**, the CETA is designed to provide unconditional access to the Canadian and EU economies by investors from both Parties. The agreement removes virtually all (99%) tariff supports for sectors of the economies of both Parties with some tariffs being removed immediately upon implementation of the agreement and others within the span of one to seven years. But perhaps more importantly, the CETA removes the ability of future governments to utilize tariffs to support national and regional economic development objectives.
- The CETA will facilitate the movement of certain categories of workers between the Parties. There are **nine distinct categories of workers** covered by this chapter's provisions, which is broader than any previous Canadian or the EU agreement.

What can be stated at this point with a reasonable degree of certainty is that CETA will bring more benefits than losses for both parties, improving their economic cooperation and living standards, and the sooner it enters into force, the sooner benefits will be felt in the EU and Canada. Although European and Canadian authorities have both organized official consultations with civil society, they faced some criticism about a lack of transparency and inclusiveness in the negotiations of the CETA. Unexpected leaks of parts of the draft agreements in August 2014 led the EU and Canadian authorities to undertake additional public outreach, further explaining the content of negotiations and the issues. Both the European and Canadian Parliaments have helpfully provided opportunities for civil society representatives to express their opinions. Canada's national parliament has been particularly active, gathering input from the regions and municipalities and in helping mitigate concerns about CETA's impact on local authorities in areas including public service procurement and investor-state disputes.

As explained earlier, Turkey and Canada's NAFTA partners have voiced their concerns on CETA's potentially detrimental impact on their economies. For the NAFTA countries, key issues include the impact on the US automotive sector and on Mexico's decreasing trade volume with Canada. For Turkey, a major concern remains the country's own bilateral relations with Canada. Turkey does not benefit from this trade agreement, despite the fact that it does have a customs union

with the EU. The range of reactions towards CETA outlined in the previous pages points to the agreement's strategic importance and to its significance to stakeholders in the EU, Canada and beyond. More broadly, the reactions also demonstrate a trend: interest groups are increasingly engaged in free trade negotiations.

As we can conclude from the paper, The Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada, on which negotiations were concluded at the EU-Canada Summit in Ottawa on 26 September 2014, will be the "first" in many areas. Now, The European Parliament has to give its consent to this agreement and to the parallel Strategic Partnership Agreement (SPA) – a process that is likely to take two years. This will give the Parliament sufficient time to weigh public concerns regarding some provisions included in the agreement.

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