

SSISI Public Policy Brief:
International Trade and Investment Agreements: Fit for Future Purpose

**The Comprehensive Economic and Trade Agreement (CETA) –
A Gold Standard Agreement for Canada and Ireland**

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1. INTRODUCTION

I have been looking forward to this discussion to take stock of how FTAs can help expand trade and investment, and especially how modern Agreements such as the Canada-EU Comprehensive Economic and Trade Agreement (CETA) are fit for future purpose, designed to help economies thrive in the 21st century. I will focus my remarks today on CETA. I believe that CETA is a modern and progressive trade agreement for Canada, Ireland and the EU. For over 3 and half years now, CETA has built a track record of inclusive, sustainable and durable wealth creation on both sides of the Atlantic. In 2020, CETA has also cushioned our economies against a bigger dip to our trade sectors. COVID-19 has highlighted the interconnected nature of our economies and, by extension, the importance of strong ties. That is why the CETA will be more important than ever in advancing our shared – if not global – economic recovery from COVID-19.

2. TRADE AND INVESTMENT EXPANSION UNDER CETA

My first point to you here today is that CETA is working and has led to an impressive expansion of our trade and investment. Before the pandemic swept across the world in 2020, total merchandise trade between Canada and the EU reached a record high of €66.8 billion in 2019, equivalent to a 27.0% increase compared to the level in 2016 – the year before CETA provisionally came into effect.¹

Over the same period, Canada's trade with the world grew only by 13.7% while EU's trade with the world grew by 17.4%. Moreover, since the implementation of CETA, Canada-EU bilateral trade has increased at an annual average growth rate (of 7.9%), almost doubled (4.4%) that seen in the 2010s pre-CETA. Canada-Ireland trade performance under CETA has been even more impressive. Our bilateral merchandise trade was €2.6 billion in 2019, an increase of 40.4% compared with the last full pre-CETA year (2016).² Beyond showing how great a customer for Irish goods and services Canada is, this translated in increased prosperity and jobs for the Irish economy.

The same performance can be observed on the investment side which is now a key part of the Canada-EU relationship.³ The stock of Canadian investment in the EU increased 24.5% to \$211.6 billion from 2016 to 2019, and FDI stock from the EU in Canada increased 28.7% to \$273.9 billion over the same period.⁴

¹ Global Affairs Canada and European Commission, "An overview of Canada-EU trade performance under CETA," March 25, 2021, https://www.international.gc.ca/trade-commerce/assets/pdfs/economist-economiste/statistics-statistiques/joint-ceta-statistics-report-ec_final-np-en.pdf

² Global Affairs Canada calculations based on Statistics Canada international merchandise trade data and Eurostat

³ In 2018, Canadian companies with local operations in Europe employed nearly 171,000 people in the EU, while European companies employed approximately 364,800 people in Canada. Statistics Canada Table 36-10-0470-01 Activities of Canadian multinational enterprises abroad, by countries. 2018 latest available data.

⁴ Statistics Canada, Table 36-10-0008-01, International investment position, Canadian direct investment abroad and foreign direct investment in Canada, by country.

More importantly, the expansion has been broad-based and inclusive. More Canadian SMEs are now exporting to the EU and they are doing business with a greater number of EU SMEs. Right before the pandemic, close to 8,300 Canadian merchandise exporters were active in the EU market, representing an increase of more than 500 firms compared to 2016; and nearly 49,000 EU firms imported from Canada, representing an increase of 5.0% compared to 2016.

Based on Statistics Canada data, more than 88% of Canadian companies that export to Ireland are SMEs. The share of SME exporters to Ireland has grown since CETA provisional application began.⁵ Trade rose in almost all sectors, in almost all Member States – 24 out of 28 – and from most parts of Canada – 9 out of Canada’s 13 provinces and territories have increased their exports to the EU. EU products represent a greater share of Canada’s total imports. The top five Canadian imports from the EU all rose since the implementation of CETA. Machinery, the top product sector, led all products and expanded more than 30%, or €2.2 billion. Imports of motor vehicles and parts and pharmaceutical products also posted strong growth.⁶

Agricultural products represent 9.3% of total bilateral trade between Canada and the EU in 2019. Trade in these products was 14.8% higher in 2019 compared to the pre-CETA level in 2016. EU exports of agricultural products accounted for much of this growth.

Companies on both sides of the Atlantic have increasingly taken advantage of preferred tariff rates under CETA. Recent data show the level of utilization continues to improve in both directions of trade as the CETA tariff phase-out continues. Ireland stands out as a top user of the Agreement with a preference utilization rate of above 76% on trade in both directions in 2020. That means Irish and Canadian importers are taking advantage of the preferential tariffs under CETA, importing at lower cost and selling at more competitive prices.

Another sign that CETA has had an impact in spurring trade creation is that products with significant tariff reductions have posted stronger growth. For example, trade of products that experienced higher tariff reductions showed growth of 18.4 percent in 2019 compared to 2016.

Three and a half years is a short period to evaluate the performance of a trade agreement and draw conclusions. Nonetheless, the significant expansion of trade in both directions, across nearly all sectors and regions, points to the establishment of durable business links and new supply arrangements between the EU and Canada. And it is significant that these have resisted and to some extent cushioned against a greater impact of COVID19 on our economies.

COVID-19 has had an immediate and strong impact on the Canadian and EU economies, including Ireland. There is no doubt our businesses have suffered, not to mention the disproportionate impact on SMEs and vulnerable groups. Nonetheless, it is quite noticeable that our bilateral merchandise trade was still 15.2% higher in 2020 than in 2016, and that our trade remained resilient.

Now, as our businesses face the difficult prospect of economic recovery, CETA will continue to help them feel safe and protected thanks to the investor confidence, stability and predictability it provides.

3. CETA IS “FIT FOR FUTURE PURPOSE”

My second point to you concerns the future. To answer the question put before the panellists: CETA is “fit for future purpose”. CETA will be a strong asset ensuring our economies recover from COVID and we transition to a digital and low carbon economy post-COVID. I hope to show that we will build back better together.

As you know, 2021 is a critical year for climate action. Under the Paris Agreement, all countries must come forward with higher levels of ambition for reducing greenhouse gas emissions, if we are to keep global warming to an average of 1.5 degrees Celsius. On April 22nd, Canada announced a significant increase in its ambition, raising our target from 30% to 40-45% below 2005 levels, by 2030. Meeting this target will require concerted efforts across the economy and investments in infrastructure and clean technologies.

Climate change is a global challenge. No one country can do it alone. That is why strong partnerships, like the one between Canada and the EU are essential. Also essential are strong global supply chains and sustainable trade.

⁵ Statistics Canada, Table 12-10-0108-01 and 12-10-0095-01, Trade in goods by exporter/importer characteristics. 2019 latest available data.

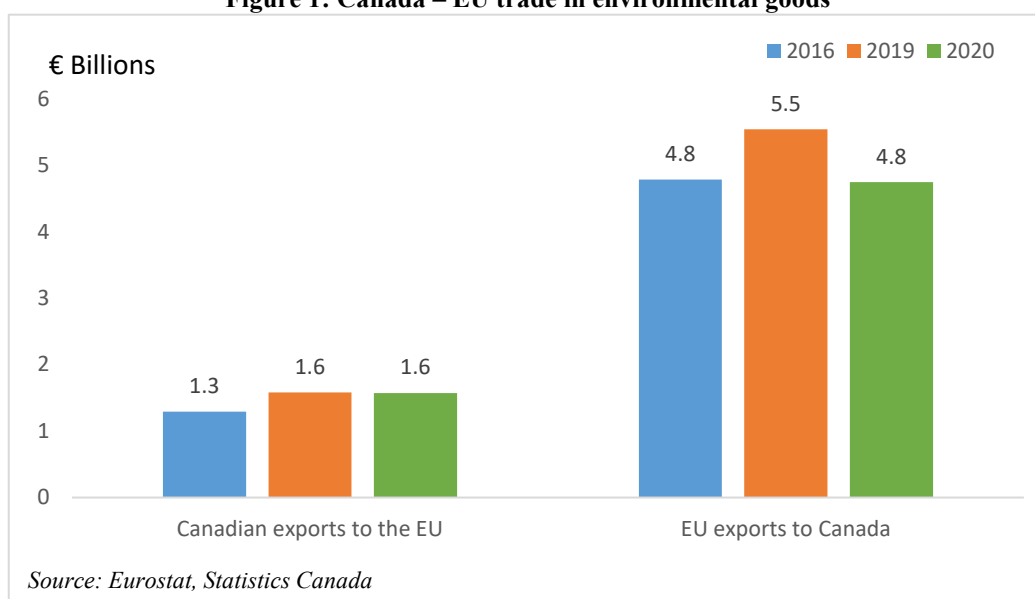
⁶ Global Affairs Canada and European Commission, “An overview of Canada-EU trade performance under CETA,” March 25, 2021, https://www.international.gc.ca/trade-commerce/assets/pdfs/economist-economiste/statistics-statistiques/joint-ceta-statistics-report-ec_final-np-en.pdf.

Under CETA, Canada and EU businesses have been able to position themselves to innovate and build a clean energy future; for example, by facilitating the deployment of clean technologies, services and know-how for combating climate change.

Thanks to CETA, tariffs have been eliminated on clean tech products such as wind turbines and rechargeable electric batteries, pipes and tubes for recycling purposes; prefabricated building structures; energy-efficient machinery; and measuring equipment for pollution levels. As a result, trade of many environmental goods rose since CETA implementation.

Total Canada-EU trade in environmental goods grew 16.4% from €6.1 billion in 2016 to €7.1 billion in 2019. Despite pandemic challenges, Canadian exports of environmental goods to the EU remain strong, only falling 0.4% in 2020.⁷

Figure 1: Canada – EU trade in environmental goods



The growth in Canada-Ireland trade in environmental and clean technologies is way above this trend line. In 2019, latest data available, Canada imported €31 million in environmental and clean technology products from Ireland, and Canada exported €19 million in environmental and clean technology products to Ireland. Canada-Ireland trade in environmental and clean technology products increased by 76% since 2016, the year before CETA provisional application began.⁸

The future is also one that is increasingly digital, high-tech and online. The propensity to use e-commerce by businesses to make international sales is at relatively similar levels in Canada and the EU with about a quarter of companies doing e-commerce sales abroad. This is expected to grow significantly with increasing digitization of the economy and adoption of e-commerce to reach a domestic and global marketplace. For businesses, the pandemic has highlighted the importance of serving customers through an online sales channel.

CETA creates the right marketplace conditions that allows our businesses to scale-up and benefit from a vibrant ecosystem, attracting investment, innovation and talent. Through CETA, Canada and the EU are actively engaged to build trust and confidence in e-commerce with one another. We are also working to ensure the continuity of Canada’s adequacy status under the EU’s General Data Protection Regulation, allowing data flows between Canada and the EU without additional safeguard.

⁷ Environmental goods refer to an indicative list of 265 green goods used in the negotiations for the WTO Environmental Goods Agreement.

⁸ Statistics Canada, Table 36-10-0646-01, Environmental and Clean Technology Products Economic Account, international imports and exports per trading partner. 2019 latest available data.

All tariffs on tech products have also been eliminated, meaning for example that Irish tech companies are on equal footing with Canadian companies in Canada and receive better treatment than most of their foreign competitors. They can move staff, service clients in Canada more easily and bid on Canadian government procurement opportunities. Such preferential treatments are certainly not negligible considering that ICT is among Canada's fastest-growing economic sectors. In 2018, Canada's ICT sector has outperformed the overall Canadian economy in not only output, but also employment and innovation growth. Canadian tech companies are also looking forward to pursue opportunities in new digital technologies in Ireland and the EU.

Looking ahead, Canada, Ireland and the EU are well positioned through CETA to capture the significant economic opportunities the transition to the low-carbon and digitized economy will create.

4. CETA IS A PLATFORM UPON WHICH TO DEVELOP AND CULTIVATE OUR RELATIONSHIP

This brings me to my final point about how we develop and cultivate our relationship. Canada and the EU have a rich institutional framework, through CETA, as well as related bilateral agreements such as the Strategic Partnership Agreement and our bilateral Science & Technology agreement turning 25-years-old this year.

Thanks to these, we now have over 50 committees, dialogues and working groups between the EU and Canada to oversee the performance of CETA, to facilitate partnerships between businesses, researchers, academics, and to develop new areas of collaboration, including on climate, science and research, ecommerce and digital issues.

The active involvement of industry, academia and civil society through the CETA Domestic Advisory Groups and the Civil Society Forum has played an important role in CETA implementation, notably in spurring ideas for cooperation in the area of labour, environment and sustainable development.

Canada's Minister of Small Business and International Trade, Mary Ng, met recently with her EU counterpart, Executive Vice President Dombrovskis for the 2nd CETA Joint Committee meeting. It was a very good opportunity to oversee progress on the implementation of the Agreement, to recognize the impact of the COVID-19 crisis on SMEs on both sides and review measures taken by both Parties to facilitate the continuation of preferential trade during the pandemic. What's more, Minister Ng and Executive Vice-President Dombrovskis called for further action to help businesses take full advantage of CETA, as we work to grow our businesses and tackle major issues, such as climate change.

Despite the huge challenges brought on by COVID-19, CETA continues to work as intended. Bilateral merchandise trade in 2020 was still 15.2% higher than the pre-CETA levels in 2016. Utilization of CETA preferences continues to improve in both directions of trade. CETA provides the certainty, stability, protection – enshrined in rules-based trade – and access to bigger markets our economies need to thrive and recover from COVID-19. More importantly, it signals that Canada and Europe – and by extension, all the countries we have agreements with – are still very much open for business.

One of CETA's many strengths is that it recognizes how important our SMEs are to bilateral trade relations, and includes provisions that address key challenges and barriers that disproportionately keep SMEs out of the global marketplace. It has also opened doors for Canadian and EU businesses – some of which are owned and led by women and youth.

For all of us, the economic recovery from COVID-19 cannot come quickly enough. Thank you all for joining in and for your support in strengthening the bonds that bring our countries together! We have a very exciting panel session lined up, so I look forward to some very productive discussions!

Reference

'An Overview of Canada-EU Trade Performance under CETA'. – Joint Report from the Office of the Chief Economist at Global Affairs Canada and Office of the Chief Economist at the Directorate General for Trade of the European Commission, Second Canada-EU CETA Joint Committee Meeting, March 25, 2021