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CETA: the landmark free trade deal with Canada

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On 15 February, after 7 long years my colleagues in the European Parliament and I went into the crucial plenary session to vote on the Comprehensive Economic and Trade Agreement between the EU and Canada (CETA) and a majority voted for this modern FTA.

This wasn't without protest however. A small but vocal group of demonstrators lay on the ground outside the EP and many coordinated email campaigns had landed in our inbox. Often, they have little understanding of the detail of the deals and are misinformed.

Yet whilst a vocal minority can obstruct Parliamentary business and gain the attention of the media, we cannot hear the silent majority of more than 500 million Europeans who will greatly benefit from CETA. We must learn to communicate better about Trade and the benefits of the deals we are negotiating.

I must confess that the final result exceeded my own expectations. 408 MEP colleagues voted in favour and 254 voted against CETA. It was almost a majority of two-thirds, which is can be difficult to reach in the European Parliament with its seven political groups and their diverging views. What a success and what a broad consensus!

As Prime Minister Justin Trudeau said in his speech the day after the vote: *"CETA is a comprehensive blueprint for responsible economic co-operation (…) it will result in the creation of good, well-paying jobs for middle-class workers... It will put food on the table for families, and help grow and strengthen our communities."*

I couldn't agree more and in addition, in my view, CETA will positively impact your industry. CETA will remove more than 99% of tariffs that are currently imposed on trade between the EU and Canada. It will lower the price Canadian farmers have to pay for the European agricultural equipment they need. CETA also foresees making it easier to send maintenance engineers and other specialists to provide after-sales and related services support for equipment, machinery and software.

Moreover, CETA will also help European farmers to access the Canadian market. Most of the customs duties on farm produce, processed foods and drinks will disappear. More specifically, Europe will be able to export about 92% of its agricultural and food products to Canada duty-free making European exports to Canada's market of high-income consumers become cheaper. There'll only be limited quotas for a few sensitive products such as beef, pork and sweetcorn for the EU and dairy products for Canada. CETA won't open up the market for poultry or eggs in the EU or Canada, and it will respect the EU's entry-price system.

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Furthermore, under CETA, Canada has agreed to protect 143 Geographical Indications (GIs) – distinctive food and drink products from specific towns or regions in the EU. Beyond current protections for Whisky, they now include products like Roquefort cheese, balsamic vinegar from Modena and Dutch Gouda cheese. Canada will protect these traditional European products from imitations in much the same way as the EU does. So, for example, cheese sold in Canada as Brie de Meaux will have to come from Meaux.

These new protections will help European farmers to secure their business model, increase exports and profits and therefore secure their investments in agricultural machinery.

As ambitious as these measures look like they are still the more traditional elements of a trade agreement. Where CETA clearly innovates is the field of regulatory cooperation. A critical item for your industry.

CETA will help your companies that export to Canada to cut costs. Conformity assessment certificates will be put in place, which will establish that your products have been tested and meet:

- the relevant technical rules and regulations and
- any health, safety, consumer protection or environmental standards that also apply.

The EU and Canada have agreed to accept each other's conformity assessment certificates in areas which are relevant for your industry, like:

- electrical goods
- electronic and radio equipment
- machinery

This means that, under certain circumstances, a conformity assessment body in the EU can test EU products for export to Canada according to Canadian rules and vice versa. This will avoid both sides doing the same test and could greatly cut costs for both companies and consumers.

Under CETA, the EU and Canada will also set up a voluntary Regulatory Cooperation Forum. This Forum will:

- facilitate the exchange of experiences and information between regulatory bodies,
- help identify areas where regulators could work together
- make suggestions to regulators and legislators

However, it should be noted that the regulatory cooperation will be voluntary. CETA will not in any way limit the capacity of each party to regulate its market as it chooses.

In addition, CETA will also protect your investments in Canada. It establishes a new Investment Court System. This new court will be public and have its professional and independent judges appointed by the EU and Canada. The court will work transparently by opening up hearings to the public and be founded on highest ethical standards through a strict code of conduct.

In this sense, we could say that CETA is the most modern trade agreement ever negotiated by the European Union. Its general provisions reflect the strength and depth of the EU-Canada relationship and our strong commitment to free and fair trade, whose benefits will cover all sections of our societies.

Again, I'm very confident that your industry, which has a large industrial footprint in Europe and Canada will greatly benefit from it.

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1. Economy

Canada is a developed country with a nominal GDP comparable to Italy and Spain. After a recession 2009 the country experienced moderate growth with annual GDP growth rates below 4%. In 2016 growth slowed down to 1.3% and it is expected to pick up in 2017 rising to 1.9%.

The Canadian economy is similar to most European economies with a large services sector and smaller industrial and agricultural sectors. Additionally, Canada possesses large oil and gas fields that play an important role. In general Canada has an open economic system, and international trade makes up a large part of the economy. Canada's currency is the Canadian dollar which is a relatively stable free floating currency.

Indicator	Value
Population (2016)	**36.3 million**
Total GDP (2015)	**1.551 trillion USD**
GDP per capita (2015)	**43,248 USD per capita**
GDP growth, % p.a. (2016)	**1.3%**
Inflation rate (2016)	**2.1%**
Currency (2016)	**1 Canadian Dollar = 0.70 EUR**
Trade balance goods (2015)	**7 billion EUR**
Ease of doing business index (2016)	**No. 14**

Sources: UN, World Bank, European Commission, OECD

2. Agriculture

With only 36 million people living in the second-largest country of the world there is an abundance of land available. Even though large parts of the country are not used for agriculture, there is no country in Europe having remotely as much arable land per person available. Consequently, most agriculture is focussed on extensive farming with the production of rapeseed, wheat and maize of which a large share is exported. Furthermore, there is a large production of milk as can be seen in table 2.

The share of labour working in agriculture has been declining steadily for the last decades to 2.9% in 2014. While the number of farms went down by more than 70% in the last 100 years to approximately 200,000 farms in 2011, the total farmed area remained stable. This resulted in an average farm size of 315 hectares, going up to 450 hectares in provinces such as Mantibo, Saskatchewan and Alberta. Those are also the provinces where the most agricultural land is located, as seen in graph 1. In many other parts of Canada agriculture is less common.

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Table 1

Indicator	Value
Ag GDP share (2012)	1.8%
Ag labour share (2014)	2.9%
Total Agricultural area (2013)	652,510 km²
Total Arable land area (2013)	456,600 km²
Arable land per person (2013)	1.3 ha per person (as a comparison, 0.7 ha per person in Ukraine)
Cereal yield (2014)	3,670 t per ha (comparable to Finland)
Agricultural value import index (2011)	181 (100=2004-2006)
Agricultural value export index (2011)	193 (100=2004-2006)
Crop production index (2013)	142.4 (100=2004-2006)
Livestock production index (2013)	85.4 (100 = 2004-2006)
Ag trade balance (Net exports vs. Net Imports) (2014)	27.97 billion USD

Sources: World Bank, FAO, WTO

Table 2

Commodity	Production value (million USD)
Rapeseed	9,800
Wheat	9,117
Milk, whole fresh	6,179
Maize	3,214
Soybeans	2,538
Barley	2,258
Potatoes	1,180
Peas, dry	1,112
Eggs, hen, in shell	980
Lentils	836

Source: FAO 2013

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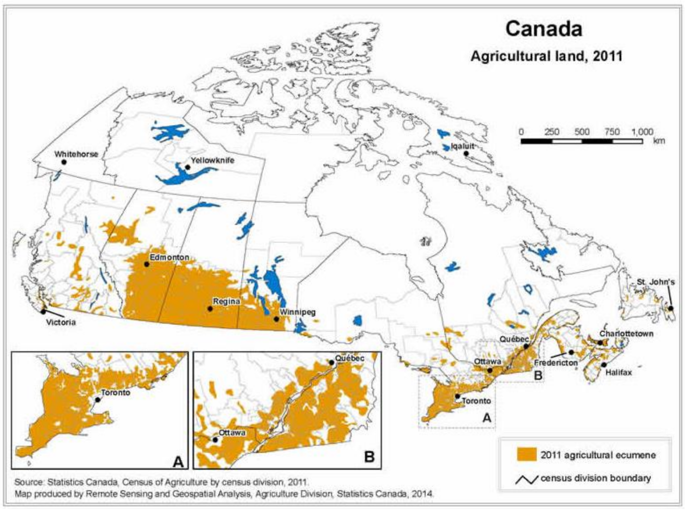
Graph 1



Source: Statistics Canada

3. Agricultural machinery market

The agricultural machinery market is similar to the European one with demand for modern innovative machinery. Because of the larger farm size, machinery tend to be bigger than in Europe.

In the last years, the agricultural machinery market in Canada is shrinking due low commodity prices. Figures from the Association of Equipment Manufacturers (AEM) show that both the tractor and combine market declined by approximately 10% in 2016 in comparison to 2015. Demand started decreasing already in 2015 after almost record high sales in 2014. These developments are similar with the EU market dynamics. However, in Canada demand is expected to pick up in 2017.

As seen in the table below Canada imports large numbers of agricultural machinery. Tractors and combine harvesters - represent almost 90% of the imported value, and to a lesser extent balers, seeders and planters are imported. Around 70% of Canadian imports are coming from the US.

Table 3

Machine type	Value	Import value (1000$)
Agricultural tractors	35,574	982,041
Combine harvesters	3,324	486,301
Seeders, planters and transplanters	12,861	98,594
Track-laying tractors	468	72,817
Balers (straw and fodder balers including pick-up balers)	2,109	52,948
Manure spreaders and Fertiliser distributors	126,672	23,963
Ploughs	33,227	11,042
Milking machines	74,002	7,869
Root or tuber harvesting machines	1,806	7,706
Pedestrian controlled tractors	897	3,486
Threshing machines	218	1,099
Agricultural tractors	35,574	982,041

Source: FAO 2009

4. Technical legislation[1]

Agricultural machinery for the Canadian market needs to meet high standards regarding safety and environmental protection which are comparable to those in the EU.

As for safety, there is no specific legislation for tractors or self-propelled machinery in Canada. Manufacturers need to ensure their machine is safe by complying with certain standards. The responsibility remains with the manufacturer. In practice, most machines can be exported to Canada without significant design changes in comparison with European versions. One of the main changes is the use of different safety icons. There are also certain detailed requirements that differ per province. Therefore, it is advised to contact an expert when exporting to Canada.

The Canadian exhaust emission standards for non-road mobile machinery and agricultural tractors are aligned with the US EPA Tier 4 requirements. These are comparable to the existing EU Stage IIIB (37-56kW) and Stage IV (56-560kW) emission limits, yet certain differences still exist. Stage V emission limits will mostly be stricter regarding particulate number and particle mass limits or similar for engines below 19 kW or above 560kW.

5. Trade policy

On 30 October 2016, the Comprehensive Economic and Trade Agreement (CETA)[2] between the Council of the European Union and Canada was signed. In February 2017, this was subsequently adopted in the European Parliament. This agreement should promote trade between the two parties. Even before the ratification of the CETA agreement there were already no import tariffs for agricultural machinery including tractors. Trade was already liberal with limited trade barriers imposed by both sides. Considering that Canadian most of the import duties on agricultural machinery were already abolished, the most important advantages of CETA for the industry are:

Mutual recognition compliance tests

Compliance test by third parties can be mutually accepted. Necessary tests for the Canadian market can be done by recognised bodies within the EU.

Improved customs

This should reduce transaction costs and make clearing by customs faster. It should be possible to automatize procedures.

[1] *This report reflects a view from CEMA the legal provisions the legislation and it must not be considered or intended as a legally binding text for any reason whatsoever. CEMA accepts no responsibility for the recommendations, advice, statements and conclusions expressed. Only the text of the legislation is authentic in law.*

[2] Full text can be found here

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