EU-Canada SIA Final Report Briefing Document

Objectives, scope and purpose

European Commission Trade Sustainability Impact Assessments (SIAs) analyse the potential impacts of proposed trade liberalisation agreements 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 a 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 goal has been to inform policy-makers during the ongoing negotiations and provide them with a list of areas that could be sensitive to a CETA as well as ways to enhance and mitigate potential impacts.

Evidence-based approach

The EU-Canada SIA has used a variety of evidence sources to inform the qualitative and quantitative sustainability impact analyses for specific indicators. The sources of evidence include formal modelling (CGE, E3MG and investment gravity modelling) results, and quantitative and qualitative evidence collected from desk research and consultations with stakeholders. Causal chain analysis is applied to the evidence base to identify the significant cause-effect links been the Agreement and its economic, social and environmental impacts.

The assessment was undertaken at three levels: (i) macro-economic assessment; (ii) sectoral assessment; and (iii) cross-cutting assessment.

The macro-economic section discusses macro-economic effects forecasted for Canada and the EU as a whole, and includes a brief discussion of the macro-economic effects on certain third countries. The sectoral assessment looks in detail at the social, economic and environmental impacts in 3 sectors and 16 sub-sectors. The 3 sectors and 16 sub-sectors are: (i) the agriculture, processed agricultural products (PAPs), and fisheries sector, and the sub-sectors of grains and oilseeds, beef and pork, dairy, other PAPS, beverages, and fisheries; (ii) the industrial products sector, and the sub-sectors of mining and manufactured metal products (ferrous, nonferrous and fabricated metals), oil and petroleum products, coal, forest-based industries (wood, paper and forestry), automotive and transport equipment, textiles (textiles clothing, leather and footwear); and (iii) the services sector, and the sub-sectors of transportation, telecommunications, financial, and other business services. The cross-cutting assessment analyses 7 key issues: government procurement, intellectual property rights, investment, trade facilitation, labour mobility, free circulation of goods and competition policy.

To inform the assessment, four liberalisation scenarios were employed within the modelling framework:

- **Scenario A.** Limited liberalisation of agriculture and PAPs resulting in an overall liberalisation of 95% of trade in goods in terms of tariff lines and less ambitious liberalisation of services. The reduction in tariffs is achieved using a sensitive list approach whereby there is no tariff cuts for meat products (incl. beef and pork) in the EU and no tariff cuts for dairy products and 'other food products' in Canada; all other agriculture and industrial products are fully liberalised. For services, liberalisation is based on the service trade cost cuts modelled in the 2008 Joint Study, multiplied by a factor of 0.6.
- **Scenario B.** Limited liberalisation of agriculture and PAPs resulting in an overall liberalisation of 95% of trade in goods in terms of tariff lines and ambitious liberalisation of services. The reduction in

tariffs is modelled in the same manner as in Scenario A, while liberalisation in the services is based on the service trade cost cuts modelled in the 2008 Joint Study.

- **Scenario C**. 100% liberalisation of goods and less ambitious liberalisation of services, using the services trade cost cuts employed in the 2008 Joint Study multiplied by a factor of 0.6.
- **Scenario D**. 100% liberalisation of goods and ambitious liberalisation of services, using the services trade cost cuts employed in the 2008 Joint Study.

A key part of the SIA is consultations with stakeholders. The study website, email and phone updates, and the arranging of civil society meetings in Brussels and a local workshop in Canada were used to create awareness of the SIA and elicit feedback from stakeholders. In-depth consultations were undertaken via interviews, soliciting written comments on drafts of study reports and the implementation of steering committee meetings. In the course of the study, more than 350 civil society organisations, trade associations, academic institutions and government agencies were contacted to participate in consultations. Feedback that was presented to the study team was closely evaluated and, as relevant, included directly into the SIA report. Alternative feedback was closely considered as a 'stakeholder concern,' and the length and breadth of the analysis devoted to mentioning these concerns was determined by their appropriateness/relevance and frequency of being mentioned by stakeholders.

Additional key assumptions and hypotheses

Based on discussions with Contracting Authority, it was assumed that 'everything is on the table' in the CETA negotiations. It is unclear how comprehensive the final agreement will be, but in formulating the liberalisation scenarios it was assumed that full removal of tariffs was a feasible outcome.

Every quantitative model employs assumptions, and the models used in this study are no different. The CGE model, for example, assumes perfect competition and, thus, constant returns to scale in some sectors and monopolistic competition in other sectors; profit and utility maximising behaviour of firms and households, respectively; and full employment. In the baseline scenario, the model assumed a successful completion of the Doha Negotiations, and thus made important assumptions about tariff liberalisation, domestic support and export subsidies for agriculture in developed and developing economies. The assessment of services liberalisation played a key role in the SIA and in modelling different degrees of services liberalisation, a key assumption was the cut in services trade costs. Given the lack of data on the specific costs incurred in services trade between Canada and the EU, the SIA uses the estimates employed in the 2008 Joint Study.

A number of assumptions as to the legalities, both general and specific, of issues involving cross-cutting issues in CETA were made in the report. These were informed by consultations with stakeholders and subject to scrutiny by DG Trade.

Major impacts identified

The analysis finds 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. While these gains are expected under the four scenarios modelled in the economic assessment, the gains are expected to be higher under an agreement that offers the highest degree of tariff and services liberalisation. 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.

At the sectoral level, the greatest gains in output and trade appear to be stimulated by services liberalisation and by the removal of tariffs applied on sensitive agricultural products. Both Canada and the EU would benefit from a CETA that provided a high degree of liberalisation in the services sector, particularly with respect to transport, telecom and business services. The formal modelling's inability to account for the impact from investment liberalisation and measures that facilitate the movement of professionals suggests that gains for both sides could surpass those estimated. In terms of Agriculture and PAPs, Canada could realise 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, 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 – beef, pork and other processed food products – the overall impact would likely be heavily influenced by the rules or origin (RoO) that are agreed to under the CETA. In terms of industrial products, the low existing tariffs applied on EU-Canada trade in merchandise would likely limit the impact the CETA will have. Investment liberalisation 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. For both products, the rules of origin agreed to in the text of the CETA will influence the impact.

The CETA could have a positive social impact where it includes text devoted to better implementation and ratification of the ILO's Core Labour Standards and Decent Work Agenda. Canada, specifically, could see its standards and rights improved with respect to collective bargaining and freedom of association with provisions that require ratification of the ILO's Convention 98, which provides legally binding measures on such rights. In terms of the environment, increased agricultural production could lead to a greater degree of intensification and use of chemical inputs, while increased beef production could lead to greater herd size and production of methane. The environmental impact associated with energy and extractive industries is likely to be limited, though it could be exacerbated if the agreement leads to significant increases in FDI in Canada's oil sands and mining industries. Increased trade would likely increase the GHG emissions associated with transport, though this could be mitigated should the CETA replace land transport (notably between Canada and the U.S.) with maritime transport and facilitate the development of Canada's short sea shipping industry.

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. Potential social impacts are mixed, and a GP Chapter in CETA would likely have mixed environmental impacts, although the full extent of these impacts is unclear without further details of CETA. In terms of IPR, it is assumed that CETA will lead to an upward harmonisation 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 have a minor positive impact on European GDP. An IPR chapter in CETA would also have economic impacts on employment and policy space. Raising levels of IPR protection is likely to have some social impacts but unlikely to have significant environmental impacts.

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, there will likely be some positive, and potentially some negative, social and environmental impacts from such investment. 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 liberalisation in international letter delivery in Canada and revising state aid policies, respectively.

Some impacts are identified in the areas of trade facilitation, labour mobility and free circulation of goods. It is unlikely that there will be significant economic, social or environmental impacts from trade facilitation reform under CETA. Labour 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.

Policy recommendations

In order to minimise potential negative impacts and maximise positive impacts, it is recommended that CETA: (i) Establish an appropriate timetable for the phased reductions in tariffs and non-tariff barriers. (ii) Form a special group of officials from both sides to deal with rules of origin. (iii) Develop a framework to formalise enhanced regulatory cooperation and regular dialogue on SPS and TBT issues. (iv) Collaborate on sustainable fishery practices. (v) Remove investment restrictions on telecom, but do so in a way that includes an appropriate phase-in period while allowing Canada to continue to form and implement policies that ensure cultural objectives can be met. (vi) Streamline the visa process for professionals seeking to temporarily work in Canada or the EU and create a mechanism for fostering mutual recognition agreements for professional qualifications and credentials. (vii) For GP, explicitly allow for Social Considerations in Public Procurement, including fair wages, and create a monitoring body to oversee that these allowances are not being abused; allow for green procurement policies in all 'standard' forms in the General Notes of both Canada and the EU in the GP Chapter and include other specific language for environment protection; explicitly allow set-asides for Aboriginals in Canada's schedule in the GP Chapter; do not include a full-stop prohibition on GP offsets for municipalities, but rather include an 'offset justification provision' pertaining exclusively to municipalities. (viii) For IPR, duplicate the language of *TRIPs agreement* article 7, 8, 13, and 30 as well as the language of the *Declaration on the TRIPs Agreement and Public Health* in the introduction of CETA's IPR chapter; cooperate to ensure agreed norms on enforcement become recognised globally as minimal standards and cooperate in multilateral fora (WHO, WIPO, WTO, etc.), in plurilateral settings (OECD, ACTA, etc.) and bilaterally in the respective agreement with third parties; and the EU and Canada should cooperate to fast-track marketing approvals for those drugs already approved by the respective regulatory agencies. The CETA should furthermore foresee in a comprehensive GI protection. (viv) For investment, consider excluding investor-state dispute settlement (ISDS) from CETA and instead use a state-state enforcement mechanism like that in the recent US-Australia FTA; consider a number of key issues when drafting dispute settlement expropriation language; emphasis domestic dispute settlement even if ISDS is included in CETA; exclude 'essential and basic' public services from investment commitments; create a dispute settlement monitoring body/forum. (vv) For overarching issues, include a Trade and Sustainable Development Chapter in CETA and within that chapter establish an effective monitoring body; ensure CETA allows usage of domestic policy tools to limit alcohol abuse; and create a clean energy partnership initiated between the EU and Canada, which could be modelled off of existing programs.

Limitations in the design and execution of the SIA

One significant limitation in executing an ex-ante assessment that is informative for policy-makers and stakeholders is the limited knowledge of what provisions will be ultimately included in an Agreement. This complicated assessments of many cross-cutting issues, which closely depend on legal provisions. Generally, this complicated the SIA and required redirection of resources at various points throughout the study, as officials intermittently released information as to which areas they would like to see more or less detail.

Additional limitations were encountered in data gathering, particularly in the investment, portfolio flows and labour mobility modelling, as a lack of data at times limited the ability to make a quantitative assessment. For investment, this limitation was detrimental to the overall quantitative analysis. Data limitations further surfaced within the CGE framework, as the GTAP model uses highly aggregated groupings, which made it impossible to usefully model rules of origin or determine the impact on specific products within a broad category (e.g. medium-quality wheat in the context of the estimated impact on 'wheat'). Some of the regional aggregations promoted by the Contracting Authority also lacked utility; for example, combining diverse countries such as Russia, Norway, Switzerland and Turkey into a single grouping limited the useful interpretation one could make from the CGE estimates for this group.

Delays encountered in the formal approval of such things as modelling scenarios also limited the time that could be devoted to analysis and other important activities. At the same time, it is noted that the initial liberalisation of services proposed by the study team produced unrealistic outcomes, necessitating that they be redesigned. Further, the design and execution of the SIA was somewhat complicated by the appearance of sometimes competing requests within the Steering Committee (e.g. simultaneous requests for more information/a shorter report; or more economic analysis on a sector/less economic analysis and more stakeholder feedback).

Suggestions for further investigation

Further study is suggested in a number of areas: (i) An ex poste study to determine the level of implementation of ILO Core Labour Standards at the provincial level in Canada and in Member States. (ii) If investment is liberalised, assessing the relating impacts on Canadian cultural objectives. (iii) A study on whether the framework established by CETA is effective in promoting Mutual Recognition Agreements between Canada and the EU. (iv) A study to assess if the liquor control boards in Canada are complying with their obligations under CETA and other agreements. (v) Study on any potential negative impacts on beef and pork producers in the EU, and dairy producers in Canada . (vi) A study on cost of compliance with RoO under CETA, and whether RoO are encouraging transhipment. (vii) A study on whether CETA is contributing to increased output in the oil sands and mining, and any related environmental impacts. (viii) Study on the impact of privatisation of water sources that might in the long-term indirectly result from CETA. (viv) A study on the efficiency and effectiveness of state-state dispute settlement vs. ISDS, or vice versa, and any other hybrid mechanism. (vv) A study assessing the utility of offsets in GP. A series of ex poste studies on GP allowances for policies on fair wages and Social Considerations in Public Procurement, Aboriginal and minority business set-asides, as well as green procurement