



CANADIAN GLOBAL AFFAIRS INSTITUTE
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Taking Stock of CETA & What's Next for the Canada-EU Trade Relationship

by Charlotte Duval-Lantoiné
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CONFERENCE REPORT

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Ahead of the Canada-European Union Summit in Newfoundland (November 23-24, 2023), the European Union Chamber of Commerce in Canada (EUCCAN) and the Canadian Global Affairs Institute organized a morning conference to take stock of the Comprehensive Economic and Trade Agreement (CETA), six years after its inception.

This report aims to summarize the discussions that took place on the morning of November 14, 2023 at the KPMG Offices in Ottawa.

Overview by Global Affairs Canada's Chief Economist, Dr. Marie-France Paquet

In this session, Dr. Paquet presented comprehensive data outlining the utilization of the free-trade agreement between 2016 and 2022. The history of CETA can be summarized as a “feel good” story, one of resounding success for Canada-EU trade. However, both Canada and the European Union can do better in terms of leveraging the agreement more meaningfully.

Since CETA's implementation in 2016, Canadian-EU trade experienced a faster increase than any other free trade agreement signed by Canada. In 2021, trade between the two parties exceeded the \$100 billion mark. This fast rise of trade exchanges can also be seen when looking at a country-by-country breakdown. While the rise of CETA utilization is impressive and appears to have overcome the pandemic, reality paints a different story. By the end of 2022, quantities of commodities and services exchanged under CETA have not reached pre-pandemic level. This augmentation can be explained by inflation and the higher prices of what Canada and the EU are trading.

Another positive trend includes the utilization of CETA by small and medium enterprises (SMEs), businesses that do not exceed 500 employees and constitute the great majority of the Canadian market. Exports by Canadian SMEs to Europe have almost doubled since 2016, showing how these companies have made headway into the European market.

While the data shows the success of CETA five years in, there are a few challenges around utilization. First, CETA tariff preferences not applying automatically, importing companies need to ask for the tariff at the border. Since they have a couple of years to claim that tariff preference, the 2022 data on utilization can still evolve post-facto. This feature brings the question of whether importing companies know about the CETA tariff preferences and that they have to claim them. The data shows that those tariff preferences remain to be fully utilized, with an upwards of \$100 million worth of savings not being used by both Canadian and European companies. The industry that is underutilizing CETA is the automotive industry, and no data is available explaining why that is the case. Similarly, there are some Canadian exports that underutilize their CETA quota, most notably beef and pork (which could be explained by the use of hormones on farm animals).



Panel 1: Policy Perspectives

- Steve Verheul (former Chief Negotiator for CETA),
- Andre von Walter (Head of Trade for the EU Delegation)
- Alexandre Lévêque (Global Affairs Canada)
- Moderator: Dr. Patrick Leblond (University of Ottawa)

CETA not only stands out from the rest of Canada's free trade agreements based on its success, but also on its [third-generation elements](#) and its institutionalized features (e.g., [committees](#)).

Compared to traditional free-trade agreements, CETA is and continues to be a success. However, there are particular points of frictions both Canada and the EU need to address, such as government procurement, the harmonization of standards and regulations. On the latter, the complexity lies in the fact that Canada's market is highly integrated with the United States', creating challenges when it comes to the alignment of standards and regulations with those of the EU's, which can be radically different. That being said, the inclusion of new products, e.g., environmental products, as part of CETA creates opportunities for the development of common standards and regulations.

The reason for which the third-generation aspects of CETA have yet to take a more prominent place in the utilization of the agreement is because it requires more time to implement than tariff preferences. Those aspects require internal negotiations, and both the EU and Canada have to navigate sometimes complex constitutional and legal features. Despite those challenges, CETA has had significant successes on its third-generation aspects, for example the mutual recognition of professional qualifications for architects, the opening to government procurement processes, and the protection of geographical indications. CETA also has in place a regulatory cooperation forum, which has achieved progress on the regulation of cosmetics and standards for consumer safety, and will look to find common ground for the standardization of new products such as hydrogen and artificial intelligence.

When discussing CETA and its achievements, it is important to keep in mind that the larger goal of a free trade agreement is to create greater openness and points of cooperation between the parties of the agreement. CETA has had that effect, and we can see a spill over into the political and diplomatic relationships between Canada and the EU. This greater alignment can be partly explained by CETA having structures of dialogues written within its provisions – notably, the committees meet based on a set schedule. This institutionalization of regular discussions establishes a common purpose between the EU and Canada, and helps build confidence. Outcomes from the November 22-23, 2023 Summit will reflect this greater openness and ambitions towards a common goal, in terms of both trade and larger international relations.

Another important aspect of CETA is its e-commerce/ digital trade chapter. Negotiated and agreed upon at a time when digital trade was not as prominent, this chapter was written in a way to allow for evolution with technological advance and the development of digital trade capacity. However, updates are needed, since the digital trade environment is moving faster than the ability



of CETA provisions to adapt. Still, CETA is ahead of other free-trade agreements. There has been greater digital cooperation between the EU and Canada, and the structure of the agreement offers the necessary framework to discuss the issue of rapid digitalization of trade as it evolves.

Regulatory alignment for Canada remains an issue, especially as many economies (most notable the United States) are taking on a more protectionist approach to trade and economic measures to combat climate change and foster a green transition. As it stands, the EU remains committed to rules-based trade, but the current state of the dispute resolution arm of the World Trade Organization is concerning, as it chips away at the rules structure currently in place. Geopolitical developments have a strong influence on trade and the utilization of free trade agreements, meaning that intervention, done in concert with partners, is necessary.

To adapt, Canada will have to prove itself resilient and relentless in advocating for its short- and longer-term interests. It also means that Canada will have to be ready to respond to those protectionist measures with the tools that it has (e.g., taxes, tariffs, or subsidies). However, channels of communications and negotiations exist, and Canada has the capacity of offering thought leadership with the United States and the EU. Doubling down on cooperation and multilateralism is essential, even with unlikely (or not as like-minded) partners.

Panel 2: Business Perspectives

- Trevor Kennedy (Business Council of Canada)
- Pierre Seïñ Pyun (Bombardier)
- Dan Lauzon (CAE)
- Maxime Ramon (Belgian Embassy)
- Moderator: Allison Gifford (Public Policy Forum)

From a business point of view, CETA has been a success. To the European Union, Canada is attractive as it opens the door to American and Mexican markets thanks to CUSMA. For Canadian businesses, CETA has allowed for greater business opportunities with European companies, the expansion of their presence in EU member states, and the deepening of relationships. The aerospace and aviation sectors have greatly benefitted from this trade agreement. CETA has effectively facilitated the building of trust and relationships in ways that are “difficult to overstate.” Thanks to CETA, the strategic cooperation between Canada and the European Union has never been stronger, and has translated into political and diplomatic alignment in light of recent conflicts (e.g., the invasion of Ukraine and the Israel-Hamas conflict), and the implementation of a green transition.

The unintended consequence was the strengthening of the rules-based international order, as it is essentially a model for future free trade agreements with other markets, most importantly in the Indo-Pacific. CETA also serves the purpose of de-risking supply chains, especially as supply chains remain vulnerable due to unpredictable geopolitics. It offers certainty and stability and provides economic security in an increasingly volatile world.



While it has useful provisions for Canadian companies to do business in Europe, CETA has significant limitations that are and will impact businesses' utilization of the agreement in the short and long term. Among them, the procurement provisions have created challenges. Additionally, CETA does not necessarily protect businesses from geopolitical developments such as the European Union's pursuit of strategic autonomy, the negotiation of a U.S.-E.U. technology trade agreement. The E.U.'s stringent regulations also reveal themselves to be a challenge, especially when it comes to green transition. The adoption of sustainable fuel for aircraft and carbon border adjustments are among the areas of concerns. The digital trade provisions are also a concern, as it is hard for regulators to keep pace with technological advancement.

Those challenges can be areas of greater cooperation and alignment. Canada cannot afford to respond to them unilaterally; rather, it should leverage its positions and relationships with both the E.U. and the U.S. to find a common ground. CETA's committees offer an arena for the necessary regulatory negotiations. Additionally, businesses will continue to seek a competitive edge, it will therefore be critical for decision-makers to include business perspectives into the fold in order for provisions to remain in line with the times.

Canadian businesses and decision-makers also need to remain mindful that E.U. is diverse and that member states often have competing interests and different regulatory frameworks. All parties to CETA need to understand that the meaning of trade has evolved as well, and the nature of the stakeholders involved along with it. Opening multiple arenas of dialogue will help ensure CETA continues to be an asset for businesses now and into the future.

About the Author

Charlotte Duval-Lantoine is the Ottawa Operations Manager and a Fellow at the Canadian Global Affairs Institute, as well as Triple Helix's Executive Director and Gender Advisor. She is the author of [*The Ones We Let Down: Toxic Leadership Culture and Gender Integration in the Canadian Forces, 1989-1999*](#) (McGill-Queen's University Press, 2022). This book, which looks into the toxic culture of leadership in the Canadian Armed Forces during the 1990s and its impact on gender integration, was named among The Hill Times' Best Books of 2022. Her research interests include questions of military leadership, culture change, and personnel policy, topics on which she regularly comments in the media. For this work, Charlotte was recognized as a 2022 Women in Defence and Security Emerging Leader. She regularly participates in consultation organized by the Department of National Defence and has given talks to West Point and RMC cadets, to the National Strategic Program at the Canadian Forces College, and to the Australian War College. She is currently working on projects on civilian-military relations, the Somalia Affair, and organizational change in the Canadian military.

Prior to working at CGAI, Charlotte served as the Assistant to the Executive Director of Women In International Security-Canada and has worked as a research assistant and translator on projects about gender mainstreaming and integration in NATO Armed Forces and on the gendered dimension of veteran transition at Queen's University Center for International and Defence Policy (CIDP).

Canadian Global Affairs Institute

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The Institute was created to bridge the gap between what Canadians need to know about Canadian international activities and what they do know. Historically Canadians have tended to look abroad out of a search for markets because Canada depends heavily on foreign trade. In the modern post-Cold War world, however, global security and stability have become the bedrocks of global commerce and the free movement of people, goods and ideas across international boundaries. Canada has striven to open the world since the 1930s and was a driving factor behind the adoption of the main structures which underpin globalization such as the International Monetary Fund, the World Bank, the World Trade Organization and emerging free trade networks connecting dozens of international economies. The Canadian Global Affairs Institute recognizes Canada's contribution to a globalized world and aims to inform Canadians about Canada's role in that process and the connection between globalization and security.

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