

POLICY BRIEFING

The Comprehensive Economic and Trade Agreement (CETA)

Abstract

Recently, Canada and the EU and its member states have signed a very important agreement that could have a strong impact on both economies and could affect the global trade: the Comprehensive Economic and Trade Agreement (CETA). The aim of this treaty is to open a free-trade market between the two parties, eliminating most of the duties and the tariffs on import and export and encouraging investments on both sides. The obligations included in the CETA agreement are binding and they are based on the respect of labour rights and were conceived to support a sustainable development. In order to understand the full potential of the CETA treaty, an analysis of the pros and cons of its features has been provided. Moreover, due to the mixed opinions of its citizens regarding the protection of typical products and the opportunities that CETA will create for businesses, the case of Italy is a prime example to understand the impact that this agreement will have in Europe, especially in the food and drink sector, therefore a more in-depth analysis was given. This work ends with the final remarks and opinions of the author.

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Table of Contents

1.	What is the CETA?	3
2.	The benefits of the CETA	5
3.	The disadvantages of the CETA	7
4.	CETA for the sustainable development	8
5.	The impact of CETA on Italy	9
6.	Final remarks	10
7.	Web references	11

1. What is the CETA?

 Clothing, textiles	Before up to 16%	Now 0%
 Vehicles, parts	Before up to 9.5%	Now 0%
 Machinery, electrical equipment	Before up to 9.5%	Now 0%
 Medical devices, optical instruments	Before up to 8%	Now 0%
 Chemicals	Before up to 6.5%	Now 0%
 Chocolate, confectionery	Tariff before Up to 10%	Tariff now 0%
 Bread, pastries, biscuits	Tariff before Up to 15%	Tariff now 0%

Figure 1: tariffs reduction

The Comprehensive Economic and Trade Agreement (CETA) is a newly negotiated free-trade agreement between Canada, the European Union and its member states. CETA opens up Canada's goods, services and public procurement markets, helps protect labour rights and the environment, and enables smaller EU firms in particular to export more to Canada. CETA is the first trade agreement between the EU and a major world economy. The European Commission adopted the proposals in July, and On 21 September 2017 it provisionally entered into force, so most of the agreement now applies. All the institutions such as the European Parliament, EU countries' national parliaments, and in some cases regional ones too, need to ratify the agreement. Once they all agree, it can fully and definitively enter into force.

The CETA will affect mainly 5 areas:

1) Trade in goods

The EU is already a major exporter to Canada. This applies to many important industries such as machinery, chemicals, food and drink. In these fields, the EU exports to Canada each year are respectively €8.3 billion, €5.9 billion and €3.4 billion.¹ CETA will help new and existing EU exporters because it:

- abolishes over 98% of Canadian customs duties from day 1 of entry into force;
- will save EU businesses €590 m each year in Canadian customs duties over time;
- helps make EU exporters more competitive;
- removes tariffs on EU food exports from day one (in particular on chocolate, confectionery, bread, pastries and biscuits);
- removes or manages barriers to exporting drinks from day one (in particular on wine and spirits);
- removes Canadian customs duties on key EU manufacturing exports from day one (in particular on clothing, vehicles, machinery chemicals and medical devices);

¹ Source: Eurostat, 2016. Food and drink based on exports of products from several sections of the Harmonised System (HS).

Furthermore, CETA allows 143 European products with the status of Geographical Indications to be sold in Canada. That gives them a similar level of protection from imitations as EU law does. Promoting and protecting Europe's flagship food and drink products in countries outside the EU is a top priority for CETA, as for any EU trade deal. CETA protects products such as:

- beef, pork, sweetcorn - with limited, tariff-free quotas
- poultry and eggs – by not opening its market.

2) Trade in services

The CETA will open up the Canadian market in the following industries:

- transport
- telecommunications
- financial services
- postal and courier

3) Investment

It encourages more investment between the EU and Canada, in both directions.

4) Sustainable development

Sets out strong, legally binding commitments on environmental protection and respect for labour rights.

5) Smaller companies

Helps EU small firms export more through: reduced trade barriers, tariff elimination, simplified customs procedures, more compatible technical requirements



Figure 2: EU exports to Canada

2. The benefits of the CETA

Without a doubt, the CETA will intensify and strengthen the cooperation between the EU and Canada, which is already strong, thanks to the close trade ties. The treaty will help to bind the two economies even more closely together, creating opportunities for companies on both sides of the Atlantic.

In fact, Canada is one of the EU's closest partners, with many similar values. For example, they both:

- are established democracies
- have high product standards
- apply some of the highest labour and environmental standards in the world
- ensure exemplary consumer protection
- share similar ideas about the rules needed to protect their societies.

Both the EU and Canada believe that now is the time to build bridges, not walls. Therefore, this treaty finds a solid ground on which it is founded.

“We can only address the challenges our societies face by keeping trade open – not through protectionism.”²

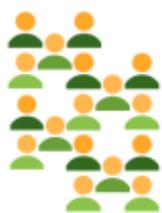
The challenges this statement refers to are those shared by the two parties, that affect a global dimension, such as:

- protecting the environment
- tackling climate change
- securing access to stable energy supplies
- ensuring regional stability.

To address these challenges and shape globalization for everyone's benefit, it is important to agree on the need to build on our long history of working together and our shared values – for example, by ensuring that trade between countries promotes environmental protection and labour rights.

The CETA promotes free trade, which helps the economy to reap the benefits of globalization. It:

- allows to tap into new markets, creating growth and higher-paying jobs
- helps companies compete by getting the inputs they need
- helps to shape the rules of global trade to make it sustainable and fair.



865,000

Number of EU jobs tied to EU exports to Canada



221,000

Number of EU workers employed by Canadian firms in the EU

The treaty will also create numerous new job places, that will be added to the already high number of workers employed in companies dealing with both countries.

Figure 3: workers employed in the relationship between the EU and Canada

² http://trade.ec.europa.eu/doclib/docs/2017/september/tradoc_156059.pdf taken from the official CETA Factsheet

To recap, the general benefits of the CETA agreement are:

- It will remove customs duties (within seven years there will be no more customs duties between the EU and Canada on any industrial products).
- It will expand the service market.
- It will end restrictions on access to public contracts.
- It will offer predictable conditions for investors.
- It will prevent illegal copying of EU innovations, trademarks and products (e.g., food).
- It will boost growth and jobs across Europe.
- It will increase trade and investment across Europe.
- It will strengthen cooperation between the EU and Canada.



Figure 4: the benefits of the CETA

3. The disadvantages of the CETA

Although this treaty shows a lot of beneficial features, many European producers are very concerned about the impact on agricultural production and on the food excellences in Europe. In some countries many products such as wines, spirits and food products that are obtained through very strict disciplinary procedures are regulated through the DOP, DOC, Igp, Igt brands. In Europe there are thousands of products that fall into this category, but CETA protects only a little more than 100. This means that the producers could be exposed to the risk of trademark counterfeiting, because at this point it will be legal for a Canadian company to produce a oil calling it "Genovese" and to sell it on the European market without suffering consequences.

It is even possible that for the reduction of the regulation on the quality and the healthiness of food, a kind of meat deriving from procedures where growth hormones, antibiotics and GMOs are used will be introduced in Europe. For example, in North America the carcasses of the animals are washed with chlorine, in some European countries this idea would make people shiver. Products obtained in those ways will invade European markets and citizens will be encouraged to buy them because they will cost less. However, this could entail problems as far as health is concerned.

Many politicians have defined CETA as a great opportunity to expand and introduce products that are typical of certain European countries in new markets (for example the "Made in Italy" products), but actually these important brands that are considered an excellence in their field do not need CETA or TTIP to spread throughout the world. They have a big market, because they are products of the highest level and safe from the point of view of food control.

Some forecasts estimate minimum benefits. It is not worth to put at risk labor rights and the healthiness of the foods that are consumed only to achieve a growth of 0.1%. There is a cultural failure, on which not everybody can agree. Consumers, farmers, small and very small businesses are protesting, because they feel threatened. They think that the European governments should take this into account, but instead it was decided once again without listening to the voice of the citizens. They hope to reverse this trend in the process of national ratification.

4. CETA for the sustainable development

The CETA integrates the EU's and Canada's commitments to apply international rules on workers' rights, environmental protection and climate action. And these obligations are binding, with the same legal value as any other provision. In fact, with CETA the EU and Canada also pledge to cooperate on trade-related environmental and labour rights issues and effectively implement all ratified Multilateral Environmental Agreements, which would now include the Paris climate accord.



Labour rights

CETA commits the EU and Canada to ratifying and effectively implementing the fundamental conventions of the International Labour Organization (ILO).

The EU and Canada have also agreed to promote initiatives focused on:

- sustainable management of forests, fisheries and aquaculture
- corporate social responsibility and accountability
- eco-labelling
- fair trade
- energy efficiency and the use of climate-friendly technologies
- recycling
- environmentally-friendly goods and services

In CETA both sides also agree that more trade and investment should not be at the expense of environmental protection and labour rights. On the contrary, the EU and Canada are committed to ensuring that CETA helps ensure that economic growth, social development, and environmental protection go hand in hand.

Figure 5: labour rights

5. The impact of CETA on Italy

Among those countries that still have to ratify the CETA agreement there is Italy. The national parliament is evaluating the pros and cons of this treaty before making its decision. These are the consequences that the CETA will bring:

- CETA provides for significant savings on customs duties by eliminating duties on 99% of all tariff lines, of which 98% will already be scrapped at entry into force. Italy will benefit from tariffs being removed on virtually all of its exports, in particular on machinery (€1 bln of exports to Canada), motor vehicles (€286 m), clothing and footwear (€261 m), stone and ceramics (€164 m), and others.
- CETA also offers big opportunities for Italian farmers and the agri-food industry. Canada will eliminate duties for 90.9% of all its agricultural tariff lines when CETA enters into force. Italy is the EU's second-largest processed foods exporter, accounting for 23% of all EU exports of processed foods to Canada. Italian exports of processed foods to Canada: €528m (2015).
- All Canadian exports will also need to comply with the EU's food safety standards, including:
 - EU legislation on Genetically Modified Organisms
 - EU legislation on the use of hormones and antibiotics in food production
 - providing proof of such compliance wherever this is required by EU legislation.
- CETA also provides a high level of protection for 39 distinctive Italian food and drink products that hold a geographical indication (GI) – a sign to show they have a specific geographical origin and possess qualities or enjoy a reputation because of it. With CETA, Canadian producers won't be able to sell local or foreign products as European GIs if they are not the real thing.
- CETA will improve Italian companies' access to the Canadian services market. It also includes provisions to make it easier for European professionals to work in Canada (and vice versa) and to have their qualifications recognized. Italian services exports to Canada: €1.4 bln (2015)
- Canadian investments have the potential to become an important source of growth and job creation for Italy. Italy does not have a bilateral investment treaty with Canada. Once CETA enters into force definitively, these provisions will provide Italian and Canadian investors with greater predictability, transparency, and protection for their investments in Canada and in Italy respectively.
- Italian small businesses are very export oriented and make up 90% of the total number of Italian exporters. They will be able to take full advantage of CETA. Reduced trade barriers, tariff elimination, simplified customs procedures and more compatible technical requirements all make it easier and cheaper to export. This allows smaller firms to:
 - compete more easily with large companies
 - sell the same product (or with fewer modifications) into both markets
 - participate more in supply chains and e-commerce.

6. Final remarks

Without a doubt, the CETA treaty is one of the most important agreements of recent years, that will have a strong impact on the economy worldwide.

The fact that this treaty has been conceived in the full respect of labour rights but also supporting a sustainable development makes it only more remarkable. Nowadays problems like energy efficiency, recycling and the management of the environment cannot be ignored, they represent the global challenges that we must face globally as a whole and these principles must be the very base upon which we can build international relationships and can help the countries to work in the same direction.

Although for some European businesses the CETA agreement may seem controversial, it can be said that for the majority of enterprises this treaty will bring benefits to both sides. The countries that are suffering or have suffered from the recent economic crisis can consider this treaty as an opportunity to break out of this cycle and enter a full reprise. Small and medium enterprises will try to expand on new levels and will grow, becoming able to compete on foreign markets as well as the domestic ones.

Generally, the CETA agreement can be considered as a major step forward economically and an important tool that can boost the already strong cooperation between Canada and the European Union.

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