Ken Neumann
National Director/ Directeur national

December 30, 2014

Mr. Don Davies, M.P.
International Trade Critic for Canada's Official Opposition
2951 Kingsway Avenue
Vancouver, B.C. V5R 5J4

Dear Mr. Davies:

RE: Canada-European Union Comprehensive Economic and Trade Agreement

I am writing in response to your letter dated November 3, 2014, requesting our comments on the proposed Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union.

First, permit me to thank you and the NDP for engaging in this consultative process with respect to this very important trade agreement. It is truly a new and welcome development to have the trade critic for the official opposition consult with stakeholders on important trade issues, and we appreciate the opportunity to express our views to you on the CETA.

By way of background, it is our union's view that the trade agreements Canada has entered into over the last number of decades have not served the interests of our members or Canadian workers more generally. Beginning with the Canada-US FTA and NAFTA, and continuing with the numerous hemispheric and other trade agreements that the federal government has signed over the last 20 years, our experience has been that these agreements provide robust and enforceable rights to investors and corporations, but few tangible benefits to workers.

Our union understands that there are benefits to trade and we support fair trade agreements that bring the benefits of trade to all Canadians. However, we are concerned from our review of the CETA that this agreement follows the template established by the NAFTA and other hemispheric agreements, and as such it will again place the rights of investors and corporations ahead of the interests of Canadian workers.

We would now like to turn to our comments on some specific areas of concern that are raised by the CETA.

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A. Trade Flows

The popular conception of "free trade" is about removing tariffs to allow a freer flow of goods and services across borders. In that sense, trade between Canada and Europe is already very free. Canada's average tariff on European products is 3.5% and the European Union's average tariff on Canadian products is only 2.2%.[1]

The Comprehensive Economic and Trade Agreement (CETA) would almost completely eliminate these tariffs. Removing such small tariffs would have relatively little effect on trade flows compared to other factors, such as fluctuations in the exchange rate between the Canadian dollar and the Euro.

Removing Canadian tariffs would expose our economy to greater European competition, lowering prices for consumers but also reducing output and employment in Canada. Removing European tariffs would facilitate greater Canadian exports, increasing output and employment in Canada.

We currently import far more from Europe than we export to Europe. A proportional increase in trade flows would deepen this imbalance.

In the first ten months of 2014, we sold $32 billion of goods to Europe and bought $48 billion from Europe.[2] The federal government has suggested that the CETA could increase bilateral trade by 20%, which would boost exports to Europe by $6.4 billion and imports from Europe by $9.6 billion.[3] Such an increase in exports would almost certainly add fewer jobs than the increase in imports would subtract.

Economic modelling conducted by the Government of Canada and the European Commission also projects that the CETA would widen Canada's trade deficit with Europe.[4] Other things being equal, a larger trade deficit means less production and fewer jobs in Canada.

Our union is not arguing that tariffs are the solution to trade imbalances or that Canada should never enter trade agreements with jurisdictions where we have trade deficits. A more competitive exchange rate may already be starting to rebalance Canada-Europe trade. A more proactive industrial policy could strengthen Canadian exporters.

However, there is no reason to believe that the CETA would add to Canada's net exports, output or employment. Without other policy changes, it would likely do the opposite.

The effects of removing tariffs would be small and ambivalent: modest benefits for Canadian consumers versus modest losses of jobs for Canadian workers and of revenue for the federal government. To properly evaluate the CETA, we must look beyond its relatively minor implications for trade.

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B. Public Procurement

In theory, a loss of output and employment from the CETA could be offset by fiscal policy. But for public spending to stimulate Canadian output and employment, it must purchase domestic goods and services rather than imports. Procurement policy can be critical in ensuring that stimulus spending actually stimulates our economy.

Canadian municipalities and Crown corporations are currently not subject to international restrictions on procurement policy. For example, the City of Toronto has required Canadian content in its transit vehicles, which supports well-paid manufacturing jobs in Thunder Bay.

The CETA would restrict most procurement by municipalities and Crown corporations, while exempting some important agencies like Infrastructure Ontario. In general, Canadian governments would be unable to use procurement preferences as a tool of industrial or macroeconomic policy.

Transit procurement in Ontario and Quebec could still require *up to* 25% Canadian content. This exception is weaker than Ontario's current policy that municipalities require *at least* 25% Canadian content and Quebec's current requirements of up to 60%.[5]

In exchange, Canadian companies would supposedly be guaranteed the right to bid on European procurement contracts. However, these contracts are already open to Canadian suppliers because European Union directives prohibit procurement preferences.

In public procurement, the CETA entails a major loss of Canadian policy options and no meaningful change for Canadian access to European contracts.

C. Drug Patents

The CETA would extend pharmaceutical patents in Canada by up to two years, further delaying the use of cheaper generic medicines. It would also grant brand-name drug companies additional opportunities to block the approval of generic drugs.

The Canadian Centre for Policy Alternatives estimates that these measures would increase the annual cost of pharmaceuticals in Canada by up to $1.6 billion.[6] That extra cost could fully offset the savings accruing to Canadian consumers from eliminating tariffs on European goods.

The federal government may compensate provincial governments for additional drug costs resulting from the CETA. But that entails the same cost to Canadians, paid through federal taxes rather than provincial taxes.

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There would be no compensation for the additional cost of drugs purchased privately or through workplace plans. Higher pharmaceutical costs would make it harder for unions to maintain or improve existing drug plans, let alone negotiate such plans for employees who currently lack coverage.

D. Investor Rights

Like most other Canadian trade deals since the NAFTA, the CETA includes investor-state dispute-settlement. European corporations could directly challenge Canada's democratic laws, regulations and policies in international commercial tribunals.

Under the NAFTA's investor-state provisions, Canada has been sued 35 times and paid out $180 million to foreign corporations. Perhaps more significant than actual settlements has been the chilling effect on Canadian public policy. Lawmakers and regulators are often reluctant to strengthen standards or safeguards for fear of being subject to an investor-state claim.

The CETA would expose Canada to more challenges from more foreign corporations. European companies are currently responsible for a majority of the World's investor-state disputes. There is every reason to believe they would also take advantage of the CETA.

The Government of Canada and the European Commission argue that the CETA's investor-state provisions have been reformed to avoid the pitfalls of previous deals. But the Canadian Centre for Policy Alternatives has documented that the CETA would expand the scope of investment arbitration and do little to prevent abuse.[7]

The more fundamental question is why the CETA needs investor-state provisions at all. The ostensible rationale for NAFTA's investor-state provisions was that Canadian and American investors could not rely on Mexican courts. Similarly, European countries have signed investment protection agreements with many developing countries.

However, both Canada and Europe have well-functioning judicial systems that provide ample protection to foreign investors. It is unclear why CETA investors need direct access to special international tribunals rather than using domestic courts or the government-to-government process used to resolve other CETA disputes.

Although individual European countries have signed many investment protection agreements, the European Union has never before negotiated investor-state provisions into a trade agreement. There is substantial opposition to these provisions in European governments and civil society. The inclusion of investor-state dispute-settlement in the CETA is neither necessary nor desirable.

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E. Foreign Ownership

US Steel's disastrous takeover of Stelco, Vale's purchase of Inco and BHP Billiton's attempted takeover of the Potash Corporation of Saskatchewan all highlight the importance of reviewing proposed foreign takeovers to ensure a net benefit for Canada.

Nevertheless, the federal government is in the process of raising the threshold for *Investment Canada Act* reviews from $354 million to $1 billion. The CETA would further increase to $1.5 billion the threshold below which proposed European takeovers of Canadian enterprises cannot be reviewed. As the federal government itself notes, the "most favoured nation" provisions of other trade deals would automatically extend this higher threshold to investors from many other countries.

US Steel purchased Stelco for $1.1 billion. Had the CETA been in effect, this significant takeover would not even have been subject to an *Investment Canada Act* review.

Federal policy currently caps foreign ownership of uranium mines at 49%. This compromise has allowed substantial foreign investment in Canada's uranium mines, while ensuring Canadian control of this strategic industry.

The CETA would allow European companies to take full control of uranium mines without partnering with Canadian companies. One concern is that European electrical utilities may acquire Canadian mines to extract uranium at discounted prices.

Canadian law limits foreign ownership of telecommunications, another strategic industry. The CETA would lock in any future changes that allow more foreign ownership.[8]

Conclusion

Increased exports to Europe are unlikely to create as much employment as increased imports from Europe would displace. The CETA would generally prevent Canadian governments from using public procurement to create local jobs. It would also facilitate European companies temporarily bringing in their own workers rather than hiring Canadians.

As workers, we would lose job opportunities. As consumers, we would pay lower prices for some European imports but higher prices for pharmaceuticals. As citizens, we would lose more of our democratic capacity to regulate corporations in the public interest.

Regarding the CETA's investor-state dispute process, official opposition leader Tom Mulcair recently said, "Europe shouldn't let itself be locked into an agreement that contains such a provision."[9]

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Similarly, Canada should not lock itself into another agreement that gives foreign corporations special rights to take over Canadian enterprises and directly challenge our laws, regulations and policies.

Canada has lost more than 500,000 manufacturing jobs over the last decade.[10] Our members have borne the brunt of these job losses, many of which are directly attributable to free trade agreements signed by the federal government over the last 20 years. Our review of the CETA leads us to conclude that it suffers from many of the same problems as previous Canadian trade deals. We do not think that the CETA, as currently proposed, would create jobs for Canadians or protect existing jobs.

Therefore, we do not believe that the CETA is good for our members or other Canadian workers. It is for this reason that we have publicly stated our opposition to the agreement.

In closing, I want to thank you again for inviting us to submit our comments regarding this agreement, and for your continuing efforts to consult widely with interested stakeholders on Canada's trade policy.

Yours sincerely,

Ken Neumann
National Director for Canada

References

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[3] Similar arithmetic for 2013 was published by Erin Weir, "Debunking 80,000 Jobs," *Ottawa Citizen* (October 24, 2013), page A10 and "The EU Trade Deal's Impact on Jobs," *Montreal Gazette* (October 26, 2013), page B6.
[4] *Joint Study*, page 57.
[5] Scott Sinclair, Stuart Trew and Hadrian Mertins-Kirkwood, *Making Sense of the CETA: An Analysis of the Final Text of the Canada-European Union Comprehensive Economic and Trade Agreement* (September, 2014), pages 32-33.
[6] Joel Lexchin and Marc-André Gagnon, *CETA and Pharmaceuticals: Impact of the Trade Agreement between Europe and Canada on the Costs of Patented Drugs* (October, 2013), page 1.
[7] Pia Eberhardt, Blair Redlin and Cecile Toubeau, *Trading Away Democracy: How CETA's Investor Protection Rules Threaten the Public Good in Canada and the EU* (November, 2014).
[8] Government of Canada, *Technical Summary of Final Negotiated Outcomes: Canada-European Union Comprehensive Economic and Trade Agreement* (October, 2013), pages 12-13.
[9] BJ Siekierski, "Mulcair Warns Europeans Against CETA Investor-State Provisions," *iPolitics* (December 8, 2014).
[10] Statistics Canada, *Labour Force Survey – November, 2014* (December, 2014).