# A Canadian perspective on CETA +++: those pluses will come with minuses

*What's the difference between CETA, the agreement between Canada and the EU, and the CETA +++ that some Brexiters believe they can obtain?* ***Kurt Hübner (University of British Columbia)*** *gives a Canadian perspective on the merits of CETA and explains what else Britain would be seeking from the EU. The UK, he concludes, will only get what it wants through compromise.*

The Canadian Prime Minister Justin Trudeau branded CETA a "great model of a progressive trade deal… It is not just a great deal for each side but also a model to the world." This sentiment was early on echoed by Boris Johnson and other like-minded individuals who saw CETA as a lightning rod for a post-Brexit UK-EU agreement. David Davis then upped the ante by stating that the future between the UK and the EU would be based on a CETA+++. Michel Barnier, meanwhile, seems to think that CETA will become the only game in town.

Davis' preference for CETA +++ is not seen as a realistic option by the EU. Nonetheless, the CETA could be seen as a relevant model when it comes to post-Brexit agreements. It is relevant because CETA is the first EU comprehensive trade agreement with a highly developed capitalist market economy and as such, it tells us a lot about the aspirations and also about the limits of economic cooperation outside the framework of the Single Market and the Customs Union. Whatever will be the end result of negotiations, when it comes to securing net benefits then the UK staying in the SM and the CU is the best route to go. All other options differ in net benefits, and are only second-best options. This would also hold for a CETA+++ – in the best case, the latter would be at the top of all second-best outcomes.

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The CETA provisionally came into life in September 2017 and is now awaiting ratification by national (and in some cases regional) parliaments. Even after ten years of preparations and negotiations, it is not clear whether the full CETA version will ever become a reality as the ratification processes of some EU member states have thrown up severe problems. This time delay, one can argue, may reflect idiosyncratic problems between the EU and Canada, and thus may not hold for a similar agreement with the UK. To keep things simple, let me accept such a caveat and assume that the EU and the UK would come to a much quicker solution. What, then, is CETA delivering and what is it not delivering?

First, despite the attribute ‘comprehensive’ in its name, the CETA is very much a goods-biased agreement, at least when it comes to cross-border trade. Bringing down tariff lines to zero over a period of seven years is an achievement, but then it is an easy accomplishment that picks mainly low-hanging fruits. For two highly integrated economic spaces like the UK and the EU that are characterised by deep cross-border supply chains, items like rules of origin and regulatory practices are of extreme importance. The required domestic content of products that qualify them for a zero-tariff line differ from sector to sector in CETA, but are still high when it comes, for example, to the automotive sector. This sector also operates with quotas that limit truly free trade. Moreover, good exports need to meet EU standards, including sanitary and phytosanitary measures. When it comes to agriculture and fisheries, the CETA increases some quotas but keeps overall the level of liberalisation low. Therefore, the UK may have to cross a bridge if it wants to get substantially better terms from the EU.

Second, when it comes to services in general and financial services in particular, the CETA keeps very close to WTO’s General Agreement on Trade and Services’ (GATS), and those regulations are a far cry from what the City of London needs. Passporting – i.e. a regulation that would allow Canadian financial services to operate within the EU without physical presence and outside EU regulations – is not part of the CETA. This is a minor problem for Canada, but would be a big problem for the UK.

Third, the CETA gives professionals temporary relief in terms of mobility but keeps up restrictions for general worker mobility.

Fourth, the CETA opens up public procurement markets beyond WTO norms and thus creates a new element of competition.

Fifth, the CETA contains a new investment chapter that break with traditional forms of investor-state-dispute settlement practices. The latter is seen as highly controversial, and is currently the chief hindrance for final ratification of the CETA.

Given the Tories’ ambitions, the CETA provisions could only be a starting point for the UK. To transform a CETA-like agreement into a bespoken +++ agreement is a steep step, though. The easiest part seems to be a reduction of mutual tariffs for manufactured goods below WTO-rates. The CETA can serve as a model in this respect. What exactly is needed beyond those easy elements, and what could the three pluses be? First and most critical, the UK must find a way to include its service sector in any agreement. Given its strong dependence on services in general and on financial services in particular, the UK needs to develop inroads to keep passporting rights for it financial institutions to avoid an exodus to EU locations. Such an offer would be a first for the EU; not even Switzerland, which makes payments into the EU budget, enjoys passporting rights for its financial companies. The British wish to keeping regulatory sovereignty and free access to financial markets of the EU seems to be too good to become a reality. And yet, without finding a solution for the financial sector, the negative economic effects of Brexit for the UK will get stronger.

The CETA is of no help when it comes to dealing with Northern Ireland. Any bespoken agreement would need a special chapter that may allow Northern Ireland to stay in the Customs Union and/or in the Single Market. Such a chapter may actually be welcomed by the EU – and even more so by the Republic of Ireland – but would mean the beginning of the end of the UK, as it would split the UK into a small part that is integrated into the economic rules of the EU and a larger part that operates within its own rules and practices. The second ‘plus’ would require a special treatment clause for Northern Ireland that does minimise negative economic and political costs for both sides. The magic formula is still missing here.

The CETA includes a policy innovation when it comes to foreign direct investments. After a long battle driven by protests of civil society organizations, the CETA removed critical parts of the initial agreement and substituted the traditional state-investment dispute mechanism with a new investment court that would deal with potential state-investment disputes. The EU seems to be firm in its policy to make t this new institution to a prominent feature in future treaties. The UK, on the other hand, will not be very interested to have an independent court decide about dispute outcomes and would probably refer a WTO solution. The third ‘plus’ thus will be to avoid the introduction of an independent court in any Post-Brexit agreement.

A CETA+++ seems to be out of reach as long as it stands for having the cake and eating it. It may become a guide if the UK indicates its willingness to compromise in critical areas. Compromises will come at a price, though.

*This post represents the views of the author and not those of the Brexit blog, nor the LSE.*

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