

**OFFICE OF  
THE PARLIAMENTARY BUDGET OFFICER**



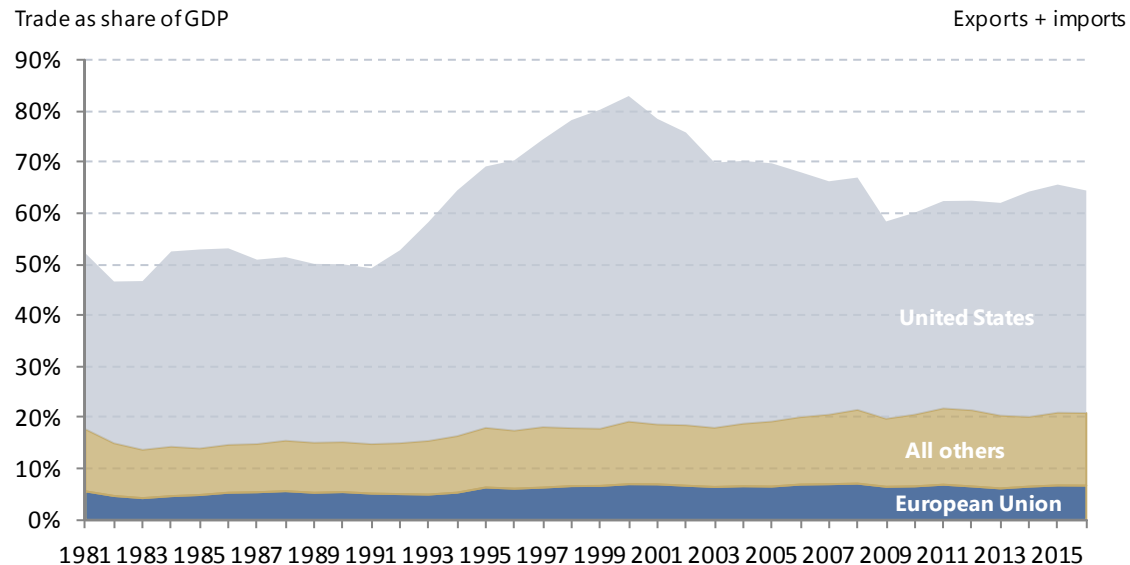
**BUREAU DU  
DIRECTEUR PARLEMENTAIRE DU BUDGET**

# **The Canada-EU Comprehensive Economic and Trade Agreement A prospective Analysis**

**Office of the Parliamentary Budget Officer  
May 2, 2017**

# Background

- EU has a large economy; Canada's trade with EU is small



- Motivation for CETA was to diversify

# What will CETA bring?

- Quantitative analysis highlights relevant factors and their potential importance
- Overall effect will be modest for the Canadian economy
  - Impact on GDP is less than  $\frac{1}{2}$  of one percent
- Brexit, dispute settlement, etc, not dealt with directly

# Areas of report's analysis

- Impact on goods
- Impact on services
- Impact on external payments related to pharmaceuticals
- Projects a small amount of trade diversion

# Quantified results

## Illustrative summary of effects of CETA on Canada (for 2015)

Units, 2015 Canadian dollars	Long-term change
<b>Exports of goods to EU</b>	\$4.0 billion
<b>Exports of services to EU</b>	\$2.2 billion
<b>Investment</b>	\$3.1 billion
<b>GDP (quantified components)</b>	\$7.9 billion
<i>NB External royalties (pharmaceuticals)*</i>	<i>\$71 million/year</i>

Note: For each item, the change is relative to 2015 where CETA was not implemented.

Note \*: In 2011 (\$2011), if all patented drugs then available had been under CETA's extended intellectual property rights provisions (patent restoration).

## Canada benefits from CETA (on net)

# Gains are not uniform

- The further you dig in, the more “churn” becomes evident
  - Almost 500 sectors (goods) with tariffs greater than 10%
  - Less than 50 sectors have tariffs greater than 25%
- The transition to the gains from CETA will not be cost-less

# Tariff reductions

- Canada is lowering tariffs by more than the EU
  - Canadian tariffs on EU goods are higher than EU tariffs on Canadian goods.
  - Move to zero (or near zero) tariffs necessarily implies that Canada is lowering tariffs by more.
  - This asymmetrical reduction is similar to what happened in the trade agreement with the U.S.

# Regulatory changes

- OECD index of regulatory barriers to trade
  - Canadian non-tariffs barriers are higher
  - Canada stills has a net gain when barriers are lowered
  - Domestic efficiency helps propel trade



# Pharmaceuticals

- CETA extends patent protection on drugs by 2 years
  - More consistent with other developed countries
- Will lead to cost increases
  - Slower availability of generics
- Prices of existing and new drugs unchanged (PMPRB)
- Report focuses on resulting international payments

# Sectoral results: goods

- Change in exports of goods

Units, per cent

	<b>Bilateral exports</b>	
	<b>Canada</b>	<b>EU</b>
<b>Agriculture, forestry and fishing</b>	32	5
<b>Food &amp; beverages</b>	63	31
<b>Energy</b>	4	5
<b>Metals and minerals</b>	4	6
<b>Textiles, apparel, footwear</b>	85	99
<b>Chemicals</b>	13	5
<b>Transport</b>	13	20
<b>Manufacturing</b>	10	5
<b><i>Overall trade in goods</i></b>	9	13

- Some trade diversion occurs

- less Canadian exports to US
- less US exports to Canada and EU

# Sectoral results: services

- Change in exports of services

Units, percent	Change in CAN exports to EU (%)
<b>Communication</b>	20
<b>Computer</b>	13
<b>Construction</b>	15
<b>Professional services</b>	13
<b>Trade/distribution/courier</b>	23
<b>Transport</b>	17
<b>Insurance</b>	12
<b>Financial services</b>	17
<b><i>Included service sectors</i></b>	<b>16</b>

Note: The "Included service sectors" only accounts for activities covered by the OECD STRI index. This represents roughly a quarter (for Canada) of all services sectors.

# Pharmaceuticals

- Payments leaving Canada
  - Royalties
  - Dividends
- Only a portion of increased drug costs will leave Canada
- Impact will be on future drug expirations – not retroactive



## Questions about this report?

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## Background briefing

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