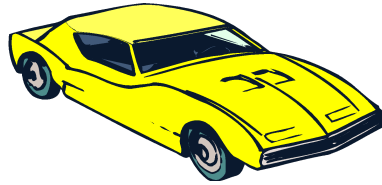


CETA will reinforce comparative advantage. That's bad for Canadian manufacturing.



Canadian Exports



European Exports

(Posted Nov. 19th, 2013)

Because so much of the government and media hype has been about the automotive sector let's start there.

There is currently an existing 20 to 1 trade automotive trade imbalance between Canada and the European Union. [Canada exports no more than 12,000 cars annually to the EU and faces a tariff entry of 10%](#). In a post-CETA world Canadian auto manufacturers will be able to export, duty free, 100,000 cars annually to the EU at only 20% made-in-Canada content. That last feature is important because a great number of Canadian auto parts are made elsewhere.

In return, Canada will eliminate tariffs on European imports, recognize a list of EU car standards currently not accepted in Canada, and examine the recognition of further standards. The recognition of car standards will be the big money saver for European manufacturers who largely export luxury cars to Canada.

Unfortunately having a duty free quota of 100,000 cars doesn't mean that Canada will improve its trade imbalance with the European Union. Here's why:

- Canadian automakers (GM, Ford, Chrysler, Toyota and Honda) are already producing vehicles in established, on-site factories in Europe. CETA won't change that.
- Canadian-made cars are not designed for the European market where roads are smaller, gasoline prices higher and the demand for small vehicles greater.
- There is a severe and continuing economic crisis in Europe which is affecting European imports. [Canada's auto sales to Europe have fallen over 60% since](#)

[2007](#).

- On the import side of the equation, the post-2008 economic downturn has not lessened the demand for prestigious, luxury cars in Canada. Expect increased imports of European cars.

What about other manufacturers?

The Canadian government has highlighted the removal of EU tariffs on most manufactured goods. Formal steps have also been established allowing Canada and the EU to standardize technical requirements. That's designed to make it easier to gain market access on both sides of the Atlantic.

There are, however, factors that mitigate against these trade advantages:

- There is a very good chance that the standardization of regulations and technical requirements will be dominated by European demands and concerns.
- Market penetration in Europe has traditionally relied on foreign direct investment, i.e., with production on site, rather than on exports. [Sales of Canadian subsidiaries in Europe are twice as high as exports to Europe](#). That won't change. Canadian corporations wanting to sell their products in Europe already have established factories there.
- Companies wanting to break into the European market have to incur translations into multiple languages, different national protocols and ever-changing regulations.
- The Euro is not performing well against the Canadian dollar. That makes our exports more expensive.

For all of the above reasons, in our opinion, CETA will reinforce the already existing comparative advantage. The Europeans will export more luxury goods to Canada. Canada will gravitate towards its raw materials strengths.