

## **'What's There to Lose?' Procurement Policies and Investment Restrictions Under a Proposed Canada-EU Comprehensive Economic and Trade Agreement**

*Colin Scott*

### **Abstract**

Canada and the European Union (EU) have recently concluded a fifth round of negotiations on an ambitious Comprehensive and Economic Trade Agreement (CETA). While both parties are anticipating an agreement to be reached sometime in 2011, this paper outlines two aspects of Canadian economic policy that cast doubt on whether the negotiations of such a comprehensive treaty will be successful. By examining the conflicting effects a CETA will have on Canada's economic trade strategy, as well as how Canada's provinces will be affected by the inability to strategically use local favouritism in the areas of procurement and investment, this paper examines why it is unlikely that a CETA will be reached by 2011.

For over half a century, Canada has engaged in liberalized trade with a block of European states. The first bilateral treaty between Canada and a formal European block dates back to 1959 when an agreement was negotiated between the Government of Canada and the European Atomic Energy Community in order to build co-operation for the peaceful use of atomic energy (EC and Government of Canada, 2008). Since then, numerous treaties have been signed between Canada and what is today the European Union (EU), while many more have been signed between Canada's national and sub-national governments and the EU's member states.

Liberalized trade across the Atlantic has become an integral part of both parties' economies. In 2008, Canadian exports to the EU totalled C\$36.1 billion, a 3.5 per cent increase over 2007 levels, while Canadian imports from the EU reached C\$54.0 billion, increasing 9.5 per cent from 2007 (Government of Canada, 2008). The EU is one of Canada's most significant investment partners, second only to the United States (US). For 2007 alone, Canada's direct investment in the EU totalled C\$122.8 billion (Government of Canada, 2008). Over the last number of years, the relative importance of the EU for Canada's economy has increased. While Canada's position relative to the EU has decreased for trade in goods, the value of Canadian trade with the EU has grown in absolute terms (EC and the Government of Canada, 2008). Although these numbers are far from marginal, when compared to the C\$626 billion in two-way merchandise trade and the C\$497 billion in two-way investment between Canada and the US during the same year (Blomeley, 2009), there is still plenty of room for the Canada-EU bilateral trade relationship to develop.

In an effort to resolve the disparity between Canada-US and Canada-EU trade, the Conservative government led by Stephen Harper is currently involved in what is the most extensive and ambitious trade agreement in the country's history. Formal negotiations on the proposed Canada-EU Comprehensive Economic and Trade Agreement (CETA) began in the Fall of 2009. To date (2010), there have been five rounds of negotiations and a conclusion to the agreement is expected sometime in 2011 (Government of Canada,

2009a).

In 2008, the European Commission and the Government of Canada released a joint study of the costs and benefits of a closer economic partnership. By further liberalizing trade in goods and services, Canada is expected to gain about \$11.4 billion per year by 2014, while the EU is anticipating real income gains of \$16.2 billion per year (EC and Government of Canada, 2008)<sup>1</sup>. The most extensive gains will be made through a reduction of non-tariff barriers. For the EU, liberalization of trade in services is expected to account for 50 percent of total GDP gains, while in Canada it is anticipated that the removal of such non-tariff barriers will result in 45.5 percent of GDP gains. It is also expected to boost bilateral trade by 20 percent (EC and Government of Canada, 2008).

The scope of CETA is enormous, touching on virtually all aspects of international economic relations between Canada and the EU. However, while CETA looks good on paper, there are a number of practical concerns that must be addressed. Of primary importance is the potential for conflicting commitments between Canada and the EU, and Canada and the US. The EU and the US have opposing regulatory regimes and under the current CETA framework, Canada will be locked into a position where it must effectively navigate both regimes; a significant drawback in and of itself. Likewise, CETA places significant restrictions on governments' ability to strategically use local favouritism to bolster economic development and innovation.

Two policy areas which we shall exam are procurement and investors' rights. Procurement is essentially a government's purchasing power and administrative management of goods and services (Faucher and Fitzgibbons, 1992). Investors' rights refer to the norms that define the acceptable restrictions governments may place on foreign investments. In Canada, both have played a large role in the development of local industry through various Crown Corporations at the national and sub-national level (Faucher and Fitzgibbons, 1992; Sinclair, 2010). CETA will prevent governments from barring foreign investment in favour of local industries. Such policies have been integral to fostering local economic development and it is unlikely that the provincial premiers will unanimously accept the all-or-nothing terms the EU has put forward to open Canada's sub-national procurement markets.

Coinciding with the anticipated 2011 signing of the CETA is a likely federal election, as well as a number of provincial elections. A recent EKOS opinion poll indicates a significant decline in how Canadians perceive their government with 53.1 percent of Canadians thinking government is moving in the wrong direction (EKOS, 2010). The Harper government is therefore in a weak position to apply pressure to the provinces to support an agreement. Instead, provincial leaders must ratify their support on their own accords. Without the unanimous support of the provinces, CETA would collapse because Canada would no longer be able to offer the total access to sub-national procurement markets that the EU is looking for. This is an interesting situation to consider because the CETA agreement has the potential to be of significant economic benefit to Canada.

CETA addresses some particularly troublesome issues in Canada-EU trade relations such as co-operation on access to raw materials, stronger intellectual property protection, increased labour mobility and increased access to public procurement at all

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<sup>1</sup> Estimated economic gains based on 2008 data and exchange rates as of November 21, 2010.

levels of government. Traditionally, sub-national procurement has been excluded from past free trade agreements, save for the recent case of Canada opening its procurement markets to the United States in order to secure access to the US stimulus package. Canada's first experience with opening sub-national procurement markets saw Canadian investors compete for access to \$4-5 billion worth of stimulus projects, whereas American companies were awarded a wide range of Crown Corporation and municipal construction projects, worth \$25 billion (Sinclair, 2010). Although Canada has made a point to largely exclude procurement policies from international treaty obligations (EC and Government of Canada, 2008), the Europeans are specifically labelling this area an integral part to the CETA negotiations.

As we shall examine over the course of this paper, the Harper government is faced with the daunting task of counterbalancing business interests with the ability of local governments to use strategic favouritism through procurement and limits on foreign investment. While Canadian and European trade officials are anticipating an agreement to be reached by 2011, conflicting US-EU trade policies and restrictions on the provinces' ability to favour local industries is likely to result in the collapse of the CETA negotiations.

We shall begin with a discussion of the effects a CETA will have on Canada's trade strategy; examining how gains made to Canada-EU trade are likely to be confounded by the adverse impact on Canada-US trade relations. Next, we will examine how Canada's provinces are likely to be affected by an inability to strategically favour local interests. In doing so, this paper shall raise some important considerations regarding the use of strategic procurement policies and the local benefits achieved from curtailing foreign investment to facilitate innovative local economic development.

While it is the federal government who will negotiate CETA, the provinces are responsible for implementing and enforcing the agreement within their jurisdiction. A participation process has been developed to ensure the views of the provinces are taken into account throughout the negotiations (Government of Canada, 2009b). Because the EU is seeking access to the sub-national procurement markets of all provinces, their unanimous support is essential to an agreement. As the negotiations progress, it is anticipated that the provinces will begin to seek exemptions from various clauses of CETA. This would essentially create a gap between what Canada has to offer and what the Europeans are looking for. Such a situation would ultimately lead to the breakdown of talks between Canada and the EU.

### **Canada's International Trade Strategy and CETA**

Building trade relations with Europe has been a reoccurring theme in Canada's foreign economic policy. In the 1970s, Prime Minister Trudeau's 'Third Option' favoured closer economic ties with Europe, while in the mid-1990s, Prime Minister Chrétien proposed the creation of a transatlantic free-trade zone between North America and the EU (Leblonde and Strachinescu-Olteanu, 2009). Historically, Canada has been a strong proponent of neoliberal trade. Since coming to power 2006, the Harper-led government has overseen the negotiations of eight free-trade agreements, with fifty other bilateral agreements under development (Harris, 2010). The collapse of the Doha round has sparked the signing of a multitude of bilateral trade agreements between a number of states, particularly in Asia (Leblonde and Strachinescu-Olteanu, 2009). As a result, diversifying Canada's trade partnerships has been an effective way to maintain

competitiveness in the global economy. However, the nature of Canada's trade should raise concern among spectators because the country is developing a remarkable trade deficit as the amount of imports is rising faster than exports.

In July of this year, Canada's trade deficit hit a record \$2.7 billion – its largest since the federal government began keeping track in 1971 (Financial Post, September 9, 2010). While Canada's free-trade agreements have caused the economy to grow overall, they have also contributed to concerns involving the country's balance of payments. In an analysis of Canada's five fully -implemented free-trade agreements<sup>2</sup>, the average annual growth of exports has increased 4.77 percent while imports have increased annually by an average of 8.67 percent (Stanford, 2010). Canada's bilateral deficit with the EU is larger than that of any other trading partner, even China (Stanford, 2010). If the results of Canada's past free-trade agreements are any indication, CETA will further expand Canada's trade deficit with the EU.

While increasing trade with the EU will result in significant economic gains, it is important that measures can be taken to offset the loss of employment hours which will arise as Canada increases its exports of commodities which are relatively less labour intensive compared to more processed goods (Sinclair, 2010). CETA further exacerbates this dilemma by preventing Canadian governments from using procurement policies as a means to facilitate the development of new, innovative and labour-intensive industries. For example, Ontario's current objective of creating a local renewable energy industry will undoubtedly lead to the creation of many new jobs. Likewise, we can look to countries like Denmark who have created long-term, skill-intensive employment by using government procurement to develop a world-class industry for renewable wind energy.

#### *Striking a balance between EU and US trade*

Although a CETA with the EU would mean giving Canadian interests access to the world's largest single market, the importance of trade between Canada and the United States cannot be overstated. Bridging the gap between Canada-EU and Canada-US trade is an important goal of the CETA negotiations. Above all else, Canada's economic prosperity relies on its relationship with the US. CETA negotiators must recognize that an agreement with the EU cannot jeopardize Canada's relations with such an important trade partner.

There are essentially two views regarding how to develop Canada's long-term trade strategy. As Lofthouse (2004) argues, Canada has three priorities that must be addressed in developing its foreign economic policy. Canada's top priority should be to further develop and facilitate trade relations with the United States. Canada's second priority should be the pursuit of multilateral negotiations within the confines of what was proposed during the Doha round. Finally, once these two priorities have been realized, Canada should seek out regional and bilateral trade agreements (Lofthouse, 2004). However, not all scholars agree with this model for an international trade strategy. For many, an increased reliance on trade with the United States will inevitably lead to economic troubles for Canada. This belief is well grounded in history if we bring to mind Canada's scramble to secure access to the American market during the Nixon shocks of the 1970s as well as the measures taken by the Obama administration to stimulate the economy with the *Recovery Act* of 2009. In this context, diversifying trade

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2 With the US, Israel, Chile, Mexico and Costa Rica.

is beneficial to Canada as it reduces the country's reliance on the American market.

Using CETA as a means of diversifying trade from the United States brings to light perhaps the most important considerations regarding CETA's impact on Canada's international trade strategy. Canada is essentially pulled between two very different sets of regulatory requirements. As current regulatory requirements in Canada are very similar to those in the United States, making adjustments to accommodate for the European model would negatively impact trade relations with the US. Conversely, the EU would disproportionately benefit from Canada maintaining its current requirements, as many corporations would shift production and investment from Canada into the EU in order to adhere to the standards of the most profitable market.

Take for example, regulation governing the entrance of new products into the market. In Canada and the United States, it has been common practice to approve all new products unless there is compelling evidence that demonstrates a risk to health or public safety (Blomeley, 2009). Meanwhile, the EU tends to favour the use of a precautionary principle when assessing the safety of new products. This precautionary principle runs directly against the regulatory policies in place in Canada and the United States because there needs to be compelling evidence of an *absence* of risk, before a product receives approval to enter the market (Blomeley, 2009; emphasis added). Accepting the current CETA framework will therefore expose Canada to competing pressures of two very different regulatory regimes. Should Canada align itself with the EU, relations with the United States are at risk. In the event that Canada is able to retain its current regulatory practices, the overall gains from CETA will be reduced as companies will move towards the most profitable market – the EU.

#### *Canada's future trade strategy under CETA*

It will be difficult for negotiators to agree on a way in which Canada can satisfy regulatory requirements between the US and the EU. Additionally, CETA contributes to the additional problem of expanding Canada's technological trade deficit with the EU. As it stands, it appears as if CETA will further solidify the image of Canada as a staples economy.

Historically, Canada has been relatively successful as a resource-based economy. However, there are some noteworthy concerns in regards to Canada's economic activity as its reliance on the export of primary resources grows. Apart from the environmental costs of extracting resources, the prices of such commodities tends to decline relative to manufactured goods over the long-term and resource-based industries are typically less labour intensive than other sectors of the economy (Stanford, 2010). Since 2002, Canada's resource-intensive trade strategy has been associated with the loss of 550,000 manufacturing jobs to countries such as Mexico, China, Korea, and of course the EU (Laporte, 2010). Rough estimates regarding the impact of CETA on Canada's manufacturing sectors indicates a further loss of some 70,000 manufacturing jobs (Stanford, 2010).

By further enshrining resource dependency into the economy, it will be challenging for Canada to use increased trade as a means to create employment and to break its reliance on technological imports. This is because CETA will increase Canada's reliance on low-labour intensive resources while increasing imports of more technological goods which require more skilled labour to develop. As we shall now examine, the implications of an open procurement market free of restrictions on foreign

investment further exacerbate this problem. Under CETA, not only will the demand for Canada's resources increase, but it will lose the ability to use local favouritist policies as a means to establish new and innovative industries.

### **Facilitating local economic growth and innovation through strategic favouritism**

Historically, Canada has been a strong proponent of free trade agreements and Stephen Harper's Conservative government has certainly carried on the tradition. Since taking office in 2006, Canada has clinched trade agreements with eight countries and is currently pursuing deals with 50 more, including Ukraine, India, South Korea and Singapore (Harris, October 23, 2010). Developing a diverse spectrum of free trade agreements is an important aspect of Canadian economic policy as it can be an effective way in which to diversify the Canadian economy by reducing economic reliance on the United States. However, a noteworthy difference between Canada's past free trade agreements and the current CETA negotiations is the country's willingness to curtail the ability of governments at all levels to use strategic favouritism of local industries to facilitate economic growth.

The CETA agreement is not the first time that Canada has sought to further integrate itself with the European market. At the 2004 Canada-EU summit in Ottawa, it was announced that both sides would begin negotiations on a Trade and Investment Enhancement Agreement (TIEA), which was intended to move beyond traditional market access and lower barriers to trade between Canada and the EU (Government of Canada, 2009c). However, talks quickly broke down in 2005 as Canadian officials were reluctant to commit to matters falling within provincial jurisdiction (Sinclair, 2010). The question is whether or not Canada is anticipating a sufficient return on the CETA negotiations to warrant opening its sub-national procurement market when in the past, successive governments have remained firm in their stance of keeping provincial procurement out of trade treaties. It is unlikely that the provinces will support CETA's all-or-nothing approach to opening procurement markets across Canada and as a result, CETA will likely meet the same fate as the TIEA agreement.

Provincial procurement has not only remained off the table in bilateral negotiations, but Canada has been firm in its stance to keep procurement practices out of other international trade obligations like the World Trade Organization's Agreement on Government Procurement (GPA) (EC and the Government of Canada, 2008). While other members such as the EU have included sub-national procurement practices in the GPA, Canada has restricted its procurement commitments to the federal level and excludes access to procurement involving Crown Corporations (EC and Government of Canada, 2008). As a result, Canada is barred from bidding on European sub-national procurement contracts on the basis of reciprocity.

Through a variety of Crown Corporations at the national and sub-national level, Canada has effectively used public markets as a policy instrument for promoting industrial innovation (Faucher and Fitzgibbons, 1992). Crown Corporations tend to be shielded from market constraints relative to their private counterparts. While examples of this may be seen throughout Canada's public utilities, Hydro Québec and Ontario Hydro have both made use of a series of provincial policy measures to draw industry to the province. Both have implemented a 10 percent Canadian preferential margin in order to assist producers with high local content when competing with out-of-province firms. In doing so, both utilities were given a high degree of financial leeway by their respective

governments to pursue policy objectives. These policies in turn benefit the provincial economy by fostering a local industry base and facilitating economic development (Faucher and Fitzgibbons, 1992).

*Using procurement to create and develop innovative industries*

While public utilities have traditionally played a central role in building local economic development, procurement is often used to facilitate innovation and build a local base for a new or emerging industry. Ontario's *Green Energy Act* is a recent example of a Canadian government using procurement to create industrial innovation. Under the Act, the province makes use of feed-in tariffs and relatively high local content requirements in an effort to make Ontario a leader in green energy technology. The Ontario government aims to build a local renewable energy industry while creating thousands of new jobs. In doing so, Ontario is demonstrating precisely how procurement practices can be implemented in order to facilitate innovation while simultaneously creating employment and fostering economic development. By consolidating these infant industries, procurement policies are being used to diversify regional economies and develop local industrial bases that can support more technologically intensive industries.

However, the Europeans are making a stand against Ontario's *Green Energy Act*. Opposition to Ontario's plan to develop a local renewable energy industry raises important questions regarding the degree to which a jurisdiction has the autonomy to use procurement policies to build a local base to structure a new industry. European officials have made no secret of the fact that one of their primary goals regarding the CETA negotiations is to abolish Ontario's ability to use procurement to develop an innovative local industry. The European Commission's directorate-general of trade released the following statement in regards to the province's ambitions:

In the short term, [we aim] to convince the governments of Ontario and Canada to abandon the requirements to use domestically produced equipment to produce renewable electricity in order to benefit from high feed-in tariffs. In the medium term, to avoid the Ontario initiative becoming a precedent for other provinces, some of which are on the verge of implementing similar schemes (EC directorate-general trade, 2009: 1).

Essentially, the EU's opposition to Ontario's efforts of building a local renewable energy industry, although grounded in the neoliberal belief that such favouritism hurts trade, implies that if the market does not dictate the creation and development of a new industry than the project was not meant to come to fruition.

European officials are adamant about preventing Ontario from including local content regulations in order to develop a locally based renewable energy industry. Ironically, it is the Europeans who have perfected this practice to develop a new and innovative industry. The Danish wind industry is one of the most successful in the world. In 2008 alone, the Danish wind industry's exports totalled €5.7 billion (Danish Wind Energy Association, 2010). Yet, in order to spur the development of their own renewable energy industry, the government required Danish utilities to buy wind-generated energy at highly subsidized rates. Furthermore, these rates were restricted to members of local

co-operatives who resided close to the turbines (Sinclair, 2010). The effectiveness of the Danish wind industry is not only a major achievement for the Government of Denmark, but for green industry as a whole. The Danes' success stems from precisely the same measures that are currently being taken by the Ontario government to establish its respective green industry. Denmark's wind industry was developed through a combination of financial incentives and local content requirements. By today's standards, many of the policies used to launch this renewable energy industry would be inconsistent with the terms of CETA.

#### *Recent practices of strategic local favouritism in Canada*

Examples of governments using procurement as a policy tool by which to foster economic development is not restricted to the creation of new industries. Over the years, procurement practices have been an effective way for a government to create employment opportunities and develop the economy in general. Interestingly, as the CETA negotiations gain coverage in the national media, there have been multiple high-profile procurement cases and restrictions on foreign investment to complement it. The governments of Québec and Saskatchewan have recently sparked controversy as they have both made headlines in cases where they have blocked foreign interests in order to support their respective economies.

In October of this year (2010), Québec announced that it would award a \$1.2 billion contract to supply subway cars in Montreal to the local aerospace firm Bombardier. The deal took nearly five years to complete as it was hampered by several lawsuits, countersuits and other legal challenges (Shalom, 2010). In fact, the agreement required a special law to be passed by the Québec National Assembly which specifically barred the Spanish firm Construcciones y Auxiliar de Ferrocarriles SA from tendering a contract (Shalom, 2010). Regardless, the agreement is being hailed as a victory for the Québec government as it will not only create employment, but because Bombardier is a local firm, the Québec economy as a whole will share in the benefits.

Along with procurement, investors' rights became an issue which received a great deal of media attention across Canada, resulting from the proposed purchasing of Saskatchewan's Potash Corporation by the Australian firm BHP Billiton Ltd. For Saskatchewan, potash is a natural resource that plays an important role in the province's economy. By blocking the foreign take-over of the company, the Canadian government is ensuring that control of a significant portion of the world's potash reserves remain in Saskatchewan. Although the Potash takeover involved an Australian company and would therefore not be subjected to the CETA agreement, it highlights the importance of allowing a government to restrict foreign investment on such a significant local commodity. Premier Brad Wall was prepared to do whatever it would take to prevent a foreign takeover in the event that the Harper government accepted the deal. However, were this a European company with interests in Saskatchewan's potash reserves, under CETA a similar decision would likely result in a lengthy dispute settlement because it runs exactly against the EU's demands for an open sub-national market that does not discriminate against foreign interests.

Before throwing their support behind the current framework of CETA, provincial leaders should take a moment to consider the potential implications that may arise from losing the ability to favour local industry over foreign interests. By awarding the \$1.2 billion contract to Bombardier, the government of Québec is ensuring that the

employment, taxes, and other revenues that the contract will generate remain in the province. Under CETA such favouritism would be met with a costly dispute settlement. Not only is this overt favouritism frowned upon under CETA, but by passing legislation which specifically blocked a Spanish company from tendering a bid, Québec is demonstrating that they believe procurement policies are still an acceptable way to bolster the provincial economy. Likewise, by preventing the foreign ownership of a significant natural resource, the federal government's actions conflict with what CETA negotiators are attempting to gain by opening up Canadian sub-national markets.

#### *Local favouritism and dispute settlement under CETA*

One final point to make in regards to procurement provisions and investors' rights under CETA is that the agreement can potentially tie the hands of governments by locking them in to costly legal disputes. This is particularly problematic at the municipal level, where local governments have significantly less resources to engage in such activities. Entering into a legal battle with a large multinational corporation would be a costly and time-consuming endeavour. The strain on the government's resources could be so great that they impede the government from carrying out its regular activities. To take these implications a step further, a particularly large corporation could even intentionally tie a government up with legal disputes in an effort to pressure that government into accepting its bid.

Argentina is currently disputing the decisions of several international trade panels, which would force the government to pay hundreds of millions of dollars to private water companies in order to bring them back under public control (Karunanathan and Trew, 2010). Although the context of any dispute between Canada and a private corporation will not necessarily be the same, the Argentina case highlights the concern that a government will not be able to reverse a decision in the event that a bid for foreign privatization results in a less than optimal outcome for the local economy.

Likewise, the government of Ontario is engaged in a heated dispute with the United States investor V.G. Gallo. The US firm is seeking more than \$355 million in expropriation costs because of the government's decision to stop a massive dumpsite being developed on top of an abandoned mine in northern Ontario (Karunanathan and Trew, 2010). While the environmental risks and public outcry were enormous, from a legal perspective the US firm is justified in seeking compensation as the expropriation goes against the procurement provisions agreed upon between Canada and the United States.

Whether it be through creating and facilitating the development of an innovative, new industry as is the case with Ontario's *Green Energy Act*, or whether the intention is to use procurement practices and foreign investment restrictions to keep revenues in the province, these policies have historically been effective tools for a government to bolster its economy. Canada has historically been a country that has placed heavy reliance on public enterprises to build regional economies. The overarching question here is not whether such practices are unfounded in a modern neoliberal trade theory, but whether or not the gains of increased foreign investment will outweigh the implications facing governments as they lose their ability to regulate corporate activity in favour of local interests.

How CETA addresses local favouritism essentially provides for an all-or-none approach to using procurement and foreign investment restrictions to advance policy objectives. In light of the recent moves by Canadian governments at the federal and provincial level to block foreign bids in favour of local interests, it is unlikely that the provinces will provide their unanimous support when it comes time to sign the CETA. These strategies have been integral components of developing local industries and expertise in innovative areas. Analyzing the actions taken by the governments of Québec and Saskatchewan, it is unlikely to expect them to support an all-or-nothing approach to the elimination of local favouritism as it is currently addressed in CETA.

### **Conclusion: What's there to lose?**

A CETA with the EU will give Canadian investors substantial access to the world's largest market while bringing in billions of dollars in increased revenues. By increasing bilateral trade by 20 percent, the federal government is anticipating the economic gains from CETA to total \$11.4 billion annually by 2014. Coming to terms on a CETA with the EU would be a substantial advancement in the diversification of Canadian economic policy. Simultaneously, the agreement would increase Canada's competitiveness with the US relative to its current position. However under its current framework, a CETA with the EU will subject Canada to the pressures of the conflicting regulatory regimes of the EU and the US. Concessions made with one trade partner will likely create tension with the other. This is one indication of how the current CETA framework is inherently problematic for Canada's economic trade strategy. It is unlikely that the Europeans will allow Canada to maintain its US-focused regulatory regime and as a result, Canada's relations with the US would suffer. In this case, the current CETA framework is not in Canada's interests as it undermines one of Canada's top economic objectives of bolstering trade with the United States.

While CETA will have confounding effects on Canada's economic trade strategy, it will also create domestic concerns among the provinces regarding their ability to develop their economies through procurement and restrictions on foreign investment. These are two policy tools that have become firmly entrenched in how the provinces engage in economic development. In recent weeks, the governments of Québec and Saskatchewan have grabbed international attention in their efforts to use procurement practices and restrictions on foreign investment, respectively, to facilitate local economic development. Furthermore, the government of Ontario has made the development of a locally based renewable energy industry a key policy objective.

The nature of the CETA negotiations have shifted the role of the provinces away from the periphery and have made them integral actors in the successful completion of an agreement. The Europeans require the unanimous support of the provinces for an agreement to be made. This is the Europeans overarching demand in order to secure total access to Canada's sub-national procurement markets. Ultimately, Canada stands to lose the ability to use procurement policy and restrictions on foreign investment as a means to strategically foster local development. Because the provinces will not be able to unanimously agree on a universal level of trade liberalization, the EU will not receive the access to Canadian sub-national markets that it is looking for. The Europeans will be barred from achieving their primary objective in reaching a CETA with Canada, and as a result, the CETA negotiations will collapse under its own weight.

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