

Canada and Europe Ponder Trade Pact

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OTTAWA — Since the first free trade agreement between the United States and Canada, 20 years ago this month, Canada's economy has become increasingly integrated with that of the United States. On Friday, with the American economy in disarray and its global leadership in question, Canada will take what appears to be a step back from that relationship.

Following a meeting in Quebec City, Canada's prime minister, Stephen Harper, and President Nicolas Sarkozy of France, who is the president of the European Union as well, are expected to sign an agreement for preliminary negotiations meant to create a trade pact between Canada and Europe that would be even more sweeping than the North American Free Trade Agreement.

A person who is familiar with the government's plan, but who did not want to be identified as upstaging an announcement by two heads of state, said the agreement would begin "a scoping exercise leading to the launch of talks."

It follows the release Thursday of a 192-page study by the Canadian and European governments that concludes such a deal could increase exports from Canada to Europe by 20.6 percent by 2014.

Thomas P. d'Aquino, the chief executive and president of the Canadian Council of Chief Executives, a lobbying group, said in an interview that a deal for Canada and Europe could, in the long run, also involve the United States.

"One of the arguments I'll be sensitive to from Americans is, 'Now that we're in trouble, you're turning your back on us,' " Mr. d'Aquino said from Chicago, where he is speaking on trade issues. "But this is not about us saying that we're tired of having our eggs in one basket. It would be an excellent step to doing something more ambitious on trans-Atlantic trade."

Although proximity has made the United States Canada's top trading partner, there have been many attempts to reduce the country's economic dependence on its neighbor to the south.

When Pierre Elliot Trudeau was prime minister he championed what he called a "third option" which emphasized increasing trade with Europe and Asia.

Political resistance in both Canada and Europe, as well as business disinterest, stymied such efforts.

Trade with the United States made up about 37 percent of Canada's gross domestic product in 1990 and rose above 65 percent 10 years later. (It has generally been just under that peak for most of this decade.)

The preliminary trade deal suggested by the study, which was released by the European Union but not by Canada, exceeds Nafta in some respects. If adopted it would minimize barriers in services, include sales to government, open up the air travel market and allow skilled Canadians and Europeans to work across borders without visas.

Mr. d'Aquino said that Canada's experience with the first trade agreement and Nafta meant that most Canadian governments and businesses would welcome a European pact. Any deal would also require provincial approval on many issues.

Jean Charest, the premier of Quebec, has been among the most prominent proponents for a deal. Europe's enthusiasm, it seems, is largely a product of Mr. Sarkozy, who has a long relationship with the Montreal financier Paul G. Desmarais Sr. Through the Power Corporation of Canada, Mr. Desmarais and his family control investments in several prominent European companies, including the French oil and gas company Total and GDF Suez, a major gas and water utility operator.

The preliminary work leading up to Friday's announcement has passed relatively unnoticed in Canada.

But the 1988 trade deal and, to a lesser extent Nafta, were polarizing issues. Maude Barlow, the chairwoman of the Council of Canadians, a group that was formed in part to protest the first trade talks with the United States, acknowledged that there might be less public debate over a deal with Europe.

"It doesn't involve one big, dominating superpower," she said. "Europe seems far away, it seems benign."

Ms. Barlow is concerned that a sweeping deal would open up the privatization of traditionally public services in Canada, such as water utilities.

But she and her supporters may not have much to worry about, at least in the view of Michael Hart, a professor of trade policy at Carleton University in Ottawa and a former senior trade official.

Mr. Hart is skeptical Mr. Sarkozy will win over Europe's trade bureaucrats, and he said that Canadian companies that want to do business in Europe would generally continue to invest there rather than export merchandise from Canada.

"There are things we can do with Europe," he said. "But there's not a basis for a full-fledged agreement."