



Canada at the WTO Negotiations: All Defence, No Offence

By Danielle Goldfarb

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Canada has much at stake as trade ministers gather in Hong Kong this month to try and advance the current Doha Round of global trade talks. But Ottawa is so busy protecting a small group of industries in this round that it has failed to identify the country's long-term, positive interests and advance them. And, if the round fails, as looks likely, Canada will be left on the periphery of a more complicated trading system, without a meaningful action plan. Instead, Ottawa should shift its trade strategy from defence to offence and pursue a clear, focused agenda.

At first glance, the stakes at these global talks may not appear high for Canada. After all, we send almost 80 percent of our exports to, or through, the US, and we have already eliminated tariff barriers. But many outstanding bilateral issues — such as eliminating subsidies and opening up government purchasing — stand the best chance of being resolved in a multilateral forum. Moreover, as a relatively small, relatively open economy, Canada has a strong interest in the international adoption of one set of global trade rules, to which it can hold trading partners — including the US — to account. A global set of rules would result in the largest global gains and, for Canada, is far preferable to a power-based system.

More specifically, as the world's fourth-largest agricultural exporter, Canada has a huge interest in eliminating domestic farm subsidies in the United States, Japan and the European Union. These subsidies are the key point of contention in the global talks, especially for the developing countries, whose farmers cannot compete with rich country subsidies. Canada's interest in global growth and stability means it also has a long-term stake in a favorable outcome for developing countries. Canadians, further, have critical interests in other agenda items, such as making trade simpler, reducing tariffs on agricultural and manufactured goods, and opening up markets for Canadian services, particularly financial, environmental and engineering.

Though Canada was very active in advancing its positive interests in the past, the country is failing to forcefully pursue its interests in this round. One reason is that Ottawa is busy playing defence, without allies in its corner. The government

remains committed to defending outrageously high tariffs in the dairy and poultry sectors, as well as the Canadian Wheat Board's export monopoly. This protects a small group of Canadians — who are, not coincidentally, strategically important voters — at the expense of the broader public's long-term interests in open markets for Canadian goods and services, not to mention cheaper and better cheese. Countries such as Australia and New Zealand, which used to be Canadian allies, have eliminated their protections and no longer support us in trade forums.

Another possible reason for Canada's retiring stance is that officials are busy negotiating a plethora of labour-, money-, and time-intensive bilateral free trade agreements with an assortment of partners that are, for the most part, economically marginal to Canadian interests. Combined, these partners account for less than 2 percent of Canadian exports. The irony is that Canada has opened six such negotiations since 1998, but only closed one, with Costa Rica. Ottawa has been hampered in these talks, as in talks at the WTO, by its unwillingness to eliminate high tariffs in particular industries. Moreover, now that the US has offered free trade deals to the same countries that Canada has been courting, they are much less interested in Canada.

Canada has gone from being a constructive, focused player, as it was in previous multilateral talks, to a marginal player with little to offer. Ottawa has failed to table a single formal proposal on agriculture in the round, has offered virtually nothing on services, and, unlike Australia, is not invited to important meetings.

The round's unofficial deadline is 2007. In mid-2007, the US Administration's hard-won power to sign trade agreements with a yes or no vote from Congress expires (in other words, Congress cannot amend the agreements), making any meaningful WTO deal unlikely. Meanwhile, government reviews of farm policy in the US, the EU and Japan are underway in 2006, which will also make it difficult to reduce farm support. In order to sign the deal in 2007, ministers need to make enough progress in Hong Kong to leave a year for technical work. So the Hong Kong meeting is critical. As things stand, the US has made a fairly aggressive proposal to reduce agricultural subsidies and tariffs, but the EU's weak response is unlikely to satisfy anyone.

Should Canadians care if the negotiations fall apart? The current set of global trade rules would presumably continue to exist, but the public's faith in whether the rules can be modernized, and whether countries will obey them, will likely diminish. Canada would also forgo reduced agricultural subsidies, greater market access for goods and services, simpler trade rules, and the global stability and growth that could result from developing countries being integrated into the world economy. And if Canada winds up having to eliminate its protection anyhow, it will not get anything extra in exchange.

Failure could encourage hostilities between developing and developed economies, say, China and the US, which could threaten global economic stability. Moreover, a failed round would spur on the US and other countries to sign even more free trade agreements. This would make exporting even more complex and place Canada, which is good neither at completing these deals, nor selecting large-payoff partners, at the margins of a US-centered system. Among other effects, this would make it less attractive to invest in Canada to serve the US market.

If Canada wishes to make meaningful progress on its interests at the global level, Canadians need to ask their government why certain industries merit special protection at the expense of the national interest. Though it is late in the day, the federal government could shift the thrust of its trade policy away from protecting domestic interests and relatively unimportant free trade agreements towards its long-term interests. Short-term costs of compensating, say, dairy farmers, may seem high, but pale compared to the long-term costs of high tariffs and the stagnation of the global trade system.

If the current WTO round fails, Canadian policymakers will need to focus their attention on high-payoff areas. The priority must be removing barriers to movements of goods and people between Canada and the US; a two-way flow that will continue to dominate Canadian economic activity for the foreseeable future. Ottawa should also reduce domestic barriers to competitiveness and give Canadians the tools they need to adjust to changing global circumstances. Any meaningful free trade agreements should be with economically important partners and must address those same protections that impede success at the global level. It is time for Canada to stop playing defence and start advancing clear, focused national interests.

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