



Trade Agreement With EU Offers Big Opportunities for Canada – and the Investment Industry

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The federal government has been building economic and trade linkages promoting integrated capital flows across the global markets through trade and tax agreements. It has unveiled its centerpiece – the Comprehensive Economic and Trade Agreement (CETA) with the European Union. CETA is the largest and most comprehensive trade agreement Canada has ever signed. Trade agreements used to be characterized primarily by reduced tariffs. This pact goes far beyond that – covering commercial interactions, services and the flow of money between companies in the signatory nations.

While CETA must still be approved by the European Council, the European Parliament and individual nation states before becoming effective in 2016, it will greatly expand Canada's commercial window on the world and improve the prospects for investment and growth. It will also bring a competitive discipline to Canadian business and the Canadian economy.

The Big Picture: Benefits to the Economy

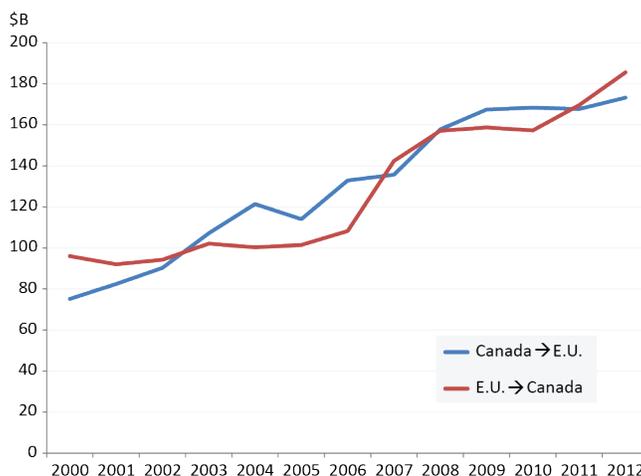
The reasons for striking the trade deal with Europe are obvious. Canada is well known and respected as a trading partner, with deep historic roots and commercial ties to Europe. As a region, Europe is our second largest trading partner after the United States. It is our second largest export market for metals. It is also our second largest source of direct investment flows.

Canada will benefit from this trade agreement in terms of increased exports of goods and services to Europe, and improved access to European capital to expand businesses and create job opportunities in Canada. It is estimated the trade deal will add one-half of one percentage point to real economic growth and add 80,000 new jobs. Whatever the magnitude of contribution to growth and employment, CETA comes at the right time to boost tepid growth in the Canadian economy. Further, CETA will benefit a beleaguered securities industry as strategic corporate positioning will throw up opportunities to arrange financings for expanded investment. Canadian securities dealers will be able to offer advice on corporate

acquisitions for Canadian companies projecting business into Europe, and for European companies seeking investment opportunities in our home and native land.

Bilateral Direct Investment

Canada and E.U.



Source: Stats Canada

Investment Up, Exports Up, Consumer Costs Down

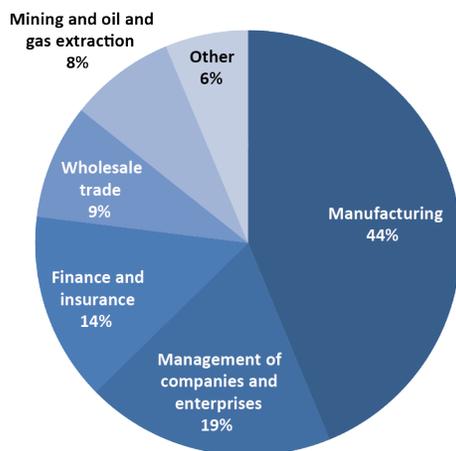
The reduced tariffs under CETA will enable Canadian companies to expand export markets for goods and services across Europe. The resource markets will lead the way, building on traditional markets in metals, agricultural products, lumber and newsprint. Canadian companies involved in the manufacture of rail and aerospace products, machinery and equipment, medical devices and scientific equipment, and financial services have significant markets in Europe. Over time these markets will expand and widen to include energy products such as crude oil (from the Canadian east coast), liquefied natural gas, auto parts and automobiles, meat products, grains and processed foods. As economic and financial conditions improve, Canadian energy and mining companies will expand exploration and development operations through independent initiatives and

joint ventures in Europe. Energy service companies will provide technology and other enhanced production techniques.

By the same token, more open markets in Canada, particularly in processed foods, agricultural products, manufactured goods, financial services, textiles and automobiles, are the attraction of CETA for European companies. Canadian consumers will benefit from better pricing and wider choice with the removal of tariffs and duties on these goods and services. The Canadian market is still quite small by European standards. However, the expansion of manufacturing plant and equipment in Canada through green field investment and acquisition provides a base of operations in Canada to project business into the United States and south to Mexico, benefitting from the NAFTA trade agreement. Comparatively lower corporate tax rates and skilled labour markets make the Canadian “beach-head” to the North American markets an even more attractive business strategy. Finally, under CETA European companies can purchase Canadian businesses without review under the Investment Canada Act. Canadian business acquisitions valued under \$1.5 billion are not subject to the Investment Canada “net benefit” test.

Direct investment from Europe has steadily increased over the past 10 years, with the pace of investment accelerating in the years since the financial crisis. With the signing of CETA, we anticipate this upward trend in direct investment to continue.

European Direct Investment in Canada By Sector



Source: Stats Canada

Opportunities for Dealers: More Corporate Acquisitions and Financings – in Canada and Europe

The expected increase in direct investment flows into Canada, and the expansion of export markets into Europe will benefit the Canadian investment industry. European business will look to Canadian dealers to identify potential acquisitions in the Canadian corporate sector and finance their purchase and expansion. The investment banking operations of the mid-tier boutiques will find similar investment banking opportunities with mandates to identify and finance smaller-sized business

acquisitions. Several Canadian bank-owned and independent dealers have built up their banking operations in London to penetrate local markets and compete for business flowing from CETA.

As markets for Canadian products and services expand in Europe, Canadian dealers will have opportunities to arrange debt and equity offerings for Canadian companies to finance related expansion in plant and equipment.

The large full-service investment dealers have built up wealth management businesses in Europe in recent years through acquisition and internal expansion. Canadian firms have a solid reputation for good management and strong branding. These reflect Canadian dealers’ ability to withstand the shock of the financial crisis in 2008, and avoidance of the post-crisis financial scandals in Europe, and a competitive offering of sophisticated products and services catering to affluent and mass-market investors, and managed product for institutional funds.

CETA will enable Canadian dealers to penetrate the financial markets more easily as the trade agreement mandates national treatment in respect of securities regulation (home jurisdiction regulation) and sets clear guidelines for a robust and well-defined prudential carve-out that protects “reasonable measures” from being interpreted as prudential reasons to avoid frivolous claims. In the event of dispute, CETA reportedly has the most efficient and innovative state-to-state dispute settlement mechanism of any free trade deal signed by Canada. It builds on lessons learned from past experience and is shorter than the World Trade Organization dispute resolution process.

Conclusion: Exploiting Comparative Advantage

Economic theory since David Ricardo’s time has pointed out that, by eliminating trade barriers, countries can exploit their comparative economic advantage to mutual benefit with their trading partners, and achieve faster rates of growth and job creation than otherwise. Canada’s prosperity throughout its history can in large measure be traced to buoyant export markets, inflows of direct investment and access to external capital. CETA builds on these traditions and on past trade agreements. It will improve prospects for renewing economic growth in the country, and moving the Canadian economy closer to its potential. And it offers the prospect of reinvigorating the Canadian investment industry, for both large and small securities firms.

Yours sincerely,

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