

CETA

Prospects for Financial Services Industry



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CETA: What is the Agreement?

- **Gold Standard Economic Partnership Agreement between Canada and European Union**
- **Most Comprehensive agreement ever negotiated**
 - model for future agreements
- **Agreement between prosperous developed consumer societies with similar approaches to rule of law, democracy and importance of role of governance**

CETA: Implementation

- **September 21, 2017 provisionally in effect**
 - over 90% of agreement in full effect
- **EU Council and EU Parliament have approved**
- **Canada – Order in Council implementation enacted August 31, 2016**
- **Provisional because some competence remains with member states**
 - 28 States must ratify
 - outstanding implementation issues concern dispute settlement provisions and affect financial services

CETA: Importance of Agreement



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- Canada's second largest trading partner
- **EU market – 500 million population**
 - over CAD\$17 trillion
 - World's second largest services market
 - World's largest importer of services
- **Foreign Direct Investment (FDI)**
 - Canadian FDI in EU CAD\$210 billion
 - 21% of total Canadian FDI abroad
 - EU FDI in Canada CAD\$242 billion
 - 31% of total FDI in Canada
- **British Columbia – EU 5th largest destination for exports**
 - 4th largest trading partner
- **Up to 20% trade boost over time**

CETA: Scope of Agreement

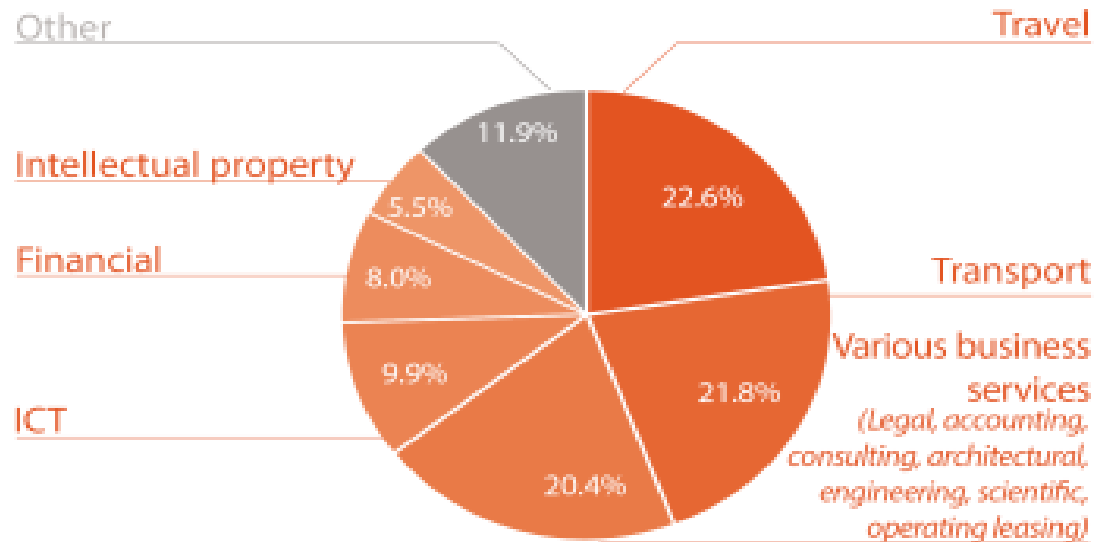
- **Very broad, comprehensive coverage**
 - 98% of tariffs and many non-barriers eliminated
 - investment, cross border trade and services, temporary entry and stay of natural persons for business reasons, mutual recognition of professional qualifications and domestic regulation
 - separate chapter on financial services
 - procurement including provisions and sub-regional entities
 - e-commerce, labour, environment, sustainable development
 - dispute settlement provisions break new ground

CETA: Importance of Services

- Over 70% of GDP of both EU and Canada generated by services
- Canadian services exports to EU approximately CAD\$18 billion
- EU services exports to Canada approximately CAD\$24 billion - financial services significant
- Services will achieve greater share of trade relationship

CETA: Importance of Services

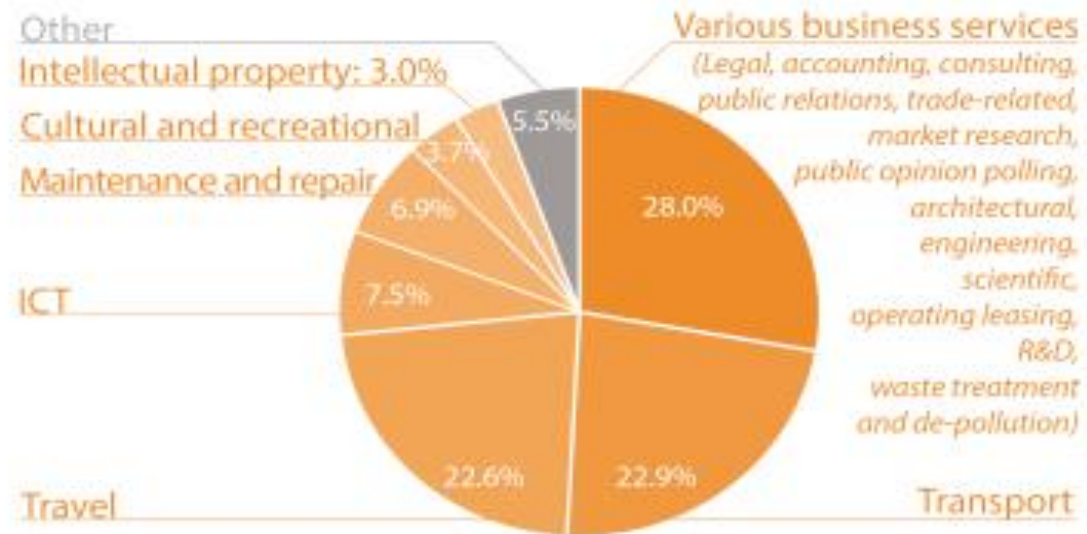
EU exports of services to Canada (2015)



EPRS | European Parliamentary Research Service

CETA: Importance of Services

EU imports of services from Canada (2015)



ELI | European University Institute

CETA: Financial Services Chapter 13

- **Basic aim – liberalize trade and investment in financial services and at the same time insure effective prudential regulation of markets and players**
- **Provisions mostly aligned with the General Agreement on Trade in Services (GATS)**
 - national treatment
 - MFN treatment
 - market access
 - transparent regulation
- **CETA confirms present undertakings, ensures no roll back and sets stage for future**

CETA: Financial Services

- **Market Access**

- no limitations on number of financial institutions
- no limit on total value of assets of financial institutions
- no limit on number of financial services operations by a firm
- no limit on level of foreign investment in a firm
- no limit on number of employees
- no limit on types of business ventures and large entities a firm may operate

CETA: Financial Services

- **Restricted to:**
 - Insurance and insurance related risks
 - Banking and other services
 - Portfolio management services
- **Specific coverage varies with individual states and Canadian Provinces – exemptions spelled out in Annexes**
- **A work in progress**

CETA: Financial Services

- **Movement and stay of personnel**
 - inter-corporate transfers of professional staff and families can now be made for up to 3 years
 - contractual service providers can now reside in each other's territory for up to 12 months per 24 month period

CETA: Financial Services

- **No significant change from current practice yet but baseline established**
- **Financial Services Committee created to supervise Chapter 15 implementation**
 - dispute resolution
 - dialogue on respective practices
 - commitment to negotiation within three years performance requirements constitute fairness for investment

CETA: Prudential Carve Out

- **Canada and EU agreed to take reasonable prudential measures to:**
 - protect investors' deposits and policy holders
 - maintain safety, soundness and financial responsibility of financial institutions
 - maintain stability and integrity of financial system
- **Regulations must no more burdensome than necessary**
 - may be subject to a “necessity” test not yet defined

CETA: Dispute Settlement

- **State to State**
 - general dispute settlement provisions with arbitration panels to govern disputes between parties applies
 - for financial services a separate list of arbitrators with relevant experience and expertise
- **Investor State (ISDS)**
 - financial services process generally follows process in rest of agreement except prudential carve out may come into play as a defence

CETA: Brexit

- **Disruptive impact on Canada significant**
 - UK accounts for 40% of Canadian exports to EU
 - London is the major financial centre
 - shape of divorce not yet clear
- **New EU Trade Agreement to be negotiated**
 - Canada-EU MFN clauses could come into play
- **Canada willing to do Canada-UK bilateral trade agreement**
 - UK prevented from negotiating before termination of EU relationship
- **“A BLOODY MESS”**

CETA: Conclusions

- **Important Milestone in Canada-EU relationship**
- **Canada – with CETA and NAFTA in unique position – first mover advantage**
- **Architecture in place for new era for trade and investment**
- **Financial services – Medium and longer term benefit**
 - EU needs to continue work in creation of single market
 - Canada needs to move on internal free trade
- **Agreement preserves governments' ability to provide effective prudential regulation to protect markets and system**
- **At firm level significant opportunities - companies need to identify targets and develop strategies to move in on markets**