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# **EU-Canada relations on the rise**

**Mutual interests in security, trade and climate change**

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## **Table of contents**

<b>1. Introduction</b>	<b>3</b>
<b>2. Why EU-Canada?</b>	<b>3</b>
<b>3. Security</b>	<b>5</b>
3.1 The Strategic Partnership Agreement 2016	5
3.2 Third state involvement in CFSP and CSDP	6
<b>4. Trade, investment and financial regulation</b>	<b>8</b>
4.1 CETA	8
4.2 Financial regulation	9
<b>5. Cooperation in climate policy: an example of broadening relations</b>	<b>10</b>
5.1 G-formats and climate diplomacy	11
5.2 Potentials for EU-Canada climate leadership	11
<b>6. Outlook</b>	<b>13</b>

## 1. Introduction

The outcome of the G7-summits in Canada June 2018 and in Taormina in 2017 were clear hints that multilateral cooperation in the G-format is strongly contested. The question arises how and with whose support the Canadian government intends to pursue and implement its “progressive agenda”<sup>1</sup> during its G7-presidency. Justin Trudeau’s government proposed five major topics for its presidency: Investing in growth that works for everyone, preparing for jobs for the future, advancing gender equality and women empowerment, working together on climate change, oceans and clean energy, and building a more peaceful and secure world.<sup>2</sup> Three of these themes, namely the focus on peace and security, economic cooperation for growth, and climate change are directly linked to currently politically contested foreign and security issues. Not only disputes in NATO with the U.S. administration, also the severe conflicts in international trade and Donald Trump’s withdrawal from the multilateral Paris Agreement on climate change give new importance to the ‘alliance for multilateralism’.<sup>3</sup> In this context, especially the EU-Canada relations were strengthened in the last two years. A careful analysis of the current situation in international security, trade and climate change policy points out key areas in which closer EU-Canada cooperation could be brought to bear fruits already in the short run and also for years to come.

## 2. Why EU-Canada?

For a long time, the U.S. was the most important and dominant partner in trade and security issues for both Canada and the EU. However, given the current high volatility of US foreign policy, it can be seen as an external driver of cooperation between the EU and Canada. Partial disorder in the White House, a clear preference for bilateralism and a stronger emphasis on its national interests than by any of its preceding administrations confirm this. In addition, Brexit puts the question of relations with third states vehemently on Brussel’s agenda and the accompanying uncertainty reinforces the motivation of both sides to work together. But why does this make the Union and Canada each other’s best option?

Although others might be attractive partners as well, the strong bond and strategic partnership speak in favor of closer EU-Canada relations as this is no binary choice. The strategic partnership between Canada and the EU does not prevent them from forming such partnerships with other countries. This is exemplified by the newly signed Free Trade Agreements (FTAs) between the EU and Japan<sup>4</sup> and on-going negotiations with Australia, New Zealand and the Mercosur-countries. Brussels and Ottawa, however, have already concluded the Comprehensive Economic and Trade Agreement (CETA) and can now focus on how to further develop political and strategic relations.

Based on similar values and interests, this like-mindedness as well as an extensive set of agreements which evolved since 1976 makes the Union one of the closest and longest-

<sup>1</sup> Trudeau, J. (2017): Announcement of Canada’s G7 Themes, <https://g7.gc.ca/en/g7-presidency/themes/> [accessed on 22 March 2018].

<sup>2</sup> See Website of Canada’s G7 presidency: <https://g7.gc.ca/en/g7-presidency/themes/> (accessed 18.07.2018).

<sup>3</sup> See Speech by Foreign Minister Heiko Maas at the opening of the 16th Ambassadors Conference at the Federal Foreign Office, 27.08.2018, <https://www.auswaertiges-amt.de/en/newsroom/news/maas-freeland-ambassadors-conference/2130332>.

<sup>4</sup> The EU-Japan negotiations on the Economic Partnership Agreement (EPA) were finalized on 08 December 2017. In July 2018, Presidents Jean-Claude Juncker and Donald Tusk, and Japanese Prime minister Shinzo Abe signed the agreement. In the next step, the European and Japanese Parliament have to ratify the agreement.

standing partners of Canada and vice versa. In the beginning, the relationship rested primarily on trade even though many of the EU member states and Canada have worked well together within NATO. Hence, regarding security policy Canada and the Union had long focused on multilateral cooperation within the Transatlantic Alliance but not between each other.

Since the Declaration on Canada-European Community Transatlantic Relations in 1990 both sides have gradually extended their economic cooperation. The conclusion of the Comprehensive Economic and Trade Agreement (CETA), cooperation in climate change leadership and the Strategic Partnership Agreement (SPA) on foreign and security policy in 2016 illustrate the development of this partnership as well as the following assessment by EEAS Deputy Secretary General Pedro Serrano: “The EU-Canada relationship – like brandy – has gotten better and better with age.”<sup>5</sup>

Another important dimension of cooperation is the Global Strategy for the European Union’s Foreign and Security Policy. It divides the areas of responsibilities between NATO and the EU more precisely than before and aligns the latter closer to the Transatlantic Alliance. In accordance with the strategy, the Union takes responsibility for civil resilience, while NATO remains in charge of Europe’s military defense.<sup>6</sup> Moreover, it called for better and closer cooperation with third states.<sup>7</sup> Thus, it contributed to a clearer allocation of responsibilities, paving the way for strategic partnerships with third countries such as Canada. This particularly applies because the impending British withdrawal from the Union reinforces the need to address this key issue.

How has the EU-Canada partnership been designed and what are the concrete steps to strengthen the newly established Strategic Partnership Agreement of 2016? The concept of strategic partnership was much-discussed in the late 2000s. Offering no new initiatives or guiding principles but bundling old ones<sup>8</sup>, this concept was perceived as a lack of fruitful and concrete results at that time. So, the strategic discussions shifted towards the Global Strategy in June 2016. Brexit and the questioning of EU-U.S. relations on both sides of the Atlantic, turned the political attention towards alternative third state relations in EU external relations. The EU third state relationship concept might therefore revive the concept of strategic partnerships by addressing its previous structural weaknesses in design and effectiveness.

Given how economic globalization affected global production over the 1990s period, creating and deepening transatlantic value chains, Canada and the EU faced strong incentives to lower trade and investment barriers. Canada and the Union already had a long-standing trade relationship when they decided in June 2009 to launch negotiations about a comprehensive tariff and investment deal. In 2016, the year both trade partners signed the CETA, trade volumes in goods (€ 64.4 billion in 2016) and services (€ 30.3 billion) were already

<sup>5</sup> Serrano, P. (2016): 3rd CSDP Symposium on Security and Defense Cooperation between the European Union and Canada on 28 April 2016, [http://eucanada40.ca/wp-content/uploads/2016/05/Pedro\\_Serrano\\_Speech.pdf](http://eucanada40.ca/wp-content/uploads/2016/05/Pedro_Serrano_Speech.pdf) [accessed on 26 March 2018].

<sup>6</sup> Bendiek, A. (2016): *The Global Strategy for the EU’s Foreign and Security Policy*, Berlin: German Institute for International and Security Affairs, August 2016 (SWP Comments 38/2016).

<sup>7</sup> European Union (2016): *Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union’s Foreign and Security Policy*, Brussels, June 2016, p. 8, [https://eeas.europa.eu/archives/docs/top\\_stories/pdf/eugs\\_review\\_web.pdf](https://eeas.europa.eu/archives/docs/top_stories/pdf/eugs_review_web.pdf) [accessed on 27 March 2018].

<sup>8</sup> Bendiek, A./Kramer, H. (2009): *Die EU als globaler Akteur. Unklare Strategien, diffuses Leitbild*, Berlin: German Institute for International and Security Affairs, April 2009 (SWP Research Paper S 12/2009), S. 12-13.

large, even in comparison with other important trade relationships. The EU is Canada's second-biggest trading partner after the United States, accounting for 9.6 % of its trade in goods with the world in 2016. And while Canada accounted for only about 2 % of the EU's total external trade in goods in 2016, a tariff and investment agreement promised to be beneficial particularly for the EU's manufacturing, transport, chemical and pharmaceutical sectors.

The political environment of the last years has also brought a new topic into the field of possible cooperation. The joint efforts in the course of the negotiations in Paris 2015 to adopt an ambitious climate agreement as well as the withdrawal of the U.S. administration out of the Paris Agreement led to new political situation in which mutual interests for cooperation got new attention. Expanding the scope of EU-Canada cooperation might help to build a stronger partnership and could lead to synergies between the different policy fields.

### 3. Security

One of the five key G7 themes during the G7 presidency of Canada is security policy. According to Canadian Prime Minister Justin Trudeau, the G7 partners “share a responsibility [to build] a more peaceful, and more secure world.”<sup>9</sup> Traditionally, the U.S. were Canada's closest ally, followed by the United Kingdom and France due to their historic and long-established relationships. Based on Canada's constantly increased involvement in multilateral cooperation, this recently shifted towards a closer partnership with the EU. The first meeting of the EU–Canada Joint Ministerial Committee on December 04, 2017, identified deeper Security and Defense cooperation and the enhancing of “EU-Canada cooperation around the world” as two of their top three priorities for 2018.<sup>10</sup>

#### 3.1 The Strategic Partnership Agreement 2016

Likewise, for Canada the EU is an obvious candidate to cooperate with. The SPA reflected on common interests and values and entrenched the common role as global actors of the two by a number of strategic dialogues. Among others the SPA led to the creation of new ones on cyber security, development, and counter terrorism.<sup>11</sup> According to Garon, limited resources and the destabilization of the European security order in the light of Russian aggressions in Ukraine serve as Canada's two key motifs for a closer partnership with the EU.<sup>12</sup> Enhancing cooperation as well as complementarity between NATO and the EU is therefore in Canada's national interest. Consequently, the Minister of Foreign Affairs Chrystia Freeland calls “Canada's partnership with its European allies [...] more essential than ever” and reaffirms her countries' commitment to shared interests and democratic values.<sup>13</sup> As both

<sup>9</sup> Ibid.

<sup>10</sup> Joint statement – EU and Canada: A progressive and dynamic strategic partnership (2017), [http://www.international.gc.ca/world-monde/international\\_relations-relations\\_internationales/europe/2017-12-04-spa-aps.aspx?lang=eng](http://www.international.gc.ca/world-monde/international_relations-relations_internationales/europe/2017-12-04-spa-aps.aspx?lang=eng) [accessed on 26 March 2018].

<sup>11</sup> See Articles 6, 12, 21 and 22 of: Council of the European Union (2016): Strategic Partnership Agreement between the European Union and its Member States, of the one part, and Canada, of the other part, <http://data.consilium.europa.eu/doc/document/ST-5368-2016-REV-2/en/pdf> [accessed on 26 March 2018].

<sup>12</sup> Garon, N. (2016): Benefits of the Canada-EU Strategic Partnership (SPA), [https://carleton.ca/ces/wp-content/uploads/IB\\_LBP-.pdf](https://carleton.ca/ces/wp-content/uploads/IB_LBP-.pdf) [accessed on 26 March 2018], p. 2.

<sup>13</sup> Freeland, C. (2017): Foreign Affairs Minister to participate in meetings with EU, NATO and OSCE, [https://www.canada.ca/en/global-affairs/news/2017/12/foreign\\_affairs\\_ministertoparticipateinmeeting-switheunatoandosce.html](https://www.canada.ca/en/global-affairs/news/2017/12/foreign_affairs_ministertoparticipateinmeeting-switheunatoandosce.html) [accessed on 26 March 2018].

Canada and the EU assume more global responsibility, further institutionalized cooperation will help to make this endeavor more impactful and effective. For these reasons, the two are each other's best option as close strategic partners on the global level.

### 3.2 Third state involvement in CFSP and CSDP

Getting third states on board of the EU's Common Foreign and Security Policy (CFSP) activities can be understood as a general interest of the European Union (EU). This applies even more when it comes to the Common Security and Defense Policy (CSDP). EU partnerships with third states have been given little visibility even if the contribution of partner countries is increasing.<sup>14</sup>

The ongoing Brexit proceedings have underlined once more the relevance of this policy issue. Moreover, the question of future multilateral cooperation is part of the EU Global Strategy (EUGS) implemented in 2016 and its new Level of Ambition (LoA), namely: responding to external conflicts and crises, building the capacities of partners and protecting the Union and its citizens.<sup>15</sup> In order to respond to the evolving challenges in the area of security and defense (migration, counter-terrorism and hybrid threats<sup>16</sup>), the EEAS under HR Federica Mogherini is actively taking forward the enhancement of strategic CFSP/CSDP partnerships.

In fulfilling these criteria, one of the key priorities is ensuring the EU's own resilience through an integrated approach to conflicts and crises and the reinforcement of global governance based on international law.<sup>17</sup> The EU-NATO agreement in June 2016 was a step towards a deeper EU-cooperation with one of its principal partners, but foremost an immediate reaction to the changing transatlantic bond with the United States. Furthermore, this new outreach towards third countries by the EU and its very own security and defense concerns, adds credibility to the recent decisions in CSDP matters and the resilience approach of the EU as a whole. The Permanent Structured Cooperation (PESCO), decided upon in December 2017, as a process of closer cooperation in security and defense forms part of this revival of strategic partnerships. In accordance with Articles 4(2)(g) and 9(1) of Decision (CFSP) 2017/2315, the European Council will set out the general conditions for exceptional third-state participation in PESCO projects and their compliance with these in June 2018.<sup>18</sup> With this in mind, a future Canadian contribution to PESCO takes concrete shape, while new opportunities of cooperation, besides the increasing consultations and coordination in multilateral fora such as the UN, the OECD, NATO and the OSCE, are opening up.

<sup>14</sup> Canada's involvement in the past: EUPM BiH, Concordia, Artemis, EUFOR Althea, EUPOL Kinshasa, EULEX Kosovo, EUPOL Afghanistan. Currently: EUPOL COPPS and EUAM Ukraine – as well as providing a financial contribution to the military operation to EUTM Mali.

<sup>15</sup> Council of the European Union (2016): Implementation Plan on Security and Defence, 14392/16, 14.11.2016.

<sup>16</sup> Council of the European Union (2016): Council conclusions on the Global Strategy on the European Union's Foreign and Security Policy, 13202/16, 17.10.2016.

<sup>17</sup> Ibid.

<sup>18</sup> Official Journal of the European Union (2018): A roadmap for the implementation of PESCO, Council Recommendation, (2018/C 88/01), 06.03.2018, [http://europeanmemoranda.cabinetoffice.gov.uk/files/2018/03/COUNCIL\\_RECOMMENDATION\\_OF\\_S\\_MARCH\\_2018\\_ON\\_PESCO.pdf](http://europeanmemoranda.cabinetoffice.gov.uk/files/2018/03/COUNCIL_RECOMMENDATION_OF_S_MARCH_2018_ON_PESCO.pdf) [accessed on 26 March 2018].

How does the EU reach out to such third state parties in order to guarantee a mutual commitment? The EU to this day provides six forms of CSDP-cooperation: Framework Participation Agreement (FPA, European Neighborhood Policy/ENP, Migration Compacts, Political Dialogues on counter-terrorism, cooperation with host-countries as well as candidate and potential candidate countries through a Stabilization and Association Agreement/SAA. Canada signed a FPA in November 2005 but has also contributed to missions and operations within the Western Balkans countries (EUFOR Althea, EULEX Kosovo, EUPM BiH and EUFOR Concordia).

As one of the most consistent contributors to the EU Advisory Mission in Ukraine, Agriteam Canada on behalf of the Canadian Global Affairs Office has realized various projects. Agriteam Canada provides management and technical expertise on projects that promote sustainable growth and meaningful opportunities for people to improve their living conditions. The Canadian EUAM portfolio ranges from Police Training Assistance Projects (2016–2019), support of a Patrol Police Reform (2015–2016) and a Juvenile Justice Reform Project (2007–2017) to an Expert Deployment for Governance and Economic Growth (2014–2019).<sup>19</sup> The Royal Canadian Mounted Police has also visited EUAM in order to discuss cooperation and coordination in supporting efforts for the Civil Security Sector reform in Ukraine.<sup>20</sup>

In light of fading enthusiasm for the Mali mission on the Canadian side<sup>21</sup> as the extent of likely casualties and the complex nature of the conflict became increasingly apparent, a more developed civil engagement within EU-CSDP structures seems appealing to both partners. The Security and Defense Dialogue, established in May 2015, and the first Joint Ministerial Committee – co-chaired by Chrystia Freeland and Federica Mogherini – held in December 2017 put forward an agreement allowing for the exchange of classified information between them.<sup>22</sup>

In order to use CSDP as a tool to provide expertise and assistance to the EU and its partners, strategic communication, border security, but also cyber security are relevant. Cybersecurity as one of the key priorities within the framework of a common EU-CSDP policy is also a focus of Canada's G7 presidency this year. This matter was also a top priority for the Munich Security Conference (MSC) in February 2018. "Secure digital networks are the critical infrastructure underpinning our interconnected world"<sup>23</sup> as the Canadian foreign minister Chrystia Freeland pointed out. The launch of a Digital Trust Initiative by Siemens and other industry partners during the MSC is an important step towards advancing

<sup>19</sup> Agriteam Canada (2018): Projects in Europe, <https://www.agriteam.ca/europe/#eur6> [accessed on 28 March 2018].

<sup>20</sup> EUAM Ukraine (2015): Activities and further cooperation. EUAM conducts coordination meeting with Canadian program and project's representatives, 06.11.2015, <http://www.euam-ukraine.eu/news/latest-news/activities-and-further-cooperation-euam-conducts-coordination-meeting-with-canadian-program-and-project-s-representatives/> [accessed on 28 March 2018].

<sup>21</sup> Gordon, J. (2017): Canada will not send peacekeepers to Mali in near future: officials, 15.11.2017, <https://www.reuters.com/article/us-un-peacekeeping-canada/canada-will-not-send-peacekeepers-to-mali-in-near-future-officials-idUSKBN1DF2XG> [accessed on 28 March 2018].

<sup>22</sup> Council of the European Union (2017): EU-Canada relations: joint statement of the 1st meeting of the joint ministerial committee, Press release, 04.12.2017, <http://www.consilium.europa.eu/en/press/press-releases/2017/12/04/eu-canada-relations-joint-statement-eu-and-canada-a-progressive-and-dynamic-strategic-partnership/> [accessed on 26 March 2018].

<sup>23</sup> Siemens (2018): Siemens and partners sign joint charter on cybersecurity, Press release, 16.02.2018, <https://www.siemens.com/press/en/pressrelease/?press=en/pressrelease/2018/corporate/pr2018020164coen.htm> [accessed on 28 March 2018].

this crucial topic. Freeland continues by stating that “Canada welcomes the efforts of these key industry players to help create a safer cyberspace”<sup>24</sup> and thereby highlights the importance of this initiative. The renewed EU Cybersecurity Strategy of 2017 encourages stronger links between the EU and other stakeholders in cybersecurity. The global dimension of the internet creates a need for the EU to further enhance appropriate international fora in order to “promote EU values and norms in respect of cybersecurity.”<sup>25</sup>

#### **4. Trade, investment and financial regulation**

Given current attacks on multilateral cooperation in international organizations created to stabilize the global security and economy, Canada and the EU should also take any effort to work together on preserving the global order. Beyond expanding their trade and investment relationship they could also intensify cooperation on international financial regulation,

##### **4.1 CETA**

The EU and Canada have recognized their mutual interest in intensifying trade and investment relations already prior to the protectionist turn in the United States and other parts of the global economy.<sup>26</sup> However, given the Trump administration’s increasingly aggressive policy stance in the area of trade, the need for intensified trade cooperation between Canada and the EU has become ever clearer. Given the potential stark negative effects of current U.S trade policy measures on Canada and the EU, CETA has already turned from a “nice to have”-economic alliance into an economic necessity for both sides.

Both, Canada’s government and the EU member states are expanding their options in case their exports will continue to be hindered from entering freely to the US market due to tariffs on a range of products. Also, both actors are setting new standards that may diffuse into other trade and investment agreements. The CETA agreement entails innovations in the area of labor and environmental standards. More importantly, it introduces a new standard of investment protection by replacing the established – though often criticized – system of ad hoc-investment dispute settlement panels that consist of private-sector representatives with a full-blown dispute settlement court (dubbed the International Investment Court System, ICS). Since the deal was signed between both sides, the EU has introduced the new ICS in the final version of its free trade agreement (FTA) with Vietnam, and proposed it in the ongoing negotiations with all partners, including the Transatlantic Trade and Investment Partnership (TTIP) with the United States. In the EU’s agreement with Japan both decided that there will be no additional path for corporations to claim right other than going through the domestic legal process.

<sup>24</sup> Ibid.

<sup>25</sup> ENISA (2017): Principles and opportunities for a renewed EU Cybersecurity Strategy, ENISA contribution to the Strategy review, 11.05.2017, p. 13.

<sup>26</sup> As many in German politics agree, CETA would not have passed the convention of the German Social Democratic Party (SPD) and for that matter, never would have reached the floor of the Bundestag, had it not been for the fierce and highly convincing speech of then Canadian Trade Minister, Chrystia Freeland, in September 2016. At the time, then-German economy minister, Sigmar Gabriel worked with Freeland to overcome last-minute resistance to CETA in Gabriel’s own SPD. Beattie, A. (26.03.2018): Trade talks tips for Brexit Britain, Financial Times, <https://www.ft.com/content/be5149c6-2b5c-11e8-a34a-7e7563b0b0f4>.

While Canada has already implemented CETA, the EU has introduced only parts of the agreement in September 2017. For the agreement to be fully implemented it still needs to be ratified by all of the EU member states and in certain countries also by subnational level parliaments. At the time of this writing only 9 of the 28 current EU member states have ratified the agreement. The rift in EU-US relations and the looming threat of a global trade war may – in the end – help to push Europe’s citizens to re-evaluate the benefits of such agreements. Nevertheless it is far from certain that parliaments in countries where sceptics of new trade deals have previously been in the majority will easily ratify CETA. While newly elected Italian Agricultural Minister, Gian Marco Centinaio, announced in June that his government will stop CETA, the parliamentary process in Germany has slowed down on demand of parliamentarians waiting for rulings of the German Constitutional Court and the European Court of Justice. In Austria, the final adoption is currently pending on a signature of the federal President who said he was waiting on the European Court’s decision. The national parliament already approved of the deal.<sup>27</sup> Further efforts, both from the European Commission and the European Parliament as well as national-level political actors are warranted to be able to finally call CETA a success story of transatlantic trade.

## 4.2 Financial regulation

Beyond trade and investment, it would be mutually beneficial for the EU and Canada to cooperate closer on financial regulation in international fora like the Basel Committee on Banking and Supervision and the Global Stability Board. Ten years after the breakdown of Lehman Brothers that triggered the global financial crisis and was followed by the Great Recession, financial regulatory reforms have led to increased stability in many countries. However, it is worth noting that international cooperation on financial regulation now seems doomed to plateau out or break-down given de-regulatory pressures in the US. As Washington rolls back regulations enacted after the financial crisis, many hope that the EU will take on the role of a new “watchdog” for international markets. To keep regulatory cooperation alive, however, the EU needs to shape alliances with other partners.

As a crucial force behind domestic regulation through the Dodd-Frank Financial Regulation Act, the US under the administration of Barack Obama had pushed for tighter rules for large, globally active banks and financial firms on the international level. Washington strongly supported the creation of the Financial Stability Board as well as multistate negotiations over a new round of regulatory measures at the Basel Committee on Banking Supervision. However, initiatives to create a level-playing field in financial regulation were first discussed among and endorsed by the G20 countries. Both, Canada and the EU have been driving forces in this process. Despite initial opposition on the EU-side to agree to tighter minimum capital requirements for banks, strengthened rules on capital and new rules on liquidity could finally be passed as part of the Basel III Accord, signed by 75 countries at the end of 2017.<sup>28</sup> Canada has been judged by the Basel Committee’s review in 2014 as “compliant” with all new Basel III Accord rules and has actually gone further in several areas of regulation than required. In comparison the EU is much slower in implementing the new global capital standards and has been assigned a status of “materially non-compliant” by

<sup>27</sup> SPIEGEL (14.06.2018), Bundestag will Ceta-Ratifizierung noch nicht festschreiben, <http://www.spiegel.de/wirtschaft/soziales/bundestag-stimmt-gegen-beschleunigte-ratifizierung-von-ceta-abkommen-a-1213057.html>, [accessed: 18.07.2018]. Landini, F. (14.06.2018): Italy won't ratify EU free-trade deal with Canada: Farm minister, Reuters, <https://www.reuters.com/article/us-italy-minister-canada-trade/italy-wont-ratify-eu-free-trade-deal-with-canada-farm-minister-idUSKBN1JA0TR> [accessed: 18.07.2018].

<sup>28</sup> Compare: von Daniels, Laura (2017); Letzte Ausfahrt Basel\_ Zum Stand der Bankenregulierung in den USA und der EU zehn Jahre nach der globalen Finanzkrise. Berlin: Stiftung Wissenschaft und Politik.

the Basel Committee's Regulatory Consistency Assessment Programme in its December 2014 report.<sup>29</sup> In recent reports, the Basel Committee recognized the commitment of the European authorities to converge toward the Basel standards – particularly with regard to large, systemically important banks. Nevertheless, a major obstacle to achieving the full compliance status remains in the way banks assess risks of sovereign bonds on their balance sheets.<sup>30</sup> While the question of how to end the bank-sovereign nexus remains a crucial internal EU-reform task there are several financial regulatory questions on which the EU and Canada can forge a coalition. In the years to come, close economic cooperation between the EU and Canada could become essential for preserving and adjusting the existing global financial rules. Their governments and also the European Commission could push for regular assessments of the new liquidity rules within the Basel Committee and make sure that a constant flow of information is kept up. This would allow the international organization to modify rules that might turn out to be ineffective in due time, potentially contributing to prevent a future financial crisis.

Canada and the EU could also consider supporting the Financial Stability Board (FSB) in its efforts to take on new important oversight tasks. The board was established by all G20 countries in 2009 to enable an improved flow of information on global financial risks. However, since the beginning of the Trump presidency the US has repeatedly criticized the board for overstepping its mandate. Endowing the FSB with the power to oversee and assess in regular reports the functioning of the national (EU-level) supervisory architecture in the G20 countries could greatly contribute to the stability of the global financial system. After the financial crisis in 2008 countries have chosen largely different paths on restructuring financial market oversight bodies, with some countries opting for more and others for less centralization of authority. However, to this date, little is known about the strengths and weaknesses of different.

## **5. Cooperation in climate policy: an example of broadening relations**

Prior to the G7 meeting in Canada, the objectives set for Trudeau's presidency attracted attention. The government in Ottawa included quite ambitious wording on the issue of climate change: "Working together on climate change, oceans and clean energy. Canada and its G7 partners recognize the urgent need to accelerate the transition towards a sustainable, resilient, low carbon future".<sup>31</sup> With this ambitious aim, Canada's Prime Minister follows his announcement to restore Canada's international reputation as a climate pioneer after his predecessor Stephen Harper slowed down Canada's ambitions in climate policy significantly.<sup>32</sup>

A closer look at the events of recent years shows that the informal G-formats can be important forums for climate negotiations. Especially at a time when the USA is withdrawing

<sup>29</sup> URL: [https://www.bis.org/bcbs/implementation/rcap\\_jurisdictional.htm](https://www.bis.org/bcbs/implementation/rcap_jurisdictional.htm) (retrieved on September 4, 2018)

<sup>30</sup> In the EU, banks are currently allowed to keep sovereign bonds as zero-risk assets on their balances, meaning that they need to retain no additional capital.

<sup>31</sup> See Website of Canada's G7 presidency: <https://g7.gc.ca/en/g7-presidency/themes/> (accessed 18.07.2018).

<sup>32</sup> Silvia Maciunias/Géraud de Lassus Saint-Geniès, 2018, The Evolution of Canada's International and Domestic Climate Policy, Centre for International Governance Innovation (CIGI), <https://www.cigionline.org/sites/default/files/documents/Reflections%20Series%20Paper%20no.21%20Maciunas.pdf>, [accessed 18.07.2018].

from the Paris Agreement, these meetings can be an important complement to formalised climate diplomacy within the UN institutions.

### **5.1 G-formats and climate diplomacy**

The G-formats have repeatedly played an important role in international climate diplomacy. For example under the German G7 presidency in 2015, when the "decarbonization of the world economy" target was included in the final communiqué. The negotiations in Elmau are regarded as important preparatory work for the Paris Agreement, which was successfully negotiated at the end of 2015. During the G20 summit in Hangzhou in 2016, only six months after the conclusion of the negotiations on the climate agreement, Barack Obama and Xi Jinping announced the joint ratification of the agreement, which was one of the most important prerequisites for its entry into force. When Donald Trump took office, these climate policy success stories from the G-summits were – temporarily – put on hold. The G7 summit 2017 in Italy, for example, was mainly shaped by the blockade of the US government.

Until Trump announced its withdrawal from the Paris Agreement just a few days after the G7 summit in Taormina, the German government was aiming to send strong climate signals from the G20 at the end of that year in Hamburg. After Trump announced the withdrawal, the German government had to adapt its expectations for the summit, especially because several other G20 states also threatened to drop-out of the Paris Agreement. Under these circumstances, the agreed upon formulation of the "irreversibility of the Paris Agreement" by the G19 has to be counted as a success of informal diplomacy and therefore shows the potential of G-formats for climate diplomacy. After the latest G7 meeting in Canada it became obvious that the G6 countries will either have to proceed on implementing their climate agenda without the US – even when entering conflicts with the US – or scale down expectations of what can actually be achieved.<sup>33</sup>

### **5.2 Potentials for EU-Canada climate leadership**

The development of Canada's role in climate policy illustrates that it is worth maintaining and developing international agreements even if crucial contractual partners decide to withdraw from the agreement. For Canada, it is by no means a matter of course that it belongs to the group of climate pioneers on the international stage. Over the last four decades, Canada's position in the international climate negotiations has changed several times.<sup>34</sup> During the negotiations on the Kyoto Protocol (adopted in 1997), for example, it played an important role in reaching a consensus between the US and the EU. In 2011 – four years after Stephen Harper took over the government – Canada withdrew from the agreement. Harper was much more critical of the multilateral negotiations and refrained from "active climate environmentalism". After Justin Trudeau was elected as the new Prime Minister in 2015, the climate policy ambitions changed significantly. Trudeau announced that Canada was "back" and that he wanted to establish its international reputation and pioneering role in the fight against climate change.<sup>35</sup> During the climate negotiations in Paris, the Canadian

<sup>33</sup> Dröge, S./ Schenuit, F., (2018): G7 in Kanada: Klimadiplomatie ohne die USA, German Institute for International and Security Affairs, SWP-Kurz Gesagt, <https://www.swp-berlin.org/kurz-gesagt/2018/g7-in-kanada-klimadiplomatie-ohne-die-usa/> [accessed 18.07.2018]

<sup>34</sup> Maciunias/ de Lassus Saint- Geniès, The Evolution of Canada's International and Domestic Climate Policy.

<sup>35</sup> Ibid.

delegation was then part of the High Ambition Coalition, which, among other things, negotiated for the incorporation of the 1.5° C target in the final text. Following Paris, the government also translated these ambitions into bilateral agreements. Important partners include China and the EU, which have agreed on tripartite cooperation with Canada. Together with the United Kingdom and 20 other countries, Canada is also part of the “Powering Past Coal Alliance”, which was officially launched at the 23. UN climate conference in Bonn in 2017.

Beyond the international stage, however, Justin Trudeau's government is repeatedly criticised for not implementing the announced goals in domestic politics. Although the Vancouver Declaration on Clean Growth and Climate Change of 2016 is aiming to set a price on carbon emissions, in view of the upcoming 2019 elections, Trudeau is increasingly reluctant to actually implement effective and ambitious climate policies.<sup>36</sup> In this context, he was also criticized shortly after taking office, when he decided to take over the NDC of his predecessor Stephen Harper without increasing ambition. In addition, the construction of pipelines and other infrastructure projects in connection with the oil and gas industry supported by Trudeau is regularly criticized in Canada.

The gap between internationally announced targets and actual climate policy at home also exists in European countries.<sup>37</sup> Germany in particular has recently come under fire in this regard. Canada and the EU countries therefore share a central political challenge for future climate policy. The fact that Canada and the EU are facing a similar political challenge may give rise to mutual interests in enhanced cooperation. New forms of cooperation could help to overcome these political hurdles. The potential for new impetus, ambition and intensified cooperation lies in the following three areas.

First, Canada and the EU should try to reach a consensus between the remaining six and nineteen countries in the G-formats concerning the implementation of the Paris Agreement. Sending a strong signal to climate diplomacy at UN level, namely the preparation of the Talanoa-Dialogue, in which the national climate pledges are updated, would increase the credibility and effectiveness of the multilateral agreement. If states could agree to set more ambitious voluntary commitments, the gap between internationally agreed declarations of intent and the missed target achievement at national level could be narrowed. Here, the G7 countries could learn from the UK, which starts to self-confidently and rightly claim for itself: "We absolutely lead the space. We've decarbonised more and grown more than any other G7 country".<sup>38</sup>

Secondly, the G7 negotiators could lay the foundations for extending the climate policy negotiations to new fields of international policy such as international trade policy.<sup>39</sup> In the field of trade policy, the EU-Canada CETA trade agreement opens up new opportunities and synergies between two crucial international policy fields. Combining climate and trade policy could be one building block of EU-Canada climate leadership.

<sup>36</sup> For instance, see the latest discussion on a carbon tax, O'Grady, M.A., (12.08.2018): Canada Backtracks on a Carbon Tax, The Wall Street Journal, <https://www.wsj.com/articles/canada-backtracks-on-a-carbon-tax-1534110070>.

<sup>37</sup> See for example: Climate Action Tracker for the EU: <https://climateactiontracker.org/countries/eu/> [accessed 24.07.2018].

<sup>38</sup> McGrath, M. (10 May 2018): UN puts brave face as climate talks get stuck, BBC, <https://www.bbc.com/news/science-environment-44074352> [accessed 18.07.2018].

<sup>39</sup> Dröge, S./ Schenuit, F. (2018): EU Trade and Climate Policy Linkages: Potentials in Times of Repositioning, German Institute for International and Security Affairs, SWP-Comment 2018/C16, <https://www.swp-berlin.org/en/publication/eu-trade-and-climate-policy-linkages/> (accessed 18.07.2018).

Thirdly, abandoning subsidies for the fossil industry offers great potential for future cooperation of Canada and the EU. In 2016, the G7 agreed on an expiry date of 2025 for fossil fuel subsidies. The latest G-format communiqués however did not contain such formulation. A reintroduction of this aspect in the final communiqués – at least by the remaining six or nineteen – could reaffirm the agreement already reached in 2016, give new political capital to a crucial reform in the context of the climate change challenge and put EU and Canada in a frontrunner position in climate policy.

## 6. Outlook

The strengthening of EU-Canada relations in the last two years has revealed mutual interests in several policy fields. In times of increasingly tense relations with the USA, deepened and broadened cooperation is of particular importance for both, Canada and the EU. Closer EU-Canada relations are in their mutual interest. Especially in a situation in which U.S. foreign policy is increasingly erratic and unreliable, and the existence of multilateral institutions and agreements are seriously called into question. In this context, the “alliance for multilateralism” provides important communication channels. Even though the U.S. government maybe isolated by actively pursuing Canada-EU cooperation in security, trade and climate policy, this alliance can contribute to securing what has been achieved multilaterally so far and maybe even initiate progress in these policy fields. Future cooperation agreements are to be seen in the context of the provisional application of the Strategic Partnership Agreement (SPA) and enable the accomplishment of the three agreed-upon actions: strengthening the EU-Canada bilateral relationship, enhancing the foreign policy coordination and addressing the global challenges and opportunities. A closer strategic partnership serves to fulfill their growing worldwide responsibilities and increase their ability and potential to make a global impact. Hence, the implementation of all the SPA policies as well as the advancement of them in the Joint Ministerial Committee and other fora like the United Nations are vital for EU-Canada relations.

Overall, the following conclusions can be drawn for the policy areas of security, trade and climate change.

### Security

Given the importance of third-country involvement in European foreign and security policy EU-Canada relations should comprise two dimensions, which are equally important from an EU perspective: the first one is capacity-related, the second one is rather political.<sup>40</sup> To advance their common interests in promoting effective multilateralism, the EU and Canada have to foster the domestic commitment for their individual contribution for the United Nations and its specialized organizations and agencies, the OECD, the NATO, the OSCE and other multilateral fora.

At the same time it is important that EU and Canada work on common definitions related to strengthen transatlantic security, taking into account the central role of the existing transatlantic security architecture between Europe and North America under the condition of the “America first” policy pursued under the current US-administration under Donald Trump. The EU might facilitate Canadian participation in PESCO projects including the sharing of planning information regarding crisis management and capacity-building in third

<sup>40</sup> Tardy, T. (2014): CSDP: Getting third states on board, European Union Institute for Security Studies (EUISS), March 2014, p. 4.

countries and further enhance their cooperation in this regard including on EU missions and operations. The goal is to enlarge the current strategic partnership agreement to a security partnership equivalent to the well-developed EU-Norway cooperation frameworks in CFSP and CSDP.

Past missions and operations have shown that the EU has been struggling to staff its very own missions. Fulfilling these priorities means that the EU for its part may either deploy non-executive CSDP civilian missions and military operations - upon invitation of the host country to provide strategic advice, training, mentoring and monitoring or it could build on permanent security cooperation with relevant third state partners such as Canada.

The PESCO agreement represents another attempt to enlarge the pool of possible contributors to future EU-activities in the field of security and defense. Accordingly, a Canadian PESCO contribution civilian and/or military – is a medium-term step and in this case, Canada should already be involved in the initial phase. Establishing a genuine format for seconded personnel might be another promising step towards substantiating this cooperation. The long-term success of the EU crisis management – e.g. in North Africa – will depend on such midterm decisions.

### **Trade and further economic cooperation**

Both, the EU and Canada rely for the success of their economic growth models on a free trade regime that is built on transparent and reliable international rules. This mutual interest makes them ideal partners for cooperation on reforms of global trade rules inside the WTO system. However, the EU which has only partially implemented the CETA so far needs to take further efforts if it wants to ensure that the agreement will be ratified in each member states. Without it the agreement will not go into full effect, meaning a setback. One of the first steps should be the transformation from the provisional status of CETA and SPA into permanent law. This will serve the legal certainty of the agreements and will also promote the reliability and long-term orientation of EU-Canada relations. It will enable both sides to share expertise, e.g. best practices, on an in-depth-basis which the high-ranking consultations like the Joint Ministerial Committee might not necessarily include.

One indication of enhanced EU-Canada cooperation on the political level is the recent demonstration of shared values and support of multilateral institutions demonstrated at the annual gathering of foreign ambassadors in the German capital at the end of August 2018. Another, perhaps even more important sign of cooperation may be seen in the filing of coordinated versions of public complaints against planned US tariffs on imports of automobiles and automobile parts at the end of June 2018.

Ottawa and Brussels are currently both under political pressure from Washington, which tries to reset its trade relations with both partners. The EU, which is less economically dependent on free trade with the US than Canada, is nevertheless facing strong pressure from Washington. A major concern is Trump's 'art' of reaching his goals, by linking trade to other policy areas (security, energy). Keeping information about the ongoing bilateral trade negotiations at constant flow can thus be crucial for Ottawa and Brussels. Transparency on US requests and trade offers could improve the negotiators' strategies in their respective meetings with Washington. Also, both Canada and the EU could potentially increase their economic weight if they succeed in including recently negotiated CETA-standards (e.g. on labor, environment, rules of origin, public procurement, ISDS and even geographical indications) in new trade agreements with third parties.

In a similar spirit, the EU and Canada could work closer together to ensure that recent achievements in improving international financial market regulation are preserved and, where possible, strengthened. Towards this end, the EU needs to first needs old problems like ending the sovereign-bank nexus that could create greater financial risks for the global system. Besides bank capitalization in Europe, however, there are several financial regulatory projects that the EU could work on together with Canada. One such project would be to raise support among the G20 countries to delegate further supervisory functions to the FSB. But even if this project fails due to lack of support from the US or other G20 members there are several areas where cooperation is both, warranted and possible. These include common strategies and best practices in dealing with cyber-attacks or increased competitive pressures on banks from evolving fintech companies.

### **New Potentials in cooperation on climate action**

In times of weakening multilateralism and conflicts with the U.S. administration, pursuing mutual interests on issues such climate change would not only be a clear statement of support for multilateral agreements such as the Paris Agreement but could also put cooperation on a broader footing and unleash new synergies. In the upcoming years, it will be crucial to support the Paris Agreement framework by adopting and implementing ambitious climate policies in line with the multilaterally agreed targets. As Canada and the EU are facing similar political hurdles to adapt ambitious climate policy domestically, a closer cooperation could contribute to overcome the widening gap between climate ambitions agreed upon internationally and the actual domestic climate policies. This cooperation is important in a situation in which the US is pulling out of the Paris Agreement. In particular, trying to find common ground in bilateral cooperation and transfer the dialogue to the G-formats could be an important contribution to keep the topic of climate change on the agenda of the heads of states and governments.

Three specific areas of possible intensified cooperation are: (1) the support and mutual commitment to more ambitious national determined contributions (NDCs) in line with climate target within the UN-processes of the Paris framework. (2) The strategic intertwining of international climate and trade policies, (3) Reaffirming the aim of abolishing fossil fuel subsidies. An extension of the scope of EU-Canada cooperation in these three issues could be one contribution to building a stronger and broader partnership and lead to synergies between different policy areas.

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