Fighting TTIP, CETA and ISDS: Lessons from Canada

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About the author

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Introduction

In 1989, Canada and the United States signed the Canada-United States Free Trade Agreement (CUSTA). In 1994, the two countries and Mexico signed the North American Free Trade Agreement (NAFTA). These two deals set the tone for the new generation of bilateral and regional trade deals, and created a model still vigorously pursued by most governments.

Under CUSTA, Canada would lose much of its manufacturing base as American corporations closed their Canadian plants and moved them offshore. Canada also gave up regulatory control of its energy reserves. NAFTA introduced a new provision – investor-state dispute settlement (ISDS) – whereby corporations from the three countries could sue one another's governments for changes to laws, policies or practices that hurt the corporations' bottom lines.

NAFTA's legacy is alive and well in both the Transatlantic Trade and Investment Partnership (TTIP) between the European Union and the United States and the Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada. While these deals push the trade envelope in several new ways, both contain ISDS provisions, which are especially controversial in Europe.

As a result of NAFTA, Canada is the most investorstate challenged country in the developed world, and Canadians have an important story to share with Europeans as they grapple with TTIP and CETA. This paper is offered as a warning to Europeans who care about the health of their people, the resilience of their communities, the fate of their public services, and the protection of their natural resources.

What are TTIP and CETA?

TTIP is a proposed trade and investment agreement between the EU and the U.S. to open up their markets to one another's corporate sectors, including pharmaceuticals, textiles, energy and agriculture. Negotiations have been held largely behind closed doors with sporadic information leaked to the public.

CETA is the Canadian equivalent, but is much further along in the negotiating process. In September 2014, Canadian Prime Minister Stephen Harper, then European Commission President José Manuel Barroso, and then European Council President Herman Van Rompuy signed a joint declaration to "celebrate" the end of CETA talks. Meanwhile, there is still clear opposition in both Canada and Europe, and the deal is far from done. This was the first time the text of the agreement was officially released to the public.

Proponents claim that TTIP and CETA will "grow" the economies of both the EU and North America, creating jobs and wealth for both North Americans and Europeans. The NAFTA experience, however, shows that any benefits went almost exclusively to the wealthy and big corporations. While CEO salaries and corporate profits have soared in Canada since 1994, family and worker incomes have stagnated and family debt has risen to historic levels.¹

TTIP and CETA, as with most modern trade deals, are also about taking down "non-tariff barriers" to trade. These include standards and regulations that may differ markedly between countries in areas such as food safety, financial services, environmental legislation and labour standards.

Transnational corporations want a "level playing field" when crossing borders, and they fight for the lowest common denominator. Standards on food safety, social security and the environment were all harmonized downward in Canada after NAFTA.

A major report found that NAFTA facilitated the expansion of large-scale, export-oriented farming that relies on pesticides and GMOs, encouraged a boom in environmentally destructive mining in Mexico, undermined Canada's ability to regulate its own energy industry, locked Canada into shipping large quantities of fossil fuels to the U.S., and weakened environmental safeguards across North America by providing corporations with new tools to challenge environmental policy making.²

With CETA and TTIP, for the first time, subnational governments (municipalities, provinces and states) will be subject to local procurement commitments that bar them from favouring local companies and local economic development. According to an analysis from the Canadian Centre for Policy Alternatives, this will substantially restrict the vast majority of local governments in North America and Europe from using public spending as a catalyst for achieving other societal goals – from creating good jobs, to supporting local farmers, to addressing the climate crisis.³

How do TTIP and CETA curtail the right of governments to regulate?

TTIP and CETA impose new limits on the right of governments to regulate on behalf of their people or the environment, establishing obligations that go far beyond the traditional requirement in trade deals not to discriminate between foreign and local corporations. They set restrictions on domestic regulations in services and "other economic activity," including mining, oil and gas, forestry, agriculture and fishing. Because they are "top down" agreements, exemptions to this deregulation agenda must be listed and negotiated.

As the Transnational Institute explains, downward harmonization reduces controls and lowers standards that are put on capital and corporations. If EU labour laws offer more protection to workers, all governments will be pressured to adopt U.S. norms that deregulate workers' rights. If financial controls are stronger in Canada, it will be pressured – even required – to harmonize to a more deregulated standard.

In fact, Canada, which largely survived the financial crisis of 2008 because it kept strict controls on its banks, has already opened up its financial sector to challenge from European financial services corporations operating in Canada in a way even NAFTA did not. If a European bank believes that it is being discriminated against as a result of Canada's stricter financial regulations, it can sue the Canadian government.⁵

Further, TTIP and CETA are the first trade agreements to include mandatory regulatory cooperation – sometimes referred to as regulatory convergence – a process of harmonizing standards and regulations among all the jurisdictions on goods as diverse as pipelines, chemicals and food.

CETA commits to a process whereby any differences in regulations between Europe and Canada, be they labour rights, environmental protection standards, food safety rules or tax laws, could be considered an obstacle to trade and suppressed. Both parties agree to share information of contemplated or proposed future regulations with one another even before they share them with their own elected parliaments in order to ensure they are not trade distorting. That means the other party could make changes to a piece of legislation before it has been seen by its own elected officials or the public.

In Canada, there is a requirement that any new proposed regulations or laws must be vetted by trade experts to ensure they cannot be challenged under NAFTA. It is expected that any new European regulations will have to be vetted and approved by Canada and vice versa under CETA.

Canada and Europe also agreed to appoint outside bodies to conduct assessments on product standards, putting important decisions on regulations and standards in the hands of the private sector. CETA also creates a Regulatory Cooperation Forum to facilitate regulatory cooperation and work with "stakeholders," including businesses.

TTIP goes even further. As Corporate Europe Observatory (CEO) explains, TTIP would create the Regulatory Cooperation Council that would, for the first time in a trade agreement, give corporate lobbies from North America and Europe formal influence to "co-write" regulations and standards across the board. This new bureaucratic body is to have considerable power to stop the European Commission from tabling proposals that don't adhere to a set of business-friendly principles.⁶

While proponents say regulatory cooperation will cut unnecessary "red tape," CEO says it is a highly effective strategic proposal to resolve some of the more contentious differences after the trade deals have been signed and public scrutiny has waned.

Already, environmental standards have been dramatically lowered in the U.S. under former President George Bush and in Canada under Prime Minister Harper.^{7,8,9} And environmental deregulation is well underway in Europe under the guidance of European Commission President Jean-Claude Juncker. CETA and TTIP will be gifts to European corporations and industry lobby groups in their efforts to speed up this process of downward environmental regulation.

What is ISDS?

Investor-state dispute settlement provisions (ISDS) grant private investors the right under international law to use dispute settlement proceedings against a foreign government. Originally used to protect private companies from wealthy countries against the threat of nationalization in poorer countries, ISDS has dramatically expanded in recent decades.

Corporations now sue for financial compensation if foreign governments introduce new laws or practices – be they environmental, health or human rights – that negatively affect their bottom line.

Many disputes are dealt with by the World Bank's International Centre for the Settlement of Investment Disputes. Cigarette maker Phillip Morris used this process to challenge Australian rules around cigarette packaging intended to promote public health. A Swedish company, Vattenfall, is suing Germany for a reported €4.7 billion (\$6.9 billion CDN) relating to Germany's decision to phase out nuclear power.

More recently, ISDS is included in bilateral and regional agreements in a way that allows a corporation in one country to directly sue the government of another using a private arbitration process. ISDS essentially grants corporations equal status to governments in these negotiations and privatizes the dispute settlement system between nations.

There are now over 3,200 ISDS agreements.

Corporations have used ISDS to launch challenges against government measures more than 600 times.

According to the United Nations Conference on Trade and Development (UNCTAD), there are now over 3,200 ISDS agreements (mostly bilateral) in the world – with one concluded every other week. These corporate rights are deeply entrenched in NAFTA, as well as all the new regional deals, including CETA and TTIP. Corporations have used

ISDS to launch challenges against government measures more than 600 times.

The majority of ISDS cases have been brought forward by corporations from the Global North against measures taken by countries in the Global South. And corporations are winning everywhere. A 2015 report by UNCTAD found that 60 per cent of decided cases favoured the private investor and just 40 per cent favoured the state, showing that corporations are steadily and successfully challenging government regulations and public control.¹⁰

Contrary to proponents' claims that ISDS is a fair and independent dispute system, an in-depth investigation by Corporate Europe Observatory and Transnational Institute found that an elite coterie of lawyers, arbitrators and financial speculators are making a killing seeking out and actively recruiting corporations to sue governments around the world over new health and safety, labour or environmental rules.

Just 15 arbitrators, almost all from Europe, Canada and the U.S. who can earn as much as \$1 million (€1.5 million) per case, have decided 55 per cent of all the treaty disputes. "They have built a multi-million-dollar self-serving industry, dominated by a narrow exclusive elite [group] of law firms and lawyers whose interconnectedness and multiple financial interests raise serious doubts about their commitment to deliver fair and independent judgements," say authors Pia Eberhardt and Cecilia Olivet.¹¹

The silent rise of a powerful international investment regime has ensnared hundreds of countries and put corporate profits before human rights and the environment. This "investment arbitration boom" is costing taxpayers billions of dollars and preventing legislation in the public interest.¹²

ISDS also threatens human rights. In June 2015, ten UN rapporteurs on various aspects of human rights issued a statement drawing attention to "the potential detrimental impact" that treaties such as CETA and TTIP may have on the enjoy-

ment of human rights as enshrined in legally binding UN instruments. "Our concerns," said the experts, "relate to the right to life, food, water and sanitation, health, housing, education, science and culture, improved labour standards, an independent judiciary, a clean environment and the right not to be subjected to forced resettlement."

The experts noted that investor-state rules provide protection for investors but not for states or their populations. In looking at the history of ISDS settlements, the UN human rights experts concluded that "the regulatory function of many states and their ability to legislate in the public interest have been put at risk." ¹³



What is Canada's experience with ISDS under NAFTA?

NAFTA was the first trade deal among developed countries to include an investor-state provision. It grants investors of the continent the right to sue one another's governments without first pursuing legal action through the country's legal system. Before NAFTA, ISDS provisions were only negotiated between developed and undeveloped countries.

As a result of NAFTA's ISDS challenges, Canada is now the most sued developed country in the world. Canada has been sued more times than either the U.S. or Mexico. Of the 80 known NAFTA investor-state claims, 37 have been against Canada, 22 have targeted Mexico and 21 have targeted the U.S.

The U.S. government has won 11 of its cases and never lost a NAFTA investor-state case or paid any compensation to Canadian or Mexican companies.

This is evidence that even though trade agreements appear to treat all parties equally, the more powerful countries are usually more immune to trade challenges.¹⁴

Canada has paid American corporations more than \$200 million (approximately €135 million) in the seven cases it has lost and foreign investors are now seeking over \$2.6 billion (approximately €1.75 billion) from the Canadian government in new cases. Even defending cases that may not be successful is expensive. Canada has spent over \$65 million (approximately €45 million) defending itself from NAFTA challenges to date.

The Canadian Centre for Policy Alternatives reports that almost two-thirds of claims against Canada involved challenges to environmental protection or resources management that allegedly interfered with the profit of American corporations.

Largest ISDS challenges against Canada:

AbitibiBowater: **\$130,000,000**

(paid)

Lone Pine:

\$180,900,000 USD

(pending)

Eli Lilly:

\$500,000,000

(pending)

Mesa Power Group: **\$775,000,000**

(pending)

Cases include:

- Ethyl, a U.S. chemical corporation, successfully challenged a Canadian ban on imports of its gasoline that contained MMT, an additive that is a suspected neurotoxin. The Canadian government repealed the ban and paid the company \$13 million USD (approximately €10.2 million) for its loss of revenue.
- S.D. Myers, a U.S. waste disposal firm, challenged a similar ban on the export of toxic PCB waste. Canada paid the company over \$6 million (approximately €4 million).
- •A NAFTA panel ordered the Canadian government to pay Exxon-Mobil, the world's largest oil and gas company, \$17.3 million (approximately €11.6 million) when the company challenged government guidelines that investors in offshore exploration in the province of Newfoundland and Labrador where the company is heavily involved must invest in local research and development.

- New Jersey-based Bilcon Construction is demanding \$300 million USD (approximately €270,000 million) in damages from the Canadian government after winning a NAFTA challenge when its plan to build a massive quarry and marine terminal in an environmentally sensitive area of Nova Scotia and ship basalt aggregate through the Bay of Fundy, site of the highest tides in the world, was rejected by an environmental assessment panel.
- Chemical giant Dow AgroSciences used NAF-TA to force the province of Quebec, after it banned 2,4-D, a pesticide that the Natural Resources Defence Council says has been linked in many studies to cancer and cell damage, to publicly acknowledge that the chemical does not pose an "unacceptable risk" to human health, a position the government had previously held.
- The Canadian government paid American pulp and paper giant AbitibiBowater \$130 million (approximately €88 million) after the company successfully used NAFTA to claim compensation for the "water and timber rights" it left behind when it abandoned its operations in the province of Newfoundland and Labrador after 100 years, leaving the workers with unpaid pensions. This challenge is particularly disturbing because it gives a foreign investor the right to claim compensation for the actual resources it used while operating in another jurisdiction.
- Mesa Power Group, an energy company owned by Texas billionaire T. Boone Pickens, is claiming \$775 million (approximately €523 million) in a challenge to the province of Ontario's Green Energy Act, which gives preferential access to local wind farm operators.

- Lone Pine, a Canadian energy company, is suing the Canadian government through its American affiliate for \$180.9 million USD (approximately €107.1 million) because the province of Quebec introduced a temporary moratorium on all fracking activities under the St. Lawrence River until further studies are completed. This challenge is concerning because it involves a domestic company using a foreign subsidiary to sue its own government.
- Eli Lilly, a U.S. pharmaceutical giant, is suing Canada for \$500 million (approximately €337 million) after three levels of courts in Canada denied it a patent extension on one of its products. This case is particularly disturbing because it challenges Canadian laws as interpreted by Canadian courts and represents a new frontier for ISDS challenges.

These, and other examples show that trade and investment agreements such as NAFTA give transnational corporations incredible new rights to impose their will on governments. But they are probably just the tip of the iceberg because many new laws or changes to laws never come to light because of the "chill effect" of prior restraint. The Canadian government adopted a new policy soon after NAFTA was adopted whereby all new laws and any changes to existing laws have to be vetted by trade experts to ensure they are not challengeable under ISDS rules.



Why does CETA matter as much as TTIP?

Many Europeans know a great deal about TTIP – the deal with the U.S. – and are deeply concerned about it. Fewer Europeans have heard about CETA. Many who have, however, are less worried about the deal with Canada. Aren't Canadian standards, values and regulations in areas such as health, labour, human rights, food safety and environmental protection closer to those of Europe than those of the U.S.?

This is an argument we hear in Canada. Many Canadians were opposed to the free trade agreements with the United States out of a fear that we would be forced to harmonize our social standards downward. However, many Canadians are much more open to a deal with Europe because they don't perceive a similar threat to our way of life.

But this thinking misses several points. First, it doesn't matter who has the highest standards to start out. What matters is how the corporations from both sides of the Atlantic will use the regulatory cooperation and ISDS provisions of CETA to lower standards across the board. As well, in both Canada and Europe, there are internal processes already deeply committed to the deregulation of environment, health and labour standards, as well as the privatization of public services. CETA will speed up the pace of this process in both Europe and Canada.

But perhaps the most important reason Europeans should be concerned about CETA is that it is a back door for American corporations to challenge standards and regulations in Europe through their subsidiaries in Canada. All an American agriculture, energy or drug giant would have to do is to challenge European standards through ISDS using their existing subsidiaries in Canada – and many are already here – or set one up.

If Europeans are able to keep ISDS out of TTIP, but CETA in its current form is allowed to be implemented, American corporations will have as much access to sue Europe as if TTIP containing ISDS had been signed.

Timothé Feodoroff of the Transnational Institute says CETA will empower big American oil and gas companies to challenge European fracking bans and regulations through the back door. The companies would just need to have a subsidiary or an office in Canada, he notes.

CETA is a back door for American corporations to challenge standards and regulations in Europe through their subsidiaries in Canada.

Already, Canada used the then ongoing CETA negotiations to get Europe to weaken its Fuel Quality Directive, a key piece of EU legislation allowing it to distinguish between various kinds of fuel imports based on their CO_2 emissions. Friends of the Earth Europe say this will allow crude from Alberta's tar sands – where CO_2 emissions are 23 per cent higher than conventional oil – unfettered access to Europe. This is a scenario the Canadian government is promoting. ¹⁵

Mike Hudema of Greenpeace Canada lamented that rather than tackling the climate crisis in Canada, the Canadian government is bullying other governments into weakening their climate efforts in order to sell more dirty oil.

Many Europeans are also worried that TTIP will eventually lead to lower standards for food safety and animal welfare, which are generally higher in Europe than in the U.S. Friends of the Earth

Europe and the U.S.-based Center for Food Safety warn that the regulatory cooperation requirements of TTIP clearly give a new body made up of trade and regulatory experts the right to filter all new food safety rules, transferring power from governments to industry representatives.¹⁶

Already there are signs of compliance. Europe dropped its ban on beef washed in lactic acid in order to smooth the way for both CETA and TTIP talks, as both countries allow this practice and are keen to open up the European market to their beef exports. However, if, in the future, the EU decided to bring back the ban on this practice, U.S. agribusiness companies could sue for compensation through CETA.

Food and Water Watch Europe (FWWE) warns in an important report that TTIP and CETA can be used to challenge Europe's stricter laws on GMOs. Today, reports FWWE, Europe has only one biotech crop approved for cultivation and grows less than one-tenth of a per cent of the global genetically engineered cropland. U.S. biotech companies like Monsanto and Dow could challenge delayed approvals in Europe through the TTIP or CETA ISDS provisions, and European biotech companies such as BASF and Syngenta could attack U.S. attempts at food labelling initiatives.¹⁷

American private health companies could also use CETA to challenge public health services. John Hilary of Great Britain's War on Want points out that health services, medical services and dental services are all included in the TTIP negotiations. Hilary says that this puts England's National Health Service (NHS) in jeopardy. After years of privatization there is growing demand to bring the NHS back under public control.

But, as he notes, any future government that would attempt to do that could be faced with investor-state challenges under TTIP, and if TTIP is not ratified or does not include ISDS, then under CETA.¹⁸

Similar threats exist to the movement to remunicipalize private water services. While water resources are exempt from CETA, privatized services are not. Once a municipality has privatized its water services, any North American investor in these services can challenge for compensation using ISDS. As Brent Patterson, Political Director for the Council of Canadians points out, many public pension funds in North America are invested in private water services around the world.

What if England opted to stop paying higher water rates and bring its privatized water services back into the public realm, he asks? Canadian investors could challenge this. The Ontario Teachers' Pension Plan owns 27 per cent of Northumbrian Water Group (which sells its water services to about 4.4 million customers in England) and the Canada Pension Plan owns one-third of Anglian Water Services (which sells water to about six million people). Both are highly profitable enterprises for these Canadian pension funds and the tip of the iceberg.¹⁹

Even by itself, CETA is a threat to environmental standards in Europe. Seventy-five per cent of the world's mining companies are based in Canada, as our country's stock exchange listing rules are very lax. An industry report found that Canada's mining industry has the worst environmental and human rights record of any country.²⁰

A Canadian company, Gabriel Resources, wanted to build Europe's largest gold mine in Romania and invested in early exploration. But local resistance to the open-pit Rosia Montana mine led to its cancellation. The company has let it be known that it intends to seek \$4 billion (approximately €2.7 billion) in compensation and would find CETA an important tool to advance its interests. CETA would also give Canadian mining company Eldorado Gold similar power to sue Greece if the Syriza government makes good on its promise to cancel the environmentally destructive Skouries mine in the country's north.

What about attempts to reform ISDS?

There has been widespread opposition to these and other proposed trade and investment agreements in Europe, but most particularly to ISDS provisions. Millions of citizens across Europe have raised concerns in petitions and in the parliaments of France, Germany, Austria, Belgium, Hungary and Greece. In October 2015, more 250,000 people took part in a rally in Berlin against free trade deals with both the United States and Canada. "This is the biggest protest that this country has seen for many, many years," Christoph Bautz, director of the citizens' movement Campact, told protesters in his speech.²¹

In response, the European Commission announced a plan to "reform" ISDS by setting up a new Investment Court System (ICS) that would replace provisions in all ongoing and future investment deals. In February 2016, Canada and Europe announced that changes had indeed been made to the investment chapter of CETA.

The European Commission's announcement of the changes stated, "CETA confirms all of the EU's new approach on investment and its dispute settlement mechanism." It argues that CETA represents a "significant break with the past, on two different levels:

- 1. It includes an explicit reference to the right of governments to regulate in the public interest and clearer and more precise investment protection standards ...;
- 2. It creates an independent investment court system, consisting of a permanent tribunal and an appeal tribunal ... where dispute settlement proceedings will be conducted in a transparent and impartial manner."

But even before the "reformed" system was announced in CETA, it faced significant opposition. In responding to the announcement, the Council of Canadians branded the changes as "smoke and mirrors," since giant multinational corporations on both sides of the Atlantic will still be able to sue Canadian and European governments. Tinkering with the dispute settlement process doesn't change this fundamental flaw.

Dr. Gus Van Harten, a renowned trade law expert with Osgoode Hall Law School, acknowledges the changes in the dispute settlement process are "meaningful." But he argues that fundamentally "ISDS is anti-democratic, it gives extraordinarily powerful rights and privileges to foreign investors with benefits overwhelmingly to large multinationals and very wealthy individuals, it does not attach actionable responsibilities to those rights and privileges, it is disrespectful of domestic institutions including domestic courts, it carries potentially billion-dollar risks for taxpayers, and it has no evidence-based justification whatsoever in relations between countries with court systems that are reliable and clearly superior to ISDS."²²

In a report released just prior to the Canadian-EU announcement, the German Association of Judges (Deutscher Richterbund, DRB), which represents 16,000 judges and prosecutors, opposed the establishment of an investment court system, stating that "neither is there a legal basis nor the necessity" for it. DRB stated that the assumption that the courts in European Union member states are not sufficient to provide adequate legal protection for foreign investors is fully unfounded. They highlighted, "Special courts for only certain groups are the wrong way."

In a scathing analysis, which also considered the new CETA language, 17 European civil society organizations concluded the new system remains problematic. "It would empower thousands of companies to circumvent national legal systems and sue governments in parallel tribunals if laws and regulations undercut their ability to make money. It would pave the way for billions in taxpayer money being paid out to big business... ICS is ISDS back from the dead. It's the zombie ISDS."

And there remains one final problem with these reforms. The U.S. has completely rejected them. Stefan Selig, U.S. Deputy Trade Chief, said in May 2015 that the U.S. sees no need for a new international tribunal to settle disputes in TTIP and asserted the validity of the current ISDS system.²³³

How can we work across borders to defeat these deals?

This report was written in an attempt to show Europeans why CETA is as important as TTIP, and to help build the movement among Canadian, European and American activists and organizations fighting these pernicious trade and investment agreements.

It is crucial that European activists and groups take up CETA as a priority as we have little time left to defeat it. This means, as the Seattle to Brussels Network wrote in a recent open letter to European governments and Members of the European Parliament (MEPs), we must demand that the European Commission undertake a comprehensive analysis of the CETA text, including the implications for human rights, health, employment, environment, and democratic policy space, in order for elected representatives to do their due diligence to protect the public good. The economic and political agenda and the corporate Commission and elected authorities have to be able to answer the growing concerns about CETA and organize public forums around them.

The Network also asks MEPs not to sign CETA, at least until we have credible answers to these many questions. "In our opinion," says the Network, "the hypothetical 0.09 per cent extra growth predicted in the 2008 pre-negotiations study do not justify blindly signing a treaty that is primarily designed by corporate lobbies to increase pressure on our democracy and our rights."244

As well, it is important that we work inside governments to get a commitment to send CETA for ratification to the legislatures of each of the 28 European states as well as to the European Parliament. Sufficient concerns have been raised about CETA and ISDS inside many governments and each should have a chance to vote on this controversial deal.

It is crucial that European activists and groups take up CETA as a priority as we have little time left. to defeat it.

We in Canada will do our part in working with a (hopefully) new government after the federal election that will be more open to hearing our concerns about CETA than the current one.

In the end, perhaps the building of justice movements across borders – as we have been doing on a wide range of issues – is the most important thing we can do. Clearly we have to challenge the power behind it that created a concept such as ISDS in the first place. Economic globalization, unlimited growth, deregulation of environmental, health and safety protections, privatization of public services, and the dominance of the market are all hallmarks of TTIP, CETA and ISDS, and we must replace these priorities with others if we and the planet are to survive.



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