



TRADE POLICY REVIEW

REPORT BY

CANADA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Canada is attached.

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1 TRADE AND ECONOMIC POLICY ENVIRONMENT

1.1 Economic Overview

Stronger Policies Support Performance

1.1. Despite softer-than-anticipated global economic activity that impacted international demand for Canadian exports, Canada's economy posted solid growth in GDP, employment and trade from 2011 to 2014. The economy posted positive real growth in almost every quarter of the review period (with the exception of flat growth in the second quarter of 2011). Over 740, 000 new jobs were created since January 2011, of which the vast majority (some 94%) were full-time positions. The unemployment rate continued to decline - from 7.7% to 6.%. Exports returned to pre-recession levels in 2014 and stood 9.9% above that level at the end of the year, while real growth in the economy picked up to 2.5% in 2014.

1.2. In 2011, when Canada last reported to the Trade Policy Review (TPR) Body, the global economic situation was uncertain. Sustained recovery was elusive, unemployment high, and a global double-dip recession a real possibility. Nevertheless, the 2011 Report demonstrated that, guided by Canada's Economic Action Plan¹, our nation's economy was capitalizing on Canada's strong economic, fiscal and financial sector fundamentals in recovering successfully from the global economic and financial crisis. As Canada's recovery process gathered steam from 2011 to 2014, Canada adjusted the Economic Action Plan accordingly. Initiatives designed to deliver timely stimulus were replaced by actions aimed at further bolstering Canada's fundamental strengths and addressing long-term challenges. Canada addressed the drivers of growth and job creation: innovation, investment, education, skills, and communities.

1.3. At the same time, Canada implemented a plan to return to balanced budgets by 2015-16. The Update on Economic and Fiscal Projections from November 2014² reaffirmed that Canada is on target to achieve this goal. Climbing back from the deficit that reached \$55.6 billion as the global economic and financial crisis peaked in 2009-10, the Government of Canada reported a deficit of just \$5.2 billion in 2013-14. Furthermore, Canada's federal debt-to-GDP ratio, already low among its peers, fell by one percentage point to 32.3% in 2013-14 and is projected to steadily decline over the coming years. Budgetary projections have it falling below its pre-recession level by 2017, putting Canada well on its way to meeting its commitment to reduce the federal debt to 25% of GDP by 2021. Indeed, the International Monetary Fund (IMF) projects that Canada's total government net debt-to-GDP ratio will remain the lowest of any G-7 country.

1.4. Canada's strong fiscal and financial fundamentals owe much to its transparent and steady monetary policy. At the heart of Canada's monetary policy framework is the inflation-control target, which the Bank of Canada and the Government of Canada jointly adopted in 1991 and which has since been renewed five times—the latest being in November 2011 for another five years. The target for inflation is the 2% midpoint of a control range of 1 to 3%, wherein the inflation rate has been confined for most of the period under review.

1.5. Monetary policy provided important stimulus during the global recession and continued to do so up to the present time. In line with the concerted actions of most central bankers, the Bank of Canada initially lowered the target for the overnight rate - the interest rate at which major financial institutions borrow and lend one-day funds among themselves - to its effective lower bound of 0.25%. In mid-2010, the target rate was raised three times to reach 1% on September 8, 2010, where it remained until January 21, 2015, when it was lowered by 0.25 percentage point to its present level of 0.75%. A monetary stimulus that strong and lasting that long has few parallels in Canadian history and underscores the commitment of the bank to the country's economic recovery.

A Trading Nation

1.6. Canada is committed to free trade and depends heavily on international trade to sustain the prosperity of the nation and raise the incomes and living standards of Canadians. Canada is the

¹ Source: Canada's Economic Action Plan: <http://www.actionplan.gc.ca/en>.

² Source: Update of Economic and Fiscal Projection: <http://www.budget.gc.ca/efp-peb/2014/pub/pdf/efp-peb-14-eng.pdf>.

world's 13th largest merchandise exporter and 11th largest merchandise importer. The recovery of Canada's trade after the global recession was hindered by weak external demand, as global growth progressed in low gear. Thus, uncertainty over future demand prospects is still weighing on the business investment. Over the past few years, Canadian exports of goods and services have varied slightly around the 30% of GDP mark and rising to 31.6% in 2014, while imports have hovered around the 32% mark.

1.7. It is difficult to grow alone in today's interconnected global economy. While Canada's economic record during the recovery period has been relatively strong, many leading economies continue to struggle with weak growth, high unemployment and crises in public finances. As a trading economy, Canada has been exposed to economic difficulties in other regions. The weaker global economy, the sharp slowing in world trade, along with competitiveness challenges and structural issues faced by Canadian exporters, have weighed down Canadian trade volumes, particularly in 2012 when real exports of goods and services fell by a quarterly average of 0.3%. Supported by strong domestic demand, real imports have been less affected than exports. They surpassed their pre-recession peak in the first quarter of 2011 and have been trending upwards during the review period, while exports did not return to pre-recession level until early 2014.

1.8. Canadian exporters are continuing to feel the challenges related to the valuation of the Canadian dollar. The recent depreciation of the Canadian dollar compared to the U.S. dollar and its retreat from parity made things somewhat easier for manufacturers, but only reversed a portion of the past deterioration in currency-related competitiveness. During the review period, the Canadian dollar first appreciated in 2011 by 4.1%, following a 10.9% jump the previous year. The dollar broke parity with the U.S. dollar in January 2011 and mostly stayed above that level until January 2013. Since then, the Canadian dollar has depreciated, averaging U.S. 89.2¢ in October 2014, the first time it has been below U.S. 90¢ since July 2009, and dipping to U.S. 79.3¢ in March 2015.

1.9. The pre-recession boom in resource prices has ended, as a weak global economy has moderated the demand for resource commodities. Combined with improved supply conditions, prices have softened or even declined. Following a drop in 2012, energy prices rallied in 2013 and early 2014. The Bank of Canada commodity price indexes show that prices for total commodities excluding energy fell for three straight years starting in 2012. Metals and minerals along with agriculture are behind the decline. Since July 2014, the energy price index has plummeted along with global crude oil prices, except for a brief rally in February 2015, although this latest slump is mostly a result of positive supply-side shocks. That decline meant that the Bank of Canada total commodity price index now declined for two out of the last three years (2012 and 2014), with only a marginal increase in 2013.

1.10. Canadian exporters have faced a difficult decade, during which they were challenged to rapidly adjust to a variety of market changes. Since approximately 2004, they faced the dual headwinds of a rising dollar and increasing competition from emerging countries. These emerging economies underwent a period of rapid productivity growth during the decade that led to an increase in their share of U.S. imports at the expense of Canada and other developed economies. Moreover, Canadian exporters weathered a further period of soft U.S. demand as it first slipped into recession, and then into a jobless recovery. This prompted the Canadian government to intensify efforts to expand Canadian access to global markets and networks, which further diluted the U.S. share in Canadian trade. With China looking less toward exports to fuel economic growth in addition to the unwinding currency appreciation and a pick-up in U.S. job growth and output, Canadian exporters have profited and U.S. shares in total goods and services trade picked up in 2012, 2013 and again in 2014, and are now back up over 2009 levels, with the exception of services exports which are at 2009 levels.

Investment

1.11. Foreign direct investment continues to be an important channel of productivity growth and innovation for Canada. Two-way direct investment flows in 2014 amounted to \$117.8 billion, a decrease of 5.6% from 2013. The flow of Canadian outward investment increased by \$6.2 billion (11.8%) to \$58.2 billion in 2014 compared to the previous year. On the other hand, foreign direct investment into Canada decreased by \$13.1 billion to \$59.6 billion in 2014, an 18.0% decrease over 2013 inflows.

1.2 Global Markets Action Plan

1.12. The Global Markets Action Plan (GMAP) is Canada's trade promotion and trade policy strategy to support the commercial success of Canadian companies and investors abroad.³ As part of Economic Action Plan 2012, Canada committed to refresh the 2007 Global Commerce Strategy, its successful plan for strengthening Canada's competitive position in traditional markets, extending our reach to emerging markets, and retooling the government's trade efforts to meet the needs of modern international business. Extensive consultations with Canadians, including a blue-chip, 10-member advisory panel, helped inform the refreshed strategy - the GMAP - launched on November 27, 2013.

1.13. The GMAP focuses efforts where Canadian capabilities and interests have the greatest potential for success: the major markets of both today and tomorrow. It concentrates on advancing Canada's commercial interests in established markets (covering 36 countries, counting EFTA and EU members separately), and on helping more businesses to engage successfully in priority emerging markets (44 countries). These include both markets with broad Canadian interests and those presenting specific opportunities for Canadian businesses - "emerging" in this context meaning markets that are emerging on the radar of Canadian industry. While emerging markets are generally exhibiting stronger growth than Canada's established markets, the latter still represent the lion's share of our current trade, investment and innovation relationships; additionally, the value chains maintained by their multinational corporations open doors worldwide for their suppliers. The GMAP also flags 22 priority sectors where existing capabilities and expertise provide Canada with a strong competitive advantage vis-à-vis other countries, or where there are dynamic opportunities to grow and develop Canadian business.

1.14. The GMAP focuses on helping small and medium-sized enterprises (SMEs) find success internationally, and sets ambitious targets for growing the footprint of Canadian SMEs in emerging markets. It aims to increase the number of SMEs exporting to emerging markets from 11,000 to 21,000 by 2018. This would mean that the share of SMEs exporting to these markets would rise from 29% to 50%. To help meet this ambitious target, Prime Minister Steven Harper announced on March, 18, 2015, that Canada's Trade Commissioner Service will receive new staffing and programming resources to further assist Canadians doing business with the world and to take advantage of opportunities in emerging markets. The Government of Canada is also introducing a new program that will provide upstream (pre-sales) financial assistance to Canadian companies seeking to enter or develop new export opportunities, especially in high-growth emerging markets; the new program will be designed to respect Canada's WTO obligations, and will draw on similar existing programs in other countries. These initiatives will be particularly helpful in supporting SMEs by financing activities such as participation in trade fairs and missions, and market research to create new business opportunities

1.15. Under the GMAP, Canada will continue to actively pursue new FTAs as well as other trade-related agreements, such as foreign investment promotion and protection agreements. Canada has already achieved significant success recently with its FTA negotiations strategy (e.g. Canada-European Union: Comprehensive Economic and Trade Agreement [CETA], Canada-Korea Free Trade Agreement [CKFTA]) by deepening access to foreign markets for all Canadian businesses. The GMAP looks to match that success by further supporting Canadian companies to take advantage of these commercial agreements and expand their footprint into new markets.

Trade Promotion

1.16. In October 2014, the Honourable Ed Fast, Minister of International Trade, signalled a renewed focus on trade promotion efforts over the following year. The Canadian Trade Commissioner Service (TCS) is at the forefront of this, offering services to Canadian client companies to help mitigate the risks, minimize the costs and maximize the opportunities of international business. The TCS network not only facilitates exports from Canada to foreign markets, but also promotes foreign investment in Canada and R&D partnerships, fosters access to global value chains, attracts foreign students and more. Trade Commissioners work out of 161 offices around the world and five regional hub offices across Canada. In 2013-14, the TCS

³ Source: Global Markets Action Plan: <http://www.international.gc.ca/global-markets-marches-mondiaux/index.aspx?lang=eng>.

provided approximately 50,000 services to almost 11,500 Canadian clients. Results of a TCS Client Survey from 2013-14 showed that 85.1% of respondents were very satisfied or satisfied with the services received. This is the highest rate of satisfaction since the on-going TCS survey began in 2010.

1.17. In November 2014, Minister Fast launched the "Go Global: Supporting Export Success" series of trade promotion workshops to be delivered in communities across Canada as a key pillar of the GMAP, providing the tools, information and support that SMEs need to take advantage of international business opportunities.⁴ Through these workshops, the TCS, Export Development Canada (EDC), Canadian Commercial Corporation (CCC) and the Business Development Bank of Canada (BDC) have adopted a whole-of-government approach to reach out to the SME community and promote their products and services to assist SMEs to expand their export footprint. The objectives of the outreach series are also to present the opportunities resulting from the ambitious trade policy agenda following the conclusion of the CETA and the CKFTA.

1.18. The GMAP announced the development and implementation of forward-looking market access plans for each GMAP priority market, raising awareness of global commercial opportunities and governmental support services. These plans will be updated regularly and will mobilize partnerships across the federal government and the private sector to make the pursuit of Canada's commercial interests in identified markets a coordinated national effort. A new advisory council was also announced, with subcommittees on emerging and established markets, to provide strategic advice on how to keep the GMAP relevant to Canadian businesses.

1.19. Finally, the GMAP places a specific focus on optimizing the use of partnerships toward reaching our commercial objectives. This means ensuring that the TCS works closely with key partner organizations in delivering effective, seamless service to its clients. The GMAP also raises the concept of economic diplomacy: harnessing all of the resources Canada has abroad to promote the nation's economic interests around the world. This translates into greater collaboration and cooperation between Canada's diplomatic assets, including those focused on foreign affairs, trade and development, to advance priorities in areas of overlap (e.g. Corporate Social Responsibility, Extractives, International Financial Institutions, Education/Vocational Training, etc.).

1.20. The GMAP is adaptable and intended to be kept attuned to global trends.

Other key GMAP initiatives

1.21. Minister Fast has led Trade Missions to several countries, including Burkina Faso, Madagascar, South Africa, Tanzania, Ukraine, Australia, the Philippines, Colombia, Peru, Laos, Burma, United Kingdom, India and China. The Minister also recently led a Trade Mission to South Korea, in February 2015.⁵

1.22. Canada has launched three specific sector strategies:

- **International Education Strategy** (January 2014): This comprehensive plan sets targets to attract more international researchers and students to Canada, deepen the research links between Canadian and foreign educational institutions, and establish a pan-Canadian partnership with provinces and territories and all key education stakeholders, including the private sector.⁶
- **Defence Procurement Strategy** (February 2014): The three key objectives of the this strategy are to: deliver the right equipment to the Canadian Armed Forces and the Canadian Coast Guard in a timely manner, leverage our purchases of defence equipment to create jobs and economic growth in Canada, and streamline defence procurement processes.⁷
- **Strategy for the Extractive Sector** (November 2014): Building on Canada's plan for Responsible Resource Development, this strategy ensures that mining and energy will

⁴ Source: Go Global: <http://international.gc.ca/global-markets-marches-mondiaux/sme-pme.aspx?lang=eng>.

⁵ Source: Trade mission in South-Korea: http://www.international.gc.ca/commerce/visit-visite/korea-coree_2015.aspx?lang=eng.

⁶ Source: <http://international.gc.ca/global-markets-marches-mondiaux/education/index.aspx?lang=eng>.

⁷ Source: <http://www.tpsgc-pwgscc.gc.ca/app-acq/stamgp-lamsmp/sskt-eng.html>.

continue to represent an engine of economic growth and prosperity for Canadians. The strategy supports the export of both equipment and services in the extractive sectors.⁸

1.23. A pilot Canadian Technology Accelerator (CTA) in India was launched in March 2014 to facilitate business between high potential technology-based Canadian and Indian start-ups. CTAs benefit Canadian companies through access to free office space within existing international business accelerators; mentorship from industry leaders, partners and Trade Commissioners in-market; support in accessing financial resources, engaging strategic partners, and refining business models for global market opportunities; and greater exposure to global partners and opportunities to pursue clients. The addition of the India pilot brings the number of CTAs globally to 12.

1.24. More than 25 partnerships have been established between the TCS and private sector associations to embed a Trade Commissioner within the association, generating increased cooperation and mutual benefit in the interest of Canadian companies.

1.25. Finally, four new trade offices have been opened in China, as announced in May 2014⁹.

2 TRADE POLICY DEVELOPMENTS (2011-15)

2.1 Multilateral Trade Policy

2.1. The World Trade Organization (WTO) is a cornerstone of Canada's trade policy agenda, and a key forum for engaging with its trading partners. At the WTO, Canada works toward the expansion and modernization of the multilateral trading system, which is vital for Canada as an open, trade-dependent economy.

2.1.1 Doha Development Agenda

2.2. Canada has been committed to the Doha Development Agenda (DDA) and is disappointed that negotiations have not yet concluded since their launch in 2001. It is Canada's view that achieving an ambitious and balanced agreement is in the interest of all members, and that a positive outcome for the DDA is especially important in these difficult economic times. The Doha Round of negotiations offers an opportunity to increase economic prosperity for all WTO members, particularly for developing countries, by enhancing predictability in the multilateral trading system through the strengthening of international rules.

2.3. Canada demonstrated its support for the DDA by working together with other members in reaching a successful outcome at the WTO's Ninth Ministerial Conference in Bali, Indonesia in December 2013. In particular, Canada strongly supported the Trade Facilitation Agreement and is committed to its timely implementation. Canada looks forward to repeating this success at the Tenth Ministerial Conference in December 2015.

2.4. In 2013, Canada was the world's 5th largest agri-food exporter and 6th largest importer. The DDA agriculture negotiations aim to continue the reform process started in the Uruguay Round to "establish a fair and market-oriented agricultural trading system". Since the launch of the DDA in 2001, Canada has seen the global trading environment change and evolve and the emergence of new global players and competitors. Canada seeks an ambitious and balanced outcome in the DDA agriculture negotiations across the three pillars of market access, domestic support and export competition.

2.5. As an export-oriented economy, Canada also attaches great importance to improving market access for services and non-agricultural goods. All members stand to gain substantially from the reduction and elimination of barriers to trade, and Canada seeks an outcome that results in commercially significant liberalization.

⁸ Source: <http://news.gc.ca/web/article-en.do?nid=905749>.

⁹ Source: Minister Fast announces four new trade offices in China:
<http://www.international.gc.ca/media/comm/news-communiqués/2014/05/19a.aspx?lang=eng>

2.6. Canada aims to clarify and improve rules governing anti-dumping and countervailing measures in order to achieve greater international convergence and predictability in their application and to prevent unnecessary restrictions to trade. At the same time, Canada is seeking to strengthen and clarify disciplines on the provision of government subsidies (including fisheries subsidies). Canada also supports improved transparency with respect to Regional Trade Agreements (RTAs).

2.1.2 Supporting Development

2.7. The needs of developing countries deserve special mention, as economic development is a key objective of the DDA and at the WTO. To this end, Canada continues to work with fellow members to implement new WTO agreements and address the concerns of developing countries about taking on new commitments. The Bali package reflects this commitment through the establishment of the Monitoring Mechanism for Special and Differential Treatment and the decisions related to market access for least developed countries (LDCs). Furthermore, Section 2 of the Trade Facilitation Agreement (TFA) provides special provisions for the implementation of the agreement for developing and least developed countries. In support of this goal, Canada has provided strong financial support for trade facilitation reforms through aid for trade assistance and recently disbursed \$2 million to the World Bank Group's Trade Facilitation Support Program (TFSP) in March 2014.

2.8. In Canada's view, achieving a broad WTO trade deal that will stimulate economic growth and secure real development gains for developing countries is central to the Doha Round's objectives. In this respect, achieving a successful outcome to the round (i.e., one that is ambitious and balanced in that it takes into account developing countries' concerns) will be essential. Developing countries stand to gain from fundamental agricultural reform of world agricultural trade, commercially significant market access increases for goods and services, and binding rules for trade facilitation that will reduce red tape at borders. Growth and prosperity opportunities that will arise from such outcomes will be further enhanced by the strengthening of trade rules, which will increase transparency, predictability and stability in the trading system. In line with this, Canada is actively engaged in discussions in various work programs on issues of importance to developing countries. These are highlighted below.

Special and Differential Treatment

2.9. The objectives of Special and Differential Treatment (S&DT) provisions are to foster the ability of developing countries to become full participants in the multilateral trading system and to help them reap the benefits of WTO membership. Canada is committed to the principle of S&DT at the WTO and has been willing to examine S&DT proposals that make a constructive contribution to integrating developing countries into the multilateral trading system. Canada has continuously sought to address underlying issues to ensure that resulting measures are geared toward the problems they seek to address. Canada also recognizes the need for flexibility and calibrations of S&DT measures, as developing country members have different needs and capacities.

Aid for Trade

2.10. The 2005 Hong Kong Declaration confirmed that Aid for Trade (AFT) is also a core element of the development dimension of the multilateral trading system and established a number of commitments on AFT. Since the beginning of the Doha Round, Canada's annual commitment to AFT has risen from around \$350 million in 2001/02 to more than \$500 million annually with Canada's AFT reaching \$774.5 million disbursed in 2012/13. Canada's commitments include those at the global level (through institutions such as the World Bank and the International Trade Centre), at the regional level (e.g., through the Program for Building African Capacity to Trade and the Canada-Americas Trade Related Technical Assistance Program), at the bilateral country level (through individualized programming activities), and at the level of civil society (through partnerships).

2.11. In addition, Canada supported global programs at the WTO. The Doha Ministerial Declaration confirmed that Trade-Related Technical Assistance and Capacity Building (TRTA/CB) is a core element of the development dimension of the multilateral trading system. The establishment of the Doha Development Agenda Global Trust Fund (DDAGTF) has been instrumental in meeting this objective. In support of these undertakings, Canada contributed \$7.5

million over five years (2009/10-2013/14) to the DDAGTF as well as to the Standards and Trade Development Facility (STDF). Canada also supported the Advisory Centre on WTO Law (ACWL), an organization that provides advice, training and litigation assistance to developing country members of the WTO. Canada contributed \$2.5 million over 2009/10-2013/14 to help the ACWL continue its work.

Small, Vulnerable Economies

2.12. Specific challenges confront small and vulnerable economies (SVEs) seeking to participate in world trade. Examples are the volatility of international prices for products exported by SVEs, and difficulties in achieving economies of scale. Canada is striving to see that their concerns are taken into account by working with other WTO members to achieve full implementation of the WTO SVE Work Program and to put in place the foundation for further advances.

Least developed countries

2.13. Building on the Doha Ministerial Declaration, Canada has supported the WTO's efforts to explicitly recognize the needs, interests and concerns of least-developed countries (LDCs). Canada is working on many fronts to address these issues.

2.14. The Bali Ministerial Decision reaffirmed the DDA's objective of achieving duty-free, quota-free (DFQF) market access for products originating from LDCs. In Canada's case, a preferential tariff for LDCs has been in place since 1983. Known as the Least Developed Country Tariff (LDCT), this unilateral tariff preference for LDCs now covers 98.6% of all tariff lines for 49 of the world's LDCs. The LDCT, which was renewed in 2013 until December 31, 2024, is among the most far-reaching in terms of eligible countries, product coverage, rules of origin and ease of administration. Beyond DFQF access, the rules of origin that Canada applies to LDCs' imports are among the most liberal in the world.

2.15. The Doha Ministerial Declaration also reflected a commitment to work to facilitate and accelerate negotiations with acceding LDCs. Recognizing that WTO accession will help LDCs in their development and transition efforts, Canada is active in the negotiations of all applicants. Canada's approach to LDCs has been to reduce requests to a minimum and show considerable flexibility on, for example, the number of tariff lines, request rates, and transition periods. Canada remains a strong supporter of the Decision approved by the WTO General Council in December 2002 to facilitate LDCs' accessions to the WTO.

2.1.3 Plurilateral Negotiations and/or Agreements under the WTO

WTO Information Technology Agreement

2.16. Canada has been a participant to the Ministerial Declaration on Trade in Information Technology Products (Information Technology Agreement, or ITA) since its signature at the 1996 Singapore Ministerial Conference. Since then, rapidly evolving technologies have led to considerable gaps in product coverage, which has prompted many ITA participants to consider the possible modernization of the ITA to better reflect today's commercial realities. Canada was one of the co-sponsors of the "Concept Paper for the Expansion of the ITA" spearheading the ITA expansion negotiations.¹⁰

2.17. Negotiations to expand the product coverage and number of WTO participants to the ITA have been ongoing since May 2012. Canada has been an active player in promoting the importance of a modernized ITA, including in the context of Asia-Pacific Economic Cooperation (APEC). This plurilateral initiative is in line with Canada's GMAP, which supports the modernization and expansion of product coverage of the ITA, and identifies the information and communications technology sector as a priority. Canada has been an active participant in the ITA expansion negotiations and remains strongly committed to an ambitious outcome that is balanced and commercially meaningful for global industry.

¹⁰ Source: G/IT/W/36 (2 May 2012) and G/IT/W/36/Add.1 (14 May 2012).

WTO Environmental Goods Agreement

2.18. On July 8, 2014, Canada joined 13 other WTO members in launching negotiations on a new WTO Environmental Goods Agreement (EGA), building upon the APEC initiative. Canada supports an ambitious agreement that will facilitate the achievement of the green growth and sustainable development objectives of WTO members. Canada also encourages other WTO members to consider participation in these negotiations, as this initiative will lend momentum to the WTO and support the liberalization of trade. Canada believes that the liberalization of trade in environmental goods can contribute positively to finding solutions to many global environmental challenges. This plurilateral initiative complements Canada's other bilateral, regional and multilateral efforts to ensure mutual supportiveness of trade and environment, including negotiations in the context of APEC, bilateral and regional trade agreements, and discussions within the Organisation for Economic Cooperation and Development (OECD) and the WTO Committee on Trade and Environment. These efforts also complement the Canadian clean technology industry which is an important, emerging sector that is providing solutions to protect the environment while driving new global economic, environmental and resource efficiencies.

WTO Agreement on Government Procurement

2.19. Canada was an active participant in the negotiation of the revised WTO Agreement on Government Procurement (GPA) and has been party to the agreement since its entry into force on April 6, 2014. Through the revised GPA, Canada has significantly expanded foreign suppliers' and service providers' access to its procurement markets, most notably through the addition of significant commitments from all provinces and territories in addition to several crown corporations. Now that the revised GPA has entered into force, Canada is actively involved in its work programmes and new accessions, and remains committed to the further expansion of the agreement.

2.2 THE Canada-U.S. Trade Relationship

2.20. Geographic proximity and similar business environments have long made Canada and the U.S. one another's most important trading partner. Canada-U.S. trade amounted to \$782 billion (balance of payments for goods and services) in 2013, representing nearly \$2.4 billion worth of goods and services crossing the border every day. For the U.S., Canada is the top export merchandise destination for 35 states. The U.S. is the top export destination for every Canadian province. Approximately 2.5 million Canadian jobs depend on exports to the U.S., while nearly 9 million U.S. jobs depend on trade with Canada.

2.21. In 2014, Canada exported \$452.7 billion in goods and services to the United States. In perspective, 76.8% of all Canadian merchandise exports went to the U.S., with 7.4% to European Union (EU), Canada's second largest market, and 3.7% to China. Top exports to the U.S. include oil and gas, vehicles, machinery, and plastics. Canada is the largest foreign supplier of oil, natural gas and electricity to the United States.

2.22. In 2014, Canada imported \$416.9 billion in U.S. goods and services. This amount exceeded the total of U.S. exports to China, Japan, and South Korea combined. Top Canadian imports from the U.S. include vehicles, machinery, oil and gaz. And electrical machinery and equipment.

2.23. In 2013, the stock of foreign direct investment from the U.S. in Canada amounted to \$352 billion, representing 51.3% of total foreign direct investment (FDI) in Canada. Total Canadian direct investment in the U.S. amounted to \$318 billion in 2013, accounting for 40.9% of Canadian foreign direct investment abroad. Canada is the fourth largest source of FDI in the United States.

2.24. A large percentage of Canada's bilateral trade with the U.S. consists of intermediate products traded into the integrated supply chains between both countries. The economies of Canada and the U.S. are bound together by cross-border processes that include R&D, innovation, product design, manufacturing processes, distribution channels, financing, marketing, and after-sales support. In many instances, hundreds of companies on both sides of the border supply into the development of a single product.

2.25. Canada-U.S. trade has expanded by 250% since 1988. Canada-U.S. trade increased 42% under the Canada-U.S. FTA (measured from 1988 to 1993) and more than doubled under the North American Free Trade Agreement (NAFTA) (measured from 1993 to 2014).

2.26. Now in its 21st year, the NAFTA has provided for the elimination of duties for practically all originating goods, facilitated the cross-border movement of persons, addressed certain non-tariff barriers and provided formal mechanisms for resolving disputes. Trade relations between Canada and the U.S. are not only supported by the NAFTA but also the disciplines of the WTO. Today, Canada and the U.S. are further deepening trade relations through the Trans-Pacific Partnership (TPP) free trade negotiations currently underway amongst twelve countries in the Asia-Pacific region. The TPP provides the opportunity to further enhance North American integration and supply chains.

2.27. The NAFTA rules of origin are periodically updated and revised to reflect changing production methods and sourcing patterns, as well as Harmonized System tariff classification adjustments. The NAFTA Parties are working toward implementing a fourth set of liberalizing amendments and updating the rules of origin to reflect the 2012 version of the Harmonized System.

2.28. The NAFTA Chapter 11 on investment includes dispute settlement provisions. The chapter focuses on investors' rights and protections when investing in the territory of one of the NAFTA Parties. Canada has received 35 notices of intent to file a claim under the NAFTA Chapter 11. Of those 35 notices, 22 have resulted in a claim to arbitration. Among the 22 that have resulted in a claim to arbitration: nine are on-going, four were won by Canada on jurisdictional issues or the merits of the case, one was terminated by the tribunal at Canada's request, four were settled, two were lost by Canada on the merits of the claim, one has been inactive for several years, and one was withdrawn before the tribunal was constituted. In all nine cases currently on-going against Canada, the investors were either incorporated in the U.S. or American citizens. Canadian investors have also brought forward cases under the NAFTA Chapter 11 dispute settlement mechanism. Thus far, there have been eight completed NAFTA Chapter 11 challenges involving Canadian investors and the U.S. and three are still on-going.

2.29. The Softwood Lumber Agreement was signed in 2006 to manage the on-going trade dispute related to Canadian exports of softwood lumber products to the U.S. The agreement is administered by a bilateral committee and supported by a bi-national industry council. It was extended for two years in 2013 and is set to expire in October 2015. The Softwood Lumber Agreement is a bilateral agreement and therefore does not impact trade in softwood lumber with countries other than the U.S.

2.30. In agricultural products, Canada and the U.S. have remained important trading partners. An area of concern since 2011 is that the U.S. is not meeting its international obligations, as determined by the WTO, concerning its Country-of-Origin Labelling requirements that discriminate against Canadian (and Mexican) cattle and hog producers.

2.31. Although tariffs have been mostly eliminated under the NAFTA, differences in regulations still present obstacles to trade, competitiveness and innovation. Accordingly, Canada's agenda has shifted to place a greater emphasis on reducing red tape by making regulations in a range of sectors more compatible and less burdensome between Canada and the United States, while maintaining high standards of health, safety and environmental protection. On February 4, 2011, Prime Minister Stephen Harper and U.S. President Barack Obama created the Canada-U.S. Regulatory Cooperation Council (RCC) to work toward minimizing differences in regulation. The RCC Joint Action Plan was officially released on December 7, 2011. On-going work on regulatory cooperation includes the following areas: agriculture and food, transportation, health, personal care products and workplace chemicals, the environment, and cross-cutting issues such as nanotechnology as well as ensuring that regulators consider the particular needs of small business.

2.32. The Action Plan on Perimeter Security and Economic Competitiveness established a practical roadmap for joint efforts between Canada and the United States to make the Canada-U.S. border more secure and open in the coming years. The Border Action Plan is designed to implement the goals of the Shared Vision for Perimeter Security and Economic Competitiveness. It directs Canada and the U.S. to take a perimeter approach, working together within, at and away from shared

borders to address threats as early as possible in a way that supports economic competitiveness, job creation and prosperity. The Border Action Plan includes 32 initiatives that will improve both countries' ability to manage security risks, while facilitating the legitimate flow of people, goods and services. Canada and the U.S. are currently in year three of the implementation of the Border Action Plan. A key achievement in early threat detection includes progress on implementing a system to share entry and exit information along the Canada-U.S. land border in a secure and systematic fashion in order to close the loop on a suspected individual's travel history. Progress on improving cross border law enforcement has been exemplified through the deployment of two regularized "Shiprider" teams in Vancouver, B.C./Blaine, Washington and Windsor, Ontario/Detroit, Michigan. This initiative enables cross-border maritime law enforcement teams to transit back and forth across the international boundary line, enforcing Canadian law in Canadian waters and U.S. law in U.S. waters. With respect to trade facilitation, over \$250 million has been invested in infrastructure on both sides of the border and the first joint Border Infrastructure Investment Plan, which enhances Canada's ability to coordinate border infrastructure investments at the bi-national level, was published in 2013. In December 2014, Canada and the United States finalized a significantly expanded second joint Border Infrastructure Investment Plan that details major infrastructure upgrades at the top 25 commercial and passenger land border crossings. The Plan was released in February 2015. In addition, trusted traveller programs are expanding with the Nexus program now reaching more than 1 million Nexus members.¹¹ On preclearance and pre-inspection, phase one of the truck cargo pre-inspection pilot, whereby primary inspection of U.S.-bound truck cargo is conducted in Canada, was successfully concluded in November 2013 and phase two at the Peace Bridge Crossing at Buffalo, New York/Fort Erie, Ontario was completed in late January 2015. As part of the Beyond the Border Action Plan, Canada and the U.S. agreed to undertake a number of preclearance initiatives, including the negotiation of a new preclearance treaty for the land, marine, and rail modes, and a review of the existing air agreement. On March 16, 2015 both countries signed a comprehensive Canada-U.S. Land, Marine, Rail and Air Preclearance Agreement. When it enters into force, this new Agreement will replace the existing Agreement on Air Transport Preclearance and will enable Canada and the U.S. to extend benefits of preclearance to the land, rail and marine modes on both sides of the border.

2.3 Regional, Bilateral and Plurilateral Initiatives

2.33. Under the GMAP, Canada is pursuing an ambitious trade negotiations agenda that targets key high-growth markets to enhance Canada's economic prosperity.

2.34. Prior to Canada's last TPR, Canada already had free trade agreements (FTAs) in force with the U.S. and Mexico (NAFTA, 1994), Israel (1997), Chile (1997), Costa Rica (2002), the European Free Trade Association (2009) and Peru (2009). Since then, Canada has concluded six new FTAs, of which five are in force: Colombia (2011), Jordan (2012), Panama (2013), Honduras (2014) and South Korea (2015). The remaining one is in the process of being ratified (the EU).

2.35. Canada is currently pursuing free trade negotiations with more than 30 countries representing over two billion consumers in some of the world's most dynamic economies, including through participation in the TPP negotiations. In addition to negotiating new regional and bilateral initiatives, Canada is also taking steps to modernize existing FTAs.

2.36. During the period under review, Canada also actively pursued Foreign Investment Promotion and Protection Agreements (FIPAs), Air Transport Agreements (ATAs) and bilateral Science and Technology (S&T) agreements and arrangements with key trading partners to ensure that Canadian businesses and their international partners succeed in today's global markets.

2.3.1 New Regional and Bilateral Free Trade Agreements

Canada-EU Comprehensive Economic and Trade Agreement (CETA)

2.37. On August 5, 2014, Canada and the EU announced that negotiations on the Canada-EU Comprehensive Economic and Trade Agreement (CETA) had been completed and that officials had reached a final negotiated text. On September 26, 2014 Prime Minister Harper met with EU

¹¹ Source: Nexus program: <http://www.cbsa-asfc.gc.ca/prog/nexus/menu-eng.html>.

Leaders to formally recognize the end of CETA negotiations. On the same day, the final negotiated text was published on the Government of Canada's website.¹²

2.38. CETA will immediately eliminate 98% of Canadian and EU tariff lines, including 93.6% of the EU's and 92% of Canada's agricultural tariff lines. In addition to tariffs, the agreement provides for ambitious new commitments and disciplines covering trade in services, investment, government procurement and intellectual property. A joint Canada-EU study that supported the launch of negotiations estimated that the agreement could increase bilateral trade by 20%, raising Canada's GDP by \$12 billion and the EU's collective GDP by €11.6 billion (or approximately \$16.6 billion) annually.

2.39. Canada and the EU are now conducting a legal review of the text, which will be followed by translation into the other 22 EU official treaty languages, and final ratification of the agreement in both the EU and Canada. The overall process from conclusion of negotiations to ratification is expected to take approximately two years.

Canada-Korea Free Trade Agreement (CKFTA)

2.40. The Canada-Korea FTA (CKFTA) entered into force on January 1, 2015.¹³ South Korea is Canada's seventh-largest overall merchandise trading partner and third-largest in Asia, after China and Japan. Two-way trade between the two countries amounted to more than \$11.4 billion in 2014, with Canadian exports to South Korea reaching \$4.2 billion. Among the agreement's most tangible outcomes is the ambitious obligation undertaken by Canada and South Korea to widely eliminate tariffs in all sectors, including industrial goods, agriculture and agri-food, fish and seafood, and forestry and value-added wood products. Nearly 90% of Canada's current exports became duty-free on the day the agreement entered into force, and all but a small fraction of the rest will become duty-free over time. The CKFTA will also cover virtually all other aspects of Canada-South Korean trade, including services, investment, intellectual property, government procurement, labour and environment. The agreement is projected to boost Canada's GDP by \$1.7 billion and increase Canada's exports to South Korea by over 30%.

Canada-Honduras Free Trade Agreement (CHFTA)

2.41. The Canada-Honduras Free Trade Agreement (CHFTA) and parallel agreements on labour and environmental cooperation entered into force on October 1, 2014. Canada's two-way merchandise trade with Honduras has grown 58.6% in the last five years to reach \$289.7 million in 2014. In 2014, Canada exported \$45.1 million worth of merchandise to Honduras in both the agricultural and non-agricultural sectors.

Canada-Panama Free Trade Agreement (CPaFTA)

2.42. The Canada-Panama FTA (CPaFTA) and parallel agreements on labour and the environment entered into force on April 1, 2013. Bilateral trade between Canada and Panama amounted to \$106.53 million in 2014. Canadian merchandise exports to Panama were \$95.45 million and imports totalled \$11.08 million.

Canada-Jordan Free Trade Agreement (CJFTA)

2.43. The Canada-Jordan Free Trade Agreement (CJFTA) is a goods-only trade agreement that entered into force on October 1, 2012 along with parallel agreements on labour and the environment. In 2014 Canada's merchandise exports to Jordan valued at \$78.46 million and imports were valued at \$62.52 million. Canada has also signed a FIPA with Jordan which entered into force in December 2009.

¹² Source: The Canada-EU Comprehensive Economic and Trade Agreement viewed at: <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/ceta-aecg/text-texte/toc-tdm.aspx?lang=eng>.

¹³ Source: The Canada-Korea Free Trade Agreement viewed at: <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/korea-coree/related-relies.aspx?lang=eng>.

Canada-Colombia Free Trade Agreement (CCoFTA)

2.44. The Canada-Colombia FTA (CCoFTA), as well as parallel agreements on labour cooperation and the environment, entered into force on August 15, 2011. In 2014, Canadian merchandise exports to Colombia totalled \$920.67 million and imports from Colombia totalled \$891.6 million in 2014. Canada's cumulative direct investment in Colombia stood at \$2.36 billion at the end of 2013.

2.3.2 Modernization of Existing Regional and Bilateral Free Trade Agreements

Canada-Israel Free Trade Agreement (CIFTA) Modernization

2.45. The Canada-Israel Free Trade Agreement (CIFTA) came into force on January 1, 1997. This goods-only agreement eliminated tariffs on all industrial products manufactured in Canada and Israel. In November 2003, Canada and Israel expanded the coverage of the agreement to provide preferences to a large number of agricultural and agri-food products. In October 2010, Canada and Israel initiated exploratory talks, and on January 21, 2014, announced the launch of negotiations to expand and modernize the agreement. Canada and Israel are seeking to modernize existing chapters in the areas of market access for goods, rules of origin, institutional provisions and dispute settlement, and to negotiate new chapters in the areas of trade facilitation, sanitary and phytosanitary measures, technical barriers to trade, intellectual property, e-commerce, labour and environment.

Canada-Chile Free Trade Agreement (CCFTA) Modernization

2.46. The Canada-Chile Free Trade Agreement (CCFTA) came into force on July 5, 1997. Since then, efforts to modernize and broaden this agreement have been ongoing. On September 30, 2013, an agreement to amend the CCFTA came into force to include a chapter on Financial Services and update existing chapters on Government Procurement, Dispute Settlement and Customs Procedures. Parties have completed the legal review of a negotiated package of amendments to the Rules of Origin chapter, and Canada is now proceeding with its domestic approval process for formal implementation. On November 10, 2014, Canada and Chile announced the conclusion of negotiations of a new Technical Barriers to Trade chapter. Bilateral efforts are also underway to add a new chapter on Sanitary and Phytosanitary Measures, as well as technical updates to the Government Procurement chapter.

Canada-Costa Rica Free Trade Agreement (CCRFTA) Modernization

2.47. The Canada-Costa Rica Free Trade Agreement (CCRFTA), a first-generation agreement that focuses mainly on trade in goods, came into force in November 2002. In August 2011, Canada and Costa Rica launched negotiations to modernize this agreement. Several rounds of negotiations have been held.

2.3.3 Regional, Bilateral and Plurilateral Free Trade Agreements under Negotiation

Trans-Pacific Partnership (TPP)

2.48. Canada joined the Trans-Pacific Partnership (TPP) negotiations in October 2012. The TPP membership includes: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Viet Nam.

2.49. Participation in the TPP is a key pillar of Canada's ambitious pro-trade plan and was highlighted as a priority in the 2013 Speech from the Throne as well as in Budget 2014. The Asia-Pacific is one of the world's fastest growing economic regions, with a growth rate of two to three times the global average. The TPP offers a significant opportunity to engage in the region and to boost Canada's global competitiveness. As it currently stands, the TPP market represents more than 792 million people and a combined GPD of \$28.1 trillion, and has the potential to be a leading mechanism for regional economic integration in the Asia-Pacific. The TPP is an ambitious free trade initiative. Participation in the negotiations strengthens Canada's efforts to broaden and deepen our trading relationships with Asia-Pacific markets and our traditional partnerships in the Americas.

Canada-Japan Economic Partnership Agreement (CJEPA) Negotiations

2.50. Canada and Japan launched free trade negotiations on March 25, 2012, following the release of the *Report of the Joint Study on the Possibility of a Canada-Japan Economic Partnership Agreement*. The Study found that an FTA could increase Canada and Japan's GDP by approximately \$3.8 billion and \$4.4 billion, respectively. The Study also found that an FTA could boost Canadian exports to Japan by as much as 67%, and Japanese exports to Canada by as much as 37%. Negotiations toward a comprehensive bilateral economic partnership agreement between Canada and Japan cover all areas including trade in goods, services, investment, government procurement, financial services, trade facilitation, temporary entry, competition policy, environment, and labour. Other areas of discussion include intellectual property rights, business environment issues, as well as monopolies and state enterprise disciplines.

Canada-India Comprehensive Economic Partnership Agreement (CEPA) Negotiations

2.51. Following the results of a Joint Study on the potential benefits of a Comprehensive Economic Partnership Agreement (CEPA), Canada and India launched negotiations toward a CEPA in November 2010. Several rounds of negotiations have been held to date.

Canada-Ukraine Free Trade Agreement (CUFTA) Negotiations

2.52. Canada and Ukraine launched negotiations toward a bilateral free trade agreement in June 2010. Several rounds of negotiations have been held to date. On December 19, 2014, Prime Minister Harper and President Poroshenko expressed a commitment to complete the free trade negotiations between Canada and Ukraine as quickly as possible.

Canada-Caribbean Community Free Trade Agreement Negotiations

2.53. In 2007, Canadian Prime Minister Harper together with the Caribbean Community (CARICOM) Heads of Government announced the launch of negotiations toward a Canada-CARICOM FTA. Seven rounds of negotiations have taken place. Next steps are under review.

Canada-Morocco Free Trade Agreement Negotiations

2.54. On January 27, 2011, Canada and Morocco announced the launch of negotiations toward a Canada-Morocco FTA. Next steps are under review.

Trade in Services Agreement (TISA)

2.55. Services are an important and growing part of Canada's economy. Canada is a strong and active supporter of efforts to liberalize market access and establish global rules for services trade as Canadian firms are active around the world in a wide range of services industries such as engineering and architectural services, energy and mining services, environmental services, financial services and information technology services. As a result, Canada has been actively engaged in the plurilateral negotiations for a Trade in Services Agreement (TISA), which will complement other initiatives that Canada is taking to open up markets and provide legal stability where markets are already open but not subject to trade agreement rules.

2.3.4 Other Bilateral and Regional Initiatives*Foreign Investment Promotion and Protection Agreements (FIPAs)*

2.56. A FIPA is a bilateral treaty designed to protect investment abroad through reciprocal legally-binding rights and obligations. Canada has 28 FIPAs in force with Poland (1990), Russia (1991)¹⁴, Argentina (1993), Hungary (1993), Ukraine (1995), the Philippines (1996), Trinidad and Tobago (1996), Barbados (1997), Ecuador (1997), Egypt (1997), Panama (1998), Thailand (1998), Venezuela (1998), Armenia (1999), Uruguay (1999), Lebanon (1999), Costa Rica (1999), Croatia (2001), Peru (2007), Jordan (2009), Latvia (2011), Romania (2011), Czech Republic (2012), Slovak Republic (2012), Tanzania (2013), Bénin (2014), China (2014), and Kuwait (2014).

¹⁴ Source: Russia succeeded to the Canada-USSR FIPA as the continuing state; the Canada-USSR FIPA may also apply to other successor states to the USSR.

The majority of Canada's FIPAs are based on the investment chapter of the NAFTA and share the following features: a broad definition of investment, obligations for national treatment and most-favoured nation treatment applied at both the pre- and post-establishment phase, minimum standard of treatment in accordance with international law, protection against expropriation without compensation, free transfers of investment-related funds, and access to investor-state arbitration and state-state dispute settlement mechanisms to resolve disputes.

2.57. Since the last TPR, Canada's amended treaties with Latvia, Romania, Czech Republic and Slovak Republic came into force. FIPAs with Tanzania, Bénin, China and Kuwait were signed and ratified. Additionally, FIPAs were signed with Cameroon, Nigeria, Serbia, Senegal, Côte d'Ivoire and Mali in 2014. FIPAs were concluded with India (2007), Madagascar (2008), Bahrain (2010), Albania (2013), Guinea (2013), Moldova (2013), Zambia (2013) and Burkina Faso (2014), but are not yet signed. Canada has an active negotiating agenda with the following FIPA negotiations currently underway: Ghana, Indonesia, Kazakhstan, Kenya, Kosovo, Macedonia, Mongolia, Pakistan, Tunisia, United Arab Emirates and Viet Nam. As well, there are investment chapters in a number of the FTAs that Canada has signed, including: the NAFTA (Chapter 11), Chile, Peru, Colombia, Panama, Honduras and South Korea. The investment chapters of the Canada-Peru FTA and the Canada-Panama FTA supersede the existing FIPAs with those two countries. The Canada-European Union: Comprehensive Economic and Trade Agreement (concluded in 2014) and the Trans-Pacific Partnership Free Trade Negotiations (currently ongoing), both also contain investment chapters.

Science and Technology Agreements

2.58. Canada maintains eight bilateral Science and Technology (S&T) Agreements (treaty-level) with France, Germany, Japan, the EU, India, Israel, China and Brazil. Canada also has two bilateral Science and Technology arrangements (Memorandums of Understanding) with Chile and Sweden.

2.59. Canada's longstanding S&T treaties with France (1965), Germany (1971) Japan (1986) and the EU (1996) seek to foster linkages in science and technology in areas of mutual benefit. These agreements facilitate whole-of-government collaboration, serve to strengthen people-to-people ties and increase Canada's partnerships with innovation systems abroad.

2.60. Starting in 2005, Canada signed treaty-level agreements with India (2005), Israel (2006), China (2007) and Brazil (2008).

2.61. The administration of Canada's S&T Agreements is carried out by joint committees at regular (either annual or biennial) committee meetings. Joint committees are co-chaired by senior government officials and include representatives from government, academia and industry who provide advice and strategic direction on collaborative activities.

Air Transport Agreements (ATAs)

2.62. In November 2006, the Blue Sky policy was officially adopted by Canada. Since its inception, Canada has concluded new or expanded ATAs covering over 80 countries. Including the pre-Blue Sky Open Skies agreement with the U.S., Canada has now concluded open agreements covering 44 partners, including the 28 members states of the EU with which Canada has a comprehensive agreement, expanded agreements with 20 countries and first-time agreements with 21 countries. ATAs play a critical role in facilitating and enabling international trade and investment, global value chain connectivity and people-to-people links. They are a key enabler to the various FTAs that Canada has negotiated with partners throughout the world and have strengthened our people-to-people ties, allowing for direct air links for students, tourists and business people.

2.4 Unilateral Trade Liberalization Initiatives

2.63. The last TPR in 2011 noted that Canada had taken unilateral action to eliminate Most Favoured Nation (MFN) applied rates of customs duty on machinery and equipment and on industrial manufacturing inputs. The majority of these tariffs were eliminated as of March 5, 2010, with the balance subject to gradual elimination which was completed by January 1, 2015. Canada has taken additional action to eliminate MFN applied rates of customs duty on a further 90 tariff

items, reflecting additional machinery and equipment and industrial inputs cited by Canadians, relieving \$65 million annually in customs duties. This gives Canada the status of being the first G20 country to become a tariff-free zone for manufacturers.¹⁵ A 2013 OECD study of the trade policy implications of global value chains focused on Canada's unilateral elimination of tariffs on a broad range of manufacturing inputs, machinery and equipment. The OECD concluded that by lowering effective protection in most sectors, Canada's policy is likely to reduce production costs, improve efficiency and enhance innovation in downstream manufacturing industries, thereby bolstering external competitiveness.¹⁶

2.64. In 2004, Canada enacted a moratorium on customs duties on temporarily imported Mobile Offshore Drilling Units (MODUs), a moratorium that was extended in 2009. Canada eliminated the MFN applied rates of customs duty on MODUs as of May 5, 2014, making this tariff relief permanent.

2.65. Canada has also considered how tariffs affect consumers, and as of April 1, 2013, eliminated MFN applied customs duties on baby clothing and certain sports and athletic equipment. This represents \$79 million in annual tariff relief, coming with the expectation that these savings would be passed on to consumers in the form of lower retail prices.

2.5 Canada in Other Multilateral Fora

2.5.1 The Group of Twenty

2.66. Over the last seven years, the Group of Twenty (G-20) has played a significant role in mitigating the adverse effects of the global financial crisis. At the G-20 Summit in Brisbane in November 2014, leaders reaffirmed their longstanding standstill and roll back commitment to resist protectionism. This commitment was initially formulated at the G20 Washington Summit in November 2008 and has been reaffirmed at each of the London, Toronto, Seoul, Cannes and Los Cabos Summits. At the St. Petersburg Summit in 2013, leaders extended the commitment once more to 2016.

2.67. In the face of persistent economic weakness across the global economy, at the St. Petersburg Summit in November 2013, G-20 Leaders committed to raising collective GDP by at least 2% above an established baseline scenario by 2018. Collectively, the G20 Members' Comprehensive Growth Strategies announced at the Brisbane Summit contain over 1000 policy actions designed to boost growth. Canada's Comprehensive Growth Strategy includes key commitments on infrastructure investment, enhanced efficiencies in job markets – including job matching services and a modernized national job bank, competition in the telecommunications sector, and new funding for research and innovation.

2.68. Canada's Strategy also includes policies to maximize trade as a driver for growth, in particular by pursuing trade liberalization multilaterally, regionally, bilaterally and unilaterally through domestic reforms. Canada's strategy notes that it is moving to fully implement the WTO Trade Facilitation Agreement (TFA), and is a launch donor in support of new World Bank efforts to help developing countries with TFA implementation. To further stimulate developing country imports into Canada, in November 2013 Canada provided \$10.3 million over five years to establish the Canadian Market Access and Capacity Building Services Project, which will support 10,000 SMEs and 500 trade-supporting organisations in developing countries. Canada's strategy also includes the implementation of the CKFTA, which is projected to boost Canada's GDP by \$1.7 billion, and the CETA, which could support a \$12 billion annual increase to Canada's economy. Canada's G-20 Strategy also notes that of the Canadian SMEs currently exporting, only 29% are present in emerging markets, and Canada's GMAP aims to increase this proportion to 50% by 2018. Recognizing that imports are as important as exports to Canada's economic health, Canada will also further simplify import processing by introducing a Single Window Initiative (SWI) by 2016. The SWI will improve import processing for most goods requiring import licences, permits or certificates. Canada's border modernization efforts also include further improvements to paperless filing, account-based processing and electronic payment options. These measures will

¹⁵ Source: Tariff-free zone: <http://www.fin.gc.ca/n10/10-019-eng.asp>.

¹⁶ Source: Trade Policy Implications of Global Value Chains: <http://www.oecd-ilibrary.org/docserver/download/5k3tpt2t0zs1.pdf?expires=1424442596&id=id&accname=guest&checksum=443922D03C3ADC74C90C1FE68E7778DE>.

facilitate the entry of manufacturing inputs, lower manufacturing production costs, and help build economic growth in the Canadian manufacturing sector.

2.69. In addition to its focus on country-specific initiatives, the G-20 has taken an active role in pushing for the implementation of the WTO's Bali decisions. In line with this position, the G-20 Leaders acknowledged at the Brisbane Summit the need for a strong trading system in an open global economy to drive growth and generate jobs, including a robust and effective WTO that responds to current and future challenges. Canada, along with the other countries, agreed to work to ensure that bilateral, regional and plurilateral agreements contribute to a stronger multilateral trading system under WTO rules. Leaders also committed to implement all elements of the Bali package and to define a WTO work programme on the remaining issues of the DDA.

2.5.2 Asia-Pacific Economic Cooperation (APEC)

2.70. When APEC Leaders gathered in Bogor, Indonesia in 1994, they committed to achieve free and open trade and investment by 2010 for industrialized economies and by 2020 for developing economies. APEC members agreed to pursue this goal by further reducing barriers to trade and investment and by promoting the free flow of goods, services and capital. Canada has contributed toward reaching APEC's Bogor goals through the autonomous reduction of tariffs; modernization of intellectual property laws regarding copyright, trademarks and intellectual property enforcement; and cooperation with several APEC members on standards-related initiatives.

2.71. Since the last TPR, Canada has continued to support APEC in its goal of moving toward free and open trade and investment in the Asia-Pacific Region, including the eventual realization of Free Trade Area of the Asia Pacific (FTAAP). Canada supported, and has expressed its intention to contribute to APEC's Collective Strategic Study on Issues Related to the Realization of the FTAAP, which leaders agreed to launch in November 2014. In addition to the FTAAP, Canada's engagement at APEC for the review period included capacity-building for trade negotiation.

2.72. Canada's participation at APEC also provides an important forum for advancing the initiatives Canada supports in other multinational fora, such as our strong support for multilateral trade negotiations at the WTO.

2.5.3 The Organisation for Economic Co-operation and Development (OECD)

2.73. Canada actively supports the OECD's advocacy of open markets as a structural driver of economic growth and employment. Canada draws on OECD analysis to inform initiatives such as the GMAP and leverages the OECD trade agenda to promote bilateral, regional and multilateral trade liberalization. Canada presently chairs the Working Party of the OECD Trade Committee, is actively engaged in the OECD Working Party on Export Credits and Credit Guarantees, and has encouraged the Organization's collaboration with the G20. Recent developments of note include work with regard to global value chains, services and trade facilitation. In addition, Canada is actively involved in the OECD Working Party on Responsible Business Conduct and throughout its proactive agenda, including its role in promoting the use of the OECD Guidelines for Multinational Enterprises.

2.74. Canada contributed to the technical and analytical effort that resulted in the joint OECD-WTO database measuring trade in value-added terms.

2.75. Canada also contributed to the design and completion of the OECD's Services Trade Restrictiveness Index (STRI), which demonstrates that services trade barriers reduce trade and investment while impairing competitiveness along value chains. The OECD's analysis portrays Canada as more liberal than average in the majority of sectors examined. Canada's markets for computer services, legal services and engineering services are highlighted by the OECD as being particularly open.

2.76. Canada also supported the development of OECD Trade Facilitation Indicators, which demonstrate that Canada performs significantly better than the OECD average in the areas of fees and charges, simplification and harmonization of documents, automation, governance and impartiality.

2.5.4 The World Wine Trade Group (WWTG)

2.77. Canada continues to be active as a member of the WWTG – an informal group of non-EU wine producing countries that meet twice yearly to identify and address trade barriers for wines. Canada has been a member of the WWTG since its inception in 1996. Other member countries are South Africa, Australia, New Zealand, Chile, Argentina, the United States, and Georgia. The WWTG has negotiated a number of agreements, protocols and statements on a variety of wine trade issues, including winemaking practices and labelling. In 2014, member countries completed a group statement that addresses analytical methodologies that may pose a potential barrier to wine trade.

2.5.5 The Food and Agriculture Organization (FAO) and the Inter-American Institute for Cooperation on Agriculture (IICA)

2.78. Canada has been a strong advocate for adopting science-based approaches to regulate agri-food trade and of building countries' capacities to adopt and comply with standards agreed to at the WTO. At multilateral forums such as the United Nations FAO and the IICA, Canada has argued that agri-food trade has an essential role in reducing global food insecurity. Similarly, Canada has advocated that these institutions help countries comply with WTO standards and build their capacities to be stronger participants in WTO discussions. Canada has also provided voluntary contributions to the FAO and to the IICA to fund projects that help developing countries in this regard.

2.6 Resolution of Disputes

2.79. Since the last review, Canada has been involved in efforts to resolve several disputes under the WTO dispute settlement mechanism. In 2014, Canada notified its compliance with the recommendations and rulings of the Dispute Settlement Body (DSB) in the Canada Feed-In-Tariff disputes brought by Japan and the EU. In June 2014, the DSB adopted Appellate Body and panel reports in the European Commission (EC) – Seals dispute initiated by Canada. The parties agreed to allow the EU until October 2015 to bring itself into compliance with the recommendations and rulings. Canada also continues to pursue a resolution of the dispute with the United States over the latter's country of origin labelling measures that are under review in the U.S. – Country of Origin Labelling (COOL) dispute. The finding of a compliance panel that the U.S. compliance measures are still inconsistent with its WTO obligations is currently subject to appeal. In 2014, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu requested consultations with Canada over anti-dumping measures on certain carbon steel-welded pipe, and Canada requested consultations with China with respect to anti-dumping duties on imports of cellulose pulp. The DSB established panels in these two disputes on March 10, 2015. In addition, Canada was involved as a third party in 14 disputes that were initiated since the last review.

2.80. Canada continues to seek improvements to the dispute settlement system to improve access to dispute settlement generally and to make it more effective and efficient for all members, while being sensitive to the needs of developing country members. Together with other members, Canada has made proposals to fix sequencing conflicts in the dispute procedures, introduce a remand mechanism, introduce a procedure to address disagreements when retaliation is in effect, enhance the rights of third parties in dispute proceedings and provide greater protection of confidential information. Canada also shares the concerns of many members that increasing demand on the dispute settlement system risks undermining the system's capacity to deliver prompt and effective outcomes. Canada therefore supports efforts to place the dispute settlement system on stable footing for the future.

2.7 Trade Promotion

2.81. Canada manages 161 trade offices in Canadian embassies and consulates located in 107 countries around the world, as well as five regional offices and an innovative network of trade commissioner satellites co-located with public and private sector partners across Canada. The TCS delivers services to Canadian companies to help them mitigate risks, minimize costs and maximize the opportunities of international business. Canada's network of trade professionals provides business clients with on-the-ground intelligence and practical advice on foreign markets. The TCS facilitates trade and investment, innovation partnerships and attraction of foreign

students. The TCS supports Canadian firms to succeed internationally through a variety of services such as: preparation for international markets, market potential assessment, qualified contacts identification, and business problem resolution.

2.82. In fiscal year 2013-14, the TCS provided approximately 50,000 services to almost 11,500 Canadian clients and achieved an 85.1% satisfaction rate among clients. In support of the GMAPS Canada is continually modernizing its TCS to ensure its trade commissioners are well-equipped and prepared to optimally serve Canadian businesses, including on issues related to corporate social responsibility.

2.8 Other Key Initiatives

2.8.1 Canada's Innovation Agenda

2.83. Globalization and increased trade liberalization have created unprecedented opportunities for businesses to diversify and expand abroad, and it has also exposed Canadian firms to increased competition. To set themselves apart in today's competitive economy, Canada's most successful firms are adding value to their goods and services through innovation. Canada's updated 2014 Science, Technology & Innovation Strategy – *Seizing Canada's Moment: Moving Forward in Science, Technology and Innovation*¹⁷ – provides a framework that aims to help bring new ideas and knowledge to market by stimulating more demand for innovation from firms of all sizes and influencing more innovation-focussed business strategies. In addition to supporting knowledge and talent, the strategy commits Canada to help make it easier for businesses to work with partners, including government, in the innovation system and foster collaboration based on industrial demand that encourages newly emerging as well as established industries to look for solutions from Canada's research institutions. It will build on *Digital Canada 150*¹⁸, the recently announced plan to guide Canada's digital future. It will also emphasize the need for firms to protect their intellectual property and enhance Canada's access to global markets.

2.84. Globalization also increases pressure among developed countries to attract and keep highly qualified and skilled individuals and high value-added activities, such as R&D, within their borders. That is why *Seizing Canada's Moment* also sets out bold ambitions to attract and retain experts and leaders needed for Canada to thrive in the global knowledge economy. It further strengthens support for excellence across discovery-driven and applied activities by investing in research and infrastructure.

2.8.2 Canada's Intellectual Property Regime

2.85. Canada has taken significant steps to modernize its intellectual property framework since the last TPR. More specifically, Canada reformed its copyright law in 2012 as part of the Government's continuing work to modernize Canadian laws for the digital economy. In 2013, Canada introduced legislation aimed at providing Canada with new enforcement tools to combat counterfeiting and piracy. In 2014, Canada ratified the World Intellectual Property Organization (WIPO) treaties relating to copyright. In the same year, Canada formally announced its intention to accede to additional WIPO treaties relating to trademarks, industrial designs and patents. All of these changes detailed below ensure that Canada's policy framework is aligned with the international practices followed by our major trading partners, facilitate Canada's participation in a modern international intellectual property system, and ultimately create an environment that promotes innovation, job creation and economic growth.

The Combating Counterfeit Products Act

2.86. On December 9, 2014, the *Combating Counterfeit Products Act* received Royal Assent. This new legislation will protect consumers, manufacturers and retailers as well as the Canadian economy from the health and economic threats presented by counterfeit goods coming into Canada. Its border measures came into force on January 1, 2015.

¹⁷ Source: *Seizing Canada's Moment: Moving Forward in Science, Technology and Innovation* viewed at: http://www.ic.gc.ca/eic/site/icgc.nsf/eng/h_07472.html.

¹⁸ Source: *Digital Canada 150*: <http://www.ic.gc.ca/eic/site/028.nsf/eng/home>.

2.87. The *Combating Counterfeit Products Act* will provide the Canada Border Services Agency (CBSA) with the authority to take action against the commercial movement of counterfeit goods at the border, and will also include new criminal offences for commercial trademark counterfeiting. It will also allow Canadian businesses to file a Request for Assistance with the CBSA, in turn enabling border officers to share information with them regarding suspect shipments.

2.88. The value of counterfeit goods seized by the Royal Canadian Mounted Police surpassed \$38 million in 2012, a five-fold increase since 2005. As Canada continues to negotiate new trade agreements and expand trade links to new markets around the world, it is imperative that Canadians have an effective regime to protect against counterfeit goods coming into Canada.

International Treaties: The Madrid Protocol, The Singapore Treaty, The Nice Agreement, The Hague Agreement and The Patent Law Treaty

2.89. On January 27, 2014, Canada tabled in Parliament the above-referenced international treaties that were developed by WIPO. The *Madrid Protocol* allows for the registration of trade-marks in multiple jurisdictions through a single international application filed with the International Bureau of WIPO. The *Singapore Treaty* establishes standards and rules related to procedures of national trade-marks offices to clarify what they can and cannot require from applicants. The *Nice Agreement* governs the Nice Classification and is required for accession to the *Singapore Treaty* and to the *Madrid Protocol*. The *Hague Agreement* allows for protection of industrial designs in a number of countries through a single international application filed with the International Bureau of WIPO. The *Patent Law Treaty* aims to simplify and harmonize administrative practices among national patent offices with respect to the patent application process

2.90. Changes to the *Trade-marks Act* that were introduced in the *Economic Action Plan 2014, No. 1*, will allow Canada to implement the *Madrid Protocol*, the *Singapore Treaty*, and the *Nice Agreement*. This legislation received Royal Assent on June 19, 2014. The necessary legislative amendments to the *Patent Act* and the *Industrial Design Act* were included in the *Economic Action Plan 2014 No. 2*, which received Royal Assent on December 16, 2014. These amendments will bring Canada into compliance with the *Hague Agreement* and the *Patent Law Treaty*.

WIPO Internet Treaties: The WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty

2.91. On August 13, 2014, Canada announced Canada's ratification of the above mentioned treaties, commonly known as the *WIPO Internet treaties*.

2.92. The *WIPO Internet treaties* provide authors, performers and producers of sound recordings with a full range of rights and protections so they can take advantage of the many opportunities presented by the digital world and the global marketplace.

2.93. Canada's *Copyright Modernization Act*, which was enacted in 2012 and which implemented the WIPO Internet treaties, represents balanced copyright legislation that is in line with today's international standards. Canada's ratification of the treaties was accompanied by a ministerial statement¹⁹ published in the Canada Gazette on July 30, 2014 to ensure that performers and producers of sound recordings from treaty countries receive the same treatment in Canada as Canadians receive abroad when their music is played or performed in public. As of March 2015, 94 contracting parties have ratified or acceded to the *WIPO Internet treaties*. These include some of Canada's major trading partners, such as the EU and the U.S..

The Copyright Modernization Act

2.94. On June 29, 2012, Canada announced that the *Copyright Modernization Act* received Royal Assent. In addition to implementing the rights and protections of the WIPO Internet treaties, the act gave Canadian creators the businesses tools to compete in the modern digital economy.

2.95. This legislation was designed to modernize Canada's *Copyright Act* to bring it in line with advances in technology and international standards, and also to establish technologically neutral

¹⁹ Source: Statement Limiting the Right to Equitable Remuneration of Certain Rome Convention or WPPT Countries: <http://canadagazette.gc.ca/rp-pr/p2/2014/2014-07-30/html/sor-dors181-eng.php>.

rules that are flexible enough to evolve with changing technologies and the digital economy while ensuring an appropriate balance between the interests of creators and users.

2.96. Most of the provisions of the *Copyright Modernization Act* were brought into force on November 7, 2012. Provisions that extend certain copyright protections to members of the WIPO Internet treaties came into force on August 13, 2014, i.e. the date that those treaties came into force for Canada.

2.97. On June 17, 2014, Canada announced the coming into force of Canada's new Notice and Notice regime pertaining to internet intermediaries, such as internet service providers, included as part of the *Copyright Modernization Act*.²⁰ The regime entered into force on January 2, 2015.

2.98. The *Copyright Modernization Act* formalized the voluntary Notice and Notice regime, which was already used by some Canadian Internet service providers. This regime is designed to notify users of alleged copyright infringement taking place at their Internet address. This is the final step in implementing the *Copyright Modernization Act*.

2.99. The *Copyright Modernization Act* fully entered into force in January 2015. The Act also introduced a mandatory review of Canada's *Copyright Act* every five years.

2.8.3 Canada's Life Sciences Industry

2.100. Canada has a relatively large life sciences industry in terms of number of companies, employment and economic output, and is active in all aspects of the sector – research, development, commercialization, manufacturing and marketing. Canada is among the world leaders in scientific publications (in quantity and quality)²¹ and the development of intellectual property in life sciences. Canadian companies, including developers of new technologies and specialized service providers, operate at or near the state-of-the-art in their respective fields.

2.101. The continued growth and success of Canada's life sciences industry depends on exports to major international markets (from both Canadian and foreign-owned operations) and on attracting foreign investment into research & development (R&D) and manufacturing assets in Canada. To drive both of these activities, Canadian and provincial governments fund a wide range of R&D granting agencies, research networks, institutions and investment vehicles, as well as provide relatively generous tax credits and other incentives for innovative R&D activities and advanced technology investments.

2.8.4 Canada's Enhanced Corporate Social Responsibility Strategy

2.102. In November 2014, Canada announced its enhanced corporate social responsibility (CSR) strategy, *Doing Business the Canadian Way: a Strategy to Advance Corporate Social Responsibility in Canada's Extractive Sector Abroad* (CSR Strategy).²² The updated CSR Strategy clearly communicates the Canadian Government's expectation that Canadian companies demonstrate Canadian values and operate to high CSR standards in their work abroad. It also outlines the government's initiatives to help Canadian companies strengthen their CSR practices and maximize the benefits their investments can bring to those in host countries. This strategy complements the GMAP and other Government of Canada policies, including those related to developing countries, the environment, labour and transparency.

²⁰ Source: Copyright Modernization Act: http://laws-lois.justice.gc.ca/eng/annualstatutes/2012_20/page-1.html.

²¹ Source: Council of Canadian Academies: <http://www.scienceadvice.ca/en/assessments/completed/science-tech.aspx>.

²² Source: *Doing Business the Canadian Way: A Strategy to Advance Corporate Social Responsibility in Canada's Extractive Sector Abroad* viewed at: <http://www.international.gc.ca/trade-agreements-accords-commerciaux/topics-domaines/other-autre/csr-strat-rse.aspx?lang=eng>.

2.8.5 Canada's Education Strategy

2.103. The International Education Strategy (IES) was launched by the Minister of International Trade on January 15, 2014.²³ Building on the successful Edu-Canada pilot project and recommendations made by an independent advisory panel, the key objective of the IES is to double Canada's international student base to more than 450,000 by 2022. International education contributes to Canada's prosperity by promoting exports of educational services and goods, helping to address certain demographic challenges, and improving the competitiveness of the Canadian economy as a result of increased research, development, innovation, and commercialization. In 2013 the 293,500 international students in Canada spent over \$9 billion in communities across Canada and sustained over 90,000 Canadian jobs.

2.8.6 Gateway Initiatives

2.104. The significant increase in imports and exports that are expected from Canada's ambitious trade negotiations strategy under the GMAP will only be fully realized with the support of an integrated and efficient transportation system. Through its Gateway Initiatives²⁴, Canada continues to demonstrate diligence in improving its gateways and corridors by aligning its transportation policies and investments with international commerce in support of a stronger economy. These initiatives focus on Canada's geographic advantages, public/private collaboration and integrated approaches to optimize infrastructure as well as related policy, regulatory and operational measures intended to promote a competitive business environment.

2.105. Canada, through its Gateway Initiatives, has provided federal investments of \$3 billion in support of 94 strategic trade and transportation projects, leveraging total investments of almost \$14.5 billion since 2007. These projects have addressed bottlenecks, improved the efficiency and reliability of road, port, rail and airport infrastructure across the country and facilitated multimodal connectivity and freight movements. Canada will continue to prioritize transportation infrastructure as a necessary component of its international trade agenda.

2.8.7 Government Procurement Initiatives

2.106. In 2011, the Government Contracts Regulations²⁵ were amended to improve the fairness, openness and transparency of government contracting by deeming integrity clauses to be included implicitly in all federal government bid solicitation documents and procurement contracts. Since fiscal year 2004-2005, the federal government has proactively disclosed all federal contracts exceeding ten thousand Canadian dollars.²⁶ In 2013, the level of transparency of federal contracting was further enhanced under proactive disclosure with additional descriptions of what was procured in certain professional services contracts. In addition, in November 2014 Canada began consolidating all of its proactive disclosure of contracts sites into one single site.²⁷

2.107. Canada has been party to the revised WTO GPA since its entry into force on April 6, 2014. Since 2011, Canada has also completed negotiation of a number of government procurement chapters in bilateral free trade agreements, including those with South Korea and the EU.

2.108. The government procurement commitments of the CETA are unprecedented in their scale and scope. In the CETA, Canada for the first time offered comprehensive commitments in the municipal, academic, social and hospitals (MASH) sectors, as well as extensive coverage of federal-level and sub-central level crown corporations. The CETA procurement commitments will provide EU suppliers and service providers with unparalleled privileged access to procurement opportunities in Canada at all levels of government. As Canada prepares for the implementation of these innovative commitments, ways to better harmonize procurement standards by the different entities are being explored.

²³ Source: Canada's International Education Strategy viewed at: <http://international.gc.ca/global-markets-marches-mondiaux/education/strategy-strategie.aspx?lang=eng>.

²⁴ Source: Canada's Gateways: <http://www.asiapacificgateway.gc.ca/Canadas-Gateways-475.html>.

²⁵ Source: Government Contracts Regulations: <http://laws-lois.justice.gc.ca/eng/regulations/sor-87-402/>.

²⁶ Source: The Government of Canada fiscal year runs April 1-March 31.

²⁷ Source: Open Canada: <http://open.canada.ca/en/search/pd>.

2.109. Within the framework of the TPP, Canada is also negotiating GPA-plus commitments on government procurement.

2.110. In 2012 and 2013, respectively, Canada procured approximately \$15.5 and \$14 billion dollars in goods and services, and construction services.²⁸

2.8.8 Cabinet Directive on Regulatory Management (CDRM)

2.111. Canada updated its policy directive to domestic regulators in 2012 through the Cabinet Directive on Regulatory Management (CDRM). The CDRM outlines key requirements and guidelines during various steps in the regulatory process, as well as international considerations that must be taken into account in order to avoid barriers to trade. This includes minimizing regulatory differences with key trading partners and ensuring that regulators adhere to existing international agreements (e.g. WTO Agreements on Technical Barriers to Trade or Sanitary and Phytosanitary Measures).

2.8.9 Science-based Approach in Agriculture

2.112. As an exporter and importer of agricultural products, Canada is an advocate for a transparent, science-based approach to international rules and standards. This is the basis for Canadian participation in multilateral fora, such as the WTO, and the cornerstone of the Canadian domestic regulatory approach.

2.113. Canada supports the development and use of science-based measures to help protect human, animal and plant life or health, to advance global food security objectives and to increase predictability in international trade flows. Ensuring consumer protection and avoiding unnecessary barriers to international trade through science-based approaches promotes continued advancement in innovative agricultural technologies.

2.8.10 Growing Forward 2 Agricultural Policy Framework

2.114. In 2013, the federal, provincial, and territorial governments renewed the 2008 Growing Forward (GF) policy framework with Growing Forward 2 (GF2)²⁹, extending the framework until 2018. GF2 is funded by the federal and provincial/territorial governments on a 60:40 basis, respectively. The framework provides significant flexibility for provinces and territories to design and deliver programs that address local priorities while supporting shared national outcomes. This five-year agriculture program dedicates \$3 billion in cost-shared funding toward non-Business Risk Management (BRM) strategic initiatives and contains a comprehensive, demand-driven suite of BRM programming.

2.115. The GF framework positions Canada as a world leader in food and quality, innovation and environmentally responsible agriculture production. The GF2 framework represents a historic rebalancing between reactive income support and proactive strategic initiatives, including a 50% increase in cost-shared strategic initiatives, including flexible programming designed and delivered by provincial and territorial governments. It continues to focus on policy areas which will provide the sector the greatest opportunity to derive more of its income from the market while supporting innovation, competitiveness and market development.

2.8.11 Sanitary and Phytosanitary Initiatives

2.116. The Canadian Food Inspection Agency (CFIA) is undertaking significant legislative and regulatory changes to move toward an approach to regulation that is modern and adaptable while maintaining a high level of oversight. The *Safe Food for Canadians Act*³⁰ and the *Agricultural*

²⁸ Source: Annual Purchasing Activity Reports: http://www.tbs-sct.gc.ca/pubs_pol/dcgpubs/con_data/siglist-eng.asp.

²⁹ Source: Growing Forward 2: <http://www.agr.gc.ca/eng/about-us/key-departmental-initiatives/growing-forward-2/?id=1294780620963>.

³⁰ Source: Safe Food for Canadian Act: <http://www.inspection.gc.ca/about-the-cfia/acts-and-regulations/regulatory-initiatives/sfca/eng/1338796071420/1338796152395>.

*Growth Bill*³¹ will enable the adoption of more proactive and preventive approaches and support the shift toward outcome-based requirements. In addition, in developing regulations to implement new legislation, the agency will continue to seek close alignment with international standards to ensure safety but also allow industry to capitalize on global market opportunities. These changes will enable both the CFIA and regulated parties to more readily adjust to emerging risks and global trends, promote innovation and economic competitiveness while at the same time safeguarding food safety, plant and animal health.

2.117. Health Canada, through its *Regulatory Roadmap for Health Products and Food*, has committed to modernizing its food regulatory framework under the *Food and Drugs Act*.³² This will lead to a more efficient and transparent food regulatory system that strengthens the protection and promotion of health and that is better able to respond to advances in science, emerging health and safety issues, and changes in the marketplace such as food technology and innovations in product development, domestically and globally. The process of modernization began in 2012, with new "marketing authorization" and "incorporation by reference" authorities under the *Food and Drugs Act* that enable better responsiveness and efficiency in the regulation of substances in or on food, such as food additives and contaminants, and of representations made about food, such as nutrient content and health claims. To date, Health Canada has made use of these new authorities to put in place modernized regulatory systems for food additives and maximum residue limits for veterinary drugs in foods. A proposal to modernize the regulatory system for rules pertaining to contaminants and other adulterating substances in foods has also been published for consultation. Moving forward, Health Canada continues to explore the use of these and previously existing authorities to modernize other elements of the food safety regulatory framework, seeking to align, where appropriate, with international approaches and standards consistent with its broader participation in and contribution to regulatory cooperation and international standard-setting activities.

2.8.12 Other Agricultural Policy Initiatives

2.118. Supply management is the collective, orderly marketing system under which the dairy, chicken, turkey, eggs and broiler hatching eggs sectors operate in Canada. Supply management provides competitive producers with the opportunity to receive fair returns on their labour and investments and promotes stable farm incomes. It also provides consumers with a steady supply of high-quality products at predictable and stable prices, and maintains jobs in many rural communities across Canada. The spin-off impact of milk and poultry production and processing contribute to many other industries, all of which help support small economies and create vibrant rural communities. Canada adopted the supply management system for milk in the early 1970s to address, *inter alia*, unstable prices, uncertain supplies and fluctuating producer and processor revenues. The poultry and egg industries followed in the 1970s and 1980s. Under the supply management system, national and provincial marketing boards control the supply of their product(s) to meet the demand of the Canadian market using production quotas. Registered quota holders (i.e., producers) then obtain a price for their production that provides them with a fair return on their labour and investments. Finally, agricultural tariff-rate quotas ensure predictable import levels and thus maintain the efficiency of production and price controls for supply-managed products.

2.8.13 Inter-Provincial Trade Initiatives

2.119. The Agreement on Internal Trade (AIT)³³, a federal-provincial-territorial accord which came into effect in 1995, aims to reduce and eliminate, to the extent possible, barriers to the free movement of persons, goods, services and investment within Canada, and to establish an open, efficient and stable domestic market.³⁴ The agreement's negotiated chapters are: government procurement; environmental protection; consumer-related measures and standards; labour mobility; investment; agricultural and food products; alcoholic beverages; communications; transportation and natural resources processing.

³¹ Source: Agriculture Growth Bill: <http://foodsecurecanada.org/resources-news/news-media/bill-c-18-agricultural-growth-act>.

³² Source: Food and Drugs Act: http://www.hc-sc.gc.ca/fn-an/legislation/acts-lois/act-loi_reg-eng.php.

³³ Source: Agreement on Internal Trade: http://www.ait-aci.ca/index_en/ait.htm.

³⁴ Source: Agreement on Internal Trade – Consolidated Version, 2010, Article 100: http://www.ait-aci.ca/index_en/ait.htm.

2.120. The AIT is an evolving agreement that is overseen by the Committee on Internal Trade (CIT), comprised of federal-provincial-territorial member Ministers, who can consider ways to improve the agreement. At their meeting in November 2014, CIT Ministers agreed to participate in a comprehensive renewal of the AIT. Using the existing AIT and considering the desire to ensure more consistency with modern international trade agreements, it was proposed that early efforts focus on the following priority areas: government procurement, goods, services, investment, technical barriers to trade and regulatory cooperation. At this point work is ongoing, with the goal of concluding negotiations on a renewed AIT by March 2016. This work will build on substantial progress that had already been made, for example, in removing barriers to labour mobility and agriculture trade, and ensuring more enforceable government-to-government dispute resolution.

2.121. Implementation of the revised Labour Mobility Chapter of the AIT, which came into effect in 2009, has progressed well. The chapter's provisions stipulate that a worker certified for an occupation by a regulatory authority of one AIT party will be certified for that occupation by all other AIT parties to which the worker applies. Prior to the 2009 amendments, regulated workers moving from one AIT party to another faced a wide range of barriers such as additional exam requirements, re-examination and re-training. There are few exceptions that may be made on the basis of achieving a legitimate objective, such as public health, security and consumer protection. In August 2012, amendments to the AIT were ratified to include coverage of regulated financial services occupations, which brought these occupations under the provisions of the Labour Mobility Chapter. The chapter now applies to all regulated occupations across Canada. Implementation work has also been ongoing to bring into effect the provisions of the revised Agricultural and Food Goods Chapter, revised in November 2010, and covering the trade of agriculture and food products other than in supply managed sectors. Specifically, revisions have been made to extend the scope of non-discriminatory commitments that provide for free trade of agricultural and food across provincial and territorial boundaries beyond the modest number of technical measures previously covered. In addition to the strengthened trade provisions, since the last review period AIT parties have ensured legislative implementation in each of their respective jurisdictions to formally implement a stronger dispute resolution mechanism for government-to-government disputes under the AIT, as agreed by internal trade ministers in October 2009. As part of the new enforcement provisions, monetary penalties may be imposed on Canadian governments for continued failure to comply with AIT obligations. Further to direction from Canada's Provincial and Territorial Premiers, CIT Ministers have also been working to develop options to improve the person-to-government dispute resolution mechanism.

2.122. In addition to the AIT, some provinces have advanced their own complementary agreements to further liberalize internal trade in their regions. British Columbia, Alberta and Saskatchewan entered into the New West Partnership Trade Agreement, which came into full effect in 2013. On October 1, 2009, the Trade and Cooperation Agreement between Québec and Ontario came into effect. It aims to enhance economic integration between the two provinces and promote cooperation to address common challenges and pursue further initiatives. The scope of these agreements goes beyond the AIT and includes enforceable dispute mechanisms for both government-to-government and person-to-government internal trade disputes. There has also been work to update the 2009 New Brunswick and Nova Scotia Partnership Agreement on Regulation and the Economy, which is designed to streamline regulatory procedures in these provinces.

3 CONSULTATIONS AND TRANSPARENCY

3.1. Canada highly values the involvement of its diverse citizenry in the development, design, and evaluation of public policies and services as they relate to international commerce. This is facilitated through formal and informal consultation and citizen outreach processes and mechanisms that are transparent, accessible and accountable. More precisely, Canadians play an important role in identifying options and priorities in the development and review of Canada's international commerce policies, programs and services. Working within and across all levels of government, Canada continues its broad-based approach to eliciting the views of the general public and stakeholders from business, industry and academic research communities, as well as interested citizen-based organizations and public interest groups.

3.2. Canada has a long-standing practice of federal-provincial-territorial consultation with regard to international trade. Canada remains committed to an open and collaborative approach to international trade negotiations. Primarily through DFATD, Agriculture and Agri-Food Canada

(AAFC) and other government departments, Canada manages a series of formal consultation mechanisms with provinces and territories on international trade issues at the senior official, deputy ministerial and ministerial levels. This approach promotes information-sharing and open dialogue and ensures that Canadian positions are informed by provincial and territorial views regarding trade in goods, services, investment, government procurement and intellectual property.

3.3. Canada also consults with municipalities on questions relating to Canada's trade agreements and negotiations. In this context, DFATD and the Federation of Canadian Municipalities (FCM)³⁵ co-chair a Joint Working Group (JWG) on International Trade in order to provide a forum for dialogue to enable municipal perspectives and concerns to be factored into the international trade policy formulation process. This is in line with the GMAP commitment to strengthen and renew the partnership with the FCM to ensure that communities of all sizes across Canada benefit from, contribute to, and work alongside the Government of Canada toward shared objectives.

3.4. On the management of WTO trade disputes, the federal government seeks the participation of appropriate provinces and territories when Canada must respond to a dispute involving provincial/territorial programs or measures. Representatives of provinces and territories normally work closely with federal officials responsible for the dispute and they are often part of the Canadian delegation.

3.5. Canada also attaches great importance to the role of parliamentarians in developing Canada's trade agenda. The work of parliamentary committees serves as the key instrument for parliamentarians to contribute to the development of Canada's trade strategy. Further, Canada tables international treaties, including FTAs, in the House of Commons for a period of 21 sitting days before taking steps to bring these treaties into force. This process allows further parliamentary debate and review of Canada's international agreements.

3.6. Canada is committed to a consultative framework that engages non-governmental stakeholders. The Minister of International Trade's SME Advisory Board meets with the Minister semi-annually to provide strategic private sector advice on key international commerce questions and issues affecting SMEs. These meetings provide an opportunity to hear about the challenges that affect the ability of Canadian companies to undertake international business as well as to provide input on international business development strategies. Ad-hoc consultations are also held to address specific issues that arise.

3.7. The GMAP Advisory Council, announced as part of the GMAP launch in November 2013, is another mechanism through which the private sector is consulted on trade. The Advisory Council will comprise business and industry leaders, experts in international business and key representatives from the SME community to bring together the voices of all businesses, big and small and provide strategic insight, advice and real-world perspectives.

3.8. Senior Government of Canada officials also meet with the public on a regular basis. Through various sector advisory boards, senior business leaders provide tactical input on policy and program developments and provide strategic advice on aligning government programs and services to industry needs. Non-governmental organizations and academics are consulted on specific issues.

3.9. The Government of Canada also consults the public on major trade initiatives, including the possible launch of trade negotiations, by soliciting comments and feedback through the publication of notices in Canada's Official Journal, the Canada Gazette.³⁶ Such notices cover a broad range of issues, including issues related to goods and services trade, investment, and the possible environmental impacts of trade agreements.

4 TRADE AND DEVELOPMENT

4.1. Canada's approach to trade and development rests on the fundamental economic principle that open trade and liberalisation contribute positively to economic growth and development.

³⁵ Source: Federation of Canadian Municipalities: <https://www.fcm.ca/home.htm>.

³⁶ Source: Canada Gazette: <http://www.gazette.gc.ca/gazette/home-accueil-eng.php>.

4.2. Canada also recognizes that the achievement of significant political, economic, social, and environmental progress in the developing world will have a positive impact on prosperity and long-term security, sustain a global reduction in poverty, and contribute to a better and safer world. Dynamic, growing economies create jobs and higher incomes and become markets for Canadian goods and services. Developing countries in Asia, Africa and Latin America have shown repeatedly that growing the economy is the best way to help people permanently lift themselves out of poverty.

4.3. Economic growth, in turn, generates the financial resources that governments of developing countries need to invest in the well-being of their citizens. When governments create the right economic conditions, they can spur investment and innovation and stimulate trade. They can produce a fair, open and equitable marketplace in which the enterprises that drive the economy can grow and succeed, and in which citizens can prosper.

4.4. International trade and investment flows are essential drivers of sustainable economic growth and play a central role in broad-based poverty reduction. Canada's own experience of sustainable economic growth underscores the importance of open trade and free markets governed by prudent policy and sound regulation. A balanced, rules-based international trading system will support developing countries' efforts to expand their economic opportunities and reduce poverty. Canada's commitment to the DDA reflects Canada's trade interests while adhering to the principles of development effectiveness and Canada's priorities for development assistance. From 2008-09 to 2013-14, DFATD provided close to \$60 million in funding for trade facilitation, including a \$2 million contribution to the World Bank's *Trade Facilitation Support Program*.

4.5. Because of challenges caused by a lack of institutional, regulatory and human capital capacity, some developing countries need support to take advantage of the opportunities presented by increased trade. In its trade facilitation projects, Canada addresses institutional, regulatory and commercial constraints that inhibit export-led growth in developing countries or regions, allowing developing countries to benefit from technical and trade-related development assistance.

4.6. Through Canada's Economic Action Plan 2013 on March 21, 2013, Canada announced the amalgamation of Canadian International Development Agency (CIDA) and Department of Foreign Affairs and International Trade (DFAIT). Since that time DFATD has worked to facilitate a more coherent approach to Canadian international policy, support the achievement of Canada's international goals, as well as provide improved outcomes for Canadians through more efficient, effective and targeted programming.

4.7. In support of the Canada's Economic Action Plan, Canada's pro-trade plan commits the Government of Canada to expanding and enhancing Canada's trade relations, including through bilateral and regional trade agreements. In support of this, the Minister of Foreign Affairs announced the establishment of the Canadian Trade and Development Facility (CTDF) in June 2014. The CTDF will compliment Canada's Sustainable Economic Growth Strategy, which serves as one of the first examples of DFATD's focus on trade and development policy coherence. The objective of the CTDF is to help developing country partners negotiate, implement, benefit from and adapt to free trade agreements or foreign investment promotion and protection agreements with Canada and offers a suite of mechanisms that can be deployed, on a responsive basis, to provide assistance to developing partner countries. The CTDF will provide up to \$25 million per year, and will do so over 5 years.

4.8. In support of a renewed focus on trade and development, Canada has also developed a number of other trade related mechanisms. For example, the *Canada-Asia Trade and Investment for Growth Program* (TRIGR) is a responsive and directive technical assistance program with annual budget of \$20 million designed with a focus on trade and investment in support of sustainable economic growth and poverty reduction through engagement with the private sector. Some programming areas include, for example, local private access to finance, public-private partnerships for infrastructure, trade facilitation, business development, regional integration, agribusiness and extractives. Other trade-related initiatives include the *Facilitating Exports to Canada for Sustainable Economic Growth* delivered by Trade Facilitation Office Canada, and the *Canada-Americas Trade-Related Technical Assistance Program (CATRTA)* addressing FTA implementation needs in Latin America. CATRTA's budget was set at \$17 million dollars over 5 years.

4.9. Canada will continue to use its development assistance programming to provide trade-related assistance and support the GMAP. This support is an important element that delivers on Canada's Sustainable Economic Growth Strategy - with its emphasis on building economic foundations, growing businesses and investing in people - aims for concrete results that will make a significant and sustainable difference in reducing global poverty.

4.10. As of January 1, 2015, Canada modernized its Generalized System of Preferences (GSP) regime, known as the General Preferential Tariff (GPT), to ensure that it is appropriately aligned with the current global landscape and similar programs in other GSP-granting countries. The GPT was extended by legislation for another ten years until December 31, 2024. Canada also realigned the scope of the program so as to target the benefits of the program to the countries most in need of this type of assistance.

5 TRADE AND ENVIRONMENT

5.1. Canada continues to show leadership in its commitment to the mutual supportiveness between trade and environmental protection objectives and policies, including in the context of multilateral, regional and bilateral dialogue, cooperation, engagement, negotiations and agreements. This commitment is reflected in all of Canada's recently concluded FTAs, including its agreements with the EU and with South Korea, which include ambitious, binding environmental obligations.

5.2. The CETA's Trade and Environment Chapter provisions, consistent with Canada's existing environment agreements negotiated in parallel to FTAs, include commitments to foster good environmental governance, effectively enforce environmental laws, not waive or derogate from those laws in order to promote trade or investment, and promote public participation and transparency. In addition, the CETA expands the areas Canada traditionally covers in its environmental provisions by recognizing the importance of managing forests, fisheries and aquaculture in a sustainable way. The CKFTA reinforces this evolution by also including a Trade and Environment chapter in the FTA.

5.3. Canada also continues to pursue cooperation and dialogue on environmental matters of shared interest through the cooperative frameworks established in its environment agreements negotiated in parallel to FTAs. In the context of these agreements, Canada has engaged in cooperation activities focusing on themes such as climate change, biodiversity conservation, contaminated sites management and environmental enforcement, with a view to strengthening environmental governance frameworks and enhancing collaboration and information sharing. Moreover, in support of global efforts to combat illegal, unreported and unregulated fishing and its negative environmental and economic impacts, Canada is working toward ratification of the Food and Agriculture Organization's Port State Measures Agreement in a timely manner.

5.4. Canada believes that market-based solutions, including the free flow of environmental goods and services, are important to achieve sustainable development. Canada has actively contributed to the work of the WTO Committee on Trade and Environment, both by advancing the regular work of the Committee and by seeking to fulfil its negotiating mandate under the DDA. In order to address global environmental challenges, Canada is working collaboratively with international partners to reduce and, as appropriate, eliminate tariff and non-tariff barriers on key environmental goods, including sustainable or clean technology goods in addition to the liberalization of environmental services. For example, Canada has fully implemented, two years ahead of the deadline, the APEC commitment to liberalize trade in a list of 54 environmental goods by capping applied tariffs at 5%. Drawing on this APEC initiative as well as past work within the WTO, Canada worked with other WTO members to launch new plurilateral negotiations on a WTO Environmental Goods Agreement on July 8, 2014. Canada actively supports an ambitious outcome to this negotiation, which if concluded, would complement green growth and sustainable development objectives of WTO members.

5.5. Additionally, Canada is a strong proponent of further liberalization in the environmental services sector in bilateral and multilateral trade negotiations as well as through other international initiatives.

Environmental Assessments

5.6. Furthermore, Canada continues to ensure the environmental sustainability of its trade negotiations by conducting Strategic Environmental Assessments (SEAs) of trade negotiations and agreements. The development of SEAs ensures mutually supportive trade and environmental outcomes, in accordance with the Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals.³⁷ These SEAs are consulted fully throughout the negotiations phase with the interdepartmental, academic, NGO and private sector communities.

6 TRADE AND LABOUR

6.1. Canada addresses the labour dimensions of economic integration and the promotion of respect for fundamental labour principles and rights through the negotiation and implementation of Labour Cooperation Agreements (LCAs) and/or labour chapters within FTAs (LCFTAs) with its free trade partners. To date, Canada is signatory to the North American Agreement on Labour Cooperation with the U.S. and Mexico, the Canada-Chile Agreement on Labour Cooperation, the Canada-Colombia Agreement on Labour Cooperation, the Canada-Costa Rica Agreement on Labour Cooperation, the Canada-Honduras Agreement on Labour Cooperation, the Canada-Jordan Agreement on Labour Cooperation, the Canada-Panama Agreement on Labour Cooperation and the Canada-Peru Agreement on Labour Cooperation. In addition, Canada is signatory to the Canada-Korea Free Trade Agreement and has completed negotiations for the Canada-European Union: Comprehensive Economic and Trade Agreement, both of which include a labour chapter rather than stand-alone LCAs. Labour provisions negotiated in the context of Canada's trade agreements and placed either in a separate stand-alone LCA or in a chapter of the FTA seek to improve working conditions and living standards in the signatory countries and to protect and enhance basic workers' rights.

6.2. Canada's perspective on policy coherence in the area of trade, employment and labour is also demonstrated through support for multilateral processes. Since the 2001 Summit of the Americas in Quebec City, Canada has championed the promotion of core labour standards and better working conditions, as well as improvement of the institutional capacity of labour ministries in the hemisphere through the Inter-American Conference of Ministers of Labour which operates under the Organization of American States. Canada also supports the work of the International Labour Organization, including the promotion and realization of the Decent Work Agenda.

6.3. The Government of Canada's International Trade and Labour stream of the Labour Funding Program provides financial support for Canada to enter into cooperative activities and provide technical assistance to support the implementation and enforcement of the labour-related commitments set out in LCAs and LCFTAs and in cooperative frameworks with other countries. Funding priority is generally given to countries that have signed an LCA or LCFTA with Canada, followed by countries involved in active LCA negotiations and countries of national interest. The yearly budget for this stream is approximately \$1.1 million.

7 CONCLUSION

7.1. Trade continues to define Canada's economic prosperity. Canada has emerged from the global economic recession with a focus on actions that bolster the drivers of growth and job creation: innovation, investment, education, skills and communities. Canada's current and future prosperity depends on an international framework of rules that provides access to growing world markets and keeps pace with changes in technology and business practices.

7.2. To enhance Canada's competitive edge in an increasingly interdependent global economy, Canada is pursuing deeper trade and investment ties with many of the largest, most dynamic and fastest-growing markets in the world. It is through this ambitious pro-trade and pro-investment strategy that Canada is working to further liberalize trade and investment, keep markets open, and prevent new protectionist measures.

³⁷ Source: Privy Council Office and Canadian Environmental Assessment Agency – Cabinet Directive for the Environmental Assessment of Policy, Plan, and Program Proposals: <https://www.ceaa-acee.gc.ca/default.asp?lang=en&n=B3186435-1>.