

Trade Policy Review Body

TRADE POLICY REVIEW

CANADA

Report by the Secretariat

Revision

This report, prepared for the seventh Trade Policy Review of Canada, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the Government of Canada on its trade policies and practices.

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SUMMARY OBSERVATIONS

1. Since Canada's previous Review in December 2000, adjustments in its trade policies and practices have confirmed that its trade regime is amongst the world's most transparent and liberal, notwithstanding barriers to imports in a few albeit important sectors. Sound economic policies and an outward-looking trade regime have allowed Canada to maintain economic growth in the face of the global economic slowdown, including in the United States with which the Canadian economy is closely integrated. To diversify its economic relationships, and for reasons of political cooperation, Canada has actively sought to expand its network of preferential agreements, which have further liberalized its trade regime but raise the possibility of distorting trade and investment flows.

2. Although the Canadian economy is generally free from significant policy-induced distortions, a number of activities remain subject to interventions, notably in agriculture, textiles and clothing, steel, telecommunications, audiovisual, air and maritime transport, and insurance. In several of these sectors change is under way. Carrying on additional reforms would help reduce remaining barriers to trade and investment and improve resource allocation. The latter is an important consideration as Canada's experience shows the benefits for improved living standards of pro-competitive policies that support production based on comparative advantage.

(1) ECONOMIC AND POLICY DEVELOPMENTS

3. The Canadian economy has successfully weathered the recent slowdown in the world economy, posting relatively strong growth rates at a time of reduced global economic growth. After stalling in 2001, economic growth recovered in the wake of strong domestic demand, and proceeded at rates above 4% in the first half of 2002, before slowing down somewhat in the second half. Inflation has been kept under control, under Canada's successful target policy, which seeks

to limit inflation to around 2% a year. Low inflation, together with fiscal discipline in previous years, has made it possible to use counter-cyclical fiscal policy and to ease the monetary stance to stimulate growth.

4. Canada accounts for 5.5% of total world exports and for 4.5% of world imports: in 2001, Canada was the world's fifth largest trader. Trade and foreign investment play a particularly important role in Canada's economy. Trade, equivalent to some 80% of GDP, is largely with the United States, which accounts for some 85% of Canada's exports, and 66% of its imports. Although this makes the Canadian economy potentially vulnerable to events in the United States, Canada has successfully withstood the effects of the U.S. slowdown since 2000. Canada has also made remarkable progress in the reduction of its public debt burden, as the federal debt to GDP ratio fell from 71% in 1995 to 49% in 2002.

5. Canada's trade and investment policies are formulated jointly by the Federal Government and the provinces and territories; this frequently involves consultations with the private sector and with Canadian citizens. Canada considers the WTO as the foundation for its trade policy and relations. Since its last Review, Canada has been actively engaged in the current round of WTO negotiations, with a view to strengthening existing rules and widening the scope of WTO disciplines. Canada has been involved as a complainant in various cases under the WTO dispute settlement mechanism, (e.g., aircraft, beef); concurrently, a number of long-established Canadian sectoral support programmes have been challenged under multilateral rules, including those for dairy exports and aircraft.

6. Canada considers that multilateral, regional, and bilateral initiatives are mutually reinforcing, and paramount importance is given to managing the relationship with the United States. Canada has continued to negotiate free-trade agreements (FTAs), resulting in an elaborate system of preferential tariffs and rules of origin that, although outward oriented, could potentially distort

trade and investment flows. Canada has concluded FTAs with Chile, Costa Rica, Israel, Mexico, and the United States, and is exploring such links with Caribbean, Central American and Andean countries; it is also negotiating with EFTA and Singapore. Canada provides unilateral tariff preferences to developing countries under the Generalized Preferential Tariff (GPT), the Least Developed Country Tariff, and under the CARIBCAN.

(2) MEASURES DIRECTLY AFFECTING IMPORTS

7. Since its last Review, Canada has continued to liberalize its trade regime. Simplified customs procedures have been introduced both to facilitate trade and reinforce border security. MFN tariffs have been slightly reduced on a large array of products, and the average MFN tariff has declined from 7.2% to 6.8%. However, considerably higher tariffs continue to apply to agri-food, clothing, and boats and ships. In particular, the production of dairy products and margarine, as well as chicken, turkey, eggs and broiler hatching eggs is protected by out-of-quota tariffs that frequently exceed 200%; in-quota access is in some instances extremely small, or reserved for imports covered by certain preferential arrangements. Tariff concessions favouring members of the 1965 Canada-U.S. Auto Pact were eliminated in February 2001 following a WTO Dispute Settlement Panel.

8. Among preferential partners, tariffs applicable to imports from Chile and Mexico have been further reduced. In November 2002, tariff preferences were granted to imports from Costa Rica under the FTA concluded in 2001. Duty-free and quota-free treatment for least developed countries was announced, effective in January 2003.

9. Canadian producers have continued to seek protection from imports considered to be dumped through anti-dumping actions. In 2000 and 2001, 46 new anti-dumping investigations were initiated and 32 new final measures and one undertaking were imposed.

As at December 2001, 91 anti-dumping measures plus three price undertakings were in force. As a result of sunset reviews, this number had been reduced to 87 in June 2002. Some 70% of the duties applied cover steel products. The duration of anti-dumping actions has come down, but some 9% of measures have been in place for ten years or more.

10. In March 2002, Canada initiated its first safeguard investigation since the establishment of the WTO, concerning nine steel products. Recommendations on the application of measures for five of these products were issued by the Canadian International Trade Tribunal in August 2002. No measure had been taken as at December 2002. When conducting safeguard investigations, special rules apply to imports from other NAFTA countries, and from Chile and Israel under their respective FTAs with Canada.

(3) OTHER MEASURES AFFECTING TRADE

11. Quantitative restrictions on imports relate mostly to security, safety, environmental, health, and sanitary issues. Sanitary and phytosanitary measures have resulted in meat from ruminants being imported from only six countries in early 2003. Although a large number of technical regulations is in place, Canada's Standards Strategy aims at promoting the use of (voluntary) internationally accepted standards to the greatest extent possible.

12. Market distortions may arise from local-content, performance or purchasing requirements maintained by certain provinces. They affect mainly alcoholic beverages and the mining sector. In a number of provinces, local wines benefit from less restrictive marketing conditions than foreign products. Federal local-content requirements apply in the "cultural" sectors. Canada limits exports of a number of items to ensure sufficient supplies for domestic industries. Products affected include logs, and fish from certain provinces.

13. Federal and provincial assistance is extended to selected economic activities, with effects on production and, potentially, trade and investment. A significant share of total financial transfers to the economy goes to the agri-food sector. Support to the aircraft sector has continued to be a source of trade friction. Federal and provincial government-owned enterprises with special or exclusive privileges are involved in alcoholic beverages and wheat trade. The production of dairy products, poultry and eggs is supply-managed by public sector agencies.

14. Canada maintains a transparent government procurement regime. It grants national treatment for procurement covered by the WTO Agreement on Government Procurement (GPA) and other international agreements. Procurement not covered by these agreements is based on reciprocity, and must in general be supportive of national objectives. Canada has yet to table an offer at the subfederal level under the GPA. Provinces have their own procurement agencies, and some grant regional or local preferences for procurement not falling within the scope of the domestic Agreement on Internal Trade. For other procurement, provinces grant similar access conditions to suppliers from the rest of Canada, but do not extend this automatically to foreign suppliers.

15. New legislation on competition policy, which came into effect in June 2002, extended considerably the powers of the Canadian Competition Tribunal. The new law also amended several aspects of competition policy legislation, including granting private parties the right to apply directly to the Competition Tribunal to address matters regarding refusal to deal, tied selling, exclusive dealing, and market restrictions. Canada considers international cooperation in competition policy as an important element to accompany trade liberalization, and has addressed the issue at the bilateral, regional, and multilateral levels. The legislation passed in 2002 facilitates this cooperation.

16. Canada has shown active interest in intellectual property-related work at the WTO, where its own legislation has faced a number of legal challenges. To bring its legislation into conformity with a WTO Appellate Body decision, Canadian patent law was amended in 2001. Canada signed the Patent Cooperation Treaty in May 2001, which required making amendments to Canadian Patent Rules. In December 2002, the Supreme Court ruled that higher life forms cannot be patented. A bill to amend the compulsory licence provisions of the Copyright Act is under consideration.

(4) POLICIES IN SELECTED NON-SERVICE SECTORS

17. The agriculture and related processing sector is an important generator of employment, export revenue, and value added. Reflecting this, an Agricultural Policy Framework is being developed to help the sectors respond better to consumer demand and global competition. Nevertheless, the sector remains a large recipient of financial assistance, which increased in 2001, reversing earlier trends. Although Canadian assistance to agriculture remains minor relative to other large agricultural exporters, it can compound the problem of subsidies and market distortions affecting world markets. The main forms of assistance include income support and crop insurance programmes. As noted, import restrictions in the form of high tariffs apply mainly to dairy and poultry, although tariffs on agri-food products are higher than average. The government-owned Canadian Wheat Board has a monopoly for domestic sales and exports of most wheat, durum, and barley produced in Canada.

18. The textiles and clothing sector has traditionally benefited from import protection and adjustment assistance. The main trade measures are import quotas, affecting half of the value of imports, and high tariffs. Since 2000, under WTO commitments, tariffs have been reduced and a third phase of quota elimination implemented. Partly as a result of the liberalization, imports gained further

market share, while some Canadian manufacturers successfully tapped the U.S. market as a source of growth.

19. The Canadian steel industry has experienced a decline in production and exports during the period under review. Productivity has improved but pressures for protection have increased. The trend to increase protection to the steel industry is evidenced by the high number of anti-dumping investigation initiations concerning steel products. Provisional duties were applied in most cases. As noted, in March 2002 Canada launched a safeguard investigation into imports of steel products from all countries, the result of which was a recommendation for possible action for five products. Under Canada's steel import monitoring programme, last renewed in August 2002 for three years, individual automatic import permits are required for each shipment of carbon and specialty steel products.

(5) POLICIES IN SELECTED SERVICES

20. Canada's market access in services has been further enhanced since 2000. A liberal environment is provided for foreign commercial presence in Canada's financial services industry, and the range of operations that foreign bank branches may undertake has been further expanded. Recent reform has also brought a relaxation of the limits on individual ownership of large banks and insurance companies; unlike the banking sector, which is mostly federally regulated, insurance companies are also regulated at provincial level, which may complicate market access.

21. Competition appears to have increased in the telecommunications sector, and the cost of certain services has dropped. There have been no major regulatory changes affecting market access or national treatment in telecommunications, and Canadian domestic ownership requirements remain in place for facilities-based carriers. Canada also controls foreign participation in the audio-visual sector, so as to support Canadian cultural content, but changes have taken place regarding access to foreign satellite services.

22. In the airline industry, the main forms of support to operators are barriers to foreign ownership of airlines and to cabotage. Since 2000, Canadian competition law has been amended to put in place a special regime for domestic airlines, and to add further provisions regarding predatory behaviour in the airline industry. In addition, the individual share ownership limit in Air Canada was eliminated in late 2001. New regulations have liberalized charter services.

23. Gradual reform in the maritime transport sector aims to increase competition both among carriers and among ports, to shift the financial burden of port management from taxpayers to users, and to down-size and commercialize infrastructures in order to increase efficiency and lower costs in the ports system. Conference operations were made subject to greater competition. Cabotage remains reserved for Canadian-flag ships.