WORLD TRADE ORGANIZATION

WT/TPR/S/179/Rev.1
4 June 2007

(07-2289)

Trade Policy Review Body

TRADE POLICY REVIEW

Report by the Secretariat

CANADA

Revision

This report, prepared for the eighth 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 Canada on its trade policies and practices.

Any technical questions arising from this report may be addressed to Ms. Katie Waters (tel. 022 739 5067), Mr. Karsten Steinfatt (tel. 022 739 6759), and Mr. Raymundo Valdés (tel. 022 739 5346).

Document WT/TPR/G/179 contains the policy statement submitted by Canada.

CONTENTS

CHARTS

TABLES

APPENDIX TABLES

SUMMARY OBSERVATIONS

1. Canada's trade regime has not changed significantly since its last Review in 2003. The outward-looking orientation of the regime has facilitated the economy's successful adjustment to a number of external shocks, and helps explain Canada's good economic performance during the period under review. However, productivity growth has been relatively slow, significant trade barriers still protect certain agricultural activities, and foreign investment restrictions remain in areas such as telecommunications, audiovisual, and air transport. Reform in these sectors could lower costs to Canadian taxpayers and consumers while increasing productivity and competition in the domestic market. Ultimately, addressing remaining policy-induced distortions would help ensure that Canadians continue to enjoy one the highest living standards in the world.

(1) ECONOMIC ENVIRONMENT

2. Annual average GDP growth between 2002 and 2005 was just below the economy's potential of 3%. This overall positive performance was underpinned by sound macroeconomic policies. On the fiscal front, Canada has posted federal surpluses since its last Review. The provinces have also practiced fiscal discipline, resulting in a combined provincial surplus of 1% of GDP in fiscal year 2005/06. Canada has made progress in reducing its federal debt burden, with the debt-to-GDP ratio falling to 35% in 2005/06, from almost 44% in 2002/03.

3. Canada continues to apply the inflation targeting regime introduced in 1991, and inflation has remained within the target of 1-3%. The Canadian dollar appreciated by about 40% in nominal terms against the U.S. dollar between 2002 and the third quarter of 2006. There was real effective appreciation of the Canadian dollar of some 36% during the same period. During the fourth quarter of 2006, the Canadian dollar depreciated somewhat, both in real and nominal terms.

4. Trade and foreign investment are particularly important for Canada, which is the world's fifth largest merchandise trader. Goods and services trade was the equivalent of close to 72% of Canada's GDP in 2005. Although most of Canada's trade continues to take place with the United States (71% of merchandise trade in 2005), imports have diversified away from this source, reflecting primarily the growing importance of China as a supplier. The composition of merchandise trade has also changed considerably, with the share of fuels in total exports rising from 14% in 2001 to 20% in 2005. During the same period, the outward FDI stock increased by 16.5% (to Can$465 billion), while inward FDI grew by 22.1% (to Can$416 billion).

5. Canada's good performance in recent years is both indicative of and partly attributable to the economy's flexibility, as growth has taken place against the backdrop of significant shocks, including soaring energy prices, booming oil and gas production, and exchange rate appreciation. On the other hand, relatively slow productivity growth is a feature of the economy, possibly as a result of a lack of capital deepening during the 1990s. Productivity growth could be accelerated by, among other things, eliminating barriers to agricultural imports, removing restrictions on foreign investment, minimizing subsidies that distort competition, and dismantling obstacles to internal trade.

(2) TRADE AND INVESTMENT POLICY FRAMEWORK

6. Canada's framework for trade and investment policy has not changed significantly since 2003. This framework is based on shared federal-provincial competencies, and involves regular consultations between the Federal Government, provinces, industry, non-governmental and public interest groups, and the public at large. It also includes an agreement to identify and reduce interprovincial barriers to trade and investment. Canada has stated that its growth *prospects depend on open world markets and a stable, predictable, and transparent trading environment.*

7. Canada participates actively in the WTO, which it considers as the central element of its trade policy and the best forum for broad-ranging market access improvements in many areas of interest to Canada. Canada has made numerous proposals in the context of the current round of WTO negotiations. In addition to the multilateral track, Canada pursues preferential trade and investment initiatives, although no new preferential trade agreements have been concluded since 2003. Canada gives paramount importance to managing its trade relationship with the United States, and achieves this largely through the NAFTA and the WTO.

8. Canada maintains a general policy of national treatment for foreign direct investment; however there are sector-specific restrictions related to fishing, mining and energy, air transport, telecommunications, and cultural activities. Moreover, a foreign acquisition above a given threshold is subject to review to ensure that it results in a "net benefit" to Canada.

(3) MARKET ACCESS FOR GOODS

9. Canada's trade regime has undergone only minor changes since 2003. Canada grants at least MFN tariff treatment to all WTO Members. The simple average applied MFN tariff declined slightly, from 6.8% in 2002 to 6.5% in 2006. Around 53% of all tariff items entered Canada duty free in 2006. This same year, the average applied tariff on agricultural products (WTO definition) was 22.4%, compared with 3.8% on other products. Supply-managed agricultural products receive the highest tariff protection. There is tariff escalation between semi-processed and fully processed products. Under remission orders, tariff reductions are granted on specific goods used for certain purposes.

10. Canada grants tariff preferences unilaterally, according duty-free and quota-free treatment to virtually all imports from least developed countries except Myanmar. Canada also grants tariff preferences in the context of free-trade agreements with Chile, Costa Rica, Israel, and Mexico and the United States, as well as to Australia and New Zealand on a handful of products. As for many other WTO Members, Canada's participation in preferential trade agreements and negotiations raises concerns about resources being distracted away from the multilateral trading system.

11. Internal taxes are applied equally to imported and domestic products except for wine produced from Canadian-grown grapes, which is exempt from federal excise duties, and for initial production volumes of beer made by domestic brewers, which are subject to lower excise duties than imported beer.

12. There has been a sharp reduction in Canada's use of contingency measures during the period under review. It had 48 anti-dumping (AD) measures in force at the end of June 2006, compared with 91 measures in 2003, as well as five countervailing measures. None of the three safeguard investigations initiated since 2003 resulted in safeguard measures being imposed. Canada operates a prospective anti-dumping enforcement system in which exporters are informed of normal values for the products they export to Canada. If future sales are made at prices equal to or higher than the normal value of the product, no duties are assessed. Goods may be subject to anti-dumping, countervailing, and safeguard measures simultaneously.

13. Canada's quantitative import restrictions and licensing requirements are mostly in place for security, safety, environmental, health, and sanitary reasons. The importation of used motor vehicles is prohibited, except when they originate in the United States. Under Canada's federal regime the Federal Government as well as provincial and territorial governments have the authority *to promulgate technical regulations and sanitary and phytosanitary measures. Canada notified numerous regulations and measures to the WTO during the period under review, including one technical regulation at the provincial/territorial level. Canada is examining alternatives to facilitate notification of appropriate sub-national technical regulations in a timely manner.*

(4) EXPORT MEASURES

14. Canada has in place a variety of programmes to assist exports. Export Development Canada (EDC), which is Canada's main export credit agency, offers a range of export finance and insurance programmes. EDC financing has been the subject of two WTO dispute panels, both of which found some aspects inconsistent with multilateral rules. Export guarantees are provided by the Canadian Commercial Corporation. There is coordination between all levels of government in Canada to assist companies in promoting their exports. Tax and duty relief schemes also exist for exported goods.

15. Export taxes are applied on softwood lumber exported to the United States when the agreed reference price for lumber falls below a certain threshold. This is the result of an agreement between the United States and Canada ending a long-running trade dispute regarding U.S. anti-dumping and countervailing duties on imports of Canadian softwood lumber. Export duties are also imposed on Canadian-manufactured tobacco products with the aim of reducing smuggling.

(5) OTHER MEASURES AFFECTING TRADE

16. Canada seeks to stimulate economic activity and the competitiveness of its economy through tax measures. Another focus of support is stimulating innovation. Federal corporation tax was reduced from 28% in 2000 to 21% in 2004. Various tax credits are offered at both the federal and provincial/territorial levels.

17. Canada is a party to the WTO Agreement on Government Procurement. This, however, excludes procurement at the sub-federal level, which represents a significant proportion of total procurement. Canada has stated that it would only table an offer at the sub-central level if other parties are prepared to include sectors of priority to Canadian suppliers, and to circumscribe the use of set-asides.

18. The list of Canada's state-trading enterprises has remained unchanged during the period under review. It includes the Canadian Wheat Board, the Canadian Dairy Commission, the Freshwater Fish Marketing Corporation, the ten provincial and territorial liquor boards, and the Ontario Bean Marketing Board.

19. With respect to intellectual property, changes were made to the Patent Act to implement the 30 August 2003 decision on TRIPS and public health. In addition, the Patented Medicines (Notice of Compliance) Regulations and the data protection provisions in the Food and Drug Regulations were amended in October 2006 to provide a guaranteed minimum period of market exclusivity of eight years for new and innovative drugs and to address concerns regarding the timing of generic drugs' market entry once the relevant patents expire. The Trademarks Act was also amended to provide for the phased elimination of the use of European wine and spirit names on Canadian labels.

(6) SECTORAL POLICIES

20. Canada is a highly competitive producer of many agricultural commodities, and among the world's largest exporters of agri-food products. As measured by the OECD, overall government support to agriculture has increased since Canada's last Review in 2003, mainly due to increased ad *hoc payments linked to sanitary and weather problems. However, according to the OECD, support remains below its members' average, and is relatively less trade distorting. Canada provides significant assistance to supply-managed products (which cover dairy products, chicken, turkey, eggs, and broiler hatching eggs), including through the use of high out-of-quota tariffs (frequently exceeding 200%). In-quota volumes are, in some cases, small, reserved to certain countries, or available to preferential partners at reduced tariff rates.*

21. In some provinces, agricultural producer boards regulate the marketing of certain agricultural products, including by setting prices. The Canadian Wheat Board (CWB) has a monopoly on sales for export and for domestic human consumption of wheat and barley produced in Western Canada. A task force established by the Minister responsible for the CWB has recommended a staged elimination of the CWB's monopoly. During the review period, Canada adopted legislative amendments to comply with a WTO panel decision on the WTO compatibility of two measures affecting grain imports. Canada also reached a mutually agreed solution with two WTO Members in disputes relating to Canada's export subsidies for dairy products.

22. Canada is a major exporter of minerals, metals, and energy, with the United States as its main export market. Several provinces and territories offer tax incentives for the processing of minerals originating in mines located within the respective province or territory. With respect to oil and gas, official approval for investment may, in some cases, be linked to local content requirements. In the electricity sector, competition and state involvement varies between provinces.

23. Ontario and Quebec are the main centres of manufacturing activity in Canada. Both the Federal Government and some provinces have continued to provide or have introduced strategies or incentives to assist certain sectors. These include assistance to the aircraft, textiles, shipbuilding, and automotives sectors. However, the manufacturing sector has continued to lose importance in terms of its relative contribution to value added and employment, as factors of production have been attracted into primary activities and the services sector, with manufacturing's contribution to GDP at 16.5% in 2005, compared with 17.5% in 2002.

24. There have been no major regulatory changes to Canada's telecommunication, broadcasting, financial or transportation services. In telecommunications, facilities-based common carriers providing telecommunications services in Canada must be Canadian-owned and controlled. Canadian broadcasting legislation limits foreign content in a number of areas to ensure Canadians have minimum levels of access to Canadian cultural content. Canada's financial sector is well developed and diversified, and has performed well. The banking sector is open to foreign competition, but ownership restrictions apply on domestic and foreign banks. Insurance companies must be licensed in each province where they do business, which may complicate market access for foreign suppliers.

25. In maritime transport, cabotage remains reserved for Canadian-flag ships, although access to foreign ships is allowed when suitable Canadian-registered ships are not available. In the air transport sector, competition has increased with the growth of low-cost airlines. However, foreign-owned airlines may not provide cabotage services and foreign ownership of Canadian airlines is limited to 25% of voting shares, supplemented by a flexible de-facto control examination.

26. Virtually all professions are regulated at the provincial/territorial level and increasing efforts are being made to facilitate the mobility of professions among provinces and territories. While citizenship and residency requirements continue to apply in some cases, certain barriers have been removed in recent years.