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## Highlights of Canada's New Free Trade Agreement

April 7<sup>th</sup>, 2017

Since December 2014, federal, provincial and territorial governments have engaged in negotiations to strengthen and modernize the Agreement on Internal Trade (AIT). They were guided by direction from premiers and the federal government to secure an ambitious, balanced and equitable agreement that would level the playing field for trade and investment in Canada.

The new Canadian Free Trade Agreement (CFTA) resulted from these negotiations. It commits governments to a comprehensive set of rules that will help to achieve a modern and competitive economic union for all Canadians.

Highlights of the agreement include:

### **Enhanced and modernized trade rules**

The CFTA introduces important advancements to Canada's internal trade framework that will enhance the flow of goods and services, investment and labour mobility, eliminate technical barriers to trade, greatly expand procurement coverage, and promote regulatory cooperation within Canada.

#### Comprehensive free trade rules

In contrast to the AIT, the CFTA's rules will apply automatically to almost all areas of economic activity in Canada, with any exceptions being clearly identified. This change will enhance innovation as new goods and services such as the sharing economy, or clean technologies, will be covered by rules designed to promote Canada's long-term economic development.

- The CFTA will cover most of the service economy, which accounts for 70 per cent of Canada's GDP.
- Coverage will also be extended to the energy sector for the first time, accounting for roughly nine per cent of Canada's GDP.

#### Alignment with international obligations

The CFTA will better align with Canada's commitments under international trade agreements such as the Canada-European Union Comprehensive Economic and Trade Agreement (CETA). This will reduce compliance costs for Canadian firms who do business both at home and internationally.

- Overall, the CFTA ensures that Canadian firms secure the same access to Canada's market as that secured by firms from Canada's international trading partners.

#### Government procurement that is more open to Canadian business

All governments have made precedent-setting commitments to promote open procurement practices. These commitments will help create a level playing field for companies operating across Canada, and boost value-for-money in government purchasing.

- For the first time, the energy sector and many energy utilities will be covered by open procurement rules, resulting in more than \$4.7 billion per year in procurement being opened up to broader competition.

- Canadian companies that operate across a number of sectors, such as construction firms, will now be able to compete more readily for government contracts.
- Each government will ensure that it has an independent bid protest mechanism in place, allowing suppliers to challenge procurements they think have broken the agreement's rules.

#### Resolving regulatory barriers

Governments have agreed to establish a regulatory reconciliation process to address regulatory differences across jurisdictions that act as a barrier to trade. The CFTA will also introduce a mechanism to promote regulatory cooperation, which will equip governments to develop common regulatory approaches for emerging sectors.

- A [survey by the Canadian Federation of Independent Business](#) found that nearly one in three small businesses identified regulatory differences between jurisdictions as a significant barrier to internal trade.
- The CFTA creates a senior-level Regulatory Reconciliation and Cooperation Table that will help to address barriers to internal trade.
- The CFTA's new rules and processes pertaining to regulatory cooperation could help alleviate burdens by tackling regulatory differences in areas like the number of hours truckers can operate their vehicles in other provinces, the shipping of equipment across Canada, and trade in gasoline across the country.

#### Strengthened dispute settlement

The CFTA increases the maximum monetary penalties for governments that act in a manner that is inconsistent with the Agreement. Penalties vary based on population, but for example, the penalties for larger jurisdictions have doubled from a maximum of \$5 million under the previous AIT to a maximum of \$10 million under the new CFTA.

#### Protecting public policy objectives

Importantly, the CFTA preserves the ability of governments to adopt and apply their own laws and regulations for economic activity in the public interest in order to achieve public policy objectives. Such objectives include the protection of public health, social services, safety, consumer protection, the promotion and protection of cultural diversity and workers' rights.

#### Promoting strengthened domestic trade in the future

The CFTA creates several forward-looking processes and working groups to help strengthen Canada's economic union into the future. For example:

- It commits parties to establish a working group that will assess options for further liberalizing trade in alcohol.
- It triggers future negotiations on financial services, which account for roughly six per cent of Canada's total GDP.
- There is also a commitment to enhance economic development in the food sector in the territories to address the cost and production of healthy food for territorial residents.

### **Economic impact**

The CFTA works to enhance domestic commerce, a key driver of economic growth. Internal trade represents roughly one-fifth of Canada's annual GDP, or the equivalent of around \$385 billion per year.

According to the Bank of Canada, removing interprovincial trade barriers could add up to two-tenths of a percentage point to Canada's potential output annually.

By lowering trade barriers, the CFTA also promotes productivity and encourages investment in Canadian communities. The Organisation for Economic Co-operation and Development has reported that Canada could raise its productivity by reducing non-tariff barriers through expansion of the AIT's

coverage and reconciliation of regulatory barriers. Further, the International Monetary Fund has indicated that lowering Canada's interprovincial barriers to trade would help create the right conditions to expand domestic business investment and attract foreign direct investment.

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