SUMMARY

1. Canada has recovered well from the financial crisis and GDP growth has averaged 2.4% annually during the review period, 2011-14. Growth proceeded at a rate of 3% in 2011 but slowed to 2% and less during 2012-14, mainly due to weaker export growth and investment. Although growth during the period has not been comparable to pre-crisis levels, and is still below its potential rate, Canada's economy has generally shown resilience to external shocks. Growth in employment has lagged GDP growth, and the unemployment rate remains higher than pre-crisis levels, at approximately 6.9%. This also reflects an improvement in labour productivity, which in the past has lagged behind. While rich in natural resources, the Canadian economy is diversified with services and manufacturing also being significant contributors. The mining and energy sectors declined the most in the post-crisis period but gradually rebounded and showed strong growth, particularly since 2013.

2. Canada has been implementing Economic Action Plans (EAP) since 2009. These plans identify policy actions to be undertaken to overcome possible shortcomings, and aim to help spur the economy and create jobs, and promote prosperity. The 2014 EAP focused on balancing the budget, supporting jobs and growth, developing resources responsibly and supporting families and communities.

3. As a result of a prudent fiscal policy, Canada posted federal operational surpluses until the global financial crisis. During the crisis, Canada implemented a temporary stimulus plan aimed at fostering growth. After the stimulus was no longer necessary, efforts have been made to rebalance and eliminate the deficit by 2015-16. The main points of the rebalacing strategy have been: to control program spending, introduce measures to enhance the fairness of the tax systems, and set the right conditions to allow for economic growth. The gross operating balance deficit declined as a share of GDP to around 0.2% of GDP in 2013.

4. Canada has traditionally maintained a surplus in the current account of the balance of payments. However, since the financial crisis, the surplus has turned into a deficit, which has remained at around 3% of GDP during the review period. The contribution of net exports of goods and services to GDP growth was negative in 2011 and 2012, as imports expanded more rapidly than exports. This was reversed in 2013 and 2014, when import growth weakened, which led to a narrowing of the current account deficit in 2014.

5. During the review period, Canada's trade performance was marked by steady increases in imports and exports, both goods and services, with a significant increase in merchandise exports in 2014, turning the merchandise trade balance positive after it remained negative during the previous two years. Canada's merchandise trade is about five times the size of services trade, both for imports and exports. Canada has certain vulnerabilities with respect to trade, as it is heavily reliant on the United States as its major market and has a narrow export product base, mainly energy and mineral products, and transportation and vehicles. Despite attempts to diversify exports away from the United States, the share of exports actually increased during the period under review from 74% to 77% of total merchandise exports, and the share of imports from the United States also increased from 50% to 54% of total imports.

6. Canada's economy has long relied on its natural resource and mineral wealth. The mining and energy sectors are not only important to the Canadian economy in terms of GDP and employment, but also contribute significantly to exports and have a positive impact on its balance of payments. During the review period, the natural resource sector had a significant impact on trade and the economy mainly due to fluctuations in energy prices. The production and export of energy products generally rose steadily during the period, partially compensating for lower prices, but export volumes of natural gas declined slightly reflecting market situations in the United States, its sole export destination. In order to diversify exports of gas, Canada has launched several proposals, pending regulatory approval, for the development of LNG export facilities. Policy developments in the sector during the period include increased intergovernmental collaboration, enhanced efforts to consult with Aboriginal communities, and new legislation on transparency and reporting requirements.

7. Building upon the success of its 2007 Global Commerce Strategy, Canada launched its Global Markets Action Plan (GMAP) in 2013 as a strategic plan to prioritize markets and support

commercial success in trade. In particular, the GMAP sets priorities and objectives for trade initiatives and trade promotion activities, and contains a pro-trade and investment plan. Further, it prioritizes 22 sectors where Canada has a strong competitive advantage and plans to develop strategies to help these sectors grow.

8. In the trade area, Canada has focused its policies on expanding markets for its businesses mainly through the negotiation of reciprocal free trade agreements, including prioritising FTAs with a major economic impact and modernising existing FTAs. During the review period, five new FTAs have entered into force; with the Republic of Korea, Colombia, Honduras, Jordan, and Panama. Another agreement, with the EU, was completed in mid-2014 but has not entered into force yet. Most of Canada's trade is conducted under a preferential scheme: approximately 61% of Canada's annual imports receive preferential treatment pursuant to a free trade agreement. NAFTA partners account for the vast majority of FTA imports, with the other 10 agreements together accounting for less than 2% of FTA imports.

9. Canada's framework for foreign direct investment has remained broadly unchanged during the review period and its 1985 Investment Canada Act is still the main legislation governing investment. The Act requires notification or review of foreign investments to assess if they bring benefits to Canada and are not likely to injure national security. Changes to the Act introduced during the period under review focused on provisions related to state-owned enterprises (SOEs), in particular a definition for SOEs and guidelines on how SOEs are assessed under the Act. Certain investment restrictions remain in place in some sectors, including fishing, mining, oil sands, air transport, publishing, broadcasting, film distribution, and telecommunications. During the review period some of these restrictions were relaxed. For instance amendments to the Telecommunications Act partially liberalized foreign investment restrictions for telecom companies with a market share of 10% or less. Through GMAP, Canada has placed emphasis on pursuing more foreign investment promotion and protection agreements where there is potential for economic growth and interest to Canadian investors. Despite efforts to improve the framework to encourage more direct investment, FDI inflows grew but remained modest, and were outpaced by FDI outflows during the review period.

10. In terms of customs procedures, the laws and the system in place for the clearance of goods has not undergone any major changes since 2011 except with respect to some provisions on the seizure of goods and the further development of the Advance Commercial Information (ACI) program. Canada has, however, taken steps to further facilitate trade through its Release Prior to Payment program for a quicker release of goods, and through other programs that allow qualified importers to benefit from more efficient border processes, such as the Partners in Protection (PIP), the Customs Self-Assessment (CSA), and the Free and Secure Trade (FAST) programs.

11. Canada's import tariff regime remained nearly unchanged since the last review, as the average applied tariff for agriculture products stayed at 22.5% during the period, while the average tariff for non-agricultural products declined slightly from 2.5% to 2.4%. Over two-thirds of Canadian tariff lines have zero duties; the application of non-zero rates is concentrated in a few areas, including agriculture, in particular dairy products, as well as clothing, and footwear. During the review period, Canada has undergone a tariff simplification process, harmonizing many duties within three ranges of tariffs, including the elimination of nuisance tariffs of less than 5%. Furthermore, a number of autonomous liberalization initiatives were undertaken in certain sectors such as machinery and equipment, baby clothes, sports equipment, and offshore drilling units.

12. Canada continued to use anti-dumping and countervailing duty measures at an accelerated pace during the review period, as there were 43 initiations of anti-dumping investigations during the period, with a peak of 17 in 2013, and 21 initiations of countervailing duty investigations, during the period, with a peak of 12 in 2014. The majority of investigations involved countries from Asia. During the period under review, there have been no major changes to Canadian legislation for anti-dumping or contingency measures' investigations. While Canada maintains safeguard legislation, there were no changes to its legal framework and no investigations launched during the review period.

13. There have been several key changes in the area of sanitary and phytosanitary measures (SPS) including amendments to the *Food and Drugs Act* (FDA) and the new *Safe Food for Canadians Act (SFCA).* FDA amendments give authorizations for the use of specific substances in foods (e.g. food additives) and health/nutrition claims for foods under certain conditions, and also

provide for an expanded authority to incorporate technical and non-technical standards, methods, guidelines or other documents, into marketing authorizations or into the Food and Drug Regulations. The 2012 *Safe Food for Canadians Act (SFCA)* aims at stronger food safety rules and more consistent and effective inspection, and provides for increased penalties for non-compliance. It consolidates and replaces existing food legislation, except the FDA; its full entry into force remains pending pursuant to the issuance of implementing regulations.

14. Canada's government procurement includes federal and provincial procurement, with provincial purchases slightly larger than federal purchases at approximately Can$20 billion per year compared to Can$15 billion per year for the federal government. There have been a few changes to Canada's federal government procurement framework during the review period, including new contracting limits for certain federal agencies, new reporting measures, and updates to threshold limits pursuant to FTA provisions. In April 2014, the revised GPA came into force for Canada. At the federal level, there have been no substantial changes in Canada's schedule, however significant changes occurred at the sub-federal level whereby all provinces and territories and 10 federal crown corporations are now included.

15. Canada has a well-developed intellectual property protection (IP) regime. During the review period, a number of IP developments have occurred in its domestic legislative activity as well as in its international trade policy. Since 2011, Canada has ratified two, and initiated accession to five international IP treaties, and has adopted or introduced a number of legislative changes to its IP regime, in particular the Copyright Modernization Act in 2012. In addition, there were a number of court cases related to IP matters, including a number of Supreme Court of Canada decisions on copyright. Use of the Canadian IP system by nationals and foreigners has remained stable over the review period.

16. Canada maintains an overall open economy but does provide support in the form of subsides and incentives at the federal, provincial and local levels. Some 755 support programs provide assistance to businesses in the form of grants, loan guarantees, tax refunds and credits, and wage subsidies. Special financing programs are offered by the Business Development Bank of Canada and by Industry Canada for certain sectors including aerospace and defence and small businesses. Canada has notified 58 subsidy programs in its latest subsidy notification to the WTO. The State is also involved in SOEs in Canada, known as Crown corporations, owned by federal or provincial governments; their operations are significant, with federal crown corporations accounting for approximately 0.7% of GDP and provincial crown corporations accounting for 2.7% of GDP. Furthermore, Canada maintains 3 federal and 13 provincial state trading enterprises.

17. Canada maintains export duties on softwood lumber and unstamped domestically-manufactured tobacco products, as well as export controls or licensing on a specific list of controlled goods, mostly military and strategic goods. In addition, certain products exported to certain markets may be restricted or require a licence, such as certain forestry products in unprocessed form are limited to promote further processing in Canada.

18. Canada's agriculture and agri-food sector remains a key sector of the economy, and accounted for 6.2% of GDP in 2012. Canada's large agricultural production exceeds domestic demand, thus international trade is critical and Canada is an important trader of agricultural products, in particular field crops such as wheat, barley, and oilseeds. Canada continues to use tariff rate quotas on 22 product groups, mainly in the dairy, grains, and meat sub-sectors. The use and administration of TRQs has been relatively constant during the review period. Domestic policy and programmes are guided by the current policy framework, *Growing Forward Framework Agreement* 2 covering 2013-18, including a Can$3 billion investment by federal, provincial, and territorial governments with an emphasis on programs that promote innovation, competitiveness, and market developments. Canada's WTO export subsidy reduction commitments apply to 11 product groups and for the marketing year running from August 2011 to July 2012 they declined by 2.3% to Can$88.3 million, representing approximately 0.14% of agricultural exports.

19. Canada's financial sector remains strong and has been credited with helping Canada emerge rapidly from the global economic crisis. The banking industry is relatively concentrated with the six largest banks accounting for approximately 90% of total assets among Canada's federally-regulated institutions. Foreign financial services providers must establish a commercial presence in Canada in order to carry out business. Canada revised its *Capital Adequacy Requirements Guidelines* in 2012 to implement the Basel III framework, and as of early 2014 it

fully implemented the Basel III capital rules on an accelerated basis and implemented the leverage ratio in advance of international timelines. Further, Canadian banks remain above the supervisory target capital ratios.

20. Services in general remain the backbone of the Canadian economy accounting for 70% of GDP during the period 2011-14. The tourism industry is an important services sector, accounting for approximately 2% of GDP and 1.4% of total investment in Canada; it also contributes significantly to employment, especially for small and medium sized enterprises. Tourism is also Canada's most important services export with tourism revenue from foreign travellers amounting to Can$16.4 billion in 2013. In 2011, Canada created a Federal Tourism Strategy to provide a government-wide approach for the tourism sector, positioning it for long-term growth and competitiveness. Environmental services is another important services sector for Canada with 2012 sales of environmental services amounting to Can$2.3 billion of which environmental consulting services was the largest. Canada has recognised the importance of the environmental and sustainable technologies sector, having prioritized it under GMAP, and also seeking to further liberalize trade in this area pursuant to negotiations on environmental goods.