TO:	**CHAIR AND MEMBERS** **CORPORATE SERVICES COMMITTEE** **MEETING OF NOVEMBER 12, 2013**
FROM:	**GRANT HOPCROFT, DIRECTOR OF INTERGOVERNMENTAL AND COMMUNITY LIAISON**
SUBJECT:	**COMPREHENSIVE ECONOMIC AND TRADE AGREEMENT WITH THE EUROPEAN UNION**

RECOMMENDATION

That, on the recommendation of the Director of Intergovernmental and Community Liaison, this report on the Comprehensive Economic and Trade Agreement with European Union (CETA) BE RECEIVED for information.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

Board of Control: The Canada-European Union Trade Agreement, the Trade Investment and Labour Mobility Agreement (TILMA), the Agreement on Internal Trade (AIT) and the Québec-Ontario Economic Partnership Agreement, April 29, 2009.
Board of Control: Update on Canadian Trade Agreements, August 26, 2009; April 14, 2010; September 29, 2010
Finance and Administration: Update on Trade Agreements, September 28, 2011
Special Meeting of Finance and Administrative Services: October 3, 2011
Finance and Administrative Services Committee: Comprehensive Economic and Trade Agreement with the European Union, April 16, 2012

BACKGROUND

On October 18, 2013, Prime Minister Stephen Harper and Jose Manuel Barrossa, Head of the European Commission announced that Canada and the European Union (EU) have reached an agreement in principle on a comprehensive trade agreement. This is the largest trade agreement that Canada has ever signed and it is expected to give Canada access to a 28 country market which generates $17 trillion in economic activity annually.

The Government of Canada and the European Union (EU) began negotiating a Comprehensive Economic and Trade Agreement (CETA) in 2009 with the participation of all provinces and territories. A successful negotiation will include explicit commitments from provincial and territorial governments and measures will apply to all orders of government.

The Agreement will provide Canada with preferential market access to the EU's more than 500 million consumers. The EU is the world's largest economy and the world's largest importing market for goods, with EU's annual imports alone exceeding Canada's GDP. Prime Minister Harper has said that on the first day when the Agreement comes into force, approximately 98 per cent of all EU tariff lines will be eliminated.

It is important to note that the formal agreement and legal review of the document has yet to be concluded. Once signed, the document must be translated and ratified by respective parliaments. The two jurisdictions would then begin a process of enacting legislation to implement specific trade rules. In Canada, this means that provincial and territorial government would need to adopt legislation in order to be in compliance with any new federal rules. Municipal procurement practices will continue to be subject to provincial and territorial statutes. The ratification process involving all of the Canadian provinces and territories and the EU countries could take 18-24 months.

On October 29, 2013, the federal government released a 26 page summary of the text.

While the full negotiating text is well-advanced, it has not been made public. Critics of the

Agreement are relying on leaked versions of the draft agreement, making it difficult to assess the implications for municipalities. The Canadian media has reported that EU exporters will save more than $670 million annually in duty compared with about $225 million annually for Canada. According to the *Globe and Mail*, part of the reason for the gap on tariff elimination is that Europe currently exports more to Canada than vice-versa, meaning that EU exporters pay more duties. Minister Fast has said that the benefits of the agreement in the elimination of non-tariff barriers are equally important and he expects that the gains will outstrip the tariff losses.

According to the summary, health care, public education and other social services are excluded from services and investment. Professional services (legal, architectural, engineering, and urban planning) are included and provinces and territories will be bound to regulatory status quo and provide the benefits of liberalization in a number of sectors (architectural, foreign legal consultancy, urban planning, tourism, business services). A dispute resolution mechanism will be put into place, which allows for enhanced consultations and mediation provisions to encourage early settlement of disputes. Canada plans to become a party to the Convention on the Settlement of Investment Disputes between States and Nationals of other States, which allows for locally-established, foreign-owned companies to bring a claim.

The issue that remains of most relevance to municipalities is the question of public procurement. The EU government procurement market is worth $2.7 trillion while the Canadian government procurement market is relatively small. CETA covers government procurement at the national, provincial/territorial and local levels. Municipalities will need to ensure access for European Union firms for procurements over the established thresholds once CETA is implemented.

The summary text notes that while there is broad coverage at the federal, provincial and municipal levels, Canada and the EU will maintain an ability to give preferences to domestic companies when using grants, loans or fiscal incentives, for procurements below thresholds value and for excluded procurement. For provinces and territories, including municipalities, academia, school boards, and hospitals, the thresholds for procurement of Canadian goods and services will be $315,000. It will rise to $636,000 in the utility sector. Mass transit is included, with Quebec and Ontario retaining a 25% Canadian value for the procurement of public-transit vehicles. There is a commitment to create a single point of electronic access within five years from entry into force. Health care and other public services are excluded from the government procurement coverage. There is regional development exclusion for various provinces and territories, from which Ontario is excluded. Other exclusions include agricultural goods that are part of food programs, research and development, and public-private partnerships for services and the utilities sector, as well as all major ports and airports.

The City of London's procurement policy does not give preferential treatment (see section 21.5) to Canadian suppliers and it abides by the Agreement on Internal Trade in Canada which promotes competitive procurement within Canada.

Ontario estimates the deal will create an estimated 30,000 jobs across the province. Premier Kathleen Wynne has said that while Ontario will not block the agreement, it still has some concerns such as the cost of brand-name pharmaceuticals for the province as well as on domestic cheese makers, wineries, and distilleries.

Claude Dauphin, the president of the Federation of Canadian Municipalities, welcomed the agreement saying it was the result of two years of collaboration between the municipalities and the federal government. Dauphin said "while some important details remain to be confirmed," the FCM was "more optimistic than ever that the final agreement will respect all seven of the CETA principles we put forward on behalf of cities and communities across Canada."

The Association of Municipalities of Ontario (AMO) has also endorsed these principles which are as follows:

- **Reasonable procurement thresholds:** Inappropriately high or broad procurement thresholds may force municipalities to tender projects when tendering is neither practical nor financially justified.
- **Streamlined administration:** Ensuring that municipal procurement policies are free-trade compliant will likely create new costs and may require specialized expertise. The administrative design of these rules must be as streamlined as possible and developed in close cooperation with municipal procurement practitioners.
- **Progressive enforcement:** Enforcing provisions of any deal should be progressive, starting with verbal or public warnings before moving to financial penalties, and should

recognize and not penalize inadvertent non-compliance, particularly in cases where municipalities do not have the expertise to appropriate apply the rules.

- **Canadian content for strategic industries or sensitive projects:** A trade deal must recognize strategic and public interest considerations before barring all preferential treatment based on country of origin. There may be industries of strategic significance to a particular region, such as transit, or projects where considerations of quality, public benefit, environmental protection or business ethics means that a local government may wish to implement minimum Canadian-content levels. This should be allowed, within reason.

- **Dispute resolution:** A dispute-resolution process, like the one in NAFTA, may require a careful review of the municipal role in that process so they can appropriately defend their policies and by-laws as an order of government.

- **Consultation and communications:** Consultation and communications during negotiations are required to ensure any resulting agreement responds to municipal concerns.

- **Reciprocity:** Canada negotiating position must support reciprocity in Canadian and foreign municipal procurement practices.

The Association of Municipalities of Ontario (AMO) also agrees that the early indication is that the CETA agreement-in-principle reflects the seven principles and that it will be confirming this with the provincial government.

At its May 1 and 2, 2012 session, Municipal Council resolved that the City of London wished to "opt out" of the Comprehensive Economic and Trade Agreement with the European Union (CETA) in order to determine whether or not to support the Agreement in future, based upon an assessment of how it would affect this municipality which would take into consideration a sector-by-sector analysis of the procurement regime, an assessment of the costs and benefits of the Agreement to municipalities, and details of which sectors are most likely to be the principal beneficiaries of CETA. Municipal Council also noted that it would expect that the Government of Canada and the province would consult with municipalities before finalizing the Agreement and that they would solicit comments from all parties that could be affected by the Agreement.

Analysis of the summary report released on October 29 is on-going and Civic Administration will continue to monitor developments as new text becomes available. A more-in depth analysis will follow in a future report. The summary report and accompanying documents are available at http://actionplan.gc.ca/en/content/ceta-aecg/canada-eu-trade-agreement.

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