Key Developments in the Canadian Economy

2017 Annual Report

Prepared by the Economic and Commercial Representatives (ECRs) of EU Member States present in Canada

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EXECUTIVE SUMMARY

FEATURES

CETA Implementation

The *Canada-EU CETA Implementation Act* (Bill C-30) received Royal Assent in Canada in May, with the government publishing an order-in-council and implementing regulations (21 regulations to supplement that, which cover a range of issues from patent protection, the *Investment Canada Act*, rules of origin, import controls, export controls, government procurement, standards, etc.) on 1 September, giving stakeholders two weeks to comment. CETA was provisionally applied as of 21 September.

Anecdotal evidence suggests that many exporters are already taking advantage of the eliminated/reduced tariffs, though some are still learning about the export/import requirements in order to benefit from CETA (REX registration, declaration of origin, etc.) It is too early for formal statistics on trade in goods, likewise for evidence of trade in services, movement of professionals or participation in government procurement.

The tariff rate quota (TRQ) allocations for imports of EU cheese into Canada were issued and the TRQ was opened for import on October 2nd. According to the TRQ administration policy which was subject to public consultations and discussion with the EU, the TRQ for fine cheese was allocated as 60 percent to small and medium-sized enterprises (half of which manufacturers and half distributers and retailers), with the balance of 40 percent allocated to large companies (half of which manufacturers and half distributers and retailers). The industrial cheese TRQ was allocated entirely to manufacturers of further processed food products. There are 181 CETA cheese quota holders in 2017 which is double the amount of quota holders under the WTO quota. New quota holders that have not held quota before make up more than 70% of the number of quota holders. The quota utilisation at the end of 2017 was x % for the fine cheese quota and x % for the industrial quota.

One of the Canadian CETA commitments on Wine & Spirits was to change from a value to a volume based cost of services differential fee by the time of provisional application. In October, Canada informed the EU that this change would not be in place until spring 2018 due to technical issues (IT issues) encountered by the Provincial Liquor Boards in implementing the change.

Throughout the fall the EU Commission and the Canadian authorities have been working on the details of the institutional architecture for CETA, drafting of the rules of procedure/terms of reference, exchanging mutual templates, identifying leads for the various committees/dialogues, etc. The first dialogue took place on December 1 in Brussels on Trade & Sustainable Development. It was agreed by Commissioner Malmström and Minister Champagne that the Joint Ministerial Meeting would take place in Montreal around the first anniversary of CETA provisional application in September 2018. Most committees will be operational by then, and most of them will most likely have met for the first time.

Canada-US Trade Relations

Following President Trump's formal notification on 18 May 2017 of his intention “to initiate negotiations with Canada and Mexico regarding the modernization of **NAFTA**,” five inconclusive rounds of negotiations between the US, Canada and Mexico had by year's end cast a shadow over the future of this cornerstone North American free trade agreement. Although trilateral negotiations made some progress on technical files (e.g. digital trade, customs enforcement, sanitary measures), an impasse remained in many key areas such as the automobile-manufacturing sector's origin-of-content rules, changes in NAFTA's dispute-resolution mechanisms, access to government procurement markets, a proposal by Washington to introduce a sunset clause that would lead the next version of NAFTA to expire in five years if the three NAFTA partners could not agree on the terms of its renewal, and, of particular importance to Canada, access to its dairy sector.

Canada's deepening concerns were exemplified by Foreign Minister Chrystia Freeland's public description of the Trump administration's approach as "overtly protectionist" and by her comments about the need for negotiations to be “fact-based”. According to Minister Freeland, 25,000 jobs could be lost in the event of NAFTA's termination. As 2017 drew to a close, many Canadian observers were expressing concern about the potential negative impact of Washington's new approach on Canada-US trade, particularly if the NAFTA talks, set to conclude by March 2018, end in deadlock.

Washington's hardline approach to trade relations with its neighbors was also evident in its imposition of punitive duties on the C-series aircraft produced by Canada's Bombardier Corporation as well as stiff countervailing duties on imports of Canadian softwood lumber.

Bombardier, Inc., the largest Canadian aircraft manufacturer, was provisionally charged by the US Department of Commerce with a duty of 219 %, followed by another 80 % of its C Series aircraft imports. The originator of the dispute was the US producer Boeing, the duty imposed is clearly higher than the percentage originally demanded by Boeing. In October of this year, Bombardier decided to hand over the control of the C Series production program to the European aircraft manufacturer Airbus. The acquisition gives 50% of the controlling stake over the C Series Aircraft Limited Partnership, which is responsible for the production and sale of the C Series aircrafts, to the French Airbus manufacturer. Another 31 % will stay in the ownership of Bombardier and the remaining 19% in Investissement Québec. The Canadian manufacturer will therefore lose control of the aircraft production, but will economically benefit from the production and will increase its sales network. The C Series aircraft will therefore become a part of the Airbus aircraft range. As a result, the Bombardier will be able to circumvent the pre-imposed import duty, since the main C Series headquarters will remains in the Montréal. The second assembly line for this aircraft will be set up at the Airbus premises in Alabama.

As regards **softwood lumber**, tensions escalated in April when the Trump administration imposed preliminary countervailing duties of 26.75% on Canadian imports, with additional duties of 7.7% following in June. The final determination from the US Department of Commerce came in November and set import tariffs at 20.83% (6.58% final dumping margin plus 14.25% final subsidy rate). Although lower than the preliminary rates, the final determination prompted Canada to say that it would consider further legal action both through NAFTA and the WTO. Canada requested a NAFTA a panel review (under NAFTA's Chapter 19, which President Trump wants to get rid of) for the issue in mid-November, and asked for WTO consultations with the US on the issue in late November. In early December the U.S. International Trade Commission unanimously voted that the American lumber industry was been harmed by Canadian softwood lumber imports.

Other Trade Developments

In addition to the major developments concerning NAFTA and the CETA, 2017 has seen developments on other trade agreements too. It is unclear whether the uncertainty of the NAFTA negotiations – concerning Canada's main trade relationship by far – is encouraging Canada's efforts to diversify trade or curbing them to focus resources on NAFTA.

Despite President Trump's withdrawal of the USA from the **Trans-Pacific Partnership (TPP)** in January, the remaining TPP-11 – including Canada – decided to press on for a deal and met several times throughout the year. It appeared as though an agreement in principle would be concluded at the APEC Ministerial in November and renamed to Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Despite seemingly having achieved everything it wanted in the TPP talks, Canada was not ready for a deal – in part because of uncertainty around the NAFTA negotiation, in part because of growing domestic pressures from the left. In the end four contentious remaining issues were identified, including a point on Canada's desire to protect Canadian cultural content, and earmarked for resolution before a final agreement. Canada does not foresee any such agreement being reached before March 2018.

In June Canada was among the first countries invited, along with Australia, New Zealand and Singapore, to become an Associated State of the **Pacific Alliance** (Chile, Mexico, Peru, and Colombia). Canada’s total merchandise trade with Pacific Alliance countries reached CAD $48 billion in 2016, representing more than 75% of Canada’s two-way trade with this region. The extractive sector represents a particularly important sector for Canadian companies in Pacific Alliance countries, and Canada is keen to modernize and streamline existing bilateral agreements it has with the four countries, as well as advancing progressive trade with energy markets in Latin America. The first round of FTA negotiations took place in October 2017, with the next round expected in January 2018.

In October it was announced that Canada and **Mercosur** (Argentina, Brazil, Paraguay and Uruguay) committed to advancing the joint scoping exercise toward possible free trade negotiations expected to be launched at the WTO Ministerial in Buenos Aires in December. Trade between Mercosur in Canada is currently small, though there are significant areas for potential growth, the sources said. Trade between Canada and Mercosur was estimated to be US $ 5.88 billion in 2016, which is roughly one tenth the size of trade between Mercosur and the United States. Canada is keen to get a first-mover advantage in the region, which currently has fairly high tariffs and no FTAs going beyond trade in goods but where the atmosphere is getting more trade-friendly. Canada's sees opportunities related to fish, chemicals, automotive, machinery and forestry sectors.

In December expectations that PM Trudeau would announce the launch of FTA negotiations with **China** were disappointed. A public consultation had taken place on this issue in the spring, highlighting significant opportunities such as the importance of China for the future of the global economy, China’s appetite for high-quality agricultural products and natural resources, the massive Chinese government procurement market, and two-way foreign investment opportunities. The biggest challenge to an FTA with China was the unpredictable and opaque regulatory environment. Yet, despite a state visit to China by the PM and his Trade Minister in early December, only small individual deals were signed and talks remain at an exploratory stage. Canada's pushing of its progressive trade agenda (including labour, environment, and gender standards) is said to be the reason for this relative lack of progress.

Macroeconomic Developments

In the first half of **2017**, the Canadian economy took the fastest growth rate since 2000, with an average year-on-year growth rate of just over 4%. The quarter-over-quarter growth at annual rates was 3.7% in the first quarter, 4.5% in the second and 1.7% in the third. Sustained robust growth in the second quarter and data pointing to above-trend growth in the second half of the year as well are likely to lead to **an average annual growth rate of 3%**. Growth is then expected to decelerate to roughly its trend pace, growing slightly below 2% in 2019.

Growth has been led by household consumption (which should slow as rapid job growth and wealth effects from house price appreciation abate), business investments and energy exports. Earlier robust export increases have weakened substantially, mainly because of the stronger Canadian dollar and other temporary factors, but are expected to rebound in the last quarter of the year with the growth of foreign demand. Consumer price inflation is expected to reach 2% in 2019, as remaining spare capacity is exhausted and exchange rate effects dissipate.

The growth helped to justify the decision by the Bank of Canada (BoC) to **increase interest rates** for the first time in seven years at its meeting in July. The Canadian dollar lost around a quarter of its value against the US dollar in 2014-16 as oil prices plunged. In 2016, the currency was at its weakest since 2003. However, the economy's strong performance in the first half of 2017 persuaded the BoC to lift interest rates sooner than it had previously indicated which led the Canadian dollar to appreciate by more than 6% during the first half of 2017.

On 6 September, **the BoC raised its rate for a second time** this year, bringing it up to 1%. The move was widely anticipated, given the stronger than expected economic performance and the removal of some of the considerable monetary policy stimulus in place was warranted. At this point, the BoC had removed the 50 basis points of additional stimulus that it gave the economy to counter the weakness in the oil sector in 2015-16. Further monetary tightening could be expected in 2018, when observers expect further increases.

Uncertainty around NAFTA renegotiation is currently the main international risk to the economic outlook. With the economy picking up amid productivity-enhancing business investment, the economy seems likely to remain fairly close to full capacity, or possibly modestly above, over the next year. All in all, despite a third quarter slowdown, **Canada's economy remains on track to grow about 3% in 2017**. Consumption spending, has been the major driver of growth this year benefiting from the confluence of favourable developments including the best labour market in years, low interest rates, and wealth effects associated with surging home prices.

This means that 2017 should easily be the **best year for the economy since 2011**. However, it seems clear that this pace is unsustainable, and leading indicators suggest that growth in the second half of the year will be significantly slower. Consumer demand is progressively being exhausted, and the Canadian dollar's recent appreciation against the US dollar has caused export growth to stall. Key vulnerabilities in the financial system remain the high level of household indebtedness and the imbalances in the housing market (particularly in Vancouver and Toronto).

EU-Canada Macroeconomic Dialogue

On 14 November, the 2nd EU-Canada Macroeconomic Dialogue took place in Brussels**.** The Dialogue, co-chaired by DG ECFIN and Finance Canada, allowed for an updated exchange of views on recent macroeconomic and policy developments, and on forthcoming policy initiatives (December 6 package on deepening EMU). In addition, policy priorities and areas for cooperation under Canada's G7 Presidency in 2018 were identified. Canada signalled its intention to pursue a multilateral approach**.** This encompasses finding topic-specific areas of common interest that ensure that all members (including the US) remain fully engaged with multilateral policy coordination. Such topics include: (i) ensuring that "growth benefits all"; (ii) international tax transparency and ensuring robust tax regimes through collective action; and (iii) cybersecurity.

SECTOR SPOTLIGHTS

Infrastructure Investment

One of the Liberal government's campaign promises in 2015 was increased investment in infrastructure and it laid down plans to invest around 7.5% of GDP in infrastructure over the next decade or so. The **Investing in Canada Infrastructure Plan**, announced in 2016, earmarked more than $180 billion to infrastructure projects over 12 years with an emphasis on local transit, transportation and affordable housing. Much of the money is to go to projects jointly funded with provinces and municipalities.

AREA	AMOUNT EARMARKED	DETAILS
Public Transit	$25.3 billion over 11 years	upgrades to public transit systems across Canada
Green Infrastructure	$21.9 billion over 11 years	water, wastewater and green infrastructure projects
Social Infrastructure	$21.9 billion over 11 years	affordable housing, early learning and child care, cultural and recreational infrastructure and community health care facilities on-reserve
Getting Canadian Products to Markets	$10.1 billion over 11 years	capacity at major ports of entry, connection of rail and highway infrastructure across Canada
Rural and Northern Communities	$2 billion over 11 years	improving road access or expanding Internet connectivity
Smart Cities Challenge	$300 million over 11 years	Smart Cities Challenge Fund: merit based-competition for cities to develop Smart Cities Plans

In October it was revealed that the government s**pending on infrastructure was slower than anticipated**, and that over $2 billion in planned infrastructure spending (from across all sectors) would be deflected to future years. The problem seems to be with cash flow management - Spending analyses have shown that about one-quarter of infrastructure funds don't get spent in the year for which they are budgeted.

The creation of the **Canada Infrastructure Bank** was formally proposed by the 2017 Budget (though it was first announced in the 2016 Fall Economic Statement), and the Bank is expected to be operational by the end of 2017. The Bank will work with provinces, territories, and municipalities to further the reach of government funding directed to infrastructure. It will be responsible for investing at least $35 billion from the federal government into large infrastructure projects, including $15 billion sourced from the over $180 billion *Investing in Canada* infrastructure plan for public transit systems; trade and transportation corridors; and green infrastructure projects, including those that reduce greenhouse gas emissions, deliver clean air and safe water systems, and promote renewable power.

Agri-Food beyond Supply Management

The agriculture and agri-food sector employs more than 2.1 million people in Canada and accounts for 6.7% of the country's gross national product (GNP). Canada is the world's 5th largest exporter of agriculture and agri-food products. Over 50% of the value of primary agricultural production in Canada is exported either directly or indirectly through the manufacturing sector. The potential for agriculture as a growth sector for Canada received increasing attention in 2017. The Finance Minister's Advisory Council on Economic Growth pointed specifically to the agriculture and food-processing sector as a **key sector to spur future economic growth**. This was reflected in the 2017 federal budget, where the sector was named as one of six key areas that would benefit from a new national Innovation and Skills Plan with a target to grow Canada's agri-food exports to at least $75 billion annually by 2025. Budget 2017 also earmarked $70 million over six years to further support agricultural discovery science and innovation, with a focus on addressing emerging priorities such as climate change and soil and water conservation.

The government undertook other efforts to support Canada’s farmers and food processors including **eliminating tariffs on a broad range of agri-food processing ingredients** at the start of 2017, as well as launching an initiative to establish a **national food policy for Canada**. At their annual meeting in July, the Canadian Ministers of Agriculture reached agreement on the key elements of a new federal, provincial, territorial (FPT) agricultural policy framework: **the Canadian Agricultural Partnership (CAP).** CAP will replace the existing framework Growing Forward 2 and will come into effect on April 1, 2018. Besides the new name, the CAP agreement remains largely unchanged from the Glowing Forward 2 agreement. The budget of CAD 3 billion for 5 years (2.2 billion Federal and 0.8 billion Provincial) remains unchanged. The main changes are 3 new priority areas for the non-risk management programming being climate & environment, public trust and value added/food processing.

Canada released a **new policy framework on antimicrobial resistance** and use in September 2017. The framework outlines the strategic objectives, outcomes and opportunities to guide collaborative action on federal, provincial and regional level to reduce the use of antimicrobials and strengthen Canada’s ability to combat the risks of antimicrobial resistance in a coordinated and effective manner

The **EU-Canada High Level Dialogue on Agriculture** met in April to discuss agricultural policy and trade issues. In May, Commissioner Hogan conducted a High Level Mission to Canada. The Commissioner was accompanied by a large business delegation with companies and organisations from 22 Member States. The business delegation participated in the international food fair SIAL in Toronto where the EU had been chosen as the region of honour for 2017-edition of the show.

Digital Economy

In Canada there are over 39,000 companies in the Information and Communications Technologies (ICT) sector. The large majority (over 34,000) fall within the software and computer services industries. The ICT sector consists mainly of small companies, with over 33,500 of them employing fewer than 10 people. The number of large companies employing over 500 individuals is relatively small, accounting for approximately 110 firms, including subsidiaries of foreign multinational corporations.

Canada's ICT sector has become a top driver of innovation and economic growth, and is outperforming much of the rest of the country’s economy. It generated annual revenues of more than CAD 150 billion in 2015, while contributing approximately CAD 70 billion to the country’s GDP each quarter, and is expected to keep growing through 2019. Ontario generates by far the highest share of ICT sector output, by province. The sector is also highly trade dependent.

Artificial intelligence (AI) has been a hot topic in the tech industry in 2017, and investors seem eager to pursue it. In March Google announced that it would contribute to the $150 million going into the Vector Institute, a new initiative focused on AI and housed at the University of Toronto. In late 2016 Google had announced that it was investing $4.5 million over three years to support the Montreal Institute for Learning Algorithms research.

Financial technology (FinTech) is also of high interest, though a recent study by Ernst & Young Global Ltd. (EY) indicated that Canada has been relatively low in adopting FinTech.

When **Amazon** announced it was looking for a second headquarters in September, the mayors of Toronto, Vancouver, Montreal and Calgary all declared that their cities would be great hosts for the tech giant, with the high-tech centres Ottawa and Kitchener-Waterloo also looking to throw their hats in the ring. The federal government was also expected to be involved, with the Innovation Minister Navdeep Bains seemingly open to the idea of providing subsidies for any Amazon bid. The company has said it will make a decision next year.

ENERGY, ENVIRONMENT & CLIMATE CHANGE

Energy

In 2017, important developments took place with respect to pipeline infrastructure decisions. Out of the initially four major Canadian oil pipeline projects that should have brought crude oil from the Alberta oil sands to rapidly growing export markets at high prices, only two remain in planning.

After denial of Federal regulatory permit for the **"Northern Gateway"** project in British Columbia in 2016, the hope for Alberta oil reaching Asian markets remains on the **"Trans Mountain"** pipeline. Alberta's Premier Rachel Notley is staunchly promoting the project, which should have started in September 2017 but is seeing resistance at municipal level in British Columbia, a pending legal challenge of the Federal permit and a lack of full support from the new provincial government in British Columbia.

In October the TransCanada Corporation officially abandoned **"Energy East"** (from Alberta to the Canadian Atlantic coast), one of their two major pipeline projects, due to local resistance in the eastern parts of Canada, regulatory hurdles, and a lack of investor buy-in resulting from a changed economic context. TransCanada will now focus on the "**Keystone XL"** extension project towards the US Gulf Coast, despite a significantly lowered projection of the medium term output from the Alberta oil sands. President Trump authorised the project in March (it had previously been rejected by the Obama Administration).

As a result of these developments, Canada's federal government finds itself in an increasingly challenging position with respect to energy and climate change policy. Balancing **temporary incremental hydrocarbon production** with more stringent **greenhouse gas emissions reduction** measures (both through regulation and carbon pricing) initially seemed to be the right solution, but the fundamental incoherence of its energy and climate policies is now rendering the government vulnerable to increased public scrutiny and attacks from both sides of the political spectrum.

Over the medium-long term, the current energy market conditions could potentially trigger a realignment of the government's position towards a **stronger support of progressive policies** and faster transition to a low-carbon economy. PM Trudeau has already signalled, earlier this year, that the oil sands sector would eventually have to be phased out, over the very long term, upsetting the main oil producing Provinces of Alberta and Saskatchewan.

Indeed, Canada's future competitiveness, within a changing global energy market, will largely depend on its ability to convert to **renewables** and **clean-tech**. However, there is still a long way to go, as Canada, despite its rhetoric and the financial resources poured into greening the economy, still struggles to recognize that climate change is significantly changing the parameters of what is commonly defined as national interest. Other countries are more aggressively investing in renewable energy, driving the price of wind and solar power down. In 2016, globally, renewables matched fossil fuels for the first time both in price and power capacity.

TransCanada's decision on **"Energy East"** exemplifies how major fossil fuel-related projects and infrastructure developments will increasingly have a harder time to come to light. From an EU perspective, an increase in oil and gas export from Canada may be very difficult over the short and medium term, though it cannot be excluded entirely. Canada could potentially play a role in terms of contribution to EU energy security, though it is currently hard to determine now how significant this role could be.

EU-Canada High Level Dialogue on Energy

In 2017, an important implementation item of the HLD Action Plan has been a very well-received **EU-Canada workshop on energy efficiency** in buildings which took place in Ottawa at the beginning of June 2017. It was a joint initiative to support Canada’s efforts to reduce energy consumption and GHG emissions in the building sector and comply with its target under COP21. The main objective of the workshop was to have experts from the European Commission and Member States sharing their extensive experience with mandatory building energy disclosure measures – i.e. Energy Performance Certification Schemes, implemented in the framework of the Energy Performance of Buildings Directive (EPBD). All levels of the Canadian governments participated in the workshop – representatives of the federal and provincial governments, the territories and from the cities – as they are all working together to implement the Pan-Canadian Framework on Clean Growth and Climate Change. This event offered an opportunity to learn from the European Union’s experience to inform the design of effective policies and programs in Canada. The workshop also helped identify future collaboration opportunities between Canada and the European Commission on energy policy issues.

Climate Change

Having been elected on a green economy platform, the Trudeau government has been following through on commitments in the area of climate policy. Although there has been no revision of national climate change targets (-30% over 2005 levels by 2030, with the majority of this to be achieved between 2020 and 2030), there has been a renewed commitment by all jurisdictions to put in place the necessary policies to achieve this target.

In late 2016, the Prime Minister obtained agreement from the Provincial Premiers on a **broad strategy to reduce greenhouse-gas emissions** and announced that the Federal Government would set and enforce a **nationwide minimum carbon price by 2018**. A **Pan-Canadian Framework on Clean Growth and Climate Change,** with carbon pricing as its core element, was adopted by all Provinces and Territories except for Saskatchewan and Manitoba.

In September 2017 Canada, China, and the European Union convened the **Ministerial Meeting on Climate Action in Montreal** to advance discussions on the full implementation of the Paris Agreement and to demonstrate continued political commitment to global action. The importance of pre-2020 action and the need to build on current efforts were acknowledged. Many also pointed to the importance of financial, technology and capacity building support and recognized the progress being made. A strong message was sent to negotiators to carry forward the positive and open spirit of the Ministerial on Climate Action to advance their work on implementing the Paris Agreement through the completion of the Paris Work Programme and the 2018 Facilitative Dialogue.

In November 2017 Canada, the UK and 27 other countries launched a **"Powering Past Coal" alliance** at the UN climate conference COP23 in Bonn. The alliance recognizes existing commitments to coal phase-out. It does not include the top users of coal (nor all EU MS). The alliance was seen by many in Bonn as a symbolic gesture of defiance against US President Trump, who has pledged to revive America's coal industry. The US government promotes coal as part of a clean energy mix.

From a budgetary perspective, commitments to both **green technology investments** and **green infrastructure** were made in the 2017 federal budget (climate related issues had been completely absent from any of the previous Conservative government budgets), with $60 billion committed to new infrastructure spending over the next ten years. Investments target public transit, green infrastructure and 'social' infrastructure for First Nations, including a Low Carbon Economy Fund designed to reward Provinces and Territories that materially reduce greenhouse gas emissions and make significant contributions to reaching Canada's current emissions target.

Despite the perceived radical change in climate policy positioning by the current government and the implementation of coherent, albeit contradictory, actions towards a transition to a low-carbon economy, the stated **emissions reduction target will be extremely difficult to meet**. The eventual introduction of carbon pricing by the federal government will not represent a significant contributing factor in reducing emissions, given the extremely low price (the price would start at $10 per tonne in 2018, rising to reach $50 per tonne by 2022). An internal services briefing from government officials to the new Minister back in December 2015, obtained by the Conservative Party with an access-to-information request, indicated that a price of $100 per tonne would need to be in place by 2020. Based on external modelling, the price would then have to go up to between $200 and $300 per tonne by 2050. Other studies go even further and claim that a price of $300 would have to be in place as of already 2022.

The official response from the government to those previous calculations is usually a reference to the full package of additional measures which would balance the picture and complete the "gap". Nevertheless, many experts continue to raise concerns that Canada's ambitious vision and targets in terms of its NDC and transition to a low-carbon economy are not underpinned by a sufficiently convincing response strategy.

A September 2017 **report by the Conference Board of Canada** adds to the discussion by expressing doubts about the actual capacity of Canada's ability to transition effectively and timely to a low-carbon economy. Canada seems to have the potential to become a "clean energy superpower", however, the absence of a clear choice between (a) continued promotion of an oil and gas industry that lacks adequate infrastructure and favourable market conditions and (b) renewed support to clean energy and green infrastructure investments might instead translate into a significant competitive disadvantage for the country down the line, given an inevitable global shift towards clean energy. In addition, what further complicates the government's task, the report argues, is how the transition has been presented to Canadians: with a promise of a quasi-cost-free and an automatic reduction of GHG emissions and achievement of Canadian commitments without effort. However, the truth is that some painful adaptations will need to be made and this does not come without a cost or impact, for both businesses and citizens. The introduction of carbon pricing and the phase-out of fossil fuels in the electricity sector will drive up costs for households and companies, while shifting economic activity from the private sector to government.

Unless the Canadian government changes its approach in terms of both messaging and actual policy, it will face competitive disadvantages electorally and economically. With the 2019 federal elections fast approaching, it could be a dangerous path to walk. Despite these inherent difficulties, Canada remains a like-minded partner of the EU and a key ally on the multilateral scene that fully shares the objective of an effective implementation of the Paris Agreement.

EU-Canada High Level Dialogue on Climate Change

A meeting of the EU-Canada High Level Dialogue on Climate Change is foreseen in the first quarter of 2018, in Canada. The last one took place in March 2015, in Brussels.

EU-Canada High Level Dialogue on Environment

On 24 October, a meeting of the EU-Canada High Level Dialogue on the Environment took place in Ottawa, led by DG Environment and Environment Canada. The last meeting had taken place more than three years before, in early 2014. Expert discussions took place on biodiversity, chemicals, science/research/technology, circular economy, Arctic cooperation, and multilateral cooperation (UN bodies and G7/G20).

The meeting identified a **number of areas for future collaboration and contacts**. These included, amongst others: preparations for the Convention on Biological Diversity (CBD) CoP and follow-up action plan; risk assessment methods with Invasive Alien Species (*IAS*) as a first possibility; an examination of possible positive issues of regulatory cooperation (standardization for circularity/eco-design as a possible starting point), in the context of CETA and the mutual commitment to review the Trade and Sustainable Development (TSD) chapter; Canada will share experience of revamping its sustainable development strategy to take into account the Sustainable Development Goals (SDGs).

MARKET ACCESS REVIEW

Wines and Spirits

The 2017 federal budget included a 2% tax increase on alcohol. This increase in the excise tax was complemented by an annual escalator clause indexed to the consumer price index (CPI). Wines made from 100% Canadian grapes and other fruits will remain exempt from the federal excise tax. This means that the comparative advantage provided to Canadian wines versus EU wines will grow year after year under this structure for as long as the CPI escalator remains in place. The discriminatory application of the federal excise tax on wines has been raised with the Canadian authorities on several levels and the EU also submitted a brief to the House Finance Committee on the topic.

On sale of wine in supermarkets in BC, the US launched a second complaint to the WTO in September 2. The EU has joined this complaint as an interested party and has also participated in the consultations on the dispute held between the US and Canada in October. There are now 21 groceries selling BC wines on shelves and still no store-in-stores for imported products. For the last fiscal year (April 2016 to March 2017) the sale of BC wine in grocery stores amounted to 7233 hectolitres and less than 14 million CAD.

The Canadian federal government is looking at amending the Food and Drug Regulations to update the beer compositional standards and the EU has provided comments on the draft standards based on input from the EU industry. The comments included a request to broaden the definition of beer to include gluten-free beers and a concern regarding the maximum content of 4% residual sugars in beer.

The Market Access Team on Wine & Spirits met twice in 2017 (January and November) to discuss the various trade irritants experienced by EU industry.

Dairy

In February, the new national milk price class (milk class 7) with world market prices for ingredients like skim milk powder and milk protein concentrates came into effect. Class 7 is part of the broader National Ingredient Strategy agreed between Canadian dairy farmers and processors. The new milk class applies to non-fat milk solids ingredients used by the food processing industry and is intended to address a shortage of drying capacity for skim milk powder and an oversupply of non-fat solids typically sent to animal feed. The aim is to make

Canadian dairy ingredients competitive with imported ones, while also encourage exports and stimulating investment in the dairy sector. A significant increase of Canadian dairy protein exports, particularly skim milk powder has been recorded after the implementation of Class 7.
The details on the "CETA mitigation package" for the dairy industry were announced in August. The funds consists of two programs worth $350 million, aimed at supporting the productivity and the competitiveness of dairy farmers, and help the sector adapt to the anticipated impacts from CETA. The five-year, $250 million Dairy Farm Investment Program will provide funds for robotics and other automated systems to improve farm productivity, while the four-year, $100 million Dairy Processing Investment Fund will offer capital for equipment and infrastructure to dairy processers, along with providing access to specialized expertise to introduce new products and processes.

The new quota allocations under CETA were announced in late September. The Canadian government chose to divide the quota allocation in two pools with 50% to Cheese manufacturers and 50% to Cheese distributors and retailers. Within the two pools 30% was reserved to small and medium sized enterprises and 20% to large companies. The individual quota allocations were based on applications and according to the companies' market share within the respective pool. For 2017 the TRQ was allocated to 181 individual companies. The EU will continue to monitor closely the Canadian policy of dairy quota allocation under CETA.

Trade Remedies

In 2017, the Canadian International Trade Tribunal (CITT) made rulings applying trade remedy measures in two cases involving EU parties. One concerned the dumping of **steel concrete reinforcing bars** coming from Portugal and Spain where the anti-dumping duty has been set at 108.5% of the export price. The other concerned dumping of **certain fabricated industrial steel components** from Spain, where the anti-dumping duty has been set at 45.8% of the export price, however with an exemption for one Spanish exporter. The EU intervened in both cases.

Legislative changes to Canada's antidumping and countervailing duty law (the Special Import Measures Act) were adopted. The changes are designed to "provide a more rigorous response to unfair trade" and align Canada with other trading systems. Most of the changes are intended to provide domestic producers greater protection. The changes include:

- Permitting an antidumping investigation to be terminated where it is found that an exporter did not engage in dumping or dumped at *de minimis* levels.
- Allowing the Canada Border Services Agency to make "scope rulings". Interested parties may request that the CBSA conduct a formal review to determine whether a specific product falls within the scope of a trade remedy measure.
- Introducing Anti-Circumvention Investigations. Allowing domestic producers to file a complaint regarding trade and business practices specifically intended to avoid trade remedy duties.
- Giving the CBSA more flexibility when assessing reliability of home market prices of foreign producers. Where CBSA investigators find that prices are distorted due to the presence of a "particular market situation", it will now be possible to use alternative approaches to ensure a proper price comparison.