

Annual Report 2005/2006



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**INTERNAL TRADE
SECRETARIAT**



**SECRETARIAT DU
COMMERCE INTÉRIEUR**

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Committee on Internal Trade

Alberta

The Honourable Ed Stelmach
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British Columbia

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Minister of Economic Development &
Minister responsible for the Asia-Pacific
Initiative & the Olympics

Canada

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Minister of Industry

Manitoba

The Honourable Scott Smith
Minister of Intergovernmental Affairs &
Trade

New Brunswick

The Honourable Bernard Lord
Premier and Minister of
Intergovernmental
Affairs

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The Honourable Kathy Dunderdale
Minister of Innovation, Trade & Rural
Development

Northwest Territories

The Honourable Brendan Bell
Minister of Industry Tourism &
Investment

Nova Scotia

The Honourable Kerry Morash
Chair, Committee on Internal Trade
Minister of Economic Development

Ontario

The Honourable Joseph Cordiano
Minister of Economic Development
& Trade

Prince Edward Island

The Honourable Michael Currie
Minister of Development &
Technology

Quebec

The Honourable Benoît Pelletier
Minister responsible for Canadian
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Francophones
within Canada, the Agreement on
Internal Trade, the Reform of
Democratic Institutions & Access to
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Minister of Government Relations

Yukon

The Honourable James Kenyon
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& Mines

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Intergovernmental & International
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Industry, Tourism & Investment

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Yukon

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2005/2006 Highlights

Throughout 2005/2006, Parties achieved progress in their efforts to make improvements to the Agreement on Internal Trade (AIT) on the basis of their internal trade workplan.

At its Annual Meeting held in Quebec in June 2005, the Committee on Internal Trade (CIT):

- Agreed to advance negotiations on an Energy Chapter towards their conclusion;
- Approved a number of reforms to streamline the AIT's dispute resolution mechanism, including an expanded role for panels;
- Agreed to continue with a full review of Chapter Seventeen (Dispute Resolution) so as to provide the AIT with more consistency, rigour and certainty in its process;
- Requested the Forum of Labour Market Ministers (FLMM) to develop an action plan on labour mobility with specific targets and timelines;
- Approved amendments to Chapter Five (Procurement) to strengthen, clarify and increase flexibility within the Chapter;
- Agreed to further cooperation and harmonization on regulations and standards.

Other highlights included:

- Entry into force of the Sixth Protocol of Amendment to the AIT to cover procurement by Crown Corporations;
- A major expansion of MARCAN, the website managed by the Internal Trade Secretariat (Secretariat) as a vehicle to enable Canadian business to access information on government procurement opportunities;
- An AIT delegation met twice with both the OECD and IMF on issues relating to labour mobility and to regulation, competition and internal trade;
- An AIT delegation was invited to participate in the Senate of Canada Roundtable on Internal Trade (postponed);
- The Executive Director was invited to address a meeting of senior FLMM officials.

Overview of the Agreement

The AIT is an intergovernmental accord on domestic trade signed by the federal, provincial and territorial governments in Canada in 1994, which came into effect in 1995. According to the founding principle, Article 100 of the AIT: *It is the objective of the Parties to reduce and eliminate, to the extent possible, barriers to the free movement of persons, goods, services and investments within Canada and to establish an open, efficient and stable domestic market. All Parties recognize and agree that enhancing trade and mobility within Canada would contribute to the attainment of this goal.*

It is also recognized by all Parties to the AIT that a single market free of barriers to trade strengthens Canada's position in the competitive global economy.

The AIT focuses on reducing trade barriers within eleven sectoral areas. This report provides details of the activities undertaken within these sectors during the reporting period April 1, 2005 to March 31, 2006.

Progress under Sectoral Chapters¹

Chapters One to Four

The first four chapters of the AIT deal with: Operating Principles; General Definitions; Constitutional Authorities; and General Rules, setting out the objectives, extent of the obligations and general rules under which the AIT operates.

Procurement (Chapter Five)

Provisions under the Procurement Chapter establish a framework to ensure equal access to procurement for all Canadian suppliers in order to contribute to a reduction in purchasing costs and the development of a strong economy in a context of transparency and efficiency.

In 2005/2006, progress under the Chapter included the following:

- Effective April 1, 2005, the new annex covering crown corporations came into force with respect to the Federal Government. (The Annex previously came into force on January 1, 2005 for provincial and territorial governments).
- At the CIT 2005 meeting, the CIT approved amendments to the AIT to clarify:
 - that Parties may specify that the work of a contract be performed within Canada where permitted by international agreements;
 - that transition costs are one of the considerations that may be taken into account in the evaluation of tenders;

¹ Complete chapter reports are available on the AIT website at: www.ait-aci.ca.

- the requirements as to how, when and to whom Parties must give notice when they use the exception provided for regional and economic development purposes.
- The review of the Procurement Chapter continued as working groups examined: the potential for removing several exclusions found in the Chapter; the question of how the AIT procurement rules apply to public-private partnerships; and the bid protest procedures applicable to provinces.
- The Reciprocal Tender Notice Exchange continued to grow with Alberta, British Columbia, Newfoundland and Labrador, Nova Scotia, Prince Edward Island, Quebec and Saskatchewan exchanging the tender notices posted on their sites. These notices can now be found on the sites of the Governments of Alberta (www.purchasingconnection.ca), Quebec (www.seao.ca) and Nova Scotia (www.gov.ns.ca/tenders).
- Originally developed to help Canadian companies identify internet sites publishing Canadian public sector tender notices, MARCAN (www.marcan.net) was expanded during the year to clearly identify which public organizations are covered by what rules, the levels at which the rules apply and the process that applies to bid protests. MARCAN also provides an up-to-date list of procurement contacts and information on doing business with each government.

Investment (Chapter Six)

The objective of Chapter Six is to ensure that Canadian businesses are able to make investment decisions based on market conditions without being constrained by restrictive government policies.

The Working Group on Investment (WGI) met the objectives as indicated by the Internal Trade Workplan.

In 2005/2006, progress under the Chapter included the following:

- The WGI presented a report to Ministers regarding subsidies that Parties identified as having an unduly negative impact on their economic interests. Subsidies of concern were grouped according to three broad categories: unfair advantage, bidding wars, and collateral impact. Ministers directed WGI to conduct further study on these issues.
- WGI also held further discussions on improvements to reporting requirements under the Code of Conduct on Incentives. The review and evaluation of data collected to date has informed this process. Options to increase transparency while reducing the administrative burden of reporting on incentives are currently under consideration.

Labour Mobility (Chapter Seven)

Chapter Seven is intended to eliminate or reduce obstacles to labour mobility, thereby enabling any worker qualified for an occupation in one part of Canada to have access to employment opportunities within that occupation in any other province or territory.

The 2005/2006 work plan of the Labour Mobility Coordinating Group (LMCG) identified the following action items:

- LMCG worked with occupational consortia of regulatory bodies to include Québec's regulatory bodies in developing, reviewing and signing Mutual Recognition Agreements (MRAs) where Québec has been excluded because of differences in assessment methods. Work continues to reconcile the methods.
- LMCG continued to work with regulatory bodies to ensure that workers with foreign training fully licensed in one Canadian jurisdiction enjoy comparable mobility within Canada as do Canadian-trained workers.
- The LMCG drafted a policy paper with options for developing and implementing a framework to monitor and to evaluate the degree to which the objectives of Chapter Seven have been achieved.
- Several revisions and updates were made to the Work Destinations Website. Most occupational profiles and registration requirements for regulated occupations across jurisdictions have been validated with more than 80% of occupational profiles completed.
- LMCG continued to provide advice and assistance to interested consortia who want to develop, review or improve their MRAs.
- The LMCG initiated work to address the issue concerning the recognition of qualified workers from non-regulated jurisdictions. Preliminary consultation was undertaken with several stakeholder groups to confirm the assessment processes currently used for recognition by regulatory bodies. From this, LMCG recommended that a broader consultation or a workshop be held with a larger inventory of stakeholders to elaborate guidelines for recognition of the qualified workers from non-regulated jurisdictions.

The results from the 2004/05 Survey of Regulatory Bodies conducted by the LMCG and the provinces and territories stimulated additional work. The LMCG analyzed the survey results and drafted a national report entitled, *Report of Survey Results: Inter-provincial Labour Mobility in Canada 2004/05*, which provided data on compliance with Chapter Seven at the national level. The survey report was tabled with FLMM Senior Officials in May 2005 who in turn tabled the document at the CIT 2005 meeting. Upon reviewing the national report, the CIT requested that the FLMM develop a plan to secure a greater degree of compliance with Chapter Seven commitments and to follow-up on the labour mobility survey results. Senior officials

met in March 2006 to discuss labour mobility issues and give specific directions to the LMCG on how to strengthen work plan activities and reporting timelines. LMCG was tasked to develop a labour mobility work plan that includes ongoing work of the LMCG as well as addressing issues identified in the survey report by following up with occupational consortia.

Consumer-Related Measures and Standards (Chapter Eight)

Chapter Eight calls upon the Parties to report on and cooperate in consumer protection measures. As part of that agreement, the Committee on Consumer Related Measures and Standards (CMC), composed of officials of each government, undertook negotiations to reach agreement on specific commitments made under the AIT. This work was substantially completed in 1998. The CMC is tasked with monitoring the implementation and administration of these agreements.

The CMC is also responsible for identifying any substantive measures for inclusion in future negotiations, acting as a forum for discussions between the Parties on consumer-related measures, and undertaking dispute resolution.

In 2005/2006, progress under the Chapter included the following:

- The CMC Identity Theft Working Group carried out a public consultation to explore a number of options to address identity theft and to make it easier for victims to recover from the experience. The findings of this consultation will be presented at the April 2006 CMC meeting in Ottawa.
- During National Fraud Awareness Month, the CMC launched an updated version of the Identity Theft Checklist for Consumers that is available on the CMC website cmcweb.ca.
- A Task Group on Credit Reporting was created to look into technical elements of credit reporting regulation/legislation. A preliminary list of harmonized technical elements for CMC consideration was developed.
- The CMC Consumer Awareness Working Group updated the Canadian Consumer Handbook 2006.
- The CMC Travel Services Working Group continued to monitor issues relating to consumer protection in this sector.
- The CMC Alternative Consumer Credit Market Working Group analyzed the results of a public consultation (conducted late 2004 and early 2005), and fine-tuned its research and analysis in preparation for an eventual Ministers' meeting.
- The CMC Cost of Credit Disclosure Working Group continued to discuss options for resolving the dispute resulting from the AIT Panel decision in August 2004.

Agricultural and Food Goods (Chapter Nine)

The current scope and coverage of Chapter Nine is limited to technical barriers to internal trade, including five technical barriers with policy implications identified by the Federal-Provincial Agriculture Trade Policy Committee (FPATPC). These technical barriers are: coloured margarine restrictions and other margarine standards; standards for dairy blends and imitation dairy products; fluid milk standards and distribution; Ministerial Exemptions for bulk shipments of horticultural products; and absence of a Canada No. 1 small potato grade.

At the Agriculture Ministers' meeting in November 2005, Ministers agreed to expand the scope and coverage of Chapter Nine to capture all technical measures. The Chapter currently clearly covers only 10 specific measures. This revision to the Chapter would significantly clarify and broaden its scope by including:

- sanitary and phytosanitary measures;
- technical regulations and standards; and
- conformity assessment procedures related to these measures.

Ministers instructed officials to further define "technical measures" and identify the need for any potential exclusions from that definition for their consideration by the end of March 2006. One Party further proposed exclusions of items already covered by the Agreement.

Consensus could not be reached among Agriculture Ministers at their March 2006 meeting on the treatment of exclusions in the proposed text revisions. Given that consensus has not been reached on the language for a revised Chapter, some Ministers at their March meeting expressed concerns with the continuing delays in providing a report with final recommendations to the CIT. These Ministers indicated their intention to proceed with a plurilateral "Trade Enhancement Arrangement" under Article 1800 of the AIT which, between signatory jurisdictions, would enhance the coverage of AIT obligations to all technical measures related to agricultural and food trade.

Having completed the review of Chapter Nine of the AIT and in light of the current lack of consensus, it is unclear at this stage when further progress can be made by the Parties on completing a revised text.

Alcoholic Beverages (Chapter Ten)

The purpose of the Alcoholic Beverages Chapter is to reduce or eliminate barriers to interprovincial trade in alcoholic beverages. However, internal barriers whose removal would have had international implications, due to national treatment requirements, were not addressed in the AIT process on the instruction of Ministers.

In 2005/2006, progress under the Chapter included the following:

- The regulatory/inspection aspects of the National Wine Standards (NWS) process are foremost in the Canadian wine sector's priorities. As the Canadian Food Inspection Agency (CFIA) proposes to recover from industry the costs of administering the standards, Agriculture and Agri-Food Canada (AAFC)/CFIA and the provinces are exploring ways to reduce costs associated with NWS regulations. In response to concerns about meeting their requirements for good manufacturing practices, AAFC/CFIA launched an internet forum in December 2005 that is open to all wineries across Canada to discuss and develop a relevant, cost-effective winery inspection program.
- The food hygiene/good manufacturing practices required by CFIA have been incorporated into its second draft of the Winery Inspection Manual, which is currently under review by industry.

Although substantive progress has been made on this complex initiative with the agreement last year by a national committee of stakeholders on the draft technical aspects of the standards, outstanding issues such as governance, the cost of implementation and enforcement remain unresolved. CFIA and AAFC are currently consulting with the industry and the provinces to address these matters.

Natural Resources Processing (Chapter Eleven)

Chapter Eleven prohibits the introduction of new barriers to the processing of forestry, fisheries and mineral resource products.

In its most recent review of the status of the Chapter's implementation, the Working Group on the Processing of Natural Resources agreed that the Chapter is meeting its objectives and that there are no outstanding implementation issues.

Energy (Chapter Twelve)

The objective of Chapter Twelve will be to provide market access provisions and non-discriminatory treatment of energy goods and energy services. In 2004, at the direction of CIT Ministers, a Working Group of internal trade and energy officials from each Party, chaired by Alberta, was established to undertake a workplan and commence negotiations for completion of an AIT Energy Chapter.

In 2005/2006, progress under the draft Chapter included the following:

- A report on the status of negotiations was prepared for presentation to CIT Ministers at the CIT 2005 meeting;
- A proposal was developed by trade and energy officials to accommodate those Parties wishing to maintain existing or adopt future regional development measures relating to petroleum oil and petroleum gas goods and services while

at the same time satisfying the conditions and requirements of the regional economic development provisions of the AIT;

- A request was made by two Parties at the CIT 2005 meeting for additional time for their justice and energy officials to review the regional economic development proposal. Work continues by one of these Parties to develop its position with respect to the issue.
- An outline of next steps in the negotiating process, proposed by the Working Group of internal trade and energy officials, was approved by CIT Ministers at the CIT 2005 meeting. These next steps will be undertaken once a position on regional economic development is confirmed.

Communications (Chapter Thirteen)

Chapter Thirteen ensures equal access to public telecommunications networks and the use of public telecommunications services. There were no new developments under the Chapter in 2005/2006.

Transportation (Chapter Fourteen)

The objective of Chapter Fourteen is to ensure harmonization of regulations applicable to commercial vehicles such as safety standards, weights and dimension rules, bills of lading, tax administration, and operating authority requirements.

In 2005/2006, progress under the Chapter included the following:

- In the fall of 2005, an open, national meeting was convened to identify and discuss regulatory impediments and harmonization priorities. Over 50 representatives attended from governments, the motor carrier industry, equipment manufacturers and shippers.
- In 2005, regulatory harmonization discussions also continued on regional bases within Canada, with initiatives underway in western, central and eastern Canada to address compatibility of both regulated limits and conditions for issuance of special permit authorities.
- NSC Standard 9: Hours of Service Federal Regulations were published November 16, 2005. Jurisdictions are in the process of training enforcement personnel.
- NSC Standard 10: Cargo Securement has been implemented by all jurisdictions but one: however, implementation is forthcoming in that province. Provinces and territories continue to work on interpretation issues.
- NSC Standard 11: Periodic Motor Vehicle Inspections were revised in 2005 and published by CCMTA in 2006.
- NSC Standard 13: Trip Inspection was completed in 2005 with the development of a protocol for motor coaches.

- NSC Standard 14: Safety Rating. The new federal Motor Vehicle Transport Act and carrier safety fitness regulations became effective January 1, 2005.

Environmental Protection (Chapter Fifteen)

The objective of Chapter Fifteen is to ensure that the environmental protection measures of the Parties do not become non-tariff trade barriers. The Chapter places obligations on departments of the environment, as well as on the Canadian Council of Ministers of the Environment, the body responsible for implementing and administering this Chapter.

In 2005/2006, progress under the chapter included the following:

- Under the Canada-wide Accord on Environmental Harmonization, jurisdictions continued implementing the following Canada-wide standards in keeping with their identified timelines: dioxins and furans emissions from incinerators, coastal pulp and paper boilers, iron sintering plants, steel manufacturing electric arc furnaces, and conical waste combustion; mercury-containing lamps; mercury in dental amalgam wastes; mercury from incineration; benzene; and petroleum hydrocarbons in soil.
- Ministers accepted in principle a Canada-wide standard for mercury emissions from coal-fired electric power generators.
- The National Framework for Petroleum Refinery Emissions Reductions was released. This framework represents a collaborative approach among industry, government, and non-government environmental and health organizations to reduce emissions from the petroleum refining sector.
- In support of Canada-wide Principles for Electronics Product Stewardship (2004), a List of Recommended E-Waste Products was released to assist and support jurisdictions in the development of compatible e-waste programs.
- Ministerial consultations on further enhancing intergovernmental environmental cooperation were conducted.
- The sole environmental measure notification was issued by Quebec in May 2005, with respect to consultation on a draft regulation for environmental standards for heavy vehicles.

Institutional Provisions (Chapter Sixteen)

The CIT along with the Secretariat are established under Chapter Sixteen provisions. During 2005/2006, the CIT held its Annual Meeting in Quebec and issued a press release on its deliberations and decisions. The Secretariat provided administrative and operational support to numerous conference call meetings of Management Board and Internal Trade Representatives (ITRs), as well as to committees and working groups dealing with various initiatives under the Internal

Trade Workplan. Several face-to-face meetings were held in Winnipeg and Ottawa. The Secretariat also hosted the October meeting of the LMCG in its boardroom.

Moreover, during the year a new form of governance was adopted by Parties whereby the Secretariat became incorporated federally as a not-for-profit body. A Transitions Committee was established in late November 2005 to oversee the conversion of the Secretariat into the new Internal Trade Secretariat Corporation. A special Members Meeting as well as the first Board of Directors Meeting were held in late March 2006 to approve the new policies and procedures; the new Corporation is expected to be fully operational by April 2006.

Dispute Resolution Procedures (Chapter Seventeen)

Chapter Seventeen features a formal dispute settlement mechanism to deal with complaints. It is accessible to governments and persons. Dispute resolution procedures under the Chapter provide for consultations between parties to the dispute, including seeking the assistance of the committee of Ministers and, ultimately, the establishment of a dispute resolution panel.

Parties have been engaged in a full review of AIT dispute resolution mechanisms since August 2004. The purpose of the review is to address issues related to timing, fairness, certainty, consistency and implementation. As the lead jurisdiction, Saskatchewan chairs the Dispute Resolution Review Working Group which includes ITRs and/or solicitors from Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island, Quebec, the Federal Government and the Secretariat.

In 2005/2006, progress under the Chapter included the preparation of a report by the Dispute Resolution Review Working Group, which was tabled at the CIT 2005 meeting and resulted in CIT approval of a number of recommendations. The Working Group has undertaken to address these items through a protocol of amendment, which is expected to be presented to CIT Ministers for approval in the next reporting period.

Recommendations approved by Ministers at the CIT 2005 meeting included the following:

- Parties should ensure that two of their five nominees to the AIT roster of panellists have expertise, experience or working knowledge of administrative law and/or dispute resolution;
- Amend the AIT to require that at least one member of each panel has expertise, experience or working knowledge of administrative law and/or dispute resolution;
- Amend the AIT Code of Conduct for Panellists to require panellists to sign a declaration to the effect that they have read the Code of Conduct and the Panel Rules of Procedure and understand both documents;

- Amend the Rules of Interpretation to clarify that the burden of proof rests with the person or Party bringing a case against a Party;
- Amend the AIT so that formal consultation requirements of sectoral chapters (other than the Procurement Chapter) be incorporated into a general consultation mechanism in Chapter Seventeen;
- Increase the per diem rate for AIT panel members to \$800;
- Continue work to develop a set of amendments to Chapter Seventeen, including panel rules of procedure, and to resolve issues of language and process;
- Complete discussions on a mechanism enabling a Party to argue that a dispute is not within the scope of the AIT;
- Explore further the merits of one or more mechanisms to ensure compliance with panel reports;
- Amend the AIT so that original panels can be reconvened to determine compliance with panel reports;
- Amend the AIT so that within 10 working days after the issue of a panel report, a participant may request an interpretation and/or correction of any errors;
- Amend the AIT to provide that if a Party fails to name a panellist, a panellist will be chosen by lot by the Secretariat; and
- Continue work on AIT panel hearing cost options.

Final Provisions (Chapter Eighteen)

Chapter Eighteen recognizes that it is appropriate for governments to enter into bilateral or multilateral arrangements to enhance trade and mobility and provide a level of trade liberalization beyond what is required by the AIT.

To increase the visibility of such arrangements, an inventory was prepared of those trade-related arrangements that currently exist between the FPT governments. This inventory, which was published as “Trade Enhancement Arrangements” on the AIT website, provides the name of the arrangement, the Parties to the arrangement, the date of its entry into force and links to an electronic copy of the arrangement where available.

Internal Trade Disputes

The AIT encourages the resolution of disputes through consultations between disputants, and makes provision for progressive steps in the dispute avoidance and resolution process.

Detailed information on disputes since the inception of the AIT can be found at www.ait-aci.ca. During 2005/2006, public hearings were held with respect to two disputes that were formally initiated using the dispute settlement mechanisms provided for in the AIT, and the resulting panel reports were subsequently published.

In 2005/2006, AIT trade dispute activities included:

- On October 18, 2005, the Panel dealing with the dispute between the Certified General Accountants of New Brunswick (CGA-NB) and the Government of Quebec released its report. The Panel found that Quebec's application of the chartered accountant (CA) occupational standard for public accounting to non-CA accountants from other jurisdictions is inconsistent with the AIT. The Panel further found that Quebec's public accounting measures that restrict access to the practice of public accounting by non-CA accountants recognized in other jurisdictions as qualified to practice public accounting have impaired internal trade and have caused injury. The Panel recommended that Quebec ensure that the *Chartered Accountants Act* and Regulations and all other Quebec statutes that restrict access to the practice of public accounting by non-CA accountants recognized as qualified to practice public accounting by other Parties are made consistent with the AIT.
- On August 22, 2005, the Panel dealing with the dispute initiated by Alberta with respect to Quebec's *Regulation Respecting Dairy Product Substitutes* released its report. Alberta, joined by Manitoba and Saskatchewan, alleged that Quebec's Regulation, which prohibits the sale in Quebec of margarine coloured the same pale yellow as butter, is inconsistent with Quebec's obligations under the AIT. The Panel found that Quebec's Regulation contravenes the AIT and has impaired and caused injury to margarine producers and their upstream suppliers. The Panel recommended that Quebec repeal the Regulation no later than September 1, 2005, allowing for the sale of margarine coloured the same pale yellow hue as butter in Quebec no later than September 1, 2005.
- In April 2005, Alberta and British Columbia entered into consultations with the Federal Government over the federal Public Service Commission's (PSC) continued use of geographic hiring criteria. During these consultations, the Federal Government committed to take steps to open some federal positions to a national area of selection. Alberta and British Columbia remain concerned as to whether all the issues have been addressed and will continue to monitor progress and consider possible next steps.
- Newfoundland and Labrador initiated consultations with Alberta concerning the requirement of the College of Paramedics of Alberta for graduates of the

Programs in Paramedicine in Newfoundland and Labrador to undergo additional training before being eligible to write the Alberta qualifying examinations for paramedics. Alberta amended its practices to ensure it treats paramedics from Newfoundland and Labrador in the same way that it treats paramedics from other parts of Canada.

- Consultations initiated by Newfoundland and Labrador with Ontario concerning the registration of Licensed Practical Nurses in Ontario concluded after Ontario amended regulations under *the Nursing Act* to permit a Licensed Practical Nurse registered in another Canadian jurisdiction prior to January 1, 2005 to be eligible for registration in Ontario without the requirement to write an entry to practice examination.
- With respect to the dispute jointly launched by Alberta and British Columbia, with the support of Manitoba and Saskatchewan, regarding Ontario's *Edible Oil Products Act*, a panel hearing was held in September 2004. Ontario repealed the *Edible Oil Products Act* on January 1, 2005, as recommended in the Panel Report issued November 10, 2004. Alberta has expressed concerns that Ontario has not fully satisfied the Panel's recommendations, with the introduction of new regulations on an interim basis for edible oil-dairy products. Ontario has responded by indicating it will continue to pursue national standards for the marketing and sale of milk products with some edible oil-based content. Alberta is considering possible next steps under the AIT to resolve the matter.
- With respect to the fluid milk dispute between Farmers Dairy Ltd. and New Brunswick, New Brunswick advises that changes in legislation that would allow for full compliance are currently under review.
- With respect to the dispute between the Certified General Accountants (CGA) Manitoba and Ontario, Ontario has indicated it is moving forward with legislative changes consistent with the AIT Panel Report.

Organizational Structure of the Agreement on Internal Trade

Committee on Internal Trade

Under the AIT, a committee of ministers, the Committee on Internal Trade, is established with responsibility for the implementation of the AIT. The CIT meets annually to review progress under the AIT and its chairmanship is rotated each year among a roster of Parties. Decisions are taken by consensus.

Management Board

The Parties to the AIT have established a Management Board, comprised of officials from each Party to provide general guidance to the Executive Director in the administration and operation of the Secretariat.

Internal Trade Representatives

ITRs are senior trade officials appointed by each Party to the AIT who meet regularly as a committee or in working groups to direct the work of implementing the AIT.

Internal Trade Secretariat

The AIT established a Secretariat to act as a neutral and independent coordinating and support body to committees and working groups under the AIT. The Secretariat is headed by an Executive Director who reports to, and is guided by, the policies of the Management Board.

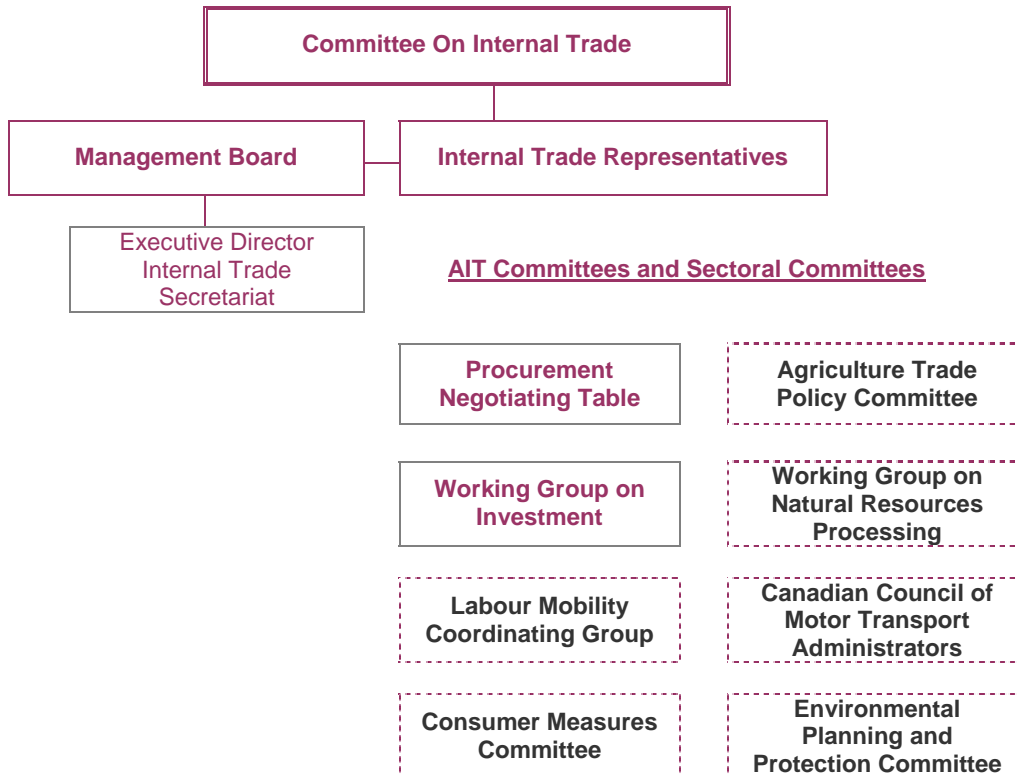
Agreement on Internal Trade Website

The following detailed information is available on the AIT website at www.ait-aci.ca.

Overview of the AIT	Screeener Reports
Consolidation of the AIT	Panel Reports
Protocols of Amendment	Annual Reports
News Releases	Progress to Date Reports
Corporate Registration Information	Initiatives under the AIT
Government Procurement Information	Dispute Statistics

Organizational Chart – The Agreement on Internal Trade

(as at March 31, 2006)



Sectoral committees identified by dotted lines report through their respective sectoral organizational structures, providing reports to the CIT as appropriate.

INTERNAL TRADE SECRETARIAT

Financial Statements

For the year ended March 31, 2006

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Auditors' Report

To the Management Board of Internal Trade Secretariat

We have audited the statement of financial position of **Internal Trade Secretariat** as at March 31, 2006 and the statement of operations and net assets for the year then ended. These financial statements are the responsibility of the Secretariat's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

As outlined in note 2 to the financial statement, the **Internal Trade Secretariat** does not capitalize and amortize its property and equipment. In this respect only, the financial statements are not in accordance with Canadian generally accepted accounting principles.

In our opinion, except for the effects of the failure to capitalize and amortize property and equipment as described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Secretariat as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants
Winnipeg, Manitoba
April 11, 2006

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INTERNAL TRADE SECRETARIAT
Statement of Financial Position

March 31	2006	2005
Assets		
Current Assets		
Cash	\$ 322,504	\$ 266,001
Accounts receivable	5,986	8,372
Prepaid expenses	5,012	5,550
	333,502	279,923
Capital assets (Note 2)	1	1
	\$ 333,503	\$ 279,924
<hr/>		
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities (Note 1)	\$ 27,198	\$ 77,167
Net Assets		
Reserve funds - Federal Government (Note 3)	79,430	59,649
Reserve funds - Provinces and Territories (Note 4)	224,610	143,108
Unrestricted	2,265	-
	306,305	202,757
	\$333,503	\$ 279,924

On behalf of the Board:

Executive Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

INTERNAL TRADE SECRETARIAT Statement of Operations and Net Assets

For the year ended March 31	2006	2005
Revenue		
Contributions		
Federal Government (Note 3)	\$ 297,023	\$ 311,168
Provinces and Territories (Note 4)	298,410	311,639
Interest		
Federal Government bank account (Note 3)	2,990	1,524
Provinces and Territories bank account (Note 4)	1,603	1,053
Other income	2,265	-
	602,291	625,384
Expenses		
Communications	21,651	24,910
Facility costs (Note 6)	42,580	42,435
Goods and services tax, net	13,512	14,226
Meetings and conferences	36,328	29,580
Office expenses	37,730	41,281
Personnel		
Employees	188,919	197,832
Consultants	175,183	146,503
Professional services	11,511	50,256
Property and equipment		
Computers and software	6,483	6,989
Office equipment	1,448	1,355
Training	-	4,265
Translation	44,910	50,222
Travel	19,771	15,530
	600,026	625,384
Excess of revenue over expenses for the year	2,265	-
Net Assets, beginning of year	-	-
Net Assets, end of year	\$ 2,265	\$ -

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

INTERNAL TRADE SECRETARIAT

Summary of Significant Accounting Policies

March 31, 2006

Status and Nature of Activities The Internal Trade Secretariat (the "Secretariat") is a non-taxable, unincorporated association that was established on August 8, 1995, as required by the Agreement on Internal Trade. The objective of this Agreement is to reduce and eliminate, to the extent possible, barriers to the free movement of persons, goods, services, and investments in Canada.

The Secretariat's role is to provide administrative and operational support to the Committee on Internal Trade and other working groups or committees set up to implement the Agreement on Internal Trade.

During the current fiscal year an application has been filed to incorporate a corporation under the name "The Internal Trade Secretariat Corporation" under the Canada Corporations Act. The Letters Patent was issued on November 15, 2005. The Secretariat will begin operating under the new incorporated entity effective April 1, 2006.

Basis of Accounting

The financial statements are prepared in accordance with Canadian generally accounting principles, except as noted below, which require the Secretariat to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses, and disclosures of contingencies. Actual results could differ from these estimates.

INTERNAL TRADE SECRETARIAT

Summary of Significant Accounting Policies

March 31, 2006

Property and Equipment

Property and equipment are charged to expenditures in the year of purchase. During the year, \$7,931 (\$8,344 in 2005) of property and equipment were expensed. Generally accepted accounting principles require that property and equipment be capitalized and amortized over their estimated useful life. The effect of this policy is described in note 2.

Revenue Recognition

The Secretariat follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Contributions receivable are recognized if the amount can be reasonably estimated and ultimate collection is reasonably assured.

Contributions

The management board of the Secretariat resolved on November 21, 2005 to change the existing policy with regards to deferred contributions. Beginning fiscal 2005/2006, unused funds are no longer considered to be deferred contributions, but will now be considered an internally restricted reserve fund for future use within the organization.

Financial Instruments

Financial instruments consist of cash, accounts receivable and accounts payable. Unless otherwise stated, it is management's opinion that the Secretariat is not exposed to significant interest, currency or credit risks arising from these financial instruments. Unless otherwise stated, the book value of the Secretariat's financial assets and liabilities approximates their fair value.

INTERNAL TRADE SECRETARIAT Notes to Financial Statements

March 31, 2006

1. Accounts Payable and Accrued Liabilities

	2006	2005
Trade accounts payable	\$ 19,346	\$18,276
Vacation payable	7,852	9,104
Federal Government	-	49,787
	\$ 27,198	\$77,167

2. Capital Assets

Capital assets are charged to expenditures in the year of purchase. During the year, \$7,931 (\$8,344 in 2005) of property and equipment were expensed. Generally accepted accounting principles require that property and equipment be capitalized and amortized over their estimated useful life. The estimated useful life of the property and equipment components which include computers, software, furniture and office equipment is usually 5 years. If property and equipment had been capitalized and amortized over their estimated useful life of five years, the property and equipment expensed for the year would have been reduced by \$7,931 (\$8,344 in 2005), amortization expense would have been increased by \$12,112 (\$12,752 in 2005), contribution revenue would have been increased by \$4,181 (\$4,408 in 2005), and capital assets and reserve funds on the balance sheet would each have increased by \$21,285 (\$25,466 in 2005).

INTERNAL TRADE SECRETARIAT Notes to Financial Statements

March 31, 2006

3. Reserve Funds - Federal Government

Based on a Funding Agreement with the Federal Government, the Secretariat is to receive contributions to cover 50% of eligible expenditures incurred during the year from the Federal Government. The details of contributions from the Federal Government for the year are as follows:

	2006	2005
Reserve funds, beginning of year	\$ 59,649	\$ 55,714
Contributions received during the year	316,804	364,890
	376,453	420,604
Required contributions		
50% of the eligible expenditures of \$600,026 (\$625,384 in 2005)	300,013	312,692
Deduct interest earned on advances from the Federal Government	(2,990)	(1,524)
Contributions recognized as revenue for the year	297,023	311,168
	79,430	109,436
Less amounts requested to be repaid by the Federal Government (recorded as accounts payable)	-	(49,787)
Reserve funds, end of year	\$ 79,430	\$ 59,649

INTERNAL TRADE SECRETARIAT Notes to Financial Statements

March 31, 2006

4. Reserve Funds - Provinces and Territories

Based on the Agreement on Internal Trade, the Secretariat is to receive contributions to cover 50% of eligible expenditures incurred during the year from the Provinces and Territories. The details of contributions from the Provinces and Territories for the year are as follows:

	2006	2005
Reserve funds, beginning of year	\$ 143,108	\$133,913
Contributions received during the year	379,912	320,834
	523,020	454,747
Required contributions		
50% of the eligible expenditures of \$600,026 (\$625,384 in 2005)	300,013	312,692
Deduct interest earned on advances from the Provinces and Territories	(1,603)	(1,053)
	298,410	311,639
Contributions recognized as revenue for the year	298,410	311,639
Reserve funds, end of year	\$ 224,610	\$143,108

5. Statement of Cash Flows

A separate statement of cash flows has not been provided since the sources and uses of cash from (to) operating, investing, and financing activities are readily apparent from the information included in the financial statements.

INTERNAL TRADE SECRETARIAT Notes to Financial Statements

March 31, 2006

6. Commitments

The Secretariat has an operating lease for its premises at \$3,188 per month, under a lease expiring in January 2011. The organization is also responsible for their share of common area costs including realty taxes.

7. Economic Dependence

The operations of the Secretariat are dependent upon the continued funding from territorial, provincial and federal jurisdictions.