



Annual Report 2004/2005

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Message from the Chair



The reporting period of 2004/2005 represented in this annual report was a period of intense activity for Parties to the Agreement on Internal Trade (AIT). The impetus for this work was provided by the Council of the Federation's (COF) *Internal Trade Workplan* which includes fifteen initiatives to address issues affecting internal trade in Canada.

The December 2004 meeting of the Committee on Internal Trade (CIT) marked a renewed commitment for federal/provincial/territorial cooperation on internal trade. Ministers took concrete action to strengthen the AIT by approving an ambitious workplan in areas such as labour mobility, agriculture and energy.

Ministers also approved a new set of rules bringing Crown Corporations' procurement under the obligations of openness and transparency of the Agreement. At that meeting, the Government of Canada joined the provinces and territories in their renewed commitment to removing internal trade barriers and endorsed the *Internal Trade Workplan*.

I wish to thank the Parties for their collective efforts over the past year to reform the AIT, working to make it an effective and credible instrument for strengthening internal trade in Canada.



Monsieur Benoît Pelletier
Chair, Committee on Internal Trade
Minister responsible for Canadian Intergovernmental Affairs,
Francophones within Canada, the Agreement on Internal Trade,
the Reform of Democratic Institutions and Access to Information

Committee on Internal Trade

Alberta

The Honourable Ed Stelmach
Minister of International &
Intergovernmental Relations

British Columbia

The Honourable John Les
Minister of Small Business and
Economic Development

Canada

The Honourable David Emerson
Minister of Industry

Manitoba

The Honourable Scott Smith
Minister of Intergovernmental Affairs & Trade

New Brunswick

The Honourable Percy Mockler
Department of Intergovernmental
and International Relations

Newfoundland and Labrador

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

Northwest Territories

The Honourable Brendan Bell
Minister of Resources, Wildlife and
Economic Development

Nova Scotia

The Honourable Ernest Fage
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
Chair, Committee on Internal Trade
Minister responsible for Canadian
Intergovernmental Affairs, Francophones
within Canada, the Agreement on Internal
Trade, the Reform of Democratic
Institutions & Access to Information

Saskatchewan

The Honourable Len Taylor
Minister of Government Relations

Yukon

The Honourable James Kenyon
Minister of Economic Development

Internal Trade Representatives

Alberta

Shawn Robbins, Director
Trade Policy, International and
Intergovernmental Relations

British Columbia

Robert Musgrave, Manager
Trade Policy and Programs
Small Business and Economic
Development

Canada

Philip Morrison (Acting ITR)
Senior Policy Analyst
Industry Canada

Manitoba

Alan Barber, Director
Policy Planning and Coordination
Industry, Economic Development & Mines

New Brunswick

Harry Quinlan, Director, Trade Policy
Intergovernmental and International
Relations

Newfoundland and Labrador

Tom Fleming, Manager
Trade Policy
Industry, Trade and Rural Development

Northwest Territories

Terry Lancaster, Trade Consultant
Resources Wildlife and Economic
Development

Nova Scotia

Greg Bent, Director, Trade Policy
Intergovernmental Affairs

Ontario

Richard Caine, Manager
Trade and International Policy Branch
Economic Development & Trade

Prince Edward Island

Robert Perrin, Trade Advisor
Development & Technology

Quebec

Daniel Albert (Chair), Coordinator
Internal Trade Group
Canadian Intergovernmental Affairs

Saskatchewan

Robert Donald, Director
Trade Policy Branch
Government Relations

Yukon

Lise Farynowski, Senior Planner
Policy, Planning & Research
Economic Development

2004/2005 Highlights

The Year 2004 signified the first decade of achievement under the AIT since its signature by federal, provincial and territorial (FPT) governments in Canada. Throughout 2004/2005 the internal trade agenda was guided predominantly by the COF workplan.

Highlights included:

- Annual meeting of the CIT, December 2004 (Ottawa);
- Work by Parties to honour all obligations under the AIT including appointing panellists to the Roster of Panellists and more timely reporting on procurement and incentives;
- Completion of the negotiations to open Crown Procurement to national competition;
- Improvements to the procedural fairness of AIT dispute resolution mechanisms;
- Launch of an assessment of gaps between the AIT and issues outside the scope of the Agreement;
- Development of a workplan to complete negotiation of an Energy Chapter;
- Commencement of a full review of AIT dispute resolution mechanisms;
- Assessment of work required to address labour mobility issues including but not limited to mutual recognition of foreign credentials; and
- Review of the scope and coverage of the Agriculture Chapter.

New Appointments

- Quebec assumed the role of Chair of the CIT, previously held jointly by co-chairs, New Brunswick and the Federal Government.
- Minister Ed Stelmach of Alberta assumed the CIT portfolio in place of Minister Halvar Johnson.
- Federal Minister David Emerson assumed the CIT portfolio in place of Minister Lucienne Robillard.
- Minister Scott Smith of Manitoba assumed the CIT portfolio in place of Minister Rosann Wowchuck.
- Minister Benoît Pelletier of Quebec assumed the CIT portfolio in place of Minister Michel Audet.
- Minister James Kenyon of the Yukon assumed the CIT portfolio in place of Premier Dennis Fentie.

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, 2004 to March 31, 2005.

Progress under Specific 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 2004/2005 progress under the chapter included:

- Ministers agreed to add a new annex covering Crown corporations and to bring this annex into effect January 1, 2005 for provincial and territorial governments and April 1, 2005 for the federal government. By means of this annex, Crown corporation procurement valued in the billions of dollars becomes subject to the chapter's principles of transparency, fairness and non-discrimination.

¹ Complete chapter reports are available on the AIT website at: www.intrasec.mb.ca.

- The review of the Procurement Chapter continued with officials recommending, among other things, changes to clarify:
 - that Parties may specify that the work of a contract be performed within Canada where permitted by international agreements;
 - that transition costs be one of the considerations in the evaluation of tenders; and
 - the requirements as to how Parties must give notice when they use the exception provided for regional and economic development purposes.
- Parties examined the issue of how best to facilitate access by suppliers to public sector tender opportunities through a single electronic gateway. It was decided that the most efficient and cost effective method was a “Reciprocal Notice Exchange” (RNE) using Alberta’s electronic tendering system as the host server. Seven Parties send their tender notices to Alberta on a daily basis and others plan to follow. Quebec currently retrieves other Parties’ tender data from the Alberta site posting this data on its own tender data site for the benefit of its suppliers. Quebec also uses the Alberta site to post its own tender data for other Parties to retrieve. Likewise, several Parties plan to follow suit.
- Parties examined the question of whether to lower the threshold levels above which the provisions of the Procurement Chapter apply, recognizing that inflation has effectively reduced the level of the thresholds established 10 years ago.

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 COF workplan called for three actions to assess and address issues related to business subsidies: (1) an independent assessment of the nature and extent of the issue; (2) development of options to address areas where subsidy competition remains a concern; and (3) a review and evaluation of data reported under the AIT to date.

In 2004/2005 progress under the chapter included:

- A Working Group on Investment (WGI) report identifying subsidies considered by some Parties to be having an unduly negative impact on their economic interests and identification of options to address the identified subsidies for consideration by ministers.
- WGI review and evaluation of the data collected to date as part of the required reporting under the AIT’s Code of Conduct on Incentives. WGI began discussions on

options for amending reporting obligations with a view to reducing the administrative burden associated with the reporting while maintaining transparency. This WGI review is ongoing.

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.

In 2004/2005 progress under the chapter included:

- To evaluate the effectiveness and degree of implementation of the Chapter, the Labour Mobility Coordinating Group (LMCG) worked with provinces and territories to develop and conduct a national survey in Winter/Spring 2004/2005 on interprovincial labour mobility for 50 regulated occupations. In total, 425 questionnaires were sent to regulatory bodies, and over 390 questionnaires were completed, representing a 92% response rate. Survey results will be released in the next reporting period.
- The LMCG has continued working with regulatory body consortiums to include Quebec in the mutual recognition agreements (MRAs) after Quebec was excluded from some Agreements because it uses different assessment methods. In 2005, the LMCG prepared a draft letter to be sent to the regulatory body consortiums, outlining the Forum of Labour Market Ministers' (FLMM's) concerns regarding the exclusion of Quebec's regulatory body from some MRAs when Quebec does not participate in a national entry exam. The mobility survey shed new light on the situation, and the LMCG will consider its courses of action in the next reporting period.
- The LMCG has worked to promote recognition practices so that skilled workers—trained either in Canada or abroad—can enjoy the same mobility once they are qualified in one Canadian jurisdiction. A draft letter from Deputy Minister Co-chairs of the FLMM was to be sent to certain consortiums in January 2005 to ask them to take measures to promote this parity.
- The LMCG is working on a framework to monitor the implementation of Chapter Seven and to evaluate whether or not objectives have been achieved. A subcommittee was tasked with developing this framework and developing options for consideration by senior officials.
- The LMCG updated the Work Destinations website with the help of Human Resources and Skill Development Canada (HRSDC). Provinces and territories provided up-to-date competency profiles for the occupations, and links were added to provide access to the provinces' websites. In March 2005, over 75% of competency profiles were updated.

- The LMCG has remained actively involved in a number of regulatory body consortiums. LMCG members have worked with the consortiums that are currently developing their agreements to ensure that they fulfill their obligations with regard to Chapter Seven. Among others, LMCG members worked with teachers, social workers, podiatrists/chiropractors, dental assistants, and audiologists and speech-language pathologists. LMCG members also worked with regulatory body consortiums for which specific problems had been identified. This was particularly the case with licensed practical nurses and embalmers and funeral directors.

Consumer-Related Measures and Standards (Chapter Eight)

Chapter Eight calls upon the FPT governments to report and cooperate on consumer protection measures. In this regard, the Committee on Consumer Related Measures and Standards (CMC), composed of FPT officials, 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.

In 2004/2005 progress under the chapter included:

- In the “Cost of Credit” Dispute (see further details under Agreement on Internal Trade Disputes below) the Dispute Resolution Panel instructed the CMC to meet at the earliest opportunity to resolve the concerns raised by the Parties in the federal Cost of Borrowing (Banks) Regulations (CBR) dispute by October 15, 2004. In response, the CMC struck two working groups to address the Panel’s recommendations:
 - The first Working Group carried out a public consultation from mid-December through March 2005 on the substantive issues of the dispute, that is, the calculation of the Annual Percentage Rate for open credit other than credit cards, and the waiver of the two-day cooling off period for mortgage loans. The Working Group will continue its deliberations in 2005/2006.
 - The other Working Group developed text to clarify the limits of flexibility afforded to the Parties in implementing the Harmonization Agreement, and a clear process for notification of deviations and the resolution of any issues resulting from those deviations. CMC has reviewed and approved this text.
- The CMC Alternative Consumer Credit Market Working Group began work to: develop a legal framework for consumer protection in the payday lending sector; examine the cost structure of this sector; elaborate best practices for a legal payday lending sector; examine the role of traditional lenders in this market; and improve consumer awareness of issues surrounding the use of this form of lending.

- The CMC Charge-back Working Group consulted with industry stakeholders to examine their willingness to implement credit card charge-back policies on a voluntary basis. On the whole, the Working Group received little response to the initiative. One exception was VISA Canada's announcement, in June 2004, of a voluntary charge-back regime for online, phone and mail order purchases, in some circumstances. Also in June, FPT Consumer Deputy Ministers agreed to support a hybrid between a regulatory and a voluntary approach to implementing charge-backs, and continued to press the sector for action on this issue.
- The CMC Travel Services Working Group conducted a consultation with stakeholders on how to improve the transparency of air travel price advertising, and initiated work with the relevant regulators and stakeholders on opportunities to address protection of consumer pre-paid monies in the travel marketplace.
- During National Fraud Awareness Month, the CMC launched the Identity Theft Information Kit for Business, to help businesses protect their clients' personal information.

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.

The lead forum for addressing technical barriers with policy implications is the FPATPC. The FPATPC also carries a mandate for completing work under Chapter Nine, and since late 2004, has been conducting a review of the chapter's scope and coverage, as directed by the COF and endorsed by the CIT.

Alcoholic Beverages (Chapter Ten)

The purpose of the Alcoholic Beverages Chapter is to reduce or eliminate barriers to interprovincial trade in alcoholic beverages.

In 2004/2005 progress under the chapter included:

- Agreement substantively to a National Wine Standard (NWS) which will help to ensure the production of high quality Canadian wine and to validate Canada as a legitimate member of the international wine community.

Outstanding issues to be resolved before the standard can be regulated and enforced now relate to matters associated with the administration of the NWS. Provinces are at various stages of investigating, establishing or implementing provincial wine authorities that would certify quality assurance standards. Once resolved, these actions will facilitate interprovincial as well as international trade.

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;
- Considered the status of four disputes under the chapter, two of which were resolved during the reporting period.

Energy (Chapter Twelve)

The objective of Chapter Twelve will be to harmonize the treatment of energy goods and energy services. Provincial/Territorial (PT) Internal Trade Ministers were directed by Premiers in August 2004, through the COF initiative, to complete negotiations for an AIT Energy Chapter, with Alberta as the lead jurisdiction. As of December, 2004 the federal government became fully engaged in the initiative.

In 2004/2005 progress under the chapter included:

- Establishment of a working group of PT and federal internal trade and energy officials (Energy Negotiations Working Group) and development of the Energy Chapter Negotiations Preliminary Report. The Report has been used to guide the negotiating process.
- Development of terms of reference for a workplan which encompassed: a review of the potential scope and coverage of a proposed Energy Chapter; a jurisdictional review of the 1998 draft Energy Chapter text ("the 1998 Draft") for relevance; identification of existing and proposed regional development programs; identification of common ground respecting mutually acceptable resolutions; and a subsequent detailed workplan for the negotiating process. Most of the workplan items have been completed by the Energy Negotiations Working Group as follows:

- A review of the 1998 Draft for relevance resulted in general agreement that the AIT Energy Chapter should focus on market access provisions for all energy goods and services, thus providing broader coverage than the electricity-focused 1998 Draft.
- A review of the potential scope and coverage of a proposed Energy Chapter resulted in general agreement on content changes and drafting approaches to achieve broad market access for energy goods and services.
- Trade and energy officials have also worked to find a mutually acceptable resolution to the issue of existing and proposed regional development programs. Considerable progress has been made and negotiations are continuing with a view to reaching an agreement.
- The Energy Negotiations Working Group will be reporting on the status of the negotiations to both the CIT and the COF in 2005.

Communications (Chapter Thirteen)

Chapter Thirteen ensures equal access to public telecommunications networks and the use of public telecommunications services.

In 2004/2005 progress under the chapter included:

- Removal of Article 1305: Saskatchewan Provision from the chapter by means of a protocol of amendment which came into effect April 2004. Accordingly, all government-established or designated monopolies providing communication services or telecommunication facilities are now covered by the prohibition against the use of their monopoly position to engage in anti-competitive conduct in other markets.

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 2004/2005 progress under the chapter included:

- Continuing the pursuit of greater compatibility of regulations within Canada, in September 2004 an amendment to the national standards contained in a FPT Memorandum of Understanding was presented to and approved by the Council of Ministers Responsible for Transportation and Highway Safety introducing the following changes:

- The box length limit for “A Train Doubles” was increased to 20 metres (from 18.5m), which established a uniform standard across Canada.
- A kingpin setback limit of a maximum 2.0 m radius applies to the second semi trailer in “B Train Double” trailer combinations, as an additional safety measure.
- The Intercity Motor Coaches category was amended to include recreational vehicles, thereby allowing lengths up to 14 metres long.
- In 2004 regulatory harmonization discussions continued on regional bases, with initiatives underway in western, central and eastern Canada to address compatibility of both regulated limits and conditions for issuance of special permit authorities.
- Work continued to ensure that the 15 National Safety Code (NSC) standards for motor carriers would be substantially in place as required on January 1, 1996.
- Under NSC Standard 9: Hours of Service approved by the Council of Ministers in September 2002, CCMTA officials and stakeholders have been assisting Transport Canada with the federal regulations to ensure compatibility with the standard.
- NSC Standard 10: Cargo Securement was revised and approved by the Council of Ministers in September 2004. Training for both enforcement officers and industry stakeholders was provided throughout last year by CCMTA.
- NSC Standard 11: Periodic Motor Vehicle Inspections is currently being revised with CCMTA Board of Directors.
- NSC Standard 13: Trip Inspection was revised during the course of the last year and implementation in the provinces and territories is envisioned throughout 2005/2006.
- Under NSC Standard 14: Safety Rating, approved by the Council of Ministers in September 2002, work continues on the new federal Motor Vehicle Transport Act and carrier safety fitness regulations which will become effective January 1, 2006.

Environmental Protection (Chapter Fifteen)

Chapter Fifteen ensures that federal, provincial or territorial environmental protection measures do not become non-tariff trade barriers.

In 2004/2005 progress under the chapter included:

- Under the Canada-wide Accord on Environmental Harmonization, jurisdictions continued implementing the following Canada-wide standards in keeping with their identified timelines: petroleum hydrocarbons in soil; 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 for dental amalgam wastes; and benzene.

- Continued work on developing a Canada-wide standard for mercury emissions from coal-fired electric power generators.
- Conducted ministerial consultations on further enhancing intergovernmental environmental cooperation.

Institutional Provisions (Chapter Sixteen)

Provisions of Chapter Sixteen require the creation of the CIT, a Working Group on Adjustment and a Secretariat, specifying frequency of meetings, funding and other relevant requirements.

In 2004/2005 the Parties have:

- Held an annual meeting of the CIT;
- Reaffirmed Article 1601.4 of the AIT which provides for a single chairperson of the CIT on an annual basis;
- Endorsed and supervised the implementation of the COF *Internal Trade Workplan*;
- Appointed a new Executive Director of the Internal Trade Secretariat;
- Approved-in-principle to proceed with the incorporation of the Secretariat as a not-for-profit corporation;
- Approved the 2004/2005 Annual Operating Plan and Budget of the Secretariat; and
- Produced the 2003/2004 Annual Report.

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.

PT Internal Trade Ministers were directed by Premiers in August 2004, through the COF initiative, to undertake a full review of the AIT dispute resolution mechanisms which would address issues related to timing, fairness, certainty, consistency and implementation, with Saskatchewan as the lead jurisdiction. As of December, 2004, the federal government became fully engaged in the initiative.

In 2004/2005 progress under the chapter included:

- The CIT endorsed early in the fiscal year the procedural fairness review of the chapter, undertaken by a committee of Attorney General Solicitors, and ITRs, chaired by Ontario.
- Establishment of a Working Group (Chapter 17 Working Group) chaired by Saskatchewan and including ITRs and/or solicitors from British Columbia, Alberta, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia and the federal government, as well as the Secretariat, to undertake the full review of the AIT dispute resolution mechanisms.
- The Chapter 17 Working Group developed a workplan which identified key issues to be covered in the full review and options for addressing them, including alternatives/additions to the complaint and panel process, operation of panels, procedural/process issues, CIT/person-to-government/screener issues, cooperation/enforcement/remedies for non-compliance matters and costs of disputes.
- The Workplan addressed the issue of implementing the recommendations arising from the procedural fairness review chaired by Ontario.
- The Chapter 17 Working Group will be preparing a report to be tabled at the June 2005 CIT meeting which will, in part, seek endorsement from the CIT on recommendations for addressing the issues reviewed under the workplan or seek direction that is necessary before additional work can proceed.

Final Provisions (Chapter Eighteen)

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

Under the COF *Internal Trade Workplan*, Parties examined options to provide greater flexibility in decision-making under the AIT. In December 2004, CIT Ministers approved the maintenance of the rule of consensus in its current form and practice and encouraged the use of Article 1800 (Trade Enhancement Arrangements). Ministers agreed that governments involved in such arrangements will endeavour to extend them to all Parties to the AIT and that periodic consideration will be given to the possibility of integrating such arrangements into the AIT.

Agreement on 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. Each sector chapter of the AIT has its own dispute resolution process which provides an opportunity for disputants to resolve the matter prior to it becoming a formal trade dispute under Chapter Seventeen.

The Secretariat assigns a file number to complaints arising under the AIT and tracks the progress of complaints through the dispute resolution procedures described above. Detailed information on disputes since the inception of the AIT can be found at www.intrasec.mb.ca. During 2004/2005, 2 disputes were formally initiated using the dispute settlement mechanisms provided for in the AIT.

In 2004/2005 AIT trade dispute activities included:

- On August 4, 2004, a Panel established under the AIT released its report on the dispute between Canada (the Party complained against) and Alberta, British Columbia and Québec on the federal *Cost of Borrowing (Banks) Regulations* (CBR). The Panel found that Canada “acted inconsistently with its implementation rights and obligations” under a Harmonization Agreement on Cost of Credit Disclosure signed by all jurisdictions under the auspices of the AIT. The Panel further found that federal Cost of Borrowing (Banks) Regulations (administered by the Department of Finance) “cause injury to the AIT and to federal-provincial relations generally and to provincially regulated financial institutions and to consumers.” The panel recommended that the Consumer Measures Committee meet at the earliest opportunity to: develop clear guidelines on how APR (annual percentage rate) is to be calculated and what, if any, additional waivers to the 2-day cooling off period are acceptable, such guidelines to be followed by all jurisdictions in drafting their cost of credit legislation; clarify the limits of flexibility afforded to the Parties in implementing the Harmonization Agreement, and a clear process for notification of deviations and the resolution of any issues resulting from those deviations.²
- There have been two consultations under Chapter Seven in 2004/2005. The first concerned a complaint registered by Manitoba on behalf of a hair stylist, licensed in Manitoba and holding a Red Seal qualification, who was denied a licence in Nova Scotia. The second was requested by Newfoundland and Labrador who allege that the College of Nurses of Ontario required a licensed practical nurse to write an examination as a condition of obtaining a licence to work as a LPN in Ontario, in

² The full Panel Report may be found at www.intrasec.mb.ca.

contravention of the AIT and MRA. Bilateral discussions are continuing on both of these consultations.

- Quebec maintains restrictions on margarine colouration and bans all dairy blends or imitation dairy products. Alberta challenged the legislation and requested that a Panel be convened. Manitoba and Saskatchewan signaled their intention to intervene in the dispute.
- Alberta and British Columbia requested that a Panel be convened with respect to the Government of Ontario's *Edible Oil Products Act*. A Panel Hearing was held in September, 2004. Manitoba and Saskatchewan intervened in this dispute in support of Alberta and British Columbia. The Government of Ontario repealed the *Edible Oils Products Act* on January 1, 2005, as recommended in the AIT Panel Report issued November 10, 2004³. 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 will continue to pursue national standards for the marketing and sale of milk products with some edible oil-based content.
- With respect to the person-to-government fluid milk dispute between Farmers Dairy Ltd. and New Brunswick, changes in legislation that would allow for full compliance are currently under review in New Brunswick.
- With respect to the person-to-person government dispute between Certified General Accountants (CGA) Manitoba and Ontario, Ontario has indicated it was moving forward with legislative changes consistent with the AIT Panel Report.

³ *Ibid.*

Organizational Structure of the Agreement on Internal Trade

Committee on Internal Trade

Under the AIT, a Committee of Ministers on Internal Trade is established which is responsible for the implementation of the Agreement. The CIT meets annually to review progress under the AIT and its chairmanship is rotated annually among a roster of Parties. Decisions are taken by consensus.

Management Board

The Parties to the Agreement have established a Management Board, comprised of one member of each Party to direct the affairs of the Secretariat. The Board provides general guidance to the Executive Director of the Secretariat in the administration and operation of the Secretariat.

Internal Trade Representatives

Each government has appointed an Internal Trade Representative. ITRs meet as a committee, as required to oversee the operation of the Agreement. ITRs are also involved in sectoral initiatives and working groups established to implement the Agreement.

Internal Trade Secretariat

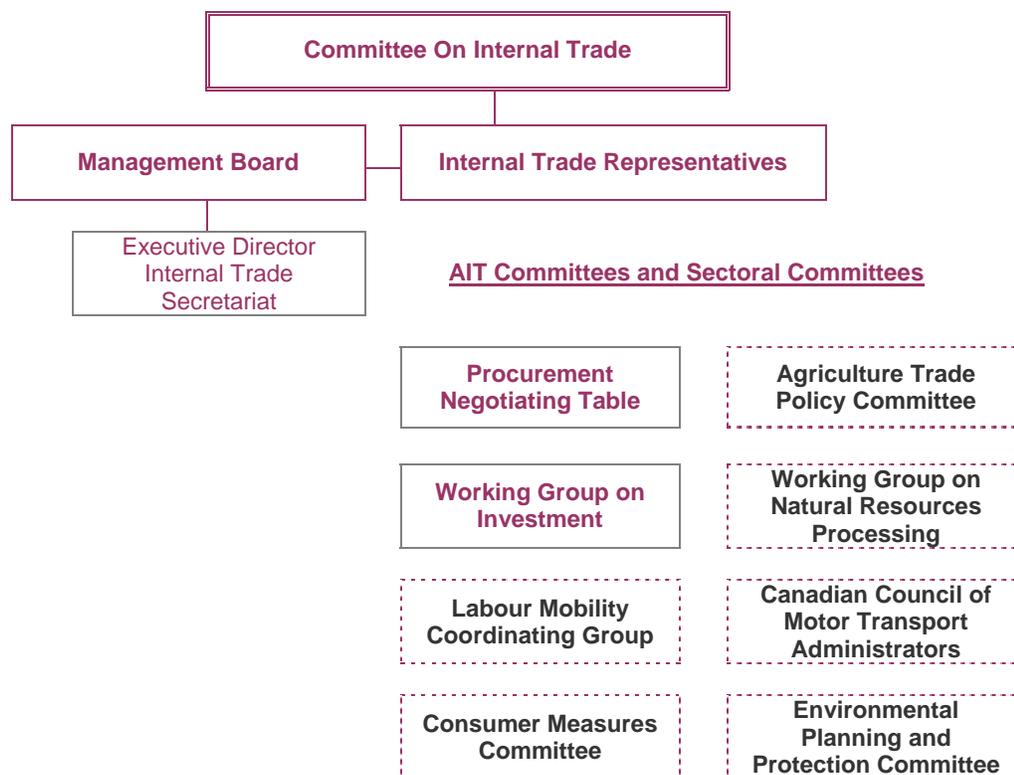
The AIT established a Secretariat to act as a neutral and independent coordinating and support body to committees and working groups under the AIT. The Secretariat is headed by an Executive Director who reports to, and is guided by the policies of the Management Board.

Agreement on Internal Trade Website

The AIT website can be found at www.intrasec.mb.ca. It contains detailed information as follows:

Overview of the AIT	Dispute Statistics
Consolidation of the AIT	Screener Reports
Protocols of Amendment	Panel Reports
Progress to Date Reports	Government Procurement Information
Annual Reports	Contacts
Chapter Reports	News Releases

Organizational Chart – The Agreement on Internal Trade
(as at March 31, 2005)



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

Financial Statements

Internal Trade Secretariat

March 31, 2005

AUDITORS' REPORT

To the Management Board of the
Internal Trade Secretariat

We have audited the balance sheet of the **Internal Trade Secretariat** as at March 31, 2005 and the statement of revenue and expenditures and net assets for the year then ended. These financial statements are the responsibility of Internal Trade Secretariat 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 Internal Trade Secretariat management, as well as evaluating the overall financial statement presentation.

As outlined in note 8 to the financial statements, 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 **Internal Trade Secretariat** as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Winnipeg, Canada,
May 6, 2005.

Chartered Accountants

Internal Trade Secretariat

BALANCE SHEET

As at March 31

	2005 \$	2004 \$
ASSETS		
Current		
Cash	266,001	153,208
Accounts receivable	8,372	77,705
Prepaid expenses	5,550	5,035
Total current assets	279,923	235,948
Property and equipment		
Computers, software, furniture, and office equipment <i>[notes 2 and 8]</i>	1	1
	279,924	235,949
LIABILITIES AND SURPLUS		
Current		
Accounts payable and accrued liabilities		
Suppliers and accrued vacation pay	27,380	46,322
Federal Government <i>[note 3]</i>	49,787	—
Deferred contributions		
Federal Government <i>[note 3]</i>	59,649	55,714
Provinces and Territories <i>[note 4]</i>	143,108	133,913
Total current liabilities	279,924	235,949
Net assets	—	—
	279,924	235,949

See accompanying notes

On behalf of the Internal Trade Secretariat

Executive Director

Internal Trade Secretariat

**STATEMENT OF REVENUE AND EXPENDITURES
AND NET ASSETS**

Year ended March 31

	2005 \$	2004 \$
REVENUE		
Contributions		
Federal Government <i>[note 3]</i>	311,168	283,239
Provinces and Territories <i>[note 4]</i>	311,639	284,951
Interest		
Federal Government bank account <i>[note 3]</i>	1,524	2,905
Provinces and Territories bank account <i>[note 4]</i>	1,053	1,193
	625,384	572,288
EXPENDITURES		
Communications	24,910	12,239
Facility costs <i>[note 5]</i>	42,435	41,917
Goods and services tax [net]	14,226	10,659
Meetings and conferences	29,580	41,415
Office expenses	41,281	42,869
Personnel		
Employees	197,832	254,385
Consultants	146,503	83,685
Professional services	50,256	8,674
Property and equipment		
Computers and software	6,989	7,086
Office equipment	1,355	4,943
Training	4,265	3,207
Translation	50,222	46,159
Travel	15,530	15,050
	625,384	572,288
Excess of revenue over expenditures for the year	—	—
Net assets, beginning of year	—	—
Net assets, end of year	—	—

See accompanying notes

Internal Trade Secretariat

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

1. STATUS AND NATURE OF ACTIVITIES

The Internal Trade Secretariat [the "Secretariat"] is a non-taxable, unincorporated association which 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 within 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared in accordance with Canadian generally accepted 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.

Property and equipment

Property and equipment are charged to expenditures in the year of purchase. During the year \$8,344 [2004 - \$12,029] 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 8.

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.

Internal Trade Secretariat

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

Financial instruments

Financial instruments include 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.

3. CONTRIBUTIONS - 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.

The details of contributions from the Federal Government for the year are as follows:

	2005	2004
	\$	\$
Deferred contributions, beginning of year	55,714	65,681
Contributions received during the year	364,890	273,272
	420,604	338,953
Required contributions		
50% of the eligible expenditures of \$625,384 [2004 - \$572,288]	312,692	286,144
Deduct interest earned on advances from the Federal Government	(1,524)	(2,905)
	311,168	283,239
	109,436	55,714
Less amounts requested to be repaid by the Federal Government [recorded as accounts payable]	(49,787)	—
Deferred contributions, end of year	59,649	55,714

Internal Trade Secretariat

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

4. CONTRIBUTIONS - 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:

	2005 \$	2004 \$
Deferred contributions, beginning of year	133,913	60,119
Contributions received during the year	320,834	358,745
	454,747	418,864
Required contributions		
50% of the eligible expenditures of \$625,384 [2004 - \$572,288]	312,692	286,144
Deduct interest earned on advances from the Provinces and Territories	(1,053)	(1,193)
	311,639	284,951
Deferred contributions, end of year	143,108	133,913

5. COMMITMENTS

The Secretariat is committed to make minimum annual rental payments under a lease which expires January 31, 2006 as follows:

	\$
2006	35,362

The organization is also responsible for their share of common area costs which currently totals approximately \$1,945 per month.

6. ECONOMIC DEPENDENCE

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

Internal Trade Secretariat

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

7. STATEMENT OF CASH FLOWS

A statement of cash flows has not been prepared as it provides no additional information.

8. PROPERTY AND EQUIPMENT

The Secretariat charges property and equipment additions to expenditures in the year of purchase. In this respect, the financial statements are not in accordance with Canadian generally accepted accounting principles which require that property and equipment be capitalized and amortized over their useful lives. 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 current year would have been reduced by \$8,344 [2004 - \$12,029], amortization expense would have been increased by \$12,752 [2004 - \$13,523], contribution revenue would have been increased by \$4,408 [2004 - \$681], and property and equipment and deferred contributions on the balance sheet would each have been increased by \$25,466 [2004 - \$29,874].

9. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the current year's presentation.