

Annual Report 2007/2008



Agreement on Internal Trade
Accord sur le commerce intérieur

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INTERNAL TRADE
SECRETARIAT



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COMMERCE INTÉRIEUR

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Committee on Internal Trade

(as of March 31, 2008)

Alberta

The Honourable Ron Stevens
Minister of International and
Intergovernmental Relations

British Columbia

The Honourable Colin Hansen (**Chair**)
Minister of Economic Development and
Minister for the Asia-Pacific Initiative and
the Olympics

Canada

The Honourable Jim Prentice
Minister of Industry

Manitoba

The Honourable Andrew Swan
Minister of Competitiveness, Training
and Trade

New Brunswick

The Honourable Greg Byrne
Minister of Business New Brunswick

Newfoundland and Labrador

The Honourable Trevor Taylor
Minister of Innovation, Trade and Rural
Development

Northwest Territories

The Honourable Bob McLeod
Minister of Industry, Tourism and
Investment

Nova Scotia

The Honourable Angus MacIsaac
Minister of Economic Development

Ontario

The Honourable Sandra Pupatello
Minister of Economic Development
and Trade

Prince Edward Island

The Honourable Richard E. Brown
Minister of Development and
Technology

Quebec

The Honourable Raymond Bachand
Minister of Economic Development,
Innovation and Export Trade

Saskatchewan

The Honourable Bill Boyd
Minister of Intergovernmental
Affairs

Yukon

The Honourable Jim Kenyon
Minister of Economic Development

Nunavut (Observer Status)

The Honourable Patterk Netser
Minister of Economic Development
and Transportation

Internal Trade Representatives

(as of March 31, 2008)

Alberta

Shawn Robbins
Director, Trade Policy
International and Intergovernmental
Relations

British Columbia (Chair)

Robert Musgrave
Director, Trade Initiatives
Economic Development

Canada

Phillip Morrison
A/Manager, Internal Trade
Industry Canada

Manitoba

Alan Barber
Director, Policy, Planning and Coordination
Competitiveness, Training and Trade

New Brunswick

Andrew Hashey
Senior Policy Advisor, Trade Policy
Intergovernmental Affairs

Newfoundland and Labrador

Richard Squires
A/Manager, Trade Policy
Innovation, Trade and Rural Development

Northwest Territories

Terry Lancaster, Trade Officer
Investment and Economic Analysis
Industry, Tourism and Investment

Nova Scotia

Greg Bent
Director, Trade Policy
Intergovernmental Affairs

Ontario

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

Prince Edward Island

Robert Perrin
Trade Advisor
Development and Technology

Quebec

Luc Walsh
Advisor, Commercial Policy
Economic Development, Innovation and
Export Trade

Saskatchewan

Robert Donald
Director, Trade Policy
Intergovernmental Affairs

Yukon

Richard Provan
Senior Policy Advisor
Policy, Planning and Research
Economic Development

Nunavut (Observer Status)

Dushyenth Ganesan, Manager
Tourism, Trade Policy, Export & Investment
Economic Development and Transportation

2007/2008 Highlights

At its Annual Meeting in St. John's in June 2007, the Committee on Internal Trade (CIT) reviewed progress on an ambitious "five-point action plan", launched in 2006, to strengthen the Agreement on Internal Trade (AIT). At this meeting, Ministers:

- held their first formal consultation with a delegation representing the Canadian Chamber of Commerce on the state of interprovincial trade in Canada;
- welcomed entry into force of the Seventh Protocol of Amendment;
- approved revisions to the complaint procedures under Chapter Five (Procurement) as well as revisions to Chapter Six (Investment);
- presented options to the Council of the Federation (COF) for strengthening enforcement of AIT panel rulings;
- received a detailed workplan from Labour Market Ministers to ensure full compliance with AIT provisions by regulated occupations by April 2009;
- received a report from the Federal-Provincial-Territorial Working Group on Regulatory Reform (WGRR) on its work to date and instructed trade officials to continue to cooperate with regulatory officials and to identify priority sectors;
- directed officials to move quickly to finalize a draft Energy Chapter;
- urged further progress from Agriculture Ministers to complete a revised Agricultural and Food Goods Chapter;
- received a proposal by Nunavut to formally join the AIT;
- directed officials to continue to work on issues of business subsidies; and
- urged Finance Ministers to consider the linkages between innovation and competitiveness.

Also, the Annual General Meeting of the Internal Trade Secretariat Corporation (ITSC) was held in June 2007 via conference call. A meeting of the ITSC Board of Directors took place in February 2008.

The Secretariat assisted in planning the Manitoba Chamber of Commerce Roundtable on Internal Trade in November 2007 and also made a presentation to the Annual Meeting of the Canadian Public Procurement Council in October 2007.

Overview of the Agreement

The Agreement on Internal Trade (AIT) is an intergovernmental accord on domestic trade which was signed by the federal, provincial and territorial governments in Canada in 1994 and 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, 2007 to March 31, 2008.

Progress under Sectoral Chapters

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 Chapter Five establish a framework to ensure equal access to public sector 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 2007/2008, progress under the Chapter included the following:

- Completion of the review of AIT bid protest procedures relative to provincial and territorial procurements. The CIT approved revised text which seeks to clarify and refine the existing process, to enhance transparency and to introduce a mechanism for ensuring that the process does not become blocked. Amendments will be incorporated by means of the next protocol of amendment.

- Finalization of an Interpretive Note clarifying how the AIT procurement rules apply to public-private partnerships. This Note can now be found at www.marcan.net.
- Continuation of the review of the Procurement Chapter. The intent is to bring greater consistency both to the interpretation of the provisions of the Chapter and to the manner by which these provisions are operationalized. Working groups examined, among other things, the use of prequalification lists, source lists and standing offers as well as reporting requirements. This work continues and additional reviews will be initiated as the current reviews wind up.
- Expansion of the Tender Notice Exchange. New Brunswick became the eighth province to join the Exchange and Manitoba is finalizing the details of its participation. Through the Exchange, governments are given the opportunity to publish a complete daily listing of the tender notices of all participating governments on their own websites as a convenience to their suppliers. Currently, three governments do so, namely, the Governments of Alberta (www.purchasingconnection.ca), Quebec (www.seao.ca) and Nova Scotia (www.gov.ns.ca/tenders). Work is continuing with the objective of including the tender notices of the remaining governments.
- Continual updating of MARCAN (www.marcan.net), the website established by the Parties to the AIT and which provides Canadian businesses with information on the rules for public sector procurement and current procurement contacts as well as links to internet sites (including those of the Tender Notice Exchange) that may publish Canadian public sector tender notices.

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.

In 2007/2008, progress under the Chapter included the following:

- The Working Group on Investment (WGI) continued to review and evaluate the data collected to date as part of the required reporting under the AIT Code of Conduct on Incentives.
- The WGI has reviewed the Alberta-British Columbia Trade, Investment and Labour Mobility Agreement (TILMA) to determine elements that might be imported into the AIT. The WGI is reviewing the subject of incentives related to the TILMA. Further analysis is required to determine options.
- REGISTREX, the Corporate Registration and Reporting Gateway, was updated.

Labour Mobility (Chapter Seven)

Chapter Seven is intended to enable 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 Forum of Labour Market Ministers is responsible for coordinating implementation at the national level and is supported by a standing committee of federal-provincial/territorial officials, the Labour Mobility Coordinating Group.

In 2007/2008, progress under the Chapter included the following:

- A list of occupations deemed to be non-compliant with the Chapter was developed in order to focus provincial efforts in the lead-up to the April 1, 2009 compliance deadline. Thirty professions were identified as being non-compliant, with the extent of remaining issues varying across professions. For the regulated trades, six Red Seal trades and twenty-one non-Red Seal trades were identified as having potential labour mobility issues. Work is underway to prepare amendments to the Chapter, with a plan and timelines for full labour mobility.
- Regulatory bodies were advised of the April 1, 2009 deadline for full compliance. Work was undertaken to support the efforts of consortia for seven professions (including social workers, registered nurses, licensed practical nurses and teachers) which had been identified as high priority. In addition, officials worked with other occupational consortia (including physicians, agrologists, geoscientists and foresters) on a range of compliance-related issues. Regulators for these professions continue to compare their occupational standards in order to achieve mutual recognition of qualifications. Compliance status and efforts of all other occupations was monitored and analysed.
- Work continued on developing and implementing a framework for governments to monitor and measure the degree to which the objectives of Chapter Seven have been achieved and to report annually as required by Article 712 (5)(a) of the AIT. A Request for Proposal was issued, a vendor was selected and a costed final proposal for a monitoring framework was tabled on March 31, 2008. Options and implications based on this report will be proposed for senior level review.
- Work was undertaken to see if the Chapter could be amended to make it more effective. In response to a request from the CIT, officials reviewed the labour mobility elements of the TILMA, the agreement between British Columbia and Alberta, and the Québec-Ontario Agreement on Construction Labour Mobility with a view to assessing whether they could be incorporated into the Chapter to make it more efficient. The CIT also requested consideration of a proposal

from the Federal Government calling for “mutual recognition by default”. A report with a series of recommended improvements to the Chapter was developed and was given approval-in-principle by senior officials. Internal consultations were completed with external consultations to follow.

- In order to increase awareness of the Chapter Seven obligations among jurisdictional governments, regulatory bodies and other stakeholders, Guiding Principles will be disseminated by individual jurisdictions.

Consumer-Related Measures and Standards (Chapter Eight)

Chapter Eight calls upon the Parties to report on and cooperate in the enforcement of 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 2007/2008, progress under the Chapter included the following:

- The CMC Identity Theft Working Group focussed principally on improving public awareness, by updating the *Identity Theft Kit for Consumers* and widely distributing the *Identity Theft Checklist*, a companion publication to the *Kit*. The distribution effort included provision of *Checklists* to police forces across Canada in early 2007, and participation in Fraud Prevention Month in both 2007 and 2008. Over 40,000 copies of the *Checklist* have been distributed during the past two years.
- The CMC Consumer Reporting (which includes credit reporting) Working Group launched a public consultation in June 2007 on harmonizing technical elements of consumer reporting rules. The consultation closed on September 14th, 2007. The Working Group is currently analysing the results of the consultation and the substantial feedback provided by various stakeholders.
- The CMC Alternative Consumer Credit Market Working Group carried out exchanges of information among jurisdictions to support the development of provincial payday lending laws. Preliminary research was carried out in regard to the availability of lower-cost alternatives to high-cost credit. Several provinces have passed legislation (Manitoba, Nova Scotia, British Columbia and Saskatchewan) concerning payday loans and are developing regulations

including maximum charges and licensing. Other jurisdictions have either introduced legislation or are launching public consultations for the development of measures to protect consumers of these loans in their jurisdictions (Ontario, New Brunswick and Alberta). Provinces are building their regulatory frameworks on the amendments made to the Criminal Code by Canada last year.

- The CMC Consumer Awareness Working Group has been working on a series of consumer information modules, including a multi-media presentation on being a wise consumer intended for people with low literacy levels, which will be ready this spring. The Working Group has also begun updating the *Canadian Consumer Handbook* for 2008-09.
- The CMC Cost of Credit Disclosure Working Group continued its efforts to reach a conclusion on the dispute that arose in 2004 concerning the federal *Cost of Borrowing* (Banks) Regulations.
- A CMC Enforcement Best Practices Research Group was set up to explore consumer law enforcement best practices. A survey of CMC member enforcement branches was completed. Benchmarking of enforcement practices used in other law enforcement agencies (domestic and international) will be carried out in the coming months.

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. 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 including potatoes and apples; and absence of a Canada No. 1 small potato grade.

In August 2007, the COF directed Agricultural Ministers to:

“... undertake immediate work on an Agriculture and Food Goods Chapter and report back to the COF with a progress report on work by December 2007, with final wording to the COF at it’s next meeting [July 16-18, 2008]. The completed Agriculture and Food Goods Chapter must include all technical measures, while ensuring that the new agreement does not interfere with Canada’s orderly marketing systems”

Throughout the 2007/08 fiscal year, the AIT working group on Chapter Nine has been actively working on resolving the following three areas where lack of

consensus exists: explicit protections for orderly marketing structures, consumer protection and commodity specific exclusions. As a way forward and to provide more clarity on a technical and complex issue, agreement has been reached, without prejudice, on recommended language on scope and coverage for presentation to Agricultural Ministers in the spring of 2008.

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 2007/2008, progress under the Chapter included the following:

- The Canadian Food Inspection Agency's (CFIA) draft Winery Inspection Manual was finalized. Agriculture and Agri-Food Canada (AAFC) also carried out a pilot project in which a CFIA inspector conducted mock inspections of some Canadian wineries of various sizes in order to get a more current and realistic assessment of the potential costs of meeting CFIA's food safety requirements, e.g., new machinery required, upgrades to existing facilities, etc. Additionally, AAFC let a contract to determine if CFIA and Canada Revenue Agency reporting and record-keeping requirements can be harmonized to satisfy the auditing requirements of both agencies in order to reduce the paper burden for the industry.
- Although further substantive progress has been made on this complex initiative through the above-noted activities, some critical issues identified in previous AIT reports remain unresolved. These outstanding issues include governance, the cost of implementation (particularly for smaller wineries), the grape varieties approved for VQA status, and enforcement of the regulations. As a result of these issues affecting the entire Canadian sector, the wine industry has not been able to come to an agreement on standards as presently drafted. Consequently, four industry stakeholder groups have requested that a new working group be established to consider a simpler approach to national wine standards.
- CFIA and AAFC officials support the stakeholders' suggestion because they believe that a simpler, scaled-down approach combined with a working group that is more representative of the entire Canadian industry, has greater prospects for success. Therefore, AAFC and CFIA will consider their participation in yet another approach to developing wine standards, but only after the existing industry-led national wine standards committee agrees that:

the present approach will not work; they are incapable of pursuing a new approach; or that the existing Committee should be disbanded.

Natural Resources Processing (Chapter Eleven)

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

In 2007-2008, the Working Group on Natural Resources met to review the status of the Chapter's implementation and concluded that the Chapter is meeting its objectives with no outstanding issues identified.

Energy (Chapter Twelve)

The conclusion of an Energy Chapter for the AIT has been an outstanding obligation since the AIT came into effect in 1995 and has been a key element in the COF plan to improve internal trade since 2004. In April 2007, the CIT wrote to the Council of Energy Ministers (CEM) to request that Energy Ministers and their officials consider two approaches with a view to determining the appropriate model for concluding an Energy Chapter. Since that time, a joint working group of energy and trade officials from all Parties co-chaired by Canada and Alberta has met regularly to resolve outstanding issues and finalize a draft text for the approval of both CEM and CIT.

In June 2007, the CIT reiterated its request to Energy Ministers to move quickly to finalize their work on a draft Energy Chapter. At their meeting in August 2007, COF Premiers established a negotiating group of Ministers to reconcile and finalize wording of an Energy Chapter and to present a draft text to COF by December 2007. In January 2008, Premiers directed Ministers to redouble their efforts to complete the Energy Chapter.

To date the CIT/CEM Working Group has streamlined and clarified the draft text of an Energy Chapter. The text agreed upon by Parties enshrines the current status of the energy sector, reflecting relatively free trade in energy goods and energy services related to the transmission and transportation of energy goods but also some restrictions on investment, the provision of energy services and procurement opportunities. The text has also been updated to reflect trade liberalization in the electricity sector that has occurred over the last decade. In addition, Parties have agreed to include energy conservation and energy efficiency as legitimate objectives under the Chapter. This means that Parties could adopt a measure in those areas that would otherwise be considered inconsistent with the AIT provisions.

The Working Group has not yet been able to reach agreement on the scope and coverage of energy under the AIT and has put forward options for the consideration of senior officials and Ministers. One option focuses on measures relating to trade in energy goods and their transportation/transmission; a broader option would extend coverage of the AIT to include trade in energy goods and energy services as well as the production of energy goods, albeit with significant exclusions, including treatment of regional economic development measures.

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 2007/2008. As telecommunications is under sole federal authority, there are unlikely to be issues involving provinces or territories.

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.

All items identified in the transportation chapter of the AIT have either been addressed or are subject to ongoing discussion. In particular, the reconciliation obligations set out under Article 1408(1) of the AIT include the following specific issues: motor vehicle weights and dimensions; motor carrier safety rules; bills of lading; fuel and sales tax and vehicle registration administrative harmonization; a Memorandum of Understanding on Regulatory Review; and, agents for service. Only those issues with ongoing work are highlighted below.

In 2007/2008, progress under the Chapter included the following:

- Efforts are ongoing to expand and refine standards to establish and maintain uniform rules governing the size and weight of commercial motor vehicles with amendments to the 1988 Memorandum of Understanding endorsed in 1991, 1994, 1997, 2004 and, more recently, in 2008.
- All jurisdictions have adopted the National Safety Code for Motor Carriers and efforts are continuing to refine these standards.
- The Parties affirm their commitments to the guiding principles of regulatory policy and the criteria and process for regulatory review embodied in the "Memorandum of Understanding to Review Regulations Affecting

Transportation", and work is continuing with a view to bringing the process envisaged by that Memorandum of Understanding into operation.

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. Obligations from the Chapter continue to be fulfilled by departments of the environment, as well as by the Canadian Council of Ministers of the Environment (CCME), the body responsible for implementing and administering this Chapter. There were no major issues concerning implementation, outstanding obligations or disputes to report in 2007/2008. One notification of an environmental measure was posted on the CCME website concerning a draft Quebec regulation. CCME continues to promote harmonization of approaches, thereby limiting real and perceived barriers to trade.

Institutional Provisions (Chapter Sixteen)

During the year, the Secretariat's workload maintained a constant tempo. In addition to organizing the CIT Meeting and the ITSC Annual General Meeting, the Secretariat organized several face-to-face meetings of Internal Trade Representatives (ITRs) and the Procurement Negotiating Table (PNT) in Ottawa and Winnipeg respectively, as well as of the joint trade/energy working group (CITCEM) in Montreal, Calgary and Ottawa.

The Secretariat also organized and participated in more than 40 conference calls for ITRs, Deputy Ministers of Trade and Energy, and AIT Committees on Procurement, Dispute Resolution, Regulatory Reform, Energy and Natural Resources, and participated in 30 conference calls on labour mobility and consumer measures issues under the AIT. Moreover, the Secretariat initiated a draft of the Eighth Protocol of Amendment. During 2007-2008 the Secretariat responded to more than 100 enquiries from AIT Parties and the general public.

Dispute Resolution Procedures (Chapter Seventeen)

Chapter Seventeen features a formal dispute settlement mechanism to deal with complaints which is accessible to both governments and persons. Parties have been engaged in a full review of the AIT dispute resolution mechanism since August 2004, the purpose of which is to address issues related to timing, fairness, certainty, consistency and enforcement.

On May 2, 2007, the Seventh Protocol of Amendment entered into force incorporating a series of measures aimed at consolidating the dispute consultations process and strengthening the panel mechanism.

In August 2007, Premiers directed CIT Ministers to develop a more effective enforcement mechanism. The goal is to implement panel reports successfully without resorting to the court system, and to consider a limited appeals mechanism. The focus is first on the Government-to-Government dispute resolution process with future work on the Person-to-Government process. Ministers were directed to establish guidelines for monetary penalties up to \$5 million that reflect the seriousness of the violation, the magnitude of the impacts on the market(s), and the population of the jurisdiction involved.

In January 2008, Premiers further endorsed a dispute resolution process to include a tiered approach to monetary awards for failure to comply with a dispute panel ruling so as to ensure full compliance and enforceability of all AIT panel rulings.

During 2007-2008, the Secretariat:

- revised Chapter Seventeen Dispute Resolution Manuals (Government-to-Government and Person-to-Government Disputes), including a Panellist Manual;
- produced a new bilingual format of Chapter Seventeen; and
- updated the roster of Panellists and list of Screeners.

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 has been prepared of those trade-related arrangements that currently exist between the FPT governments. This inventory, which is 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.

As of April 2007, British Columbia and Alberta took their first steps towards implementation of their bilateral agreement, the TILMA, announced in 2006. The Agreement will come into full effect in April 2009. A revised Atlantic Procurement Accord entered into force in February 2008 replacing the earlier version of 1996. Also, Ontario and Quebec announced in November 2007 the launch of bilateral negotiations to further reduce barriers to trade and labour mobility between the two provinces.

Internal Trade Disputes

The Agreement encourages a conciliatory, cooperative and harmonious approach to resolution of disputes in the first instance via consultations by Parties; there is provision for progressive steps in the dispute avoidance and resolution process so as to arrive at a mutually satisfactory resolution of any matter under the AIT.

Detailed information on disputes since the inception of the AIT can be found at www.ait-aci.ca. During 2007/2008, there were no dispute panel reports.

In 2007/2008, AIT trade dispute activities included:

- On October 9, 2007, New Brunswick decided to withdraw a complaint against Ontario initiated in March 2007. New Brunswick had requested consultations with Ontario alleging that recent changes to registration requirements by the Ontario College of Nurses with respect to Licensed Practical Nurses had caused a barrier to a New Brunswick nurse who recently moved to Ontario.
- Following a screener report, a request for a panel review by the Quebec Association of Apple Packers (QAAP) was filed in July 2007 against the Government of Canada; the complaint is that federal regulations (Ministerial Exemptions) constitute a barrier to interprovincial trade of apples in bulk shipments. The genesis of this complaint was the inability of a Quebec apple packer to import apples from Nova Scotia. Consultations between the disputants continued throughout the pre-panel process and an interim resolution of the matter was reached resulting in changes to federal policy. The request for panel review was subsequently withdrawn by the QAAP in November. Consultations on implementation of the new policy are ongoing.
- A similar complaint by Nova Scotia, on behalf of the Nova Scotia Fruit Growers Association in June 2006 remains outstanding.
- In November 2007, a private person requested Saskatchewan to initiate on its behalf consultations with the Government of Canada regarding proposed regulatory changes to standards affecting production of cheese products in Canada.
- As follow-up to the October 2005 panel decision on a dispute between Certified General Accountants of New Brunswick (CGA-NB) and Quebec, legislation to amend the Quebec Professional Code and the Chartered Accountants Act in respect of Public Accountancy, was adopted in December 2007. The Bill amends the Professional Code to allow members of the Ordre professionnel des comptables généraux licenciés du Québec (CGA) and of the Ordre professionnel des comptables en management accrédités du Québec (CMA) to practice public accountancy when they hold a public accountancy permit issued by their respective professional orders. By virtue of this Bill, it is

the responsibility of these two professional orders to determine, by regulation, the standards for the issue and holding of public accountancy permits.

The various consultations and approval steps involving the Office des professions and the government for new regulations have begun. Draft regulations will then be published in the Gazette officielle du Québec and finally come into force. At that point, the orders (CGA and CMA) will be authorized to issue public accounting permits and thus announce the requirements and procedures associated with obtaining this new permit. This entire process should be completed before the end of the year since it is expected that the Act will come into force on a day fixed by the government, but no later than December 15, 2008.

Organizational Structure

Committee on Internal Trade

Under the AIT, a committee of ministers, the Committee on Internal Trade (CIT), 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 on the basis of a roster of Parties. Decisions are taken by consensus.

Internal Trade Representatives

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

Board of Directors

Under the articles of incorporation, ITRs are also appointed by each Party to the AIT to serve as a Board of Directors and to provide general guidance to the Executive Director in the administration and operation of the Internal Trade Secretariat Corporation.

Internal Trade Secretariat

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

Agreement on Internal Trade Website

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

Overview of the AIT
Consolidation of the AIT
Protocols of Amendment
News Releases
Initiatives under the AIT
Government Procurement
(www.marcan.net)

Screeners Reports
Dispute Panel Reports
Dispute Statistics
Annual Reports
Progress Reports
Corporate Registration
(www.registrex.ca)

Appendix A

INTERNAL TRADE SECRETARIAT CORPORATION

Financial Statements

For the year ended March 31, 2008

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Auditors' Report

To the Board of Directors of
Internal Trade Secretariat Corporation

We have audited the statement of financial position of **Internal Trade Secretariat Corporation** as at March 31, 2008 and the statement of operations and net assets for the year then ended. These financial statements are the responsibility of the Corporation'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 5 to the financial statement, the **Internal Trade Secretariat Corporation** 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 Corporation** as at March 31, 2008 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 15, 2008

INTERNAL TRADE SECRETARIAT CORPORATION
Statement of Financial Position

| March 31 | 2008 | 2007 |
|--|---------|---------|
| | \$ | \$ |
| Assets | | |
| Current Assets | | |
| Cash | 88,256 | 180,267 |
| Short-term investments (Note 2) | 378,208 | 382,804 |
| GST receivable | 2,598 | 3,135 |
| Prepaid expenses | 214 | 4,261 |
| | 469,276 | 570,467 |
| Capital assets (Note 5) | 1 | 1 |
| | 469,277 | 570,468 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities (Note 4) | 29,807 | 29,759 |
| Net Assets | | |
| Reserve funds - Federal Government (Note 6) | 84,880 | 131,061 |
| Reserve funds - Provinces and Territories (Note 7) | 352,271 | 407,367 |
| Unrestricted | 2,319 | 2,281 |
| | 439,470 | 540,709 |
| | 469,277 | 570,468 |

Approved on behalf of the Corporation:

_____ Executive Director

INTERNAL TRADE SECRETARIAT CORPORATION
Statement of Operations and Net Assets

| For the year ended March 31 | 2008 | 2007 |
|---|----------------|----------------|
| | \$ | \$ |
| Revenue | | |
| Contributions | | |
| Federal Government (Note 6) | 221,555 | 245,454 |
| Provinces and Territories (Note 7) | 215,683 | 241,803 |
| Interest | | |
| Federal Government (Note 6) | 9,139 | 6,557 |
| Provinces and Territories (Note 7) | 15,011 | 10,207 |
| Other income | 35 | 16 |
| | 461,423 | 504,037 |
| Expenses | | |
| Personnel | | |
| Employees | 240,838 | 281,378 |
| Consultants | 58,216 | 71,559 |
| Rent (Note 9) | 37,183 | 36,641 |
| Office expenses | 31,017 | 31,275 |
| Meetings and conferences | 23,755 | 16,387 |
| Communications | 21,792 | 18,309 |
| Travel | 16,390 | 11,844 |
| Translation | 11,816 | 21,910 |
| Professional services | 8,626 | 8,086 |
| Goods and services tax, net | 5,764 | 6,632 |
| Computers and software | 3,332 | - |
| Professional development | 2,656 | - |
| | 461,385 | 504,021 |
| Excess of revenue over expenses for the year | 38 | 16 |
| Net assets, beginning of year | 2,281 | 2,265 |
| Net assets, end of year | 2,319 | 2,281 |

INTERNAL TRADE SECRETARIAT CORPORATION

Summary of Significant Accounting Policies

March 31, 2008

| | |
|-------------------------------|---|
| Basis of Accounting | The financial statements are prepared in accordance with Canadian generally accounting principles, except as noted below, which require the Corporation 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. 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 5. |
| Revenue Recognition | The Corporation 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 Corporation 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 | <p>The Corporation utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments and the carrying amounts approximate fair values.</p> <p>The fair values of cash and short-term investments, accounts receivable and accounts payable approximate their carrying value because of their short-term maturity of these instruments.</p> <p>The Corporation classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The Corporation's accounting policy for each category is as follows:</p> |

INTERNAL TRADE SECRETARIAT CORPORATION

Summary of Significant Accounting Policies

March 31, 2008

Financial Instruments (continued)

Held-for-trading - This category is comprised of certain investments in equity and debt instruments, stand-alone derivatives, other than those designated as hedging items, and embedded derivatives requiring separation. They are carried in the balance sheet at the fair value with changes in fair value recognized in the income statement. Transactions costs related to instruments classified as held-for-trading are expensed as incurred. Fair values are determined directly by reference to published price quotations in an active market.

Loans and Receivables - These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through the provision of goods and services (accounts receivable), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment.

Other Financial Liabilities - Other financial liabilities include all financial liabilities other than those classified as loans and receivable and comprises trade accounts payable. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method.

INTERNAL TRADE SECRETARIAT CORPORATION

Notes to Financial Statements

March 31, 2008

1. Status and Nature of Activities

The Internal Trade Secretariat (the "Corporation") is a non-taxable, incorporated 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 Corporation'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 2006 fiscal year an application was 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 began operating under the new incorporated entity effective April 1, 2006.

2. Short-term Investments

Short-term investments are stated at the market value. Interest is paid monthly at the prevailing market rate.

| | <u>2008</u> | <u>2007</u> |
|-------------------------------|----------------|-------------|
| | \$ | \$ |
| RBC Premium Money Market Fund | 378,208 | 382,804 |

3. Change in Accounting Policy

On April 1, 2007, the Corporation retroactively adopted, without restatement of prior periods, CICA Handbook Section 3861, "Financial Instruments - Disclosure and Presentation" and Section 3855, "Financial Instruments - Recognition and Measurement". Under these new standards, all financial instruments are included on the statement of financial position and are measured either at fair market value or, in limited circumstances, at cost or amortized cost.

The adoption of these new standards had no material impact on the Corporation's statement of financial position and statement of operations.

INTERNAL TRADE SECRETARIAT CORPORATION
Notes to Financial Statements

March 31, 2008

4. Accounts Payable and Accrued Liabilities

| | 2008 | 2007 |
|-------------------------------------|---------------|--------|
| | \$ | \$ |
| Trade accounts payable | 9,972 | 7,202 |
| Vacation payable | 12,595 | 12,345 |
| Wages and source deductions payable | 7,240 | 10,212 |
| | 29,807 | 29,759 |

5. Capital Assets

Capital assets are charged to expenditures in the year of purchase. During the year, there were purchases of \$1,625 (none in 2007) that 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, 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 \$1,625 (nil in 2007), amortization expense would have been increased by \$5,985 (\$10,295 in 2007), contribution revenue would have been increased by \$5,985 (\$10,295 in 2007), and capital assets and reserve funds on the balance sheet would each have increased by \$6,630 (\$10,990 in 2007).

6. Reserve Funds - Federal Government

Based on a Funding Agreement with the Federal Government, the Corporation 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:

| | 2008 | 2007 |
|---|----------------|---------|
| | \$ | \$ |
| Reserve funds, beginning of year | 131,061 | 79,430 |
| Contributions received during the year | 175,374 | 297,085 |
| | 306,435 | 376,515 |
| Required contributions | | |
| 50% of the eligible expenditures of \$461,388 (\$504,021 in 2007) | 230,694 | 252,011 |
| Deduct interest earned on advances from the Federal Government | (9,139) | (6,557) |
| | 221,555 | 245,454 |
| Contributions recognized as revenue for the year | | |
| | 84,880 | 131,061 |

INTERNAL TRADE SECRETARIAT CORPORATION

Notes to Financial Statements

March 31, 2008

7. Reserve Funds - Provinces and Territories

Based on the Agreement on Internal Trade, the Corporation 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:

| | 2008 | 2007 |
|--|----------|----------|
| | \$ | \$ |
| Reserve funds, beginning of year | 407,367 | 224,610 |
| Contributions received during the year | 160,587 | 424,560 |
| | 567,954 | 649,170 |
| Required contributions | | |
| 50% of the eligible expenditures of \$461,388 (\$504,021 in 2007) | 230,694 | 252,010 |
| Deduct interest earned on advances from the Provinces and Territories | (15,011) | (10,207) |
| Contributions recognized as revenue for the year | 215,683 | 241,803 |
| Reserve funds, end of year | 352,271 | 407,367 |

8. 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.

9. Commitments

The Corporation has an operating lease for its premises at \$3,206 per month including common area cost and realty taxes, under a lease expiring in January 2011.

10. Economic Dependence

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