

INFORMATION ITEMS

Week Ending January 11, 2013

REPORTS

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CORRESPONDENCE

1. FCM – Briefing Document Regarding FCM Appearance Before the House of Commons Standing Committee on International Trade

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FCM Briefing Document

FCM APPEARANCE BEFORE THE HOUSE OF COMMONS STANDING COMMITTEE ON INTERNATIONAL TRADE

December 2012

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FCM's Position on Trade:

For the past three years, FCM has been continually developing a comprehensive position on municipal procurement and free trade agreements. Municipalities procure close to \$100 billion every year in goods and services, helping to build the infrastructure that supports Canada's economic competitiveness and promote the quality of life of all Canadians.

Cities and communities support free and fair trade between Canada and the world – a position unanimously endorsed by our membership at FCM's Annual Conference in 2009. Municipalities will be right in the middle of the transformation of our economy in the 21st Century: building new transit systems, redesigning our water and wastewater networks, retrofitting everything from libraries to hockey rinks to be more energy efficient. At the negotiating table, how these investments are procured need to be seen as part of a broader economic strategy, and treated fairly and reasonably, to minimize costs and maximize benefits to local communities.

FCM has established seven core principles that will help ensure that municipal procurement practices are protected, while also seizing on the opportunities that this trade deal can provide to all Canadians (see Annex 1).

On April 27, 2012, the Honourable Ed Fast, Minister of International Trade, committed publically to ensuring that FCM's principles are respected as negotiations continue between Canada and the E.U. on CETA. Such a [commitment](#) signals recognition that the message FCM has been delivering in Ottawa, that municipal rights need to be respected as part of CETA negotiations, is being received in Ottawa. The Minister has reiterated this commitment numerous times, including at FCM's Annual Conference in June 2012 as well as in a number of bilateral meetings held over the summer and fall of 2012.

Alongside this commitment, the Government of Canada has also released a series of backgrounders and information designed to address some of the most pressing questions municipalities are facing at home. Further, the Department of Foreign Affairs and International Trade (DFAIT) has also compiled a series of provincial/territorial industry fact sheets that present the potential benefits of CETA to Canadians. This information can be viewed at: <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/eu-ue/can-eu.aspx?lang=eng&view=d>. This information would certainly be of interest to Council.

The Path Forward:

FCM is committed to monitoring the status of the negotiations between Canada and the E.U. as they progress. The Government of Canada has indicated that it would like to see an agreement signed by the end of 2012. FCM's most current intelligence suggests that this agreement may be extended into the early months of 2013. In the meantime the Government of Canada and the E.U. will have to negotiate some of the most complicated issues at play within the agreement such as supply management, the treatment of pharmaceuticals and intellectual property. However, the commitment by Minister Fast to respect FCM's principles shows that the Government is serious about listening to municipalities.

As the negotiations progress, FCM will continue to forward the questions and concerns of our members to DFAIT and seek timely responses.

For more information, please visit FCM's International Trade webpage (<http://fcm.ca/home/issues/more-issues/international-trade.htm>) or contact Adam Thompson, municipal finance policy advisor at athompson@fcm.ca, or 613-907-6247.

Key Messages:

1. Municipalities support free and fair trade, within reasonable and clear limits

- Over the past three years, FCM has developed a comprehensive position on municipal procurement and free trade agreements, informed in part by municipal participation in and experience with the Trade, Investment and Labour Mobility Agreement (TILMA) between BC and Alberta (now the New West Partnership Agreement which includes Saskatchewan and Manitoba).
- The foundation of our position is built on a resolution endorsed by our membership at FCM's Annual Conference in 2009 in Whistler, where cities and communities unanimously committed their support for free and fair trade between Canada and the world.
- FCM has established seven core principles to help ensure that municipal procurement practices are respected, while also seizing on the opportunities that trade deals can provide to all Canadians (*see Annex 1*).
- Our objective is simple: to protect municipal rights, within reasonable limits, to do their business as municipal council sees fit.

2. The federal government is aware of our position

- Canada's Minister for International Trade, Ed Fast, met with FCM's Board of Directors meeting in Nelson in September 2011, and members of the Executive Committee and the BCMC in June 2012 and provided detailed responses to each of our seven principles. This correspondence can be found in Annex 2.
- In April 2012, Minister Fast committed publically to respect FCM's seven principles on international trade as the negotiations on CETA continue. This represents an important reference point for our analysis of the final agreement and its potential impacts on municipal operations
- So far, our board is comfortable that the government is supportive of our position.

3. Municipalities must be seen as partners

- Municipalities need to be kept informed and engaged as negotiations proceed
- As each round of CETA negotiations begins, FCM will continue to press federal officials to hold to our principles, and will seek full and regular updates on the progress towards a final deal.
- We must continue to work together. Developing municipal procurement policies that protect Canadians and our communities will require specialized expertise and must be developed in close cooperation with municipal procurement practitioners.
- The Government of Canada can maximize the benefits of CETA and other trade agreements by working closely together with municipalities. Cooperation between governments will address areas of concern early and help to build Canada's continued economic competitiveness and quality of life in the years ahead.

Potential Questions and Answers

1. Does FCM support excluding municipalities all together from CETA? And why not?

FCM is not asking for an exemption for municipalities since public procurement is one of the primary objectives of CETA. Calling for an exemption would be tantamount to opposing the deal in full. The issue isn't about being for or against a deal – it's about playing by rules that protect the best interests of Canadian taxpayers and their communities. We communicated our concerns to Minister Fast and we are pleased that he has committed to respecting our seven principles under federal trade negotiations.

2. What are FCM's concerns?

- FCM's position is that federal, provincial and territorial governments, when negotiating the free trade provisions that could affect municipalities, must ensure that they consult with municipalities.
- Unnecessary impacts on municipal operations must be minimized. Inappropriately high or broad procurement thresholds may force municipalities to tender projects when tendering is neither practical nor financially justified.
- Strategic or regionally important projects or sensitive industries must be exempted.
- Municipalities stand ready to work in partnership with all governments to build a strong, economically competitive Canada. We cannot miss this opportunity and must work together.

3. Some municipalities are still expressing opposition to CETA, are there deep divisions among FCM members?

- There are 3700 mayors in Canada in all 13 provinces and territories, so there is always a diversity of opinion out there. FCM has established 7 clear principles to provide guidance to federal negotiators which will protect all municipalities, and we are pleased the Minister has committed to respecting these principles.

4. Are you confident the Minister will follow-through on his commitment?

- Minister Fast committed publically to respecting FCM's seven principles on international trade as the negotiations on CETA continue. By working together we have managed to find a way to address municipal concerns and protect Canadian taxpayers, we're going to continue this work.

5. How is FCM going to secure exemptions for strategic industries or sensitive projects?

- The Government of Canada has made clear that these types of exemptions will be put forward by the provinces and territories with the input of their respective municipalities. That is why we have communicated to our members that discussions need to start at that level. To ensure we capitalize on the economic benefits of CETA, the Government of Canada must ensure that these discussions are taking place before any trade deal is signed.

6. Are the proposed thresholds sufficiently high for your members?

- As the agreement is still under negotiation, it is impossible for us to know exactly what the final thresholds will be. Inappropriately low thresholds will impede the day to day operations of municipalities. This is not in anyone's best interest. This is one of the reasons it is critical that federal, provincial and territorial governments make use of the procurement expertise in our cities and communities.

7. Are you at all worried that this agreement will force municipalities to privatize services such as water or wastewater?

- The Minister has addressed that question directly to our members and the public. He was very clear in saying that CETA will in no way force municipalities to privatize or otherwise deregulate the provision of water or wastewater. This is critical for our members, the vast majority of whom provide these services through public means.

**PROTECTING MUNICIPAL INTERESTS IN INTERNATIONAL TRADE
AGREEMENTS**

Municipal principles for free and fair international trade:

1. **Reasonable procurement thresholds:** Inappropriately low or broad procurement thresholds may force municipalities to tender projects when tendering is neither practical nor financially justified.
2. **Streamlined administration:** Ensuring that municipal procurement policies are free-trade compliant will likely create new costs and may require specialized expertise. The administrative design of these rules must be as streamlined as possible and developed in close cooperation with municipal procurement practitioners.
3. **Progressive enforcement:** Enforcing provisions of any deal should be progressive, starting with verbal or public warnings before moving to financial penalties, and should recognize and not penalize inadvertent non-compliance, particularly in cases where municipalities do not have the expertise to appropriately apply the rules.
4. **Canadian content for strategic industries or sensitive projects:** A trade deal must recognize strategic and public interest considerations before barring all preferential treatment based on country of origin. There may be industries of strategic significance to a particular region, such as transit, or projects where considerations of quality, public benefit, environmental protection or business ethics means that a local government may wish to implement minimum Canadian-content levels. This should be allowed, within reason.
5. **Dispute resolution:** A dispute-resolution process, like the one in NAFTA, may require a careful review of the municipal role in that process so they can appropriately defend their policies and by-laws as an order of government.
6. **Consultation and communications:** Consultation and communications during negotiations are required to ensure any resulting agreement responds to municipal concerns.
7. **Reciprocity:** Canada's negotiating position must support reciprocity in Canadian and foreign municipal procurement practices.

Minister of International Trade and
Minister for the Asia-Pacific Gateway



Ministre du Commerce international et
ministre de la porte d'entrée de l'Asie-Pacifique

AUG 23 2011

Ottawa, Canada K1A 0G2

Mr. Berry Vrbanovic
President
Federation of Canadian Municipalities
24 Clarence Street
Ottawa ON K1N 5P3

Dear Mr. Vrbanovic:

I am writing to voice my appreciation for our telephone conversation of August 4, 2011, during which we discussed the strong ongoing cooperation between the Federation of Canadian Municipalities (FCM) and Foreign Affairs and International Trade Canada (DFAIT) through the Joint Working Group on International Trade. We also discussed the FCM's views on the negotiations of a Canada–European Union (EU) Comprehensive Economic and Trade Agreement (CETA). I was pleased to hear of FCM's continuing support for Canada's economic plan, which includes creating jobs and raising Canadians' standard of living through trade.

Further to those discussions, I would like to take this opportunity to share further information with you on the CETA negotiations. With one in five Canadian jobs linked to trade, deepening and broadening Canada's trading relationships is a key priority for Prime Minister Harper and our government. The Canada–EU relationship holds great potential for growing Canada's collective prosperity. The successful negotiation of CETA would give Canadian-based businesses preferential access to the EU, which remains the wealthiest single market in the world despite the EU's current financial difficulties. Removing barriers to trade in goods and services is expected to deliver by 2014 a 20-percent boost to our bilateral trade with the EU and a gain of more than \$12 billion in Canada's annual gross domestic product.

A Canada–EU CETA would deliver new jobs and economic benefits across a broad range of industries located within municipalities all across Canada. These industries include aerospace, chemicals, plastics, wood products, aluminum, fish and seafood, light vehicles and automotive parts, agricultural products (such as wheat, beef and pork), and service sectors (such as transportation and environmental, engineering and computer services).

We have now had eight successful and productive rounds of negotiations in which considerable progress has been made. We continue to work toward a conclusion of the negotiations by 2012.

Our government is committed to keeping Canadians informed of the negotiations and to consulting as extensively as possible with key stakeholders to ensure that an agreement delivers the greatest economic benefit possible to hardworking Canadians. I appreciate the FCM's views and contributions to this effort. I can also assure you that our government will not finalize an agreement unless it is in the best long-term interests of Canadians.

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During our discussion on August 4, 2011, you again raised the seven principles on government procurement developed by the FCM and sent to my predecessor the Honourable Peter Van Loan, on September 22, 2010. In identifying these principles, you have clearly articulated the key interests of Canada's municipalities. As promised, I have included below more information on how I see each of those seven principles applying within the context of the CETA negotiations.

With respect to **procurement thresholds**, the dollar-value thresholds for municipalities under CETA are likely to be consistent with those that exist for sub-central government entities in the World Trade Organization (WTO) Agreement on Government Procurement. These thresholds are approximately C\$340,600 for both goods and services and approximately C\$8.5 million for construction. Any contract that fell below these dollar-value thresholds would not be subject to the CETA procurement obligations.

Streamlined administration could indeed facilitate any adjustments required as a result of CETA. While some government entities may be taking on international trade commitments for the first time under CETA, procurement systems within Canada's provinces, territories and municipalities are generally open and transparent. This should mean that changes required to implement CETA are not likely to be substantial.

The letter of September 22, 2010, from the FCM also addresses requirements for **Canadian content**. As you may know, non-discrimination and the prohibition of offsets are basic obligations for procurement in international trade agreements. However, I recognize the importance of maintaining flexibility in government procurement to address local needs and priorities. Under CETA, municipalities would retain the ability to use various instruments to promote local economic development, such as non-contractual agreements, which are not subject to CETA (e.g., grants, loans or fiscal incentives), or the procurement of goods and services that are not subject to the CETA procurement obligations (e.g., below threshold or for excluded goods or services). Furthermore, CETA will not affect the ability of municipalities to use selection criteria such as quality, price, technical requirements or relevant experience, or to consider social and environmental factors in the procurement process, so long as these are applied in a non-discriminatory manner.

It is also important to remember that CETA will not affect the ability of municipalities to regulate. To be clear, nothing in any of Canada's international trade agreements can force countries to privatize or to deregulate services. All of Canada's international trade agreements preserve the right of countries to regulate, and to introduce and amend regulations to meet policy objectives. These agreements do, however, require governments at all levels to act in accordance with certain principles, such as non-discrimination. Governments are still free to pursue their regulatory objectives and have a wide array of choices for implementing such objectives.

Another key component of international procurement obligations is the availability of recourse, both through a bid-challenge process (suppliers and procuring entities) and dispute settlement (party-to-party). Canada and the EU will be required to provide administrative or judicial review

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procedures through which a supplier may challenge the award of a covered procurement contract. There will also be a **dispute settlement** process under CETA (party-to-party), where each party to the agreement may challenge the consistency of any measure of the other party regarding covered procurement with the provisions of the agreement.

The provisions of the procurement chapter will not be in force immediately upon completion of the CETA negotiations. After completion of the negotiations, several steps will need to be taken before the agreement can be brought into force in Canada. These steps include: preparation of the legal text; signing of the agreement; submission of the agreement to the House of Commons under the government's Policy on Tabling of Treaties in Parliament; and debate and passage of the implementing legislation. The process provides municipalities with sufficient time to become familiar and ready to operate in accordance with the rules of the procurement chapter. Any party-to-party dispute under CETA would be between the Government of Canada and the EU. In other words, the EU would not be able to bring a case directly against a municipality. In the case of a dispute between the parties under CETA, the **dispute settlement process will be progressive** (gradual). There would likely first be discussions between officials in an attempt to resolve the issue. At a later stage, ministerial involvement might occur. A dispute would formally begin with a request for consultations, which provides the parties with another opportunity to discuss the matter. There will likely also be a non-binding mediation before the matter is referred to a dispute settlement panel.

Once concluded, CETA will provide Canadian suppliers with improved access to one of the largest procurement markets in the world. According to the European Commission, the EU procurement market is estimated at C\$2.4 trillion, or 16 percent of gross domestic product. Ensuring an overall balance of commitments, or **reciprocity**, is one of Canada's priorities in these negotiations. On this point, please note that all EU regional and local authorities (municipalities) are already included in the EU's WTO Agreement on Government Procurement commitments, and we expect this to be the case under CETA as well.

I appreciate your continued interest in further **consultation and communication**. Our government is committed to keeping key Canadian stakeholders informed of the negotiations and to consulting as extensively as possible to hear the views of Canadians. The joint working group between the FCM and DFAIT has been an excellent resource and forum for consultations, and we will continue to keep the FCM Working Group members informed as trade negotiations progress. We will also continue to work in partnership with the provinces and territories to address questions and concerns affecting areas under their jurisdiction, including those of municipalities.

The benefits of concluding an ambitious agreement with government procurement commitments extend beyond simply the access that Canadian-based firms would gain to EU procurement markets. The implementation of international government procurement commitments provides a set of common principles and rules upon which Canadian governments, at all levels, base their procurement practices. Consistency of rules and procedures between Canadian jurisdictions

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facilitates access for Canadian-based suppliers and their ability to prepare responsive bids in a timely manner. Government procurement commitments under Canada's international trade agreements ultimately increase competition, thereby allowing governments to ensure better value for taxpayers for the goods and services that are procured.

Thank you again for taking the time to share the views of the FCM. I look forward to our future discussions.

Sincerely,

A handwritten signature in blue ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

The Honourable Ed Fast, P.C., M.P.