



Department for  
International Trade



# UK-Canada

Free Trade Agreement:  
The UK's Strategic Approach

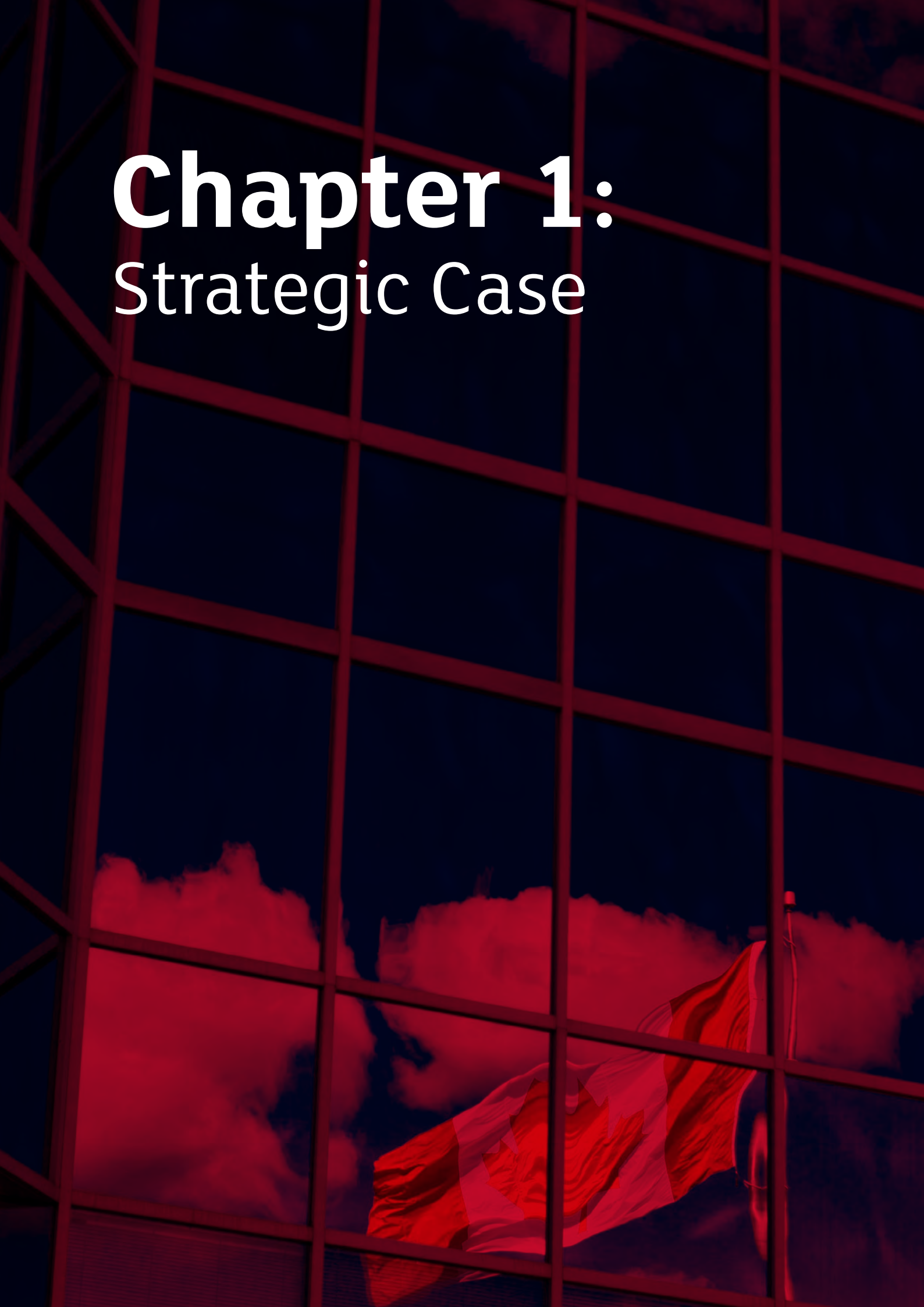
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# Chapter 1:

## Strategic Case



# Introduction

In December 2020, the United Kingdom (UK) and Canada agreed to enter into negotiations on a new and bespoke trade agreement within one year from entry into force (1 April 2021) of the existing Trade Continuity Agreement (UK-Canada TCA).

The UK-Canada TCA provides a comprehensive foundation from which to build. Upgrading the terms of our free trade agreement (FTA) now can support the Government's strategy to secure world-class agreements that deliver economic growth to all the nations and regions of the UK.

The UK and Canada already have a strong trading relationship with total trade worth £19.2 billion in 2020. A new FTA can support the UK to build back better from the pandemic by providing opportunities for businesses across the entire UK, by supporting the UK's transition to Net Zero and by strengthening the vision for Global Britain.

The UK Government is clear that any agreement will uphold our high environmental, labour, public health, food safety and animal welfare standards. The government has also been clear that when we are negotiating trade agreements, we will protect the National Health Service (NHS). The UK's trade agreements must work for consumers, producers, investors, and businesses alike.

A new and progressive FTA with Canada supports the UK's independent trade strategy.

## An FTA with a like minded partner

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Canada has a well-developed economy with high standards, and equally important, is a like minded partner with a common set of values to the UK. The UK and Canada have a close intelligence and security relationship including as members of NATO, the G7, the G20 the "Five Eyes" intelligence group and the Commonwealth.

Throughout the UK's G7 and COP presidencies, we have been working shoulder to shoulder with Canada on the most pressing global challenges, including combatting climate change, supporting global health and tackling hostile state activity, alongside collaboration on progressive global initiatives, including the development of emerging technologies and the deepening of free trade.

A new FTA could help us work more closely on these issues and more, and enable us to promote shared norms, lift standards and reinforce international collaboration.

## An FTA to strengthen Global Britain

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An enhanced FTA with Canada can support the UK to champion its independent trade policy by removing barriers at every opportunity, fighting protectionism, and promoting free trade around the world.

Strengthening our trading relationship with Canada, alongside negotiations to update our agreement with Mexico expected to launch this year, reinforces the UK's ambition to deepen our trade links with North America.

In addition to enhancing our bilateral FTA with Canada, the UK's accession to the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) to which Canada is a member, can support the UK's long-term strategy to strengthen its relationship with the Indo-Pacific region.

The Indo-Pacific is home to half the world's people; makes up 40% of global GDP; comprises some of the fastest-growing economies; leads and adopts digital and technological innovation and standards; and, sitting at the forefront of new global trade arrangements, is currently considered the world's growth engine.<sup>1</sup>

The Indo-Pacific is important to the UK for economic opportunities, for our security and for our values. In 2020 the region accounted for 18.8% of UK global trade and 9.3% of inward foreign direct investment (FDI).<sup>2</sup> The UK is committed to strengthening engagement across the Indo-Pacific, helping define the high-quality trading rules that will shape the future of this high growth region, while opening up opportunities for British businesses, including creating jobs in the UK and across the region.

<sup>1</sup> Global Britain in a Competitive Age: the Integrated Review of Security, Defence, Development and Foreign Policy, p.66

<sup>2</sup> Global Britain in a Competitive Age: the Integrated Review of Security, Defence, Development and Foreign Policy, p. 66

# Opportunities that benefit the whole of the UK

Key benefits of an enhanced FTA with Canada could include:

## Enhancing our economy

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The UK and Canada have a strong trading relationship, with the UK being Canada's 3rd largest trading partner in 2020.<sup>3</sup> Canada is the 9th largest economy in the world with the potential to grow significantly in the future.<sup>4</sup> Between 2019 and 2035 Canadian GDP could increase by almost 30% in real terms. This is faster than advanced economies more widely, which are expected to only grow by around 25% over the same timeframe, presenting opportunities for UK exporters to Canada.<sup>5</sup>

In addition to trade in goods, the UK has an international reputation in trade in services, and as of 2020 is the world's second largest services exporter, behind the United States.<sup>6</sup> UK services exports to Canada accounted for 48% of total UK exports to Canada in 2020 ranging from research and development to professional management and consultancy services.<sup>7</sup>

As a newly independent trading nation, the UK can secure an agreement that supports our existing strengths and our new, dynamic businesses of the future.

## Focus on Small and Medium-sized Enterprises (SMEs)

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Increased Canadian import demand could also benefit the 10,300 SMEs in every part of the UK already exporting goods to Canada, as well as create opportunities for new SME exporters.<sup>8</sup>

A bespoke agreement provides the opportunity to secure specific provisions to reduce trade barriers for SMEs and make Canada a popular place to do business for UK companies of all sizes.

## An FTA for the entire UK

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The UK is committed to using its independent trade policy to create economic growth that is distributed more equitably across all regions of the country.<sup>9</sup> The South East, North West and Wales currently import the largest proportions of goods from Canada. Most Welsh imports of goods from Canada were crude materials and mineral fuels, representing 30% and 36% of total UK imports of these goods, benefiting Welsh businesses with greater access to intermediate inputs. London, the West Midlands and Northern Ireland are among the UK regions exporting the most goods to Canada, with machinery and transport equipment being the largest goods exports from Northern Ireland, representing £339 million in 2020.<sup>10</sup>

Canadian owned businesses also employ people throughout the UK, with the most people employed in London (22,700 people), followed by the South East (13,500) and the East of England (10,100).<sup>11</sup> Upgrading our FTA can support employment for workers across the country, as well as provide new opportunities for trade that can benefit all UK regions.

<sup>3</sup> Statistics Canada; Canada and the world statistics hub, 2020

<sup>4</sup> IMF World Economic Outlook, October 2021

<sup>5</sup> 2035 projections for GDP are calculated using the underlying data from DIT's [Global Trade Outlook \(2021\)](#)

<sup>6</sup> World Bank, Service exports, November 2021.

<sup>7</sup> ONS, UK total trade: all countries, non-seasonally adjusted.

<sup>8</sup> HMRC data source for VAT-registered businesses trading goods: HMRC Trade in Goods by Business Characteristics

<sup>9</sup> [Global Britain in a Competitive Age: the Integrated Review of Security, Defence, Development and Foreign Policy](#), p. 55

<sup>10</sup> HMRC data source for regional UK trade data: HMRC Regional Trade

<sup>11</sup> DIT analysis of ONS (2021), Business Structural Database. This work was produced using statistical data from ONS. The use of the ONS statistical data in this work does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data. This work uses research datasets which may not exactly reproduce National Statistics aggregates.

## Shared values

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Enhancing our FTA provides the UK and Canada the opportunity to be world leaders and pursue ambition in areas of mutual interest, such as climate action, advancing gender equality in trade and the protection of high labour standards.

The UK and Canada have jointly pledged to reach Net Zero emissions by 2050 and are party to many international Multilateral Environmental Agreements, including the Paris Climate Agreement and, more recently, the Glasgow Climate Pact. Further, the 2021 G7 Communiqué agreed at Carbis Bay, committed its signatories to ensure their trade policy supports women's economic empowerment. Both countries are supporters of the Joint Declaration on Trade and Women's Economic Empowerment as agreed during the 11th Ministerial Conference of the WTO, and are championing further progress at the WTO. This FTA provides the opportunity for closer cooperation and an amplification of our voices on the world stage.

## Building a digital economy

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Both the UK and Canada are world leaders in digital trade, as demonstrated by our rankings among the most open to digitally-enabled services in the OECD Digital Services Trade Restrictiveness Index.

By upgrading our FTA with Canada, the UK has the opportunity to secure ambitious and comprehensive digital provisions which can ensure consumers have greater choice, and businesses across all sectors can operate in more resilient and efficient ways to suit the modern economy.

## An FTA for future innovation

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The UK and Canada have many strengths in a diverse range of innovative sectors. As we pursue our objective of establishing the UK as a global science superpower, it's important that our trade policy retains flexibility and can adapt to changes, in what and how we trade, as economies and trading relationships grow and develop.


By securing provisions with Canada which encourage trade in cutting-edge technologies and modernising our approach to emerging industries, we can foster conditions for innovation.

# Conclusion

As a newly independent trading nation, updating the terms of our trade relationship with Canada, one of our largest partners outside of Europe, serves as a true representation of Global Britain and provides a key gateway to other regional markets, including the Indo-Pacific.

Our approach to these negotiations has been informed by a wide-ranging Call for Input on trade with Canada, which received a wealth of responses from the UK public, businesses and civil society.

Our response to the Call for Input can be found in Chapter 2, while the Outline Approach and Scoping Analysis can be found in Chapters 3 and 4.



# Chapter 2:

Response to the  
Call for Input on  
upgrading our trade  
deal with Canada

In support of negotiations with Canada, the Department for International Trade (DIT) launched a Call for Input on 18 May 2021 requesting views from consumers, businesses, and other interested stakeholders on an enhanced trade deal with Canada, helping us to develop an agreement that supports economic growth across the entire UK.

The Call for Input ran for 8 weeks, closing on 12 July 2021. In support of its launch, we held a webinar with the Confederation of British Industry (CBI) to discuss their members' views and encourage responses to the Call for Input.

Prior to and throughout the period when the Call for Input was live, we engaged directly in 32 webinars via existing DIT engagement fora, as well as additional engagements with UK and Canadian businesses, industry associations, politicians and policy makers in Canada. At these events we sought ideas on the major opportunities for upgrading our trading relationship and encouraged attendees to respond to the Call for Input.

**We would like to thank all those who took the time to respond to the Call for Input. We will continue to engage as collaboratively as possible with stakeholders as progress negotiations.**

## What We Asked

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The questions in the Call for Input focused on ways in which the UK-Canada TCA could be updated to reflect a bespoke and more ambitious trading relationship. The questions were therefore focused on understanding what aspects of the UK's current trading relationship with Canada we should aim to keep the same and what aspects we should aim to change or otherwise improve.

## Overview of the Response

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In total, we received 149 responses to the Call for Input. Respondents were given the option of replying either through our online tool, hosted on the Qualtrics platform, or to a Department for International Trade-monitored inbox. The questions that were included via the online platform were provided to respondents in a PDF copy on the gov.uk page to facilitate review and distribution.

The online survey had a total of 128 responses. All respondents were asked the same core 9 questions, alongside 7 questions for identification and data protection purposes. In addition, demographic and logistical questions were asked, tailored to each group. Individuals were asked 9 questions, NGOs 5 questions, Public Sector Bodies 4 questions, businesses 9 questions, and business associations 6 questions.

The division between the number of responses can be seen below:

- Online survey responses: 128
- Emails: 21

Respondents were categorised into one of the following five groups:

- An individual – Responding with personal views, rather than as an official representative of a business, business association or another organisation.
- Business – Responding in an official capacity representing the views of an individual business.
- Business association – Responding in an official capacity representing the views of a business representative organisation or trade association.
- Non-governmental organisation (NGO) – Responding in an official capacity as the representative of a non-governmental organisation, trade union, academic institution or another organisation.
- Public sector body (PSB) – Responding in an official capacity as a representative of a local government organisation, public service provider, or another public sector body in the UK or elsewhere.



A breakdown of responses by respondent group can be seen below:

Respondent group	Responses (portal)	Responses (email)
Individual	24	0
NGO	16	2
Business	46	6
Business association	38	8
PSB	4	5
TOTAL	128	21

The responding business associations collectively represent over 300,000 members, and over 190,000 businesses and organisations.

## Summary of responses

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In this section the views of respondents are summarised and broken down by key trade policy areas. After each summary there is an explanation of the UK Government's intended approach to this policy area.

The policy areas are:

- Trade in Goods
- Rules of Origin
- Customs and Trade Facilitation
- Regulation and Standards (Sanitary and phytosanitary measures, Technical Barriers to Trade, Regulatory Cooperation and Transparency)
- Trade in Services and Investment
- Digital Trade and Telecommunications
- Intellectual Property
- Government Procurement
- Competition, Consumer Protection, State Owned Enterprises (SOEs), Subsidies
- Dispute Settlement
- Small and Medium-sized Enterprises (SME) Policy
- Labour Standards
- Gender Equality and Women's Economic Empowerment
- Climate and the Environment
- Innovation

More detail on the objectives for each of these areas in the negotiations can be found in the accompanying Outline Approach in Chapter 3.

## Trade in Goods

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Trade in goods refers to the import and export of goods between the UK and Canada, including those listed in the tariff schedule of both countries. Tariffs are taxes levied on imports from Canada into the UK or by Canada on UK exports.

The main view from respondents relating to tariffs was that it would be important to ensure exporters from both countries could continue to benefit from the tariff reduction and tariff elimination which exists under the current UK-Canada trade agreement. Respondents also highlighted where certain Canadian tariffs across a few key sectors remained high, including dairy products. They noted that lower tariffs in these sectors would be highly beneficial to UK exporters. Respondents (including from the food and beverages sector) also noted certain behind the border barriers in Canada, which were making it harder to trade. Lastly, some respondents in the food sector raised specific concerns about the potential impact on their sector of lower tariffs on Canadian imports (specifically certain meat products) into the UK as a result of any new agreement.

### Policy Explanation

The government agrees that a further reduction or removal of Canadian tariffs and any related non-tariff barriers could benefit UK businesses exporting to Canada, as well as Canadian businesses seeking to import UK products.

The government notes the concerns raised regarding increased competition for UK industries from imports of products and will ensure a balanced approach to tariff negotiations that considers the interests of consumers, businesses, and industrial and agricultural producers potentially exposed to increased competition.

## Rules of Origin

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For a good to be eligible for the preferential tariffs agreed in the FTA it must meet the rule of origin for that good. In this context, this determines whether the good originated in Canada or the UK. Rules of origin (RoO) therefore prevent the circumvention of tariffs and tariff quotas by goods from countries which are not party to the agreement.

Responses to the Call for Input focused on ensuring that the future deal includes easy, simple, and achievable RoO that protect existing and future supply chains. Respondents also called for the simplification of administrative requirements when complying with RoO. They also asked that the government ensure any changes to existing arrangements did not result in the circumvention of tariffs by goods originating in the USA and/or Mexico.

### Policy Explanation

The government recognises that existing preferential access and certainty for supply chains are vital for both UK and Canadian businesses. To support this, the government will seek RoO which are simple and which recognise both existing and future supply chains.

## Customs and Trade Facilitation

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The customs and trade facilitation chapter of a trade agreement ensures that procedures at the border are as facilitative and predictable as possible to make importing and exporting easier. Reducing customs delays and costs could increase the ability of businesses to trade with Canada, especially Small and Medium-sized Enterprises (SMEs). The customs chapter also ensures processes are predictable at and, where possible, away from the border to increase certainty for businesses and minimise administrative burdens.

The main view from respondents relating to customs was that it would be important to ensure procedures are as simple and transparent as possible. Respondents also wanted processes that were accessible to both large businesses and SMEs. This included through the development and use of electronic systems to minimise paperwork where possible. Respondents also called for more ambitious commitments on the release of perishable goods, to provide greater certainty to businesses on how those goods would be handled at the border.

### Policy Explanation

The government recognises the importance of securing commitments to ensure that customs procedures are efficient, transparent and consistent for both UK and Canadian businesses. The UK is committed to ensuring through its FTAs that customs procedures reduce friction at the border. The government also notes businesses' interest in ensuring release times for goods, including perishable goods, are consistent and timely.

## Regulation and Standards

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One of the main barriers to international trade is the difference between countries in what evidence producers need to provide to prove that their products are safe and effective for that market.

The UK-Canada TCA has mutually beneficial rules, as well as commitments on regulations and standards in several areas.

- technical barriers to trade
- sanitary and phytosanitary measures
- regulatory cooperation
- transparency

Respondents indicated a preference to maintain the UK's high sanitary and phytosanitary (SPS) standards. They also wanted the UK to retain an independent SPS regime. Respondents were also supportive of enhancing cooperation on tackling antimicrobial resistance. Some respondents, including in the pharmaceutical, manufacturing, animal health and automotive sectors, were keen to strengthen opportunities for regulatory cooperation between the UK and Canada, including through good regulatory practices. Respondents were supportive of existing provisions within the UK-Canada TCA tackling technical barriers to trade (TBT), including the mutual recognition of Good Manufacturing Practice (GMP) compliance and the mutual recognition of conformity assessment (MRA) protocol. Respondents were keen however, that the future agreement addressed outstanding barriers to trade, for example specific labelling requirements.

Some respondents raised concerns about the impact of Canada's animal welfare standards. Respondents wanted any new agreement to include animal welfare provisions, and to ensure that the UK's standards would not be undermined.

### Policy Explanation

The government notes the concerns respondents have regarding food safety and standards in negotiations. The government remains firmly committed to upholding our high standards on food safety, public health, animal, plant and human health and animal welfare. Maintaining safety and public confidence in the food we eat is of the highest priority.

The government also recognises the importance of existing mechanisms reducing barriers to trade provided for under the UK-Canada TCA, including the GMP protocol and MRA. The government will continue to ensure the safety and quality of products on sale in the UK, recognising the important role that international standards and regulatory cooperation play.

## Trade in Services and Investment

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In trade agreements, parties typically seek to build on a country's existing services commitments under the WTO by increasing legal certainty for their service suppliers. This is so that service suppliers abroad can be confident that they will not face discrimination or protectionism when exporting to, or investing in, a partner's market.

The primary view from respondents relating to trade in services was to maintain and, where appropriate, build upon the market access provided to service suppliers in the UK-Canada TCA. Respondents thought this could include improving opportunities for temporary entry into Canada and building on the existing recognition of professional qualifications provisions. Respondents also noted the importance, for UK service suppliers, of the free flow of data and information sharing.

Investment protection provisions aim to protect international investors from discriminatory or unfair treatment by a host state. Views from respondents indicated a desire to ensure formal and non-formal barriers to investment in Canada were addressed in a future deal, including foreign ownership limitations in the finance and telecommunications sectors. Respondents also wanted simpler processes when it came to investing in Canada. Most respondents, who gave views on this area, said they were opposed to the inclusion of Investor-State Dispute Settlement provisions.

### Policy Explanation

The government recognises the benefits of the existing trade agreement in regard to services and investment. However, the government also recognises the benefits of further reducing barriers for businesspersons through support for temporary business travel and further facilitating the recognition of professional qualifications. The government recognises the importance of maintaining a supportive environment for investment and in addressing the barriers that UK investors face in Canada.

The government will maintain, in all cases, the UK's high professional standards and continued right to regulate in the public interest to protect public services, including the NHS.

## Digital Trade and Telecommunications

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Digital trade is crucial for businesses exporting both goods and services across a wide range of sectors, including finance, tech, professional services and creative industries. Trade agreements provide the opportunity to secure provisions that facilitate free and trusted cross-border data flows, as well as enabling businesses to trade more efficiently and cost-effectively by supporting trading systems that are digital by default.

Telecommunications is also an important part of the UK's services economy. Liberal telecoms trade provisions can increase market access for UK telecoms providers and facilitate economic growth by supporting businesses to export and consumers to benefit as a consequence.

Respondents highlighted that the agreement should secure comprehensive digital trade provisions which support close regulatory cooperation for data and information sharing between the UK and Canada. Respondents noted the current restrictiveness of the Canadian telecoms market and were keen that the government secure a telecommunications chapter free from unnecessary foreign restriction and which supported competition in the Canadian market.

### Policy Explanation

The government recognises the call for high ambition in the responses, including through the request for comprehensive and modern chapters. The UK will seek an enhanced digital trade and telecommunications package that maximises opportunities across all sectors of the economy.

The government also recognises the need for cooperation on digital trade and future innovation within the tech sector. The government notes concern regarding data protection and will ensure that robust protections for personal data are maintained, whilst supporting the free flow of data. On telecommunications, the government will also champion competition and seek fair and transparent access for UK businesses to the Canadian telecommunications market.

## Intellectual Property

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A balanced and effective intellectual property (IP) regime is an essential element of a vibrant and creative economy, providing confidence and protection for innovators and creators, while also reflecting wider public interests. Trade agreements provide the opportunity to build upon the minimum IP standards set out under the WTO Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement and secure tailored provisions which will maximise trade and investment opportunities around the world.

Respondents recognised the UK as a world-leader in IP and were clear that they wanted the UK to maintain its balanced and effective IP regime, including compatibility with the UK's existing international obligations such as the European Patent Convention (EPC).

The UK and Canada have previously agreed to the protection of three UK geographical indications (GIs) in Canada: Scotch Whisky, Irish Whiskey and Irish Cream. Respondents were keen to ensure continued protection for these UK GIs and wanted to see protection for further UK GIs in Canada.

Respondents made requests to strengthen IP protection in areas of interest to the creative, digital, and pharmaceutical industries, and indicated a desire for provisions to ensure more robust enforcement of IP rights in Canada, including in relation to the online environment. There was a desire for the agreement to deliver deeper and broader cooperation between the UK and Canada on IP enforcement. Respondents also noted a lack of sufficient design protection in Canada.

### Policy Explanation

The government recognises the importance of a high standard IP chapter. The UK is widely recognised as being a world leader in IP protection, providing an effective balance between rights holders, users, and consumers. IP-rich and creative industries make a significant contribution to the UK economy.

The government also recognises the importance of the UK continuing to be a party to the European Patent Convention (EPC), and notes that there are clear benefits for countries seeking a trade agreement with the UK to have access to patent protection in the UK and other EPC parties through the European Patent Organisation.

Under the existing UK-Canada TCA, the UK and Canada have already made commitments on the protection of IP rights, including provisions on regulatory data protection, and the transparent and effective enforcement of IP rights. The government recognises the importance of maintaining existing commitments in any new trade agreement and the need for the agreement to deliver a balanced outcome for right holders, users, consumers, and wider societal interests.

## Government Procurement

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Procurement provisions in FTAs promote transparency, non-discrimination, and competition within the trading partners' government procurement markets. These provide enforceable rules and standards for how those procurements which are covered by the agreement should be run, and ensure that suppliers from the other party are treated the same as domestic suppliers

Respondents sought to maintain existing access to Canadian public contracts across all levels of government (federal and sub-federal) and to further open certain government procurement markets, including within the professional services sector. Respondents were also keen to ensure commitments to fair and transparent government procurement regimes were upheld.

Responses indicated a desire for wider criteria such as labour standards, workers' rights, and the environment to be taken into consideration during the tender process.

### Policy Explanation

The government recognises the importance of maintaining the current non-discrimination provisions and level of market access granted in the UK-Canada TCA. The government will seek to ensure that procurement processes remain fair, open, transparent and accessible for suppliers from Canada and the UK.

We will ensure appropriate protections remain in place for key public services, such as NHS health and care services and broadcasting.

## Competition Policy, Consumer Protection, State-Owned Enterprises, Subsidies

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Competition policy, state-owned enterprises (SOEs) and subsidies chapters ensure there is open and fair competition for businesses in each other's markets.

Competition policy covers the rules and regulations concerning the way businesses operate within a market and the enforcement of such rules. Provisions ensure that the Parties maintain competition law (typically covering anti-competitive agreements between firms, abuse of a dominant position and merger control), committing the Parties to apply measures on a procedurally fair, transparent and non-discriminatory basis. Competition policy chapters often commit countries to consumer protection rules and cooperation.

SOEs provisions provide for open and fair competition between commercially oriented SOEs and private businesses, for example, rules around non-discrimination and subsidies. Subsidies chapters seek to prevent the distortion of trade between the Parties by certain forms of government subsidy.

Respondents indicated a desire to maintain existing cooperation between the UK and Canadian competition authorities. Individual sectors responded seeking to ensure that British companies were competing on a level-playing field with regard to subsidies.

### Policy Explanation

The government will promote open and fair competition for UK firms at home and in Canada by ensuring that the agreement contains provisions guaranteeing effective competition law and its enforcement. The UK will also seek consumer protection commitments.

The government recognises that provisions relating to subsidies and SOEs are an important issue for businesses. The Government will seek to ensure SOEs are not entitled to any subsidies which can have trade distortive effects and that UK firms operating in Canada can compete fairly with SOEs.

## Dispute Settlement

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Dispute settlement refers to the formal state-to-state mechanism for resolving disputes where one or more parties consider that there has been a breach of obligations under the relevant international trade agreement, and it has not been possible to resolve the dispute informally.

The UK-Canada TCA sets out the system to resolve disputes between the UK and Canada. Respondents indicated that these provisions were welcomed, particularly the focus on consultation and mediation. Respondents were keen to ensure the future deal retained a degree of flexibility when resolving trade disputes to ensure smaller firms were not disproportionately affected.

### Policy Explanation

The government considers an effective dispute settlement mechanism to be an important part of an FTA. An effective dispute settlement mechanism gives parties and stakeholders the confidence that commitments made under the agreement can be upheld, and that any disputes will be addressed fairly and consistently.

The government recognises that respondents want a dispute settlement mechanism that is transparent and fosters cooperation. Under the new agreement, the government will seek to create a strong state-to-state dispute settlement mechanism that promotes compliance with the agreement. Provisions will ensure state-to-state disputes are dealt with consistently, fairly and in a cost-effective, and timely manner, whilst providing predictability and certainty for businesses and stakeholders.

## Small and Medium-sized Enterprises Policy

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SMEs are an integral part of the UK economy. Over 99% of the business population in the UK are SMEs. Barriers to trade disproportionately affect smaller firms and can even prevent them from exporting altogether.

Respondents supported the idea of a standalone SME chapter that includes commitments on information sharing, transparency of trade related information and additional support for SMEs. Respondents were also keen for this chapter to establish an SME committee and designate contact points for SMEs to foster collaboration on reducing non-tariff barriers for SMEs.

### Policy Explanation

The government recognises the opportunities, needs, and challenges for SMEs engaging in international trade. The government is committed to seeking an agreement that reduces potential barriers. This will both benefit the 10,300 SMEs that exported goods trade to Canada in 2020 and create opportunities for new SME exporters.

The government will seek commitments from Canada to make information about trade and investment rules more transparent and accessible, and to co-operate with the UK on trade issues beneficial to SMEs.

## Labour Standards

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Labour chapters in FTAs address issues on trade and labour protections and provide the opportunity for Parties to reaffirm commitments to international obligations.

Responses highlighted the importance for the UK to maintain the integrity of its high labour standards while seeking space for effective implementation of any new improved standards in the future. Respondents were also keen to ensure the future agreement included appropriate mechanisms for the monitoring and dispute resolution of its labour provisions.

### Policy Explanation

The government shares the public's high regard for worker protections and has made clear that we will not compromise on these. The UK will maintain its high standard of workers' rights and continue to advocate for the highest standards and working conditions. The government will seek to ensure parties reaffirm their commitment to international labour standards.

The UK has one of the most dynamic, flexible and supportive labour frameworks in the world, with important protections for individuals. It is also world-leading in pursuit of the elimination of all forms of forced labour. The government will seek to ensure that the agreement allows the UK to protect our regulatory sovereignty, protect against labour rights being reduced to gain a trade advantage, and provide for appropriate mechanisms for the implementation, monitoring and dispute resolution of labour provisions.

## Gender Equality and Women's Economic Empowerment

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Gender equality is a crucial issue, affecting all areas of trade. As such, it is increasingly becoming a feature of modern international trade agreements. These can address issues such as discrimination, or barriers faced disproportionately by women in trade, including lack of access to markets and business networks.

A number of respondents called for the inclusion of gender equality in the UK-Canada FTA.

Respondents emphasised the importance of support for SMEs and women-owned businesses, as well as the need to facilitate information exchange between businesses civil society, and international organisations who have expertise in gender and trade initiatives. There were also calls for gender-based impact assessments and mechanisms for monitoring implementation from a gender perspective.

### Policy Explanation

The UK is committed to ensuring that our trade policy supports women's economic empowerment and furthers our efforts to promote gender equality. We will explore opportunities, in partnership with Canada, to reflect this in our future agreement.

We will also seek to build our evidence-base on how the impacts of trade vary by gender, including by exploring options for conducting gender-focused trade analysis.

## Trade Remedies

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Trade remedies act as a safety net to protect UK businesses from injury caused by unfair trading practices, such as dumping and subsidies, or injury caused by unforeseen surges in imports. Respondents noted the importance of securing trade remedies provisions to champion free and fair trade between the UK and Canada.

### Policy Explanation

The government recognises the importance of trade remedies as part of a rounded trade policy. In the new agreement, the government will seek provisions which facilitate trade liberalisation whilst providing a safety net for UK businesses against injury caused by dumped, subsidised or unexpected surges of imports of goods. The government is committed to seeking trade remedy provisions which uphold our WTO commitments and aim to ensure that trade remedy measures are applied in a proportionate and transparent manner.

## Environment

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Trade policy can support clean growth and efforts to tackle climate change, including through the promotion of low carbon exports which can help to deliver the full economic benefit of the UK's shift to a low-carbon economy.

In an enhanced agreement with Canada, respondents asked for the UK to seek strong environment and climate provisions in line with our international commitments and role as a global leader.

Respondents highlighted that such provisions should seek to support UK net zero commitments and uphold key climate change accords and Multilateral Environmental Agreements (MEAs) committed to by both Parties, such as the Paris Agreement on climate change. Respondents also highlighted that commitment to cooperation in these areas was important. Respondents advocated for a high level of ambition in this agreement, in areas such as biodiversity and forestry.

Responses illustrated a desire for the future agreement to protect the UK's high environmental standards and ensure effective enforcement of environmental provisions.

### Policy Explanation

The UK is a world leader on climate action. We promote delivery of our environmental and climate commitments both bilaterally and multilaterally, across a range of environmental issues, including climate change, biodiversity, and sustainable forests.

The government is firmly committed to maintaining our high standards of environmental protection in trade agreements and expects future environmental provisions with Canada to support these objectives. We seek to ensure that both parties do not waive or derogate from their environmental commitments, or fail to enforce domestic environmental laws.

The UK and Canada are party to many international Multilateral Environmental Agreements, including the Paris Agreement. We are committed to upholding our international obligations under these agreements and will continue to play an active role internationally.

The UK recognises countries' sovereign right to regulate for their own levels of domestic environmental protection and we will ensure this is maintained under the future deal, while also seeking opportunities to advocate for clean growth and cooperation in the global fight against climate change.

## Innovation

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The UK is driving consideration of the impacts of innovation on trade.

Responses across multiple sectors indicated a desire for the UK to cooperate with Canada on innovative technologies and to promote emerging sectors. Respondents from the energy sector were keen to ensure climate provisions were drafted to encourage innovation in this sector, notably clean energy.

### Policy Explanation

The UK's Innovation Strategy sets out our ambition to be a global leader in innovation and secure FTAs that support innovation and innovative businesses. A future agreement with Canada represents an opportunity to deliver on this ambition and facilitate greater collaboration between the UK and Canada on innovation and its impact on trade.

## Continued Engagement

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In line with DIT's approach to new agreements and independent trade policy, we will ensure that our agreement with Canada works for the whole of the UK and its wider UK family, Parliament, Devolved Governments, local government, business, trade unions, civil society and the public from every part of the UK will have the opportunity to engage and contribute.

We will continue to engage through:

- Strategic Trade Advisory Group (STAG), to seek informed stakeholder insight and views on relevant trade policy matters
- Trade Advisory Groups (TAGs) and Thematic Working Groups (TWGs), to contribute to our policy development at a detailed technical level
- engagement and outreach events across the whole UK

The STAG's principal purpose is for the government to engage with stakeholders on trade policy matters as we shape our future trade policy and realise opportunities across all nations and regions of the UK through high level strategic discussion. The STAG's remit extends across the breadth of trade policy and more information can be found online at [gov.uk](https://www.gov.uk).

The objective of the TAGs and TWGs is to enable the government to draw on external knowledge and experience to ensure that the UK's trade policy is backed up by evidence at a detailed level and to deliver positive outcomes for the UK. We will draw on the expertise of these groups to gather intelligence for informing the government's policy positions.

DIT is committed to ensuring we will have appropriate mechanisms in place during negotiations to inform the government's position. As we move forward, we will review our approach to engagement, and consider whether existing mechanisms are fit for purpose. We welcome further and ongoing feedback and input from stakeholders during this process.

The government is committed to ensuring that our trade policy is transparent and subject to appropriate parliamentary scrutiny and will provide regular updates throughout negotiations.



After launching negotiations with Canada, we will continue to work closely with all our stakeholders, plus the devolved administrations, to ensure that negotiations with Canada further the UK's key interests and bring benefits for the whole of the UK.

The government has built close working relationships with colleagues in Wales, Scotland and Northern Ireland at a ministerial and official level on trade matters. These discussions will continue to develop as the UK pursues an ambitious independent trade agenda.

# Chapter 3: Outline Approach



# Overall Objectives

- Pursue an ambitious and comprehensive FTA with Canada that builds on the UK-Canada TCA and secures additional benefits for UK businesses.
- Provide new opportunities for UK businesses, including small and medium-sized enterprises (SMEs) and investors, facilitating greater choice and lower prices for UK producers and consumers.
- Pursue progressive provisions across a range of areas such as digital trade, women's economic empowerment, innovation and the environment to modernise the terms of our trading relationship with Canada.
- Ensure high standards and protections for UK consumers and workers and build on our existing international obligations. This will include not compromising on our high environmental and labour protections, public health, animal welfare and food standards, as well as maintaining our right to regulate in the public interest.
- Uphold the government's manifesto commitment that the NHS, its services, and cost of medicines are not on the table. To this end we will not accept any provisions that would increase the cost of medicines for the NHS. Protecting the NHS is a fundamental principle of our trade policy, and our commitment to this will not change during our negotiations with Canada.
- Secure an agreement which works for the whole of the UK and takes appropriate consideration of the UK's constitutional arrangements and obligations.
- Send a powerful signal to the rest of the world that the UK as an independent trading nation will continue to champion free and fair trade, fight protectionism, and remove barriers to trade at every opportunity.

## Trade in Goods

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- Secure comprehensive access for UK industrial and agricultural goods into the Canadian market through the reduction or elimination of tariffs and non-tariff barriers.

## Rules of Origin

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- Develop simple and modern rules of origin that reflect UK industry requirements and consider existing, as well as future, supply chains supported by predictable and low-cost administrative arrangements.

## Customs and Trade Facilitation

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- Secure commitments to efficient and transparent customs procedures which aim to minimise administrative burdens and associated costs for businesses.
- Ensure that customs processes are predictable before, at, and away from, the border.

## Technical Barriers to Trade

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- Continue to reduce technical barriers to trade by removing and preventing trade-restrictive measures in goods markets, while upholding the safety and quality of products, and the UK's right to regulate in this area in the public interest.
- Provide for mechanisms to make it easier for UK manufacturers to have their products tested against Canadian rules.
- Promote the use of international standards to further facilitate trade between the parties.

## Sanitary and Phytosanitary Measures (SPS)

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- Uphold the UK's high standards of food safety, animal and plant health, and animal welfare, and the UK's right to regulate in these areas in the public interest.
- Facilitate access for UK agri-food goods to the Canadian market by securing commitments for dialogue, cooperation and transparency on SPS measures, including Canadian approval processes for UK goods.
- Seek enhanced cooperation on the related important matters of public interest of animal welfare and antimicrobial resistance.

## Good Regulatory Practice and Regulatory Cooperation

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- Reduce regulatory obstacles, facilitate market access, and improve trade flows by ensuring a transparent, predictable, and stable regulatory framework to give confidence to UK exporting businesses and investors.
- Ensure commitments to the application of good regulatory practice, such as:
  - internal coordination
  - transparency in the regulatory process, including making relevant information freely and publicly available online
  - meaningful public consultation in the development of regulatory measures
  - the use of proportionate impact assessments for proposed major regulatory measures
  - the periodic evaluation of regulatory measures in force
- Promote regulatory co-operation.

## Transparency

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- Seek world class levels of transparency between the UK and Canada, particularly with regards to the publication of measures (such as laws and regulations) affecting trade and investment, public consultation, and the right of appropriate review of these measures.

## Trade in Services

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- Pursue best-in-class rules for all services sectors, as well as sector specific rules to ensure transparency and support our world-leading services industries, including key UK export sectors such as financial services, legal services, professional and business services, and transportation services.
- Ensure certainty for UK services exporters continuing to operate in the Canadian market and transparency of Canadian services regulation.
- Seek to improve access for UK business people to operate in Canada by enhancing opportunities for business travel. We will continue to preserve the integrity of the UK's domestic immigration system.

## Public Services

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- Protect the right to regulate public services, including the NHS and public service broadcasters.
- Continue to ensure that decisions on how to run public services are made by UK governments, including the Devolved Governments.

## Telecommunications

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- Promote a liberal and competitive telecommunications market by encouraging fair and non-discriminatory access and use of networks and services, fair and transparent regulatory principles, and greater connectivity for consumers and businesses.
- Ensure fair and non-discriminatory terms and conditions for access to the Canadian telecommunications network and services.
- Promote competitive supply of telecommunications services by facilitating market access through fair and transparent regulation and competitive safeguards on major suppliers.
- Secure greater connectivity for UK consumers and businesses in the Canadian market and encourage innovation and investment in the telecommunications market.

## Digital Trade

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- Secure a comprehensive digital chapter with cutting-edge provisions that maximises opportunities for digital trade across all sectors of the economy, and businesses of all sizes, across the UK.
- Seek commitments that facilitate free and trusted cross-border data flows, prohibit unjustified data localisation, and maintain the UK's high standards for personal data protection.
- Promote online consumer protection and seek necessary business safeguards in digital trade.
- Seek commitments to facilitate more efficient and secure international trade through use of digital technologies, including through paperless trading.
- Cooperate on evolving areas of trade such as emerging technologies.
- Ensure customs duties are not imposed on electronic transmissions.

## Financial Services

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- Seek to agree ambitious financial services provisions that will provide for a comprehensive, transparent, and modernised arrangement with Canada.
- Expand opportunities for UK financial services and ease frictions to cross-border trade and investment.

## Investment

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- Agree provisions that create new opportunities for UK investors in Canada, whilst addressing existing barriers that investors currently face.
- Ensure certainty for UK investors continuing to operate in the Canadian market.
- Ensure the agreement does not contain an investor state dispute mechanism (ISDS).
- Maintain the UK's right to regulate in the national interest and as the government has made clear, continue to protect the NHS.

## Intellectual Property

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Protect the UK's existing IP standards and secure provisions which:

- Ensure rights holders receive protection and fair remuneration for the use of their works abroad, whilst ensuring reasonable and fair access for consumers.
- Achieve an effective balance between rewarding research and innovation, whilst reflecting wider public interests such as ensuring access to medicines.
- Adequately secure protection for brands and design intensive goods, whilst keeping the market open to fair competition.

- Promote the accessible, transparent, effective, and efficient enforcement of IP rights including for online IP infringement and facilitate cross-border collaboration on IP matters.
- Are consistent with the UK's existing international obligations, including the European Patent Convention, to which the UK is party.
- Promote provisions which take account of emerging opportunities and challenges in the digital age.
- Seek effective protection of UK geographical indications in a way that ensures consumers are not misled about the origins of goods while ensuring they have access to a range of products.

## Government Procurement

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- Secure comprehensive access for UK businesses to compete for procurements at all levels of government, based on clear and enforceable rules and standards.
- Seek rules to ensure that procurement processes are simple, fair, open, transparent and accessible to all potential suppliers in a way that supports and builds on commitments in the UK-Canada TCA.
- Ensure appropriate protections remain in place for key public services such as NHS health and care services and broadcasting.

## Competition Policy and Consumer Protection

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- Provide for effective competition law and enforcement that promotes open and fair competition for UK firms at home and in Canada.
- Provide for transparent and non-discriminatory competition laws, with strong procedural rights for businesses and people under investigation.
- Ensure core consumer rights are protected.
- Promote effective co-operation between enforcement agencies on competition and consumer protection matters.

## Subsidies and State-Owned Enterprises (SOEs)

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- Secure industrial subsidies provisions that promote open and fair competition for UK firms at home and in Canada.
- Provide for open and fair competition between commercially oriented SOEs and private businesses by preventing discrimination and unfair practices.
- Obtain transparency commitments on SOEs.
- Ensure that UK SOEs, particularly those providing public services, can continue to operate as they do now.

## Trade Remedies

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- Ensure provisions support market access, uphold our WTO commitments, and are underpinned by transparency, efficiency, impartiality, and proportionality.
- Agree provisions which facilitate trade liberalisation while protecting against unfair trading practices.

## Dispute Settlement

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- Establish appropriate mechanisms that promote compliance with the agreement and seek to ensure that state to state disputes are dealt with consistently and fairly in a cost-effective, transparent, and timely manner whilst seeking predictability and certainty for businesses and stakeholders.

## Small and Medium-sized Enterprises Policy

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Support UK SMEs to seize the opportunities of UK-Canada trade by:

- Ensuring a dedicated SME chapter to facilitate co-operation between the UK and Canada on SME issues of mutual interest.
- Ensuring that SMEs have easy access to the online information necessary to take advantage of the trade opportunities generated by the agreement.
- Seeking to include, and signpost to, provisions in other chapters of the agreement that enhance cooperation between the UK and Canada on SME issues, or otherwise enable SMEs to make greater use of the opportunities under the FTA.

## Environment and Climate

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- Ensure provisions that support and help further the government's ambition on environment, climate change and achieve our shared goal of net zero greenhouse gas emissions by 2050, including promoting trade and investment in environmentally and climate friendly goods and services, and collaborative commitments across a range of issues.
- Maintain the UK's right to regulate to meet environmental objectives, including on climate change. Affirm commitments to Multilateral Environmental Agreements such as the UNFCCC and the Paris Agreement.
- Ensure that parties do not waive, derogate from or fail to enforce their domestic environment laws in ways that create an artificial competitive advantage.
- Apply appropriate mechanisms for the implementation, monitoring and dispute resolution of environment provisions.

## Trade and Development

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- Seek to deliver an agreement that supports the government's objectives on trade and development and promote cooperation between the UK and Canada on trade and development activities.
- Seek to include provisions that address monitoring the impact of the FTA on developing countries outside the agreement.

## Labour Standards

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- Reaffirm commitments to international labour standards.
- Provide for assurance that parties will not waive or fail to enforce their domestic labour protections in ways that create an artificial competitive advantage.
- Include measures which allow the UK to protect our regulatory sovereignty, maintain the integrity, and provide meaningful protection, of the UK's labour protections.
- Provide for appropriate mechanisms for the implementation, monitoring and dispute resolution of labour provisions.

## Anti-Corruption

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- Provide for provisions that address the trade distorting effects of corruption on global trade and fair competition to help maintain the UK's high standards in this area.
- Provide for appropriate mechanisms for the implementation, monitoring and dispute resolution of anti-corruption provisions.

## Trade and Gender Equality

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- Promote women's access to the full benefits and opportunities of this agreement, as workers, business owners, entrepreneurs and consumers.
- Seek cooperation to address the barriers which exist disproportionately for women in trade.
- Recognise the importance of upholding protections on gender equality.

## Innovation

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- Provide an opportunity to enhance cooperation on shared global and economic challenges, including the development of low-carbon technologies, and emerging technologies.
- Agree provisions focused on the role of trade policy to facilitate innovation and ensure our FTA is flexible to emerging business models and global trends and events.
- Signal the UK's ambition and build like-mindedness on developing trade policy that is supportive and responsive to innovation.

## General Provisions

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- Ensure flexibility for the government to protect legitimate domestic priorities by securing adequate general exceptions to the agreement.
- Provide for review of the operation of the agreement.
- Allow for the agreement to be amended when necessary, in support of mutual objectives.

## Territorial Application

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- Provide for application of the agreement to all four constituent nations of the UK, taking into account the effects of the Protocol on Ireland/Northern Ireland.
- Provide for coverage of the agreement to the Crown Dependencies and Gibraltar and Overseas Territories as appropriate.



# Chapter 4: Scoping Analysis



# Background

The UK currently trades with Canada under the terms of the UK-Canada TCA, which came into force in 2021. The UK-Canada TCA replicated the effects of the Canada-EU Comprehensive Economic and Trade Agreement (CETA), which the UK provisionally applied in 2017, making changes where necessary to suit the bilateral context. The UK-Canada TCA ensured that 98% of tariff lines remained duty free.<sup>12</sup>

The Department for International Trade (DIT) is preparing to commence negotiations with Canada to upgrade the current UK-Canada TCA to a bespoke agreement. This will be better tailored to the strengths of the UK-Canada trade relationship, worth £19.2 billion in 2020.<sup>13</sup> A bespoke trade agreement with Canada will also complement the UK's accession to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), which is anticipated to provide additional liberalisation in specific areas.<sup>14</sup>

This scoping analysis describes the potential economic impact of a renegotiated FTA between the UK and Canada.

## About Scoping Analysis

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Scoping Analysis is used where the negotiations cover an augmentation of an existing trade agreement and focus on where we can make additional gains. It uses tools including tariff analysis and descriptive analysis as the main evidence base to highlight where there are remaining barriers to trade. Given there is an existing FTA in place already, it does not include economic Computable General Equilibrium (CGE) modelling which estimates the potential impacts on the macroeconomy. Nor does it include (at this stage) an assessment on UK nations and English regions, SME's, protected groups of the labour market and the impact on developing countries.

At the end of negotiations, an Impact Assessment will be published.

## A note on data and statistics

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Statistics in this scoping analysis are based on 2020 or the latest available year. Due to the COVID-19 pandemic, trade data was more volatile in 2020. Therefore, tariff liberalisation analysis uses 2017-2019 average trade flow data.

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<sup>12</sup> DIT internal analysis using 2021 tariff information.

<sup>13</sup> ONS, United Kingdom total trade: all countries, non-seasonally adjusted: July to September 2021.

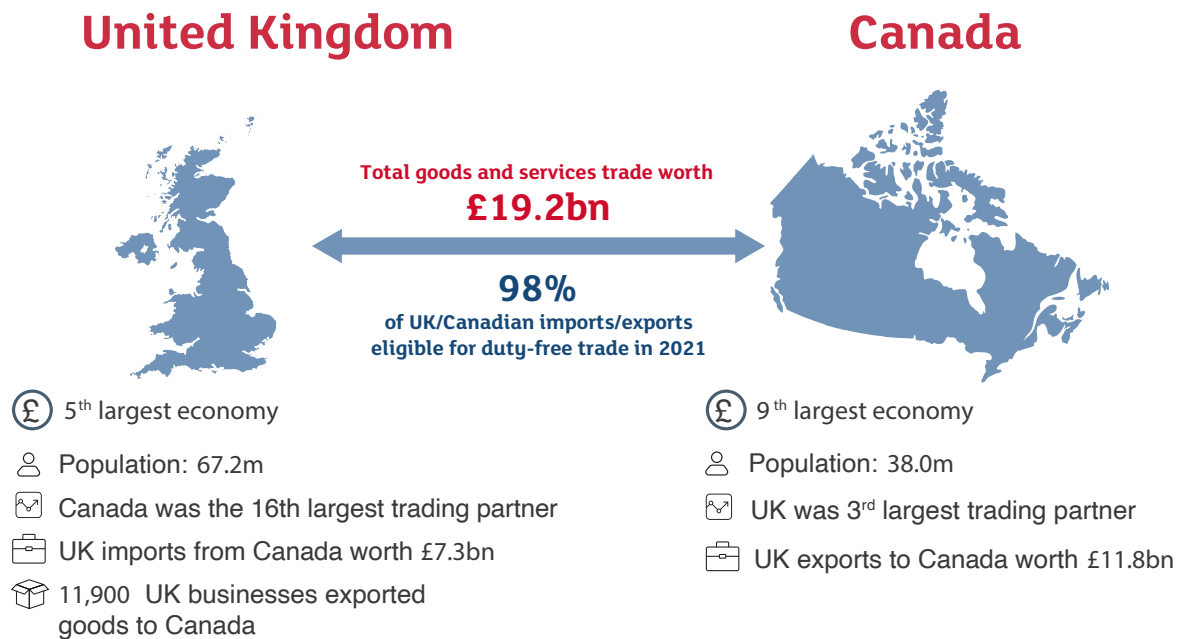
<sup>14</sup> DIT, UK approach to joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (June 2021).

# The existing trade and economic relationship between the UK and Canada

Total trade in goods and services between the UK and Canada grew by 4% each year on average between 2014 and 2019, reaching £23.2 billion by 2019.<sup>15</sup> While trade with Canada fell to £19.2 billion in 2020, likely due to the global pandemic, goods exports to Canada still increased by £478 million, and it was our 16th largest trading partner.

The Canadian economy is projected to grow over the next decade, which could drive higher demand for UK exports. Its import market is projected to increase by 45% in real terms (in 2019 prices and exchange rates) between 2019 and 2035. This is similar to the growth in import demand for advanced economies more widely.<sup>16</sup>

**Figure 1: Economic indicators for the UK and Canada**



Figures from 2020 unless stated otherwise. Sources: IMF World Economic Outlook (October 2021), World Bank, ONS UK total trade: all countries, non-seasonally adjusted 2021, Statistics Canada, UK trade in goods by business characteristics 2020.

## Trade in goods

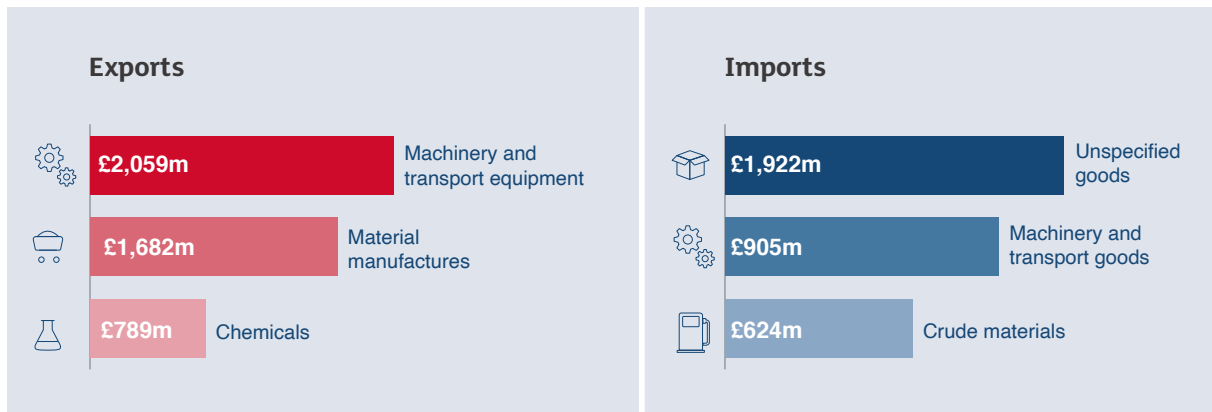
Between 2017 and 2019 trade in goods with Canada increased from £11.4 billion to £14.0 billion. Our largest exports in 2020 were machinery and transport equipment, material manufactures and chemical products. These accounted for 74% of our goods exports to Canada. By contrast our largest imports were unspecified goods (which include non-monetary gold, parcel post, low value trade, coins and defence equipment), machinery and transport goods and crude materials. These accounted for 67% of our imports from Canada.<sup>17</sup>

<sup>15</sup> ONS, UK total trade: all countries, non-seasonally adjusted, July-September 2021.

<sup>16</sup> 2035 projections for Canadian import demand are calculated using the methodology described in the Global Trade Outlook published by DIT in 2021

<sup>17</sup> ONS trade in goods – country-by-commodity exports and imports.

**Figure 2: Key goods traded between the UK and Canada in 2020**



Source: ONS trade in goods – country-by commodity exports and imports

Note: Unspecified goods includes uncategorised goods, such as parcel post and low value trade; as well as nonmonetary gold.

Businesses across the UK traded goods with Canada. In 2020 5.2% and 3.6% of goods exported from Northern Ireland and London respectively went to Canada – compared to 1.9% for the UK as a whole. Similarly businesses from Wales imported 2.8% of their goods from Canada – relative to 0.8% for the entire UK.<sup>18</sup>

The UK-Canada TCA ensured that businesses exporting to Canada have access to preferences which, if fully utilised, would reduce annual duties by £58 million, relative to trading on MFN terms. Figure 3 shows these reductions were concentrated in exports of transport equipment, prepared foods, tobacco and beverages, and chemical products.<sup>19</sup>

UK businesses importing intermediate products have benefitted from access to cheaper inputs. Greater openness also increases competition between firms, enhancing their incentives to improve productivity in order to maintain and improve their market share. Less productive domestic firms may also exit the market as they cannot compete with more productive foreign producers, boosting aggregate productivity. Consumers may benefit from lower prices of final goods and increased product variety due to lower trade costs on imports into the UK.<sup>20</sup> Lower UK import tariffs under the UK-Canada TCA would have reduced annual duties by £37 million between 2017 and 2019 if fully utilised.<sup>21</sup> Figure 3 shows these reductions would have been concentrated in prepared food, tobacco and beverages, plastic and rubber and machinery.<sup>22 23</sup>

<sup>18</sup> Data from HMRC: Regional trade in goods statistics disaggregated by smaller geographical areas: 2020.

<sup>19</sup> This is based on Canadian imports data between 2017-19 and tariffs as applied in 2021. It also assumes full utilisation of tariffs and compliance with rules of origin requirements.

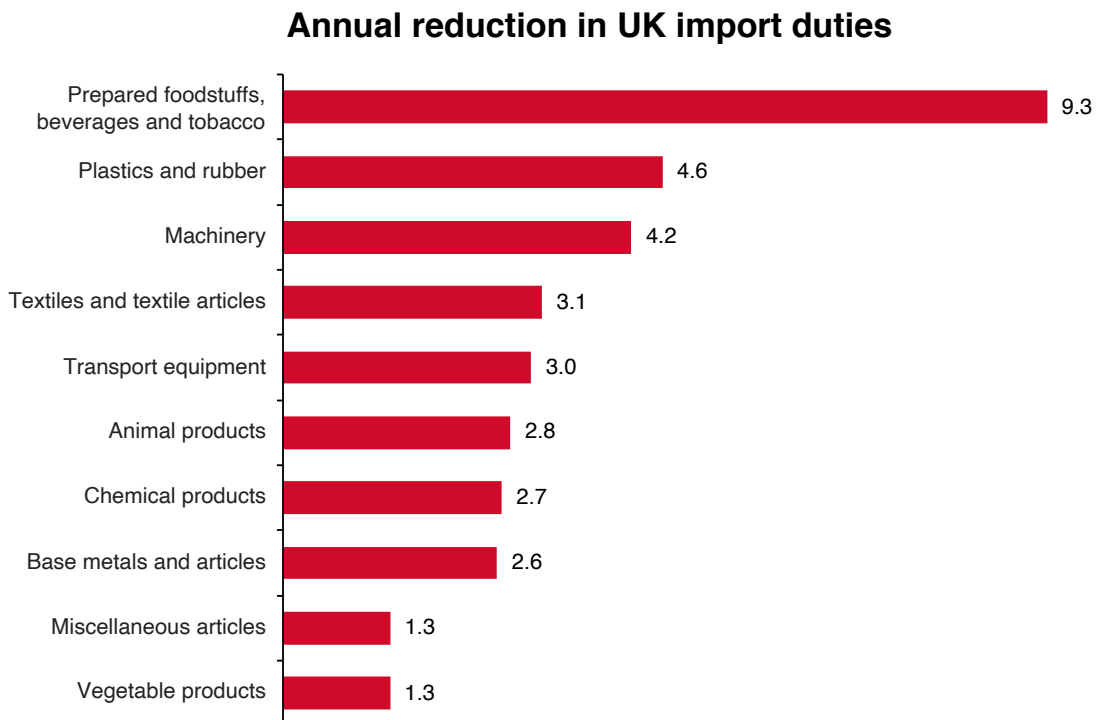
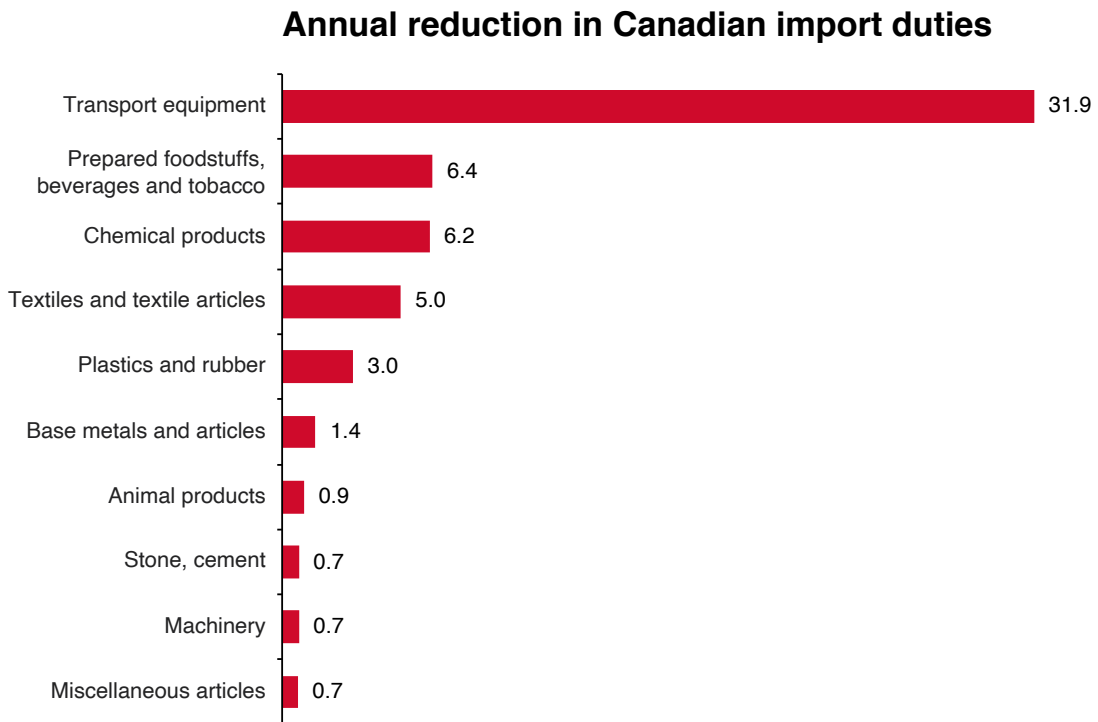
<sup>20</sup> The extent to which businesses or consumers in the UK have benefited from the reduction in tariffs would depend on the rate of “pass through” of lower import costs from the importing business to the end consumer.

<sup>21</sup> This is based on UKGT schedules

<sup>22</sup> This is based on UK imports data between 2017-19 and tariffs as applied in 2021. It also assumes full utilisation of tariffs and compliance with rules of origin requirements.

<sup>23</sup> These estimates differ from the parliamentary report as they use 2017-19 trade flows and 2021 tariff rates. These rates are lower than those used in previous work due to tariff staging in which tariffs are reduced over time

**Figure 3: maximum annual reduction in tariff duties on exports and imports available to businesses for the top 10 HS sections under the UK-Canada TCA (£ million)**



Source: DIT internal analysis. This is based on UK and Canadian imports data between 2017-19 and tariffs as applied in 2021. It also assumes full utilisation of tariffs and compliance with rules of origin requirements.

### Intellectual property

Under the UK-Canada TCA, Intellectual Property (IP) systems such as Geographical Indications ensure consumers are clear about the origins and quality of products that they buy. For example, Scotch Whisky is a registered Geographical Indication (GI). As such, consumers and producers of Scotch Whisky are protected from the misuse, imitation and any other malpractice that would mislead consumers as to the origin of the product when purchasing. On average, between 2018 and 2020, the UK exported £91 million of Scotch Whisky annually to Canada.<sup>24</sup>

<sup>24</sup> HMRC Trade data, Average taken of annual trade values between 2018 and 2020.

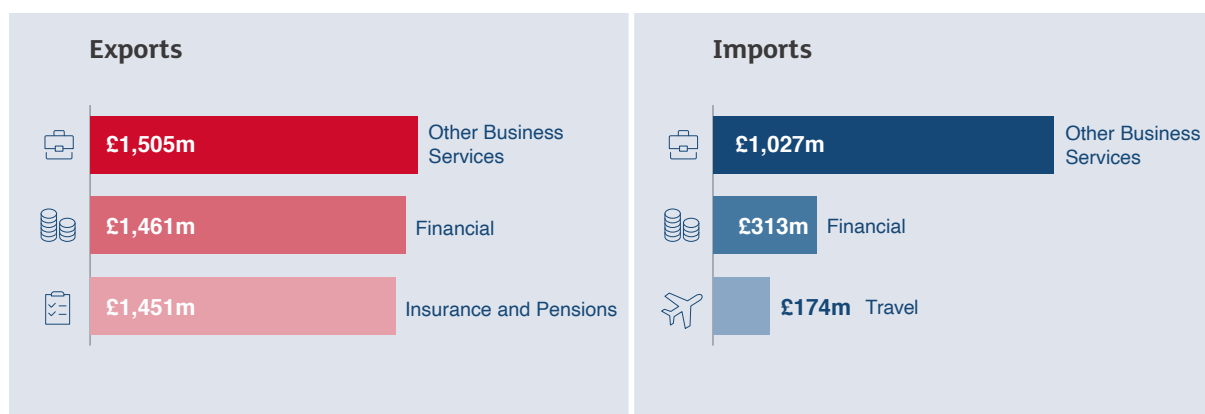
Canada is a key market for many patent intensive industries, including machinery and transport equipment, and pharmaceuticals. On average, between 2018 and 2020, the UK exported £685 million of medicinal and pharmaceutical products annually (including biologic, small-molecule and generic drugs).<sup>25</sup> Canada is also an important market for the UK's creative industries. Industry estimates outline that Canada was the seventh largest export market for UK recorded music in 2019, with revenues from Canada totalling an estimated £15.9 million in 2019.<sup>26</sup>

### Trade in services

Services activity accounts for the majority of the UK economy and a large proportion of exports. In 2020, the sector provided 73% of economic output by value, a high proportion by international standards, and the UK was the second largest exporter of services in the world.<sup>27 28</sup>

Between 2017 and 2019 trade in services with Canada had increased from £7.5 billion to £9.2 billion. In 2020 this fell to £7.9 billion, with 73% representing UK exports (£5.7 billion) and 27% representing UK imports (£2.1 billion). Services accounted for 48% of the UK's exports to Canada in 2020.<sup>29</sup> Our largest exports in 2020 were other business services (which includes accountancy, architectural and legal services), financial services, and insurance and pensions. These accounted for 77% of our total services exports to Canada. Our largest imports were other business services, financial services, and travel services, which accounted for 71% of our services imports from Canada.

**Figure 4: Key services traded between the UK and Canada in 2020**



Source: UK ONS, UK trade in services: service type by partner country, non-seasonally adjusted

Note: Other business services includes research and development; professional and management consulting services; and technical, trade-related and other business services not included elsewhere.

Services businesses across the UK export to Canada. Around 2.7% of services exports in 2019 from Wales went to Canada, while 2.4% of exports from Yorkshire and the Humber are destined for Canada. This compares to 1.8% of total exports from Great Britain.<sup>30</sup> By contrast Canadian imports made up the greatest share of regional imports for the South East and the West Midlands respectively, at 3.3% and 2.7% respectively in 2019. This compares to 1.4% for Great Britain.<sup>31</sup>

Restrictions placed on services trade are measured through the OECD's Services Trade Restrictiveness Index (STRI). Even under MFN terms Canada had relatively low services trade restrictiveness compared to the OECD average. The UK-Canada TCA reduced restrictions in all services sectors, providing market access opportunities for UK business. Figure 5 shows these reductions were particularly pronounced in construction, computer, architecture and engineering services. Whilst STRI estimates are not available for the UK-Canada TCA, they are available for CETA, and these can be used as a proxy for the UK-Canada TCA, which replicates many of the terms of CETA.

<sup>25</sup> HMRC Trade data, Average taken of annual trade values between 2018 and 2020

<sup>26</sup> BPI – <https://www.bpi.co.uk/media/2773/all-around-the-world.pdf>

<sup>27</sup> Source: World Bank: World Development Indicators.

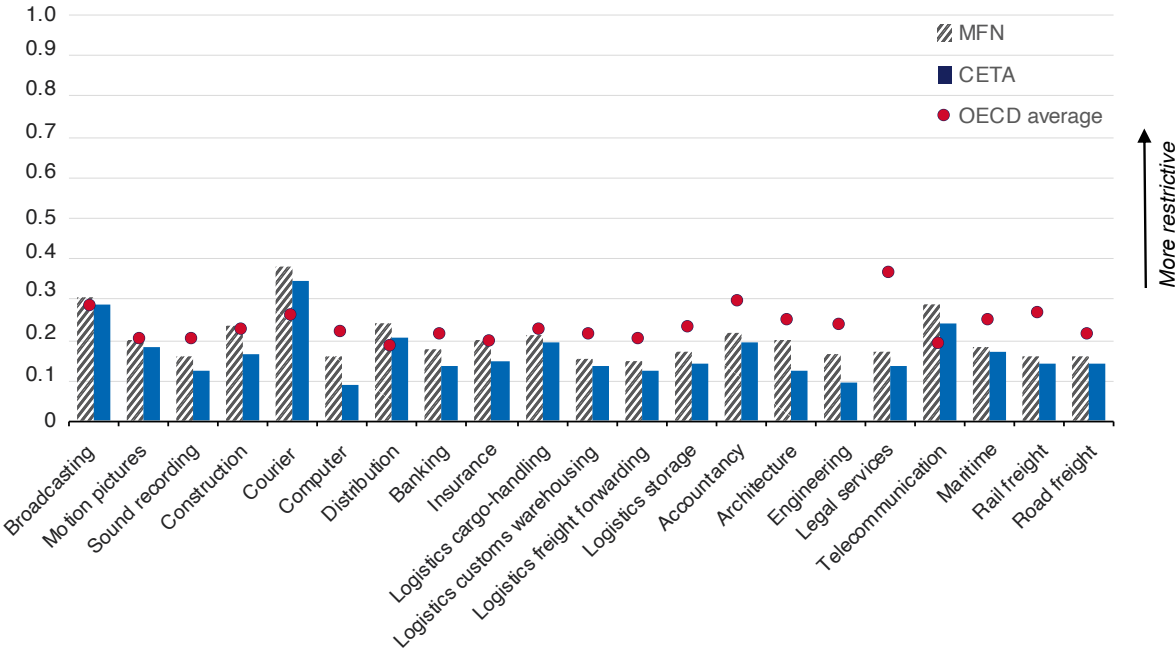
<sup>28</sup> World Bank, Service exports, November 2021.

<sup>29</sup> ONS, UK total trade: all countries, non-seasonally adjusted. July - September 2021.

<sup>30</sup> This excludes Northern Ireland because data on services trade is not available by partner country.

<sup>31</sup> ONS: Subnational trade in services data for 2019.

**Figure 5: Canada's Services Trade Restrictiveness Index (STRI) under CETA and MFN terms, compared to OECD average, in 2020**



Source: OECD, OECD average STRIs refer to 2020, CETA and MFN STRI scores are taken from the OECD analysis mapping commitments in GATS and regional trade agreements to the STRI

The liberalisation achieved to date in goods and services in the UK-Canada TCA underlines our strong trading relationship and provides the UK and Canada with a solid foundation to commence negotiations on a bespoke FTA.

**Foreign Direct Investment**

Outward UK FDI to Canada was worth £29.6 billion in 2020, accounting for 1.8% of the UK’s total outward FDI stock. UK FDI in Canada has increased since 2015, when it was worth £17.2 billion. Inward Canadian FDI into the UK was worth £40.7 billion in 2020 and accounted for 2.1% of the total UK inward FDI stock.<sup>32</sup>

<sup>32</sup> ONS, foreign direct investment involving UK companies (directional), outward and inward: 2020

# The rationale for a bespoke bilateral FTA with Canada

**Both countries agreed to begin negotiations on a bespoke FTA within one year of the UK-Canada TCA's entry into force.** The UK-Canada TCA provides a comprehensive foundation to build upon.

- **An enhanced FTA provides an opportunity to make the trading relationship work better for business.** Evidence from the call for input found that documentation requirements, lack of local knowledge and limited digitised systems are barriers to utilisation of the existing FTA. These negotiations provide the opportunity to address these trade barriers which could facilitate greater use of preferential tariffs.
- **These negotiations offer the opportunity to secure a bespoke trade agreement with Canada which improves access for services trade between the UK and Canada.** Services make up a significant share (48%) of UK exports to Canada, worth £5.7 billion in 2020.<sup>33</sup> Both Canada and the UK are relatively open to services trade compared to other OECD countries. However, under the TCA Canada is more restrictive in all but three service sectors.<sup>34</sup> Reducing trade restrictions could unlock greater trade flows between Canada and the UK.
- **An enhanced FTA could support more UK Foreign Direct Investment (FDI) in Canada.** Canada is more restrictive than the UK for FDI.<sup>35</sup> This is mainly due to equity restrictions, which limit foreign ownership permitted in companies in those sectors. Restrictiveness is particularly high in sectors such as telecoms and fisheries. Reducing restrictions could lead to higher outward FDI to the Canadian economy.
- **A bespoke FTA with Canada could foster conditions to support and promote UK innovation.** Trade can increase innovation by increasing competition, encouraging firms to adopt new technologies and learn more efficient production techniques. Stronger Intellectual Property rights can support existing producers and incentivise greater exports of technical products such as pharmaceuticals.
- **There are opportunities to agree ambitious and modern digital provisions in the upcoming renegotiations.** Over four fifths of UK services exports to Canada were digitally delivered in 2020.<sup>36</sup> Both Canada and the UK are among the least restrictive countries for digital trade in the OECD. These negotiations provide the opportunity for the UK and Canada to make the enhanced agreement world leading in this area, in line with their openness to digital trade.
- **An enhanced FTA with Canada will support the UK's commitment to increasing economic ties with the Indo Pacific region.** The UK is also negotiating to join CPTPP, a free trade area which includes some of the world's largest current and future economies, covering £8.4 trillion in GDP.<sup>37</sup> Analysis by DIT suggests that joining CPTPP could increase UK GDP by £1.8 billion in the long-run.<sup>38</sup> An enhanced FTA with Canada strengthens the UK's case to join and will help cement the UK as a global trading hub.

<sup>33</sup> ONS UK total trade: all countries, non-seasonally adjusted July-September 2021.

<sup>34</sup> OECD, CETA STRI scores for the UK and Canada are taken from the OECD analysis mapping commitments in GATS and RTA's to the STRI

<sup>35</sup> OECD FDI Regulatory Restrictiveness Index

<sup>36</sup> ONS (2022), Trade in services by modes of supply, UK: 2020

<sup>37</sup> IMF World Economic Outlook, October 2021, 2020 data.

<sup>38</sup> DIT, UK approach to joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (June 2021).



# Economic analysis of a bespoke UK- Canada FTA

## Utilisation of the agreement

Customs and administration difficulties are often barriers to using preferential tariffs.<sup>39</sup> Preferential tariff usage under CETA was lower than some other UK FTAs, although the agreement was only provisionally applied between 2017 and 2021, before the UK-Canada TCA came into effect. Only 30% of preference-eligible UK exports to Canada used available preferences in 2019, whilst 50% of preference-eligible UK imports from Canada used available preferences over the same period.<sup>40</sup> This compares to Preference Utilisation Rates (PURs) of 63% and 82% for UK exports and imports respectively across UK FTAs over the same period.<sup>41</sup>

Evidence from the Call for Input highlighted barriers to taking up preferences under the UK-Canada TCA include:

- *Documentation*: the documentation is often complex, with compliance obligations a burden to complete for businesses.
- *Local knowledge*: small and medium sized firms could have limited access to in-market expertise (at a regional or local level) to maximise preference utilisation.
- *Digitised systems*: there is limited availability of standardised digitised FTA utilisation systems and data packages. Such systems are costly for SMEs.

Enhancing our agreement with Canada could reduce administrative burdens, resulting in greater use of available tariff preferences and lower costs for businesses.

As an illustration, a 5 to 10-percentage point increase in use of available preferences would reduce annual duties on UK exports to Canada by between £2.9-5.8 million.<sup>42</sup> Some of the UK's highest value exports are among those with low utilisation rates. For example, transportation equipment and machinery and mechanical appliance exports accounted for nearly half of UK exports to Canada, but had preference utilisation rates of 14% and 28% respectively. By contrast, UK exports to preferential trading partners in these sectors had PURs of 71% and 65% respectively – indicating there is scope to improve utilisation with Canada.

There is some scope to increase PURs on imports for some product categories. For example, sectors such as machinery and mechanical appliances and mineral products (which accounted for 8% and 6% of the value of UK imports from Canada) had PURs of 27% and 41% respectively. This compares to UK import PURs from preferential trading partners of 68% and 88% respectively.<sup>43</sup> A 5 to 10-percentage point increase in use of available preferences would reduce annual duties on UK imports from Canada by between £1.9-3.7 million.

## Trade in services

Both Canada and the UK are relatively open to services trade compared to the OECD average, but Canada is more restrictive than the UK in more than half of the specific service categories. In the 2020 OECD STRI, out of 48 countries, the UK was the 6th most open, whereas Canada was only the 23rd. Under the UK-Canada TCA, the UK is more open than Canada to bilateral services trade in all but three service sectors.<sup>44</sup> Canada is most restrictive in the courier, broadcasting and telecommunication sectors, and is least restrictive in computer services.<sup>45</sup> By contrast, under the UK-Canada TCA the UK is most restrictive in broadcasting, motion pictures, distribution and banking services. It is most liberal in architecture and computer services trade.

39 DIT/Office for National Statistics (2021): "Data Science techniques for the analysis of Preferential Utilisation Tariffs", Kaloskampus, Samin, Murphy, Lui and Hannan.

40 DIT analysis of European Commission/DG TRADE data

41 DIT analysis of European Commission data. Preference Utilisation Rates are calculated for countries where there is data available on utilisation and the UK has an FTA in place. The European Commission data contains information on trade with 33 export partners and 76 import partners

42 This is calculated using preference utilisation rates for each HS section for UK exports to Canada in 2019. The calculations also use average exports for each HS code between 2017-19 using data from the World Trade Organisation Tariff Analysis Online (TAO) database. Preference Utilisation Rates are assumed to increase by 5-10 percentage points.

43 DIT analysis of European Commission/DG TRADE data. All countries signifies all countries where the UK has an FTA and PUR data is available.

44 OECD, CETA STRI scores for the UK and Canada are taken from the OECD analysis mapping commitments in GATS and RTA's to the STRI

45 This uses STRI scores under CETA, as a proxy for the UK-Canada TCA.

Reducing restrictions could enable UK exporters of services to benefit from increased market access and lower costs when complying with regulations to enter the Canadian market.<sup>46</sup> A possible increase in services imports from Canada also has the potential to increase competition for import-competing firms in the UK. However, increased imports and enhanced competition could benefit the UK economy by driving UK firms to specialise their knowledge, increase innovation and lower prices for consumers.<sup>47</sup>

### Foreign Direct Investment (FDI)

FDI can provide UK firms with access to higher quality production inputs, including technologies and working practices. Inward FDI benefits the economy as technological advances can be passed from foreign to domestic firms through the supply chain. FDI can boost economic growth due to its potential to enhance productivity and innovation. UK businesses with inward FDI links are 69% more productive than businesses without an FDI link.<sup>48</sup> This creates employment and generates wider societal benefits.

Outward FDI from the UK can also generate benefits for the UK economy. Multinational companies use outward investment to strengthen their capabilities and competitiveness by entering new markets, importing intermediate inputs from foreign affiliates at lower prices, producing a larger volume of final goods and services abroad at lower cost, and accessing foreign technology. It also increases access to knowledge and improves collaboration.<sup>49</sup> Research points to a positive link between outward FDI and employment in the long-run, as internationally expanding firms increase their demand for labour.<sup>50</sup> However, in the short term there can be instances where outward FDI reduces home country employment, such as when the investment is aimed at moving UK jobs to lower cost economies.

There may be opportunities to facilitate greater UK FDI through reducing restrictions in certain Canadian sectors. Canada is more restrictive than the UK for FDI, according to the OECD's FDI Regulatory Restrictiveness Index. Furthermore, Canada has restrictions in every sector, whereas the UK has no restrictions in 18 out of the 22 sectors covered by the Index. In terms of Canada's FDI restrictiveness, 45% is due to equity restrictions (which limit the extent of foreign ownership permitted in companies or in the aggregate of companies in that sector), and 44% is due to screening and approval requirements. However, Canada remains less restrictive than the OECD average.<sup>51</sup>

### Encouraging greater innovation

The UK and Canada are among the world's most innovative economies, having been ranked 4th and 16th respectively in the Global Innovation Index in 2021.<sup>52</sup> Academic work suggests three conventional channels through which innovation can be boosted in an FTA.<sup>53</sup>

- Imports and FDI, which can speed up the adoption of new technology.
- Increased competition may act as an incentive for firms to innovate in order to remain competitive and active in the global market.
- Exports and the productivity of exporting firms. Productive and innovative firms are more competitive on local and international markets and will tend to export more. Academic literature has highlighted that exporting is associated with innovative investments and learning. Consequently, exporting can improve efficiency and productivity.

The UK's ambition is that trade agreements with innovative economies such as Canada's not only support these channels but also go beyond convention by including sufficient flexibility to adapt to changes in what and how we trade as our economies grow and develop.

The UK and Canada trade goods in sectors such as life sciences, aerospace & other transport. These are areas where UK industry is relatively specialised and, given global and regional trends in import demand, where Canadian import demand is likely to grow strongly.<sup>54</sup> A bespoke FTA provides opportunities to strengthen cooperation in these areas and beyond, and to ensure innovation is not met with unintended trade barriers in the future.

46 OECD (2019), 'how services trade liberalisation can support SMEs'. Available at: <https://www.oecd.org/trade/how-services-liberalisation-support-sme/>

47 CMA (2015), Productivity and competition: a summary of the evidence. Available at: <https://www.gov.uk/government/publications/productivity-and-competition-a-summary-of-the-evidence>

48 ONS (2020), UK foreign investment, trends and analysis: August 2020

49 World Bank Group (2018), Global Investment Competitiveness Report

50 Riccardo Crescenzi, Robert Ganau, Michael Storper. Does foreign investment hurt job creation at home? The geography of outward FDI and employment in the USA. *Journal of Economic Geography*. 2021.

51 The OECD's FDI Regulatory Restrictiveness Index (FDI Index) measures statutory restrictions on foreign direct investment across 22 sectors. It gauges the restrictiveness of a country's FDI rules by looking at the four main types of restrictions on FDI: 1) Foreign equity limitations; 2) Discriminatory screening or approval mechanisms; 3) Restrictions on the employment of foreigners as key personnel and 4) Other operational restrictions, for example, restrictions on branching and on capital repatriation or on land ownership by foreign-owned enterprises. Restrictions are evaluated on a 0 (open) to 1 (closed) scale.

52 [https://www.wipo.int/global\\_innovation\\_index/en/2021/](https://www.wipo.int/global_innovation_index/en/2021/)

53 OECD (2012), Trade and innovation – innovation report. Available at: [https://read.oecd-ilibrary.org/trade/trade-and-innovation\\_5k9gwprtbtxn-en#page1](https://read.oecd-ilibrary.org/trade/trade-and-innovation_5k9gwprtbtxn-en#page1)

54 Internal DIT analysis based on methods outlined in the Global Trade Outlook published by DIT in 2021

## Digital trade

Both the UK and Canada are world leaders in digital trade. In 2020, Canada and the UK were the least and fourth least restrictive countries for digital trade respectively, as measured by the OECD's Digital Services Trade Restrictiveness Index (DSTRI).<sup>55</sup>

Over four fifths of UK services exports to Canada were digitally delivered (mode 1), worth £4.8 billion in 2020. Similarly, over 70% of UK services imports from Canada were delivered remotely in 2020, demonstrating the importance of digital trade between the two countries.<sup>56</sup>

Views from the Call for Input indicated that some professional business services firms, including in the legal services sector, and smaller businesses found limitations on the use of electronic contracts and signatures as an existing barrier to digital trade. Upgrading the FTA provides the opportunity to be ambitious and agree modern digital trade provisions that maximise opportunities across all sectors of the economy.

## Wider economic impacts

An enhanced FTA provides the opportunity to:

**Support both small and large businesses that trade with Canada.** In 2020, around 11,900 businesses exported to Canada, with around 10,300 of these being SMEs.<sup>57</sup> Similarly, 7,600 UK businesses imported goods from Canada, of which 5,900 businesses were SMEs. Securing SME friendly provisions provides the opportunity to increase the number of businesses trading with Canada, ensuring businesses of all sizes can benefit from the enhanced agreement to access Canadian markets.

**Figure 6: Regional trade with Canada in 2020**



HMRC data source for regional UK trade data: HMRC Regional Trade Statistics (data extracted from the interactive tables).

**Support jobs across the UK.** UK exports to Canada were estimated to support (directly and indirectly) around 111,000 UK FTE jobs in 2016.<sup>58</sup> Canadian-owned businesses employ UK workers in every region of the UK. In 2019, there were over 2,000 Canadian-owned local business units operating in the UK, employing more than 108,000 people, with the most people employed in London (22,700 people), followed by the South East (13,500) and the East of England (10,100).<sup>59</sup>

**Support women's access to the benefits of trade.** Recently published experimental analysis by the DIT and Fraser of Allander Institute shows that, in 2016, 64% of full-time equivalent jobs directly and indirectly involved in exports were held by males, with the remaining 36% filled by females.<sup>60</sup> As opportunities are created for workers, businesses and consumers, the UK and Canada can work together to overcome the barriers to trade experienced by women. This FTA provides the opportunity to advance gender equality in trade.

<sup>55</sup> OECD (2021), Digital Services Trade Restrictiveness Index

<sup>56</sup> ONS, Trade in services by modes of supply, UK: 2020. Mode 1 is used as a proxy for digital delivery. These statistics are experimental and should be treated with caution.

<sup>57</sup> HMRC data source for VAT-registered businesses trading goods: HMRC Trade in Goods by Business Characteristics published in November 2021.

<sup>58</sup> Research carried out by the Fraser of Allander Institute at the University of Strathclyde, on behalf of DIT. Evaluating the impact of exports on UK jobs and incomes, March 2021. Estimates are experimental and relate to 2016 (i.e. they do not reflect the impact of economic shocks such as Covid-19 and EU exit). 'Direct' export-supported jobs are jobs in industries that export goods or services. 'Indirect' jobs are jobs in industries that are in the UK supply chain of exporting industries. These jobs are existing UK-based jobs (that is, 'supported') rather than newly created jobs ('created'). See FAI (2021) report for full list of caveats.

<sup>59</sup> DIT analysis of ONS (2021), Business Structural Database. This work was produced using statistical data from ONS. The use of the ONS statistical data in this work does not imply the endorsement of the ONS in relation to the interpretation or analysis of the statistical data. This work uses research datasets which may not exactly reproduce National Statistics aggregates.

<sup>60</sup> Research carried out by the Fraser of Allander Institute at the University of Strathclyde, on behalf of DIT. Evaluating the impact of exports on UK jobs and incomes, March 2021.

**Enable the UK to increase its trade with the wider Indo-Pacific region.** The UK is negotiating to join CPTPP, a free trade area of 11 Indo-Pacific and Americas economies, including Canada, covering £8.4 trillion in GDP.<sup>61</sup> Analysis by DIT suggests that joining CPTPP could increase UK GDP by £1.8 billion in the long-run. This translates into higher wages for UK workers, with take-home pay increasing by £800 million relative to 2019 levels.<sup>62</sup>

### Environmental impacts

In 2018 the UK emitted 5.4 tons of CO<sub>2</sub> per person whilst Canada emitted 15.5 tons per person, compared to the OECD average of 8.8 tons.<sup>63</sup> This is due to differences in sectoral composition of the economies, as around half of Canada's emissions are from the oil and gas and transport industries, compared to households being the biggest source of emissions in the UK.<sup>64</sup>

The UK became the first G20 country to legislate binding commitments in 2019 to bring greenhouse gas emissions to net zero by 2050.<sup>65</sup> From 1990 to 2019, the UK has reduced its Greenhouse Gas (GHG) emissions by 40%, whilst GDP has grown 78% over the same period.<sup>66</sup> Over the same period, Canada's GHG emissions have increased by 21%. However, Canada has committed to achieving net zero by 2050 and aims to reduce emissions by 30% below 2005 levels by 2030.<sup>67</sup>

FTAs can have consequences for the environment by expanding and redirecting economic activity. Environmental impacts can occur through channels including:

- as a direct result of greater volumes of bilateral and world trade (e.g. from increased production and transport emissions)
- as economic activity shifts between sectors with different levels of emissions (a 'composition effect')
- as economic activity shifts between countries with differing levels of environmental protection

FTAs provide the opportunity to address some of these consequences, including through:

- the transfer and adoption of new and potentially more environmentally friendly, technologies as well as production methods (a 'technique effect')
- provisions which strengthen bilateral cooperation on issues relating to the environmental and climate change

As set out in Section 3, the rationale for an enhanced agreement with Canada is focussed on increased liberalisation in areas such as services and digital trade. This could mean that the enhanced agreement may have relatively limited environmental impacts, given that services trade generally has lower environmental impacts than industrial and agricultural trade.<sup>68</sup>

61 IMF World Economic Outlook, October 2021, 2020 data.

62 DIT, UK approach to joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (June 2021).

63 World Bank data, Metric tons of CO<sub>2</sub> emissions per capita, 2018 data

64 ONS, UK Environmental Accounts: 2021, June 2021

65 HM Government, Net Zero Strategy: Build Back Greener, October 2021

66 Climate Change Committee (CCC), Progress in reducing emissions, 2021 Report to Parliament, June 2021

67 Environment and Climate Change Canada (2021) Canadian Environmental Sustainability Indicators: Greenhouse gas emissions.

68 OECD TEC02 database

The Department for International Trade (DIT) helps businesses export, drives inward and outward investment, negotiates market access and trade deals, and champions free trade.

We are an international economic department, responsible for:

- supporting and encouraging UK businesses to drive sustainable international growth
- ensuring the UK remains a leading destination for international investment and maintains its number one position for international investment stock in Europe
- opening markets, building a trade framework with new and existing partners which is free and fair
- using trade and investment to underpin the government's agenda for a Global Britain and its ambitions for prosperity, stability and security worldwide.

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