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cutting through complexity

CETA Update
Canada & Belgium

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Increasing cost of imported goods

Canada Customs (CBSA) regularly collects **$4B** in revenue and in the past few years has been collecting additional funds due to the following:

- Elimination of preferential duty rates (GPT) for 72 countries (including BRIC countries) in 2015 ➡ **+300M**
- Canadian dollar slump hikes cost of USD imported goods ➡ **+1B**

What are alternatives to escalating costs?

- Increase price?
- Settle in CAD currency to offset currency fluctuations?
- Import substitution (finding a Canadian source)?
- Transportation optimization (lower oil prices)?

Do companies leverage FTAs?

2016 GLOBAL TRADE MANAGEMENT SURVEY (KPMG and Thomson Reuters)

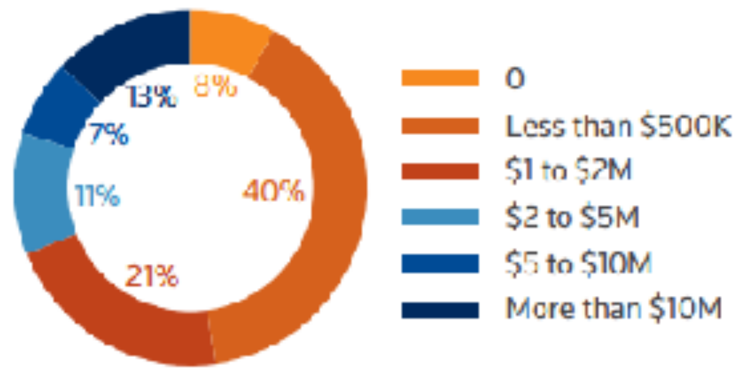
FTA UTILIZATION

Q29 Are you fully utilizing all Free Trade Agreements (FTAs) available in your country and applicable to your products?

Source: Q29 (n=1665), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

FTA ANNUAL SAVINGS

Q27 Approximately how much import duties (in $USD) does your company save on an annual basis by the use of free trade agreements?



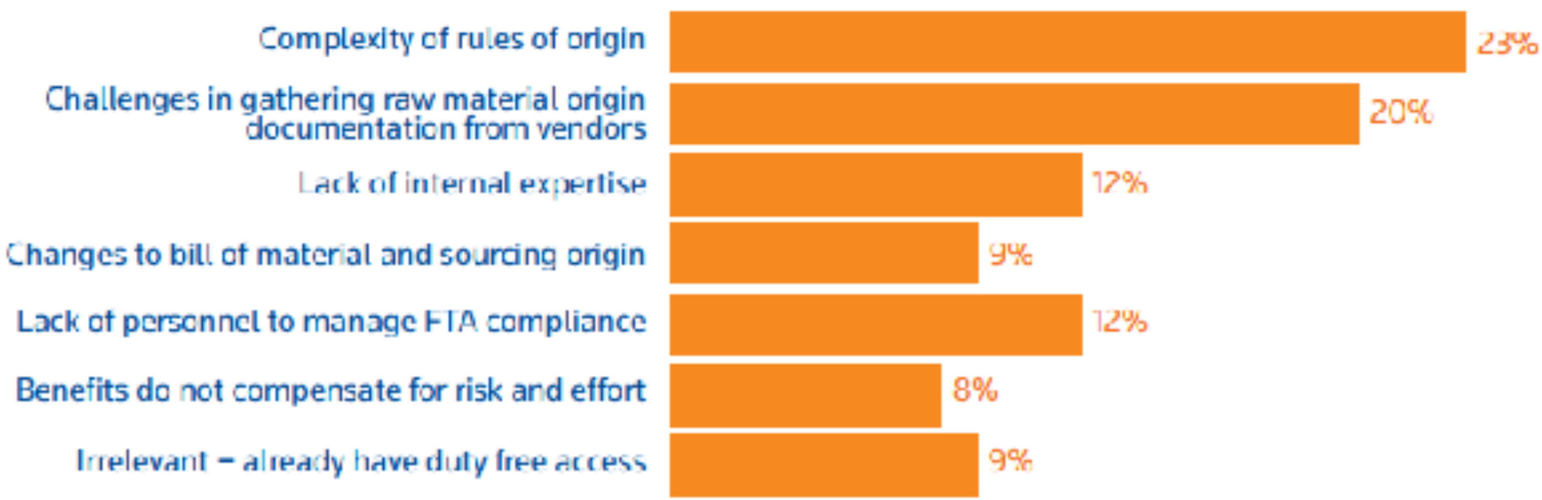
Source: Q27 (n=757), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

Challenges to FTA efficiency and compliance

2016 GLOBAL TRADE MANAGEMENT SURVEY (KPMG and Thomson Reuters)

FTA CHALLENGES

Q31 What are the biggest challenges in using FTAs for import/export?



Source: Q31 (n=1003), 2016 Global Trade Management Survey, Thomson Reuters and KPMG International

Leveraging Free Trade Agreements

Canada: A HUB for Global Markets

Agreements in Force

- NAFTA – January 1, 1994
- Israel – January 1, 1997 (modernized in 2015)
- Chile – July 5, 1997
- Costa Rica – November 1, 2002
- EFTA – July 1, 2009
- Peru – August 1, 2009
- Colombia – August 15, 2011
- Jordan – October 1, 2012
- Panama – April 1, 2013
- Honduras – October 1, 2014
- Korea – January 1, 2015

Agreements Concluded (but not in force)

- TPP – Signed on February 4, 2016
- Ukraine – Signed on July 11, 2016
- CETA – Signed on 30 October 2016

Canada: A HUB for Global Markets

FTAs under Negotiation or Modernization

- Japan
- India
- Caribbean Community (CARICOM)
- Central America Four (CA4)
- Dominican Republic
- Morocco
- Singapore
- Costa Rica Free Trade Agreement Modernization

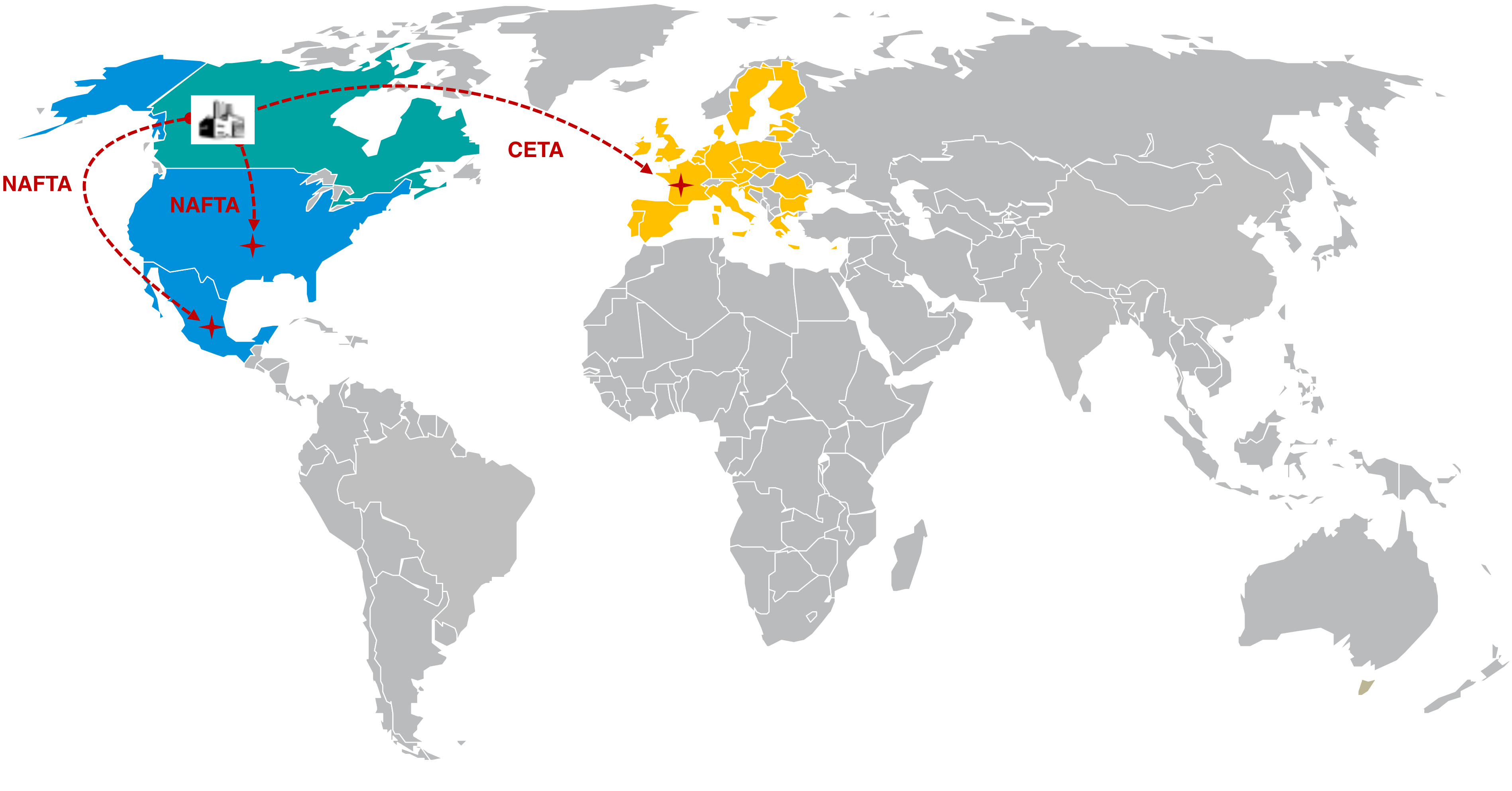
Are you ready for CETA?

- Will provide Canadian companies with easier access to 28 countries and 500 million consumers in the EU, making Canada the only G8 country to have preferential access to the world's two largest and most affluent markets, the EU and the US.
- Other than offering companies increased market access and significant opportunities to reduce cost along their supply chain, CETA will place Canada at the center of a **large duty-free area** extending from Mexico to the eastern border of the EU.
- As the completion of future transatlantic trade deals becomes increasingly unlikely in the near term, Canada will enjoy early-mover status in the EU marketplace for years to come.
- American and European firms may recognize the need to **establish a presence in Canada** to gain preferential access into each other markets.

When will CETA enter into force?

- Negotiations started in 2009 and the agreement was finally signed in Brussels on 30 October 2016.
- CETA was put forward as an agreement of “mixed” competence, meaning each member State will have to ratify it before it can fully come into effect.
- Though that could delay full implementation for years — particularly of the contentious investment chapter — most of the agreement, including the tariff reductions, will be **provisionally applied** pending ratification by all EU member States.
- Next steps for provisional application:
  - ✓ **31 October 2016**: Implementing legislation (Bill C-30) introduced in the House of Commons. Bill may already be passed by year-end.
  - ✓ **24 January 2017**: Vote in the INTA Committee.
  - ✓ **Mid-February 2017**: Plenary vote in the EU Parliament.
  - ✓ **Spring 2017**: Provisional application may start from the first day of the month following a positive vote in the EP.

Canada and Belgium
Gateway for a large duty free area



CETA rules of origin: cross-cumulation

- The CETA **rules of origin** recognize and encourage production that occurs in both Canada and the EU.
  The relevant provisions specify that a product that originates in one Party is considered to originate in the other Party when used as a material in the production of a subsequent product there.
- Provisions on **cross-cumulation** are also included.
  This means that materials sourced from a country with which both Canada and the EU have an Free Trade Agreement (FTA) may be considered toward the originating status of products traded under CETA.

- **Example**: The EU and Mexico have an FTA. With the entry into force of CETA, a bike manufactured in Mexico could qualify for duty free treatment in the EU under CETA through cross-cumulation. At the same time, it would also enter Canada and the US duty free under NAFTA.

CETA benefits: highlights

Currently, only about 25% of EU tariff lines on which Canadian goods are exported enter the EU duty-free. On day the agreement enters into force, 98% of all tariff lines will be duty-free. Another 1% will be pashed out over a period of up to 7 years.

URE: 94% of tariff lines at 0% immediatel → : 95% of tariff lines at 0% → 95% of tariff lines at 0% → PRODUCT S: 95% of tariff lines at 0% → S: 100% of tariff lines at 0%

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Benefits for Canadian exporters

Export opportunity: agriculture and agri-food

Trade snapshot

Canada's agricultural exports to the EU were worth more than $2.8 billion in 2015, led by wheat, soybeans, canola seeds and lentils. Canadian agricultural exports to the EU currently face average tariffs of approximately 14%.

Immediate tariff elimination

- Oils, including canola: 3% to 106%
- Frozen potato products: 14% to 18%
- Maple syrup: 8%
- Apples: 9%
- Cherries: 12%
- Food preparations : start at 12.8%
- Processed grains: start at 7.7%

Transitional quotas and staging categories

- Wheat: 148 €/t phased out in 7 years
- Duty-free in-quota access for
  - ✓ Beef: 50k tonnes
  - ✓ Pork: 75k tonnes

Supply-Managed Industries remain intact

- No reduction in over-quota tariffs
- Poultry and eggs excluded
- Quota: 17,700 tonnes of cheese

Export opportunity: fish and seafood

Trade snapshot

Canada exported $6 billion in fish and seafood in 2015. Exports to the EU were worth $600 million and faced average tariffs of 11%, with peaks of 25%.

Reaping the benefits

The EU is the world's largest importer of fish and seafood, with a global import market of over $30 billion in 2015 and average seafood consumption of 24 kg per capita.

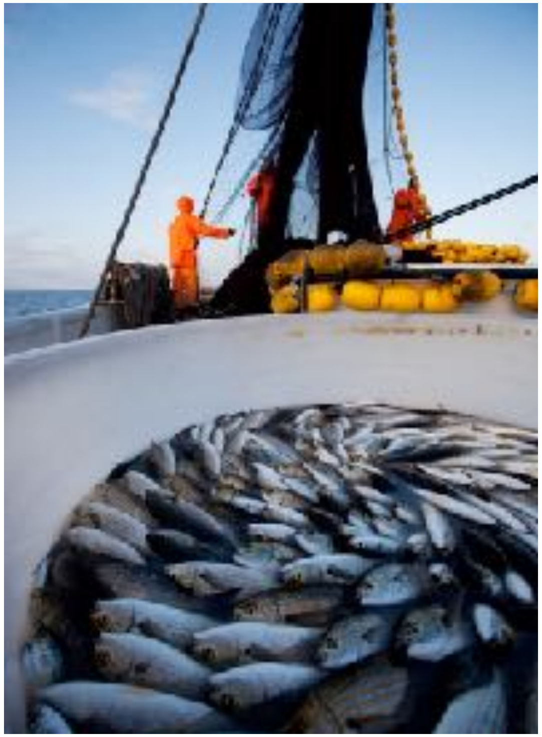
Values of extra-EU imports have been increasing since 2009, at an average annual growth rate of 6%.

Salmon, shrimps, tuna and cod are among the main commercial species imported.

Extra-EU imports of fish and seafood

Source: EUMOFA, The EU Fish Market – 2015 Editions

Export opportunity: fish and seafood



Immediate tariff elimination

- Live lobster: current duties of 8%
- Salmon: duties up to 15 percent
- Oysters: duties between 0 to 9%,
- Frozen shrimp: duties at 12%
- Frozen scallops: duties at 8%
- Most other species: duties from 5.5% to 20%

Phased-out tariffs

- Frozen lobster: 6% to 16% - 3 years
- Prepared mussels and lobsters: 20% - 5 to 7 years

Export opportunity: forest products

Trade snapshot

Canadian exports of forestry products to the EU were worth an average of $1.2 billion annually from 2011 to 2013. These exports face average tariffs of 1.2%, with peaks of 10%.

Immediate tariff elimination on all forestry products

- Plywood: from rates of 7% to 10%
- Veneered panels: from rates of 6% to 10%
- Fiberboard: currently at 7%
- Particle board and oriented strand board: at 7%
- Prefabricated buildings: at 2.7%

Benefits for Canadian importers

Import opportunity: textiles and footwear

Immediate tariff elimination on all products

- Jackets and suits: currently at 18%
- Trousers and T-shirts: from18%
- Diving suits: from 10%
- Footwear: rates between 16% and 18%
- Umbrellas: rates from 7.5%

Import opportunity: vehicles

Immediate tariff elimination

- Road tractors for semi-trailers: currently at 6.1%
- Trailers and semi-trailers: from 6.5%
- Special purpose motor vehicles (breakdown lorries, crane lorries, fire fighting vehicles, concrete- mixer lorries etc.): from 6.1%
- Bicycles: currently at 13%
- Baby carriages: currently at 8%

Phased-out tariffs

- Buses: 6.1% rate phased out in 5 years
- Passenger vehicles: 6.1% rate phased out in 7 years

US opportunity: E-Commerce & Low Value Shipments

E-commerce and Low Value Shipments (LVS)

Governments are changing their processes to boost LVS imports by increasing de-minimis thresholds so that certain goods can be imported into a country exempt from duties, taxes, fees and customs accounting

	LVS threshold exemption
Canada	$20 CAD (since 1985)
United States	$800 USD (changed in 2016)
Australia	AUD 1,000 (~$735 USD)
Europe	EUR 150 for duty (VAT may be chargeable)
Hong Kong	All Duty Free

Canada $20 courier and postal imports remissions

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LVS Exempt Threshold: Twofold View

Online Revolution

- Generate net economic benefits while boosting consumption
- Reallocate resources towards the collection of higher revenues and improve supply chain security

Businesses

- It could potentially hurt both local business and government coffers
- Canadian retailers could be more vulnerable to foreign competition, while affecting domestic jobs and growth

Canada as a Logistics Hub for US Low Value Exports

- On March 1, 2016, the US increased the low value threshold from US $200 to US $800
- This allows sales of US $800 or less to a US customer to clear through Customs without a customs entry and no payment of duty or fees upon meeting certain requirements

Opportunity: Establish a Canadian logistics hub for export sales to US customers

Brexit Update

Brexit Update

- Theresa May became Britain’s Prime Minister with the task of leading it out of the EU and appointed ‘Brexit’ supporters to key positions in her new government.
- May appears intent on issuing formal notice of Britain’s withdrawal in March 2017 and start the two-year countdown.
- U.K. high court recently ruled that government does not have the authority to trigger Article 50 without approval from Parliament.
- Uncertainties extend to the type of alternative economic agreements / treaties that the UK will be able to put in place with the rest of the EU as well as with the rest of world.
- Despite Brexit, the UK will be part of CETA at least until the end of the secession negotiations, most likely in 2019.

Brexit: potential exit scenarios

Not yet clear how the UK will secede from the EU and how the new relationship will look like…

Norway Model (EEA Member)

- Pa… inter… …no access to EU FTAs
- Member of EFTA
- Free movement of goods, services, people & capital
- Not part of EU VAT area
- Certain principles of EU law apply (e.g. regulation & employment)
- 9% reduction in UK contribution to EU budget

Swiss Model (EFTA Member)

- Pa… …e trade…
- Not part of EU VAT area
- Negotiate a bilateral trade agreement with the EU
- 55% reduction in UK contribution to EU budget
- EU concerns about cherry picking

Turkish Model (Customs Union)

- N… …U as U… …oduct market regulations
- UK required to implement EU external tariffs
- Not part of EU VAT area
- No contribution to EU budget

Free Trade Agreements

- N… …e agre… …and other major trading partners
- Not part of any customs free trade area or trade association
- Not part of EU VAT area
- UK to be excluded from FTAs agreed by the EU and the EFTA
- No contribution to EU budget

Independent (WTO Member)

- … …s free… …ade associatio…
- Not part of EU VAT area
- Negotiate bilateral trade agreements trading partners
- UK to be excluded from all FTAs agreed by the EU and the EFTA
- No contribution to EU budget

Thank you

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