

CETA Implementation and Implications Project (CIIP)

The Short-Term Effects of CETA on Municipal Procurement in Canada

DRAFT WORKING PAPER

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Paper Prepared for the CETA Implementation and Implications Workshop
Dalhousie University, Halifax, Nova Scotia, May 18, 2018

Previous version presented at the Annual Meeting of the Canadian Political Science Association
Ryerson University, Toronto, Ontario, May 31, 2017

Previous version presented at the Annual Meeting of the Canadian Economics Association
St. Francis Xavier University, Antigonish, Nova Scotia, June 3, 2017

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Co-funded by the
Erasmus+ Programme
of the European Union

Abstract: The Comprehensive Economic and Trade Agreement (CETA), the recently ratified agreement between Canada and the European Union, is the first international trade agreement that grants access to government procurement markets in Canadian municipalities. Will the agreement lead to major changes in the policies and procedures of Canadian local government procurement authorities? The magnitude of the impact depends on how the current practices of municipalities differ from those that will be required under CETA. We focus on large Canadian municipalities and build our arguments based on in-depth interviews, analysis of legal and policy documents, and the econometric analysis of data on municipal contracts. Our conclusion is that CETA will not greatly affect process or outcomes, at least not in the next few years. With minor exceptions, these markets are already open to EU firms. In the long-term, CETA's government procurement provisions may stimulate investments of EU companies in the Canadian market because they eliminate some uncertainty. But they also may limit the ways in which cities can effect social procurement, defined as the use of government purchasing for social purposes. Another conclusion is that any home bias in municipal government procurement will not be eliminated by non-discrimination provisions in trade agreements. Rather, the relative absence of non-local contract winners is related to other difficulties faced by businesses – to how business is conducted and regulated in Canadian municipalities – that are not covered in trade agreements.

1. Introduction

Government procurement is an important form of economic activity. The purchase of goods and services from the private sector by all levels of government represents 15-20 percent of GDP in developed countries (Rickard & Kono, 2014, p. 335). For many years, procurement by subnational public bodies – whether provincial, or in the so-called MASH sector¹ – was excluded from international trade agreements. More recently, however, a number of agreements have had chapters dealing with subnational procurement.² These agreements set out rules prohibiting discrimination based on national origin, mandating transparency in the procurement process, and encouraging competition.

Access to government procurement markets seems to be an important factor for Canada's international partners. For example, the Library of Parliament asserts that “access to Canadian government procurement was one of the main reasons, if not the main reason, that the EU agreed to negotiate a trade agreement with Canada” (Gauthier & Holden, 2010, p. 1). The European Commission explains that including government procurement in trade agreements is highly important because of the large size of the government procurement market and because of “home bias”, when governments give preference to domestic suppliers (Cernat & Kutlina-Dimitrova, 2015).

In principle, the Comprehensive Economic and Trade Agreement (CETA), the recently ratified agreement between Canada and the European Union, may bring important changes to the Canadian government procurement market because it is the first international agreement to cover the MASH sector. Other international trade agreements touching subnational procurement covered only provincial governments. CETA's government procurement chapter has created many concerns, particularly with regard to the agreement's impact on governments' ability to use procurement for “other purposes” such as an economic stimulus or social support of vulnerable groups.

The coverage of municipal procurement raises a number of questions. To what degree will CETA lead to important changes in municipal procurement rules and practices? Will these changes affect employment or economic development? Will the agreement lead to changes in how government procurement is used for “other purposes”?

The magnitude of the short-term impact depends on how the current practices of municipalities differ from those that will be required under CETA. For example, if there is currently extensive discrimination against EU companies or if, more generally, competition for contracts is restricted, then CETA might have serious impacts. Therefore, the key question that we attempt to answer is whether current practices of municipalities substantially differ from those that are required under CETA.

¹ In addition to municipalities, the MASH sector includes school boards, health regions, and publicly-funded post-secondary institutions. In the remainder of this paper, we use “municipal” to refer to procurement by MASH entities.

² These agreements are the 2010 Canada-US Agreement on Government Procurement, the 2012 revision of the WTO Agreement on Government Procurement, and the Canada-European Union Comprehensive Economic and Trade Agreement (CETA).

There has been little research on the effect of trade agreements on public procurement, and even less on their effect on subnational procurement. Several existing studies, reviewed in the next section, focus on central government procurement and provide quantitative analyses of home bias. Our paper combines analysis of legal and policy documents, in-depth interviews, and econometric analysis of data on Canadian municipal contracts.

We focus on large Canadian municipalities, those with populations of over 600,000 residents. First, we consider the government procurement obligations of municipalities under current trade agreements. While CETA is the first international trade agreement that touches municipalities, there are several interprovincial agreements that do so, including the Agreement on Internal Trade (AIT) and the New West Partnership Trade Agreement (NWPTA). Those agreements will influence the incremental impact of CETA procurement provisions. They have already brought greater competition, at least in theory, to the municipal government procurement market, and altered the rules and culture of municipal procurement offices.

Second, we have begun interviewing procurement officers in Canadian cities, as well as staff from selected foreign companies.³ The purpose of these interviews is to understand: (1) if there are signs of explicit discrimination against EU firms; (2) if current procurement procedures are consistent with CETA; and (3) whether municipalities use procurement for “other purposes”.

Third, we collected and analyzed publicly available firm-level data on municipal contracts. To get a sense of the extent of foreign participation, we have examine the geographic composition of all bidders. We also explore the relationship between the probability of winning a contract and the geographic location of firms.⁴

The paper proceeds as follows. We first provide an overview of the literature on home bias in government procurement. The next section summarizes the government procurement provisions in current interprovincial trade agreements and in CETA. Then we present the findings of our interviews. This is followed by our analysis of data on bidders and winners of municipal procurement contracts in Vancouver and Edmonton. We conclude with a discussion of the potential impact of CETA on Canadian municipal procurement.

2. Home Bias

To the extent that Canadian local governments award contracts preferentially to local firms, CETA may induce changes in municipal procurement policies and procedures. However, if we find that Canadian local governments do not demonstrate “home bias” – that is, they do not discriminate among firms based on their home country – then it is unlikely that CETA will have significant short-term consequences.

³ Our interviews are on-going. To this point we have spoken with officials in four of Canada’s largest cities (Edmonton, Ottawa, Toronto, and Winnipeg) and with one official from a foreign-owned company.

⁴ Our data analysis is also on-going. To this point we have only been able to analyze data from two cities — Edmonton and the City of Vancouver.

“Home bias” in government procurement is widely thought to be pervasive (Brühlhart & Trionfetti, 2005; Rickard & Kono, 2014). To be sure, *explicit* bias can easily be found. In the US, the 1933 Buy American Act, the 1983 Buy America Act and the procurement rules in Section 1605 of the American Recovery and Reinvestment Act are just the most prominent of the ways in which American governments have given preference to products and services made in the United States (Luckey, 2010). Such explicit bias is not limited to the US. Hufbauer et al. (2013) provide case studies of local content requirements from a range of other countries.

Beyond these cases of explicit bias in favour of procurement from domestic sources, it becomes very difficult to demonstrate the existence of home bias, if “bias” is defined as a preference for local suppliers, holding economic considerations constant. To be sure, the vast majority of municipal procurement contracts are awarded to firms based in or near the municipality in question. Does this mean that municipal agencies are biased in favour of local firms or simply that local firms are able to provide the required goods and services at lower prices? One way to assess the extent of home bias is to simply ask firms whether they have observed any such bias. The European Commission (2011, p. 143) reports that 46% of firms that are active in public procurement “think that local preferences influence the outcome of public procurement procedures to a high extent.”

While firms’ perceptions of market openness are important, they are not necessarily accurate. An alternative, albeit indirect, way to measure home bias is to compare the proportion of imports in government expenditure to the proportion of imports in private sector expenditure. If the government proportion is smaller, scholars have argued that this is evidence of home bias. For example, Rickard and Kono (2014), use National Accounts data to estimate, across countries and across time, the relationship between (a) the imports of country i from country j in year t and (b) the level of government procurement in country i in year t . The hypothesis is that if there is home bias, higher government procurement will lead to lower imports. Rickard and Kono then go on to estimate the impact of trade agreements on the relationship between imports and government procurement. If, over time, participation in these agreements leads to a weaker relationship between procurement and imports, the agreements will have been effective. Of course, it may be that governments do not demand the same mix of goods and services as do private sector firms. Governments may systematically demand services that are best provided by local firms, thus accounting for their lower propensity to import.

Data availability limits the extent to which contract-level or firm-level analyses can be conducted. Shingal (2011) analyzed detailed procurement data submitted to the World Trade Organization (WTO) by two countries – Japan and Switzerland. His analysis shows that for both countries, the proportion of contracts awarded to foreign firms declined in the years following the 1996 WTO Government Procurement Agreement. Shingal concludes that this result is “suggestive” of home bias.

Finally, the European Union maintains a database (Tenders Electronic Daily or TED) that contains information on public procurement contract awards. These data have been used to analyze the determinants of cross-border “wins” but not the existence of home bias (Kutlina-Dimitrova & Lakatos, 2016; Herz and Varela-Irimia, 2016).

Thus, our observation is that while the existence of home bias is widely accepted, the evidence is sparse and does not seem to be conclusive because of data limitations. We also face serious data limitations, and therefore draw on a range of methods to assess whether Canadian local governments discriminate based on where firms are based.

3. Municipal procurement in CETA and other trade agreements

Our purpose in this section is to show the extent to which municipalities are already committed to the key principles of open government procurement and what further commitments under CETA might imply. In subsequent sections, we analyze how current commitments play out in practice and whether the introduction of CETA might have a material impact on municipal procurement.

The basic principles that guide the formulation of government procurement provisions in international trade agreements are the same as those which motivate trade agreements in general: non-discrimination, transparent trade rules, and greater competition. The complication with government procurement, however, is that governments, unlike private firms, have many goals beyond facilitating free trade – supporting local economic development, helping disadvantaged groups, enhancing national security, encouraging innovation and preserving the environment – and government procurement can be (and is) used to further these other purposes.

Non-discrimination in government procurement means that bidders must be treated by procuring entities in the same way, regardless of where they are located, of the degree of their foreign affiliation, and of the origins of the products that they offer. *Transparency* requires that great efforts be made to provide complete information throughout the contracting process; in particular, notices of intended procurement and related documentation should be made easily accessible to all and should contain complete and clear information. Government procurement should also promote *competition*. Competition is enhanced by technical specifications that are in line with international standards, and bid submission deadlines that provide sufficient time to firms located outside of local markets.

Because governments have goals other than fostering free trade, trade agreements provide for many exceptions. These include procurement contracts valued below specified thresholds, procurement by some levels of government or particular agencies, procurement of some types of goods and services, and procurement for certain purposes, such as national security, economic development or support for Aboriginal peoples. These exceptions are essentially exceptions to the principle of non-discrimination and they therefore allow governments to discriminate in favour of domestic suppliers.⁵

The issue of procurement offsets

One of the broad theoretical goals of trade agreements is to increase economic efficiency. To that end, many trade treaties, including CETA, prohibit procurement “offsets”, defined in the next paragraph. Each treaty, however, allows offsets for certain kinds of procurement. One of the strongest criticisms of CETA’s coverage of municipal governments is that the prohibition of offsets in Section 19.3 of CETA will prevent cities from using procurement to further social goals (Sinclair et al., 2014; CCPA, 2016).

⁵ The procurement chapter of CETA is largely the same as that in the WTO Agreement on Government Procurement (GPA), to which Canada is a signatory, with the exception that the municipal sector is covered by CETA.

An offset is a condition, related to local economic development, imposed on bidders by the procuring entity. A clear example is Canada’s Industrial and Technological Benefits (ITB) policy, under which “companies awarded defence procurement contracts are required to undertake business activities in Canada, equal to the value of the contract.”⁶ This requirement is a 100% offset (called a “value proposition” under ITB) and becomes part of the bid evaluation process. The “business activities” can take a variety of forms — encouraging the purchase of local content (e.g., the bidding company promises to buy parts made in Canada), foreign direct investment (e.g., the bidder invests in a Canadian start-up) or help with balance of payments (e.g., the bidder import goods or services from Canada). The ITB arrangement is allowed in CETA because defence procurement is excluded from coverage in Article 19.3 of CETA.

Clearly, the imposition of an offset might be economically inefficient. Instead of focusing only on producing the goods and services that the procuring entity wants to purchase, the winning firm must also undertake other activities which may or may not be efficient. That inefficiency motivates the prohibition of offsets in many trade agreements.

A city might want to impose an offset to foster economic development by requiring that bidders employ local firms or buy local products. It would do so in the belief that the benefits of the additional conditions outweigh the costs. CETA prohibits such offsets; unlike defence procurement, municipal procurement is not excluded from coverage. The use of municipal procurement as a tool to advance local economic development is therefore threatened by CETA. This threat is new because CETA is the first agreement to cover municipal procurement. Moreover, previous agreements (like the WTO Agreement on Government Procurement or NAFTA) allowed federal and provincial governments to set aside a certain proportion of contracts for minority or small businesses. This provision does not appear in CETA.

The prohibition on offsets need not erase efforts to use government procurement for social or environmental ends. Indeed, “sustainable procurement,” defined by Semple (2017) as “an approach to the award and delivery of public contracts which aims to generate social benefits and/or to prevent social harms” is an established principle in the European Union. The 2014 EU Directive on Public Procurement encourages EU governments to adopt sustainable procurement while also mandating that governments treat all firms located in EU countries equally.

Because of concerns about CETA interfering with sustainable procurement in Canada, a clarifying paragraph about procurement was included in the Joint Interpretative Instrument (JII).⁷ The purpose of the JII is to reduce ambiguity in the application of the agreement. The relevant paragraph is as follows (Joint Interpretative Instrument, Paragraph 12):

CETA maintains the ability of procuring entities within the European Union and its Member States and Canada, in accordance with their respective legislation, to use environmental, social and labour-related criteria, such as the obligation to comply with and adhere to collective agreements, in procurement tenders. Canada and the European Union and its Member States will be able to use such criteria in their procurement in a way that is

⁶ See <https://www.ic.gc.ca/eic/site/086.nsf/eng/00006.html>

⁷ See <http://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/ceta-aecg/jii-iic.aspx?lang=eng>

not discriminatory and does not constitute an unnecessary obstacle to international trade. They will be able to continue to do so under CETA.

The most plausible interpretation of this paragraph is that the Parties to CETA do not see a necessary contradiction between the principles of non-discrimination and sustainable procurement. Moreover, they do not intend for the agreement to interfere with the ability of governments to pursue social, environmental and labour-related goals through their procurement processes.

Where governments aim to facilitate local economic development as a procurement goal, it remains to be seen if the general commitment to sustainable procurement articulated in the Joint Interpretative Agreement will override the explicit prohibition of offsets in Article 19.4. Even if it does not, procuring entities can work around the rules. For example, Semple (2017) notes that while requiring “local content” is prohibited by CETA, requiring “local value” is permitted in two provinces.

It seems, however, that these concerns may not be immediately germane. Our interviews and empirical analysis of procurement in Canadian cities suggest that current municipal contracts involving social, environmental or labour-related criteria are of relatively small value and therefore not covered by CETA. And even if criteria favoring “local development” are prohibited, other social, environmental and labour-related criteria are clearly permitted. Concerns about sustainable procurement measures being classified as offsets may re-emerge as governments in Canada and the EU more fully implement their commitments to expanding the scope of sustainable procurement. At that time we may begin to observe conflicts between sustainable procurement and freer trade.

The treatment of municipal procurement in trade agreements preceding CETA

Over time, municipal government procurement in Canada has become more open. Beginning with the Agreement on Internal Trade (now known as the Canada Free Trade Agreement) and continuing through a series of other interprovincial trade agreements, particularly the New West Partnership Trade Agreement, Canadian provinces have committed themselves and their local governments to procure goods and services in a manner that increasingly adheres to the principles of non-discrimination, transparency, and competition. Thresholds above which competitive processes must be followed have been lowered, and commitments made to harmonize regulations and standards across jurisdictions. The ratification of CETA will bring to municipalities their first experience of international commitments in government procurement.⁸

Agreement on Internal Trade (AIT)/Canada Free Trade Agreement

The AIT came into force in July 1995. An agreement among the provinces and territories of Canada, it sought to lower interprovincial trade barriers with the stated purpose of establishing “an open, efficient and stable domestic market” (AIT, Article 100). Chapter 5 of the agreement relates specifically to government procurement. The MASH sector – municipalities, academic

⁸ There are a few exceptions. For example, the City of Toronto was subject to the 2010 US-Canada Government Procurement Agreement until 2011.

institutions, school boards and the health sector – was not covered by that chapter until the addition of Annex 502.4 in April 1999.

According to Annex 502.4, MASH sector entities are not to discriminate among goods, services, construction materials or their suppliers on the basis of province of origin. These provisions apply to the purchase of goods and services with a minimum procurement value of CAD100,000 with a higher threshold of CAD250,000 for construction.⁹

Most goods and services purchased by municipal governments are covered by the agreement, but there are exclusions in a number of areas, including services that must be provided only by licensed professions: doctors, dentists, nurses, pharmacists, veterinarians, engineers, land surveyors, architects, accountants, lawyers and notaries. Additionally, municipalities may limit tendering to Canadian goods or suppliers if they are satisfied that there is sufficient Canadian competition.

Article 506 of the AIT encourages transparency by specifying government procurement procedures that all parties to the agreement must follow, starting with a requirement that tender notices must be made widely available, either by electronic publication or by placement in easily accessible newspapers. Tender notices must include specific information about the logistics of submitting bids (AIT, Article 506.4), allow sufficient time to submit bids (Article 506.5) and disclose the criteria to be used in evaluating competing bids (Article 506.6).

On July 1, 2017, the Canada Free Trade Agreement replaced the AIT. The major change was an extension of coverage to an additional set of federal and sub-federal entities, the requirement that an online portal be used to conduct procurement business and an easing of the rules constraining regulated professionals (e.g., engineers) to work in different jurisdictions.

New West Partnership Trade Agreement (NWPTA)

The NWPTA is the successor to the 2006 Trade, Investment, and Labour Mobility Agreement (TILMA) between British Columbia and Alberta. Concluded in 2010, the NWPTA expanded that agreement and added Saskatchewan as a signatory. Manitoba acceded to the agreement in 2016. Provisions related to municipal governments in Manitoba will become effective in 2019. Like similar agreements between Ontario and Quebec and among Atlantic provinces, TILMA and the NWPTA were concluded under the AIT provision that sub-agreements that go further than the original AIT are permitted.

The NWPTA fosters non-discrimination in government procurement by establishing thresholds for competitive bidding lower than the AIT thresholds. In addition, parties commit to reconciling standards and regulations, and to improving labour mobility for workers by providing for mutual recognition of regulated occupations and their associated licenses, certifications and registrations. The agreement sets higher thresholds for MASH sector contracts. Apart from this, however, the MASH sector is subject to the same rules as provincial governments and their

⁹ Note that for non-MASH sector entities covered by Chapter 5, the thresholds are lower: CAD25,000 for goods and CAD100,000 for services and construction projects.

agencies. In terms of transparency, all procuring entities must publish their tenders on publicly available online sites.

Like all trade agreements, the NWPTA allows for exceptions, but these are more limited than those of the AIT. Some are general exclusions pertaining, for example, to Aboriginal peoples, water, taxation, social policy, and land use. Others are specific procurement exceptions, including services provided by lawyers and notaries. By contrast, and unlike in the AIT, services provided by engineers, land surveyors and architects are covered.

The Comprehensive Economic and Trade Agreement (CETA)

Although Canada has been party to other international trade agreements that include chapters on government procurement, CETA is the first that applies to municipalities and other institutions in the MASH sector.¹⁰

While Canadian subnational governments are included in the agreement, the thresholds below which their contracts are exempt from its provisions are higher than those for the federal government. The threshold values are shown in Appendix 1. The rationale for higher thresholds for lower levels of government is to protect smaller procurement entities. The thresholds for construction are the same for all entities.

Canada has negotiated some important exceptions in CETA.¹¹ As is common in other international trade agreements, Canada is free to take any steps in procurement if those steps are important for security, national defence, health, life, or protection of intellectual property. Canada has also made some important exceptions in energy, infrastructure, mass transit and shipbuilding. There are also some exceptions for providing opportunities to stimulate regional economic development. For municipalities, the relevant exceptions are for procurement related to Aboriginal peoples, preferences for Aboriginal businesses, and products and services from persons with disabilities. Quebec also excludes all of its cultural industries and works by local artists.

Importantly, however, CETA uses a negative list for exceptions to its coverage, rather than a positive list. That is, all procuring entities are assumed to be covered by CETA unless they are

¹⁰ The history of Canada's international engagement on government procurement began in 1979 with the conclusion of the Agreement on Government Procurement under the auspices of the General Agreement on Trade and Tariffs. Canada's commitments in that agreement covered only procurement by the federal government. The agreement was revised several times, in 1987, and then in 1994 and 2012, now under the auspices of the World Trade Organization (WTO). In the latest revision of the agreement, Canada for the first time made commitments with respect to procurement by provinces and territories. Canada has also made government procurement commitments in a number of regional trade agreements, including NAFTA. Except for the 2010 Canada-US Agreement on Government Procurement, those agreements made commitments only with respect to procurement by the federal government. In that agreement, Canada committed to providing permanent access to provincial procurement markets and temporary access, until September 2011, to construction procurement by selected municipalities. Two years later, the revised version of the WTO Agreement on Government Procurement effectively subsumed the permanent part of the Canada-US agreement.

¹¹ As noted above, however, there are no exceptions to the prohibition of offsets that would allow municipalities to use offsets to promote economic development.

explicitly excluded. In previous treaties, all procuring entities were assumed *not* to be covered unless they were explicitly included.

One interesting detail of the structure of exceptions emerges in scenarios in which municipalities conduct procurement jointly with other governmental organizations. In cases of intergovernmental cooperation on procurement, one organization acts as the “lead” of the project (i.e., it becomes the procuring entity), and only that organization is subject to relevant commitments under CETA. There is potential, therefore, for venue shopping in terms of assigning the lead role to the organization least constrained by the international agreement. For example, if the City of Ottawa conducts procurement jointly with Infrastructure Ontario and the procuring entity is the latter, the procurement is not subject to any commitments under CETA because Infrastructure Ontario is excluded from the agreement. Such scenarios are more common than might be apparent. Many municipalities rely on funding from and cooperation with other levels of government for major construction projects.

CETA specifies requirements for all steps of a procurement process and for different types of procurement. It includes requirements on publishing notices and other procurement information, conditions for participation in procurement, tender documentation, time periods, negotiations with suppliers, and the awarding of contracts.

The cross-cutting principle underlying all procedural requirements is that they must not be used to create obstacles to international trade. For example, technical specifications, information technology systems, and time allowed for submitting a tender should not be manipulated in ways intended to create difficulties for EU firms.

Transparency is promoted by requiring the publication of all notices of intended procurement through a single website. The agreement allows a transition period of up to five years for entities to start using a single website. Further, conditions for participation in a particular procurement contract must generally be limited to the legal, financial, commercial and technical abilities of bidders. Conditions such as “local experience” that would effectively limit participation by foreign firms cannot be imposed.

Summary

It appears that as a result of interprovincial agreements, Canadian municipalities have — at least formally — opened their procurement to competition from outside of their jurisdictions. These agreements have encouraged non-discrimination, transparency and competition. Commitments in CETA do not appear to require much beyond these already existing practices. CETA’s prohibition of offsets may constrain the ability of cities to use procurement to promote economic development but that constraint does not seem to be immediately binding. Canadian commitments in CETA are in line with what municipalities are currently doing, given their interprovincial obligations. It seems that from the perspective of a single municipality, opening procurement to all Canadian firms was a major step forward, not less important than the commitment to open it to European firms. Furthermore, compared to existing interprovincial agreements, the threshold values in CETA are quite high, particularly for construction. Our first impression, therefore, is that CETA is unlikely to be a major shock to municipal procurement.

4. Results of semi-structured interviews

In order to provide further evidence on the extent to which CETA may change the realities of current practices in municipal procurement, we spoke with senior procurement officials in four of Canada's largest cities and examined the procurement policies and documentation available on municipal websites. We also spoke with a representative of a foreign firm that had won a large construction contract.¹²

First, we find that there is no evidence of explicit discrimination, despite the fact that most contracts are won by local bidders. It seems that this is explained by factors other than explicit discrimination or restricted competition. Second, officials suggested that beyond extending the period for which calls for tenders and proposals must be posted, and shifting to a new yet-to-be-identified electronic platform for those postings, CETA is unlikely to transform municipal procurement or to lead to an influx of foreign bidders or contract awards. Third, local governments continue to use procurement to pursue goals related to local economic development, redistributive justice and environmental protection, but they do so in ways that are compatible with interprovincial trade agreements and, in their opinion, with CETA. Fourth, municipalities try to support local businesses, but again in ways that are compatible with trade agreements.

Despite reporting that their cities imposed no barriers to participation by foreign firms, staff we spoke to said that few foreign firms bid on contracts and even fewer win contracts. Rickard and Kono (2014) argue that the success of international agreements in eliminating explicit discrimination in trade and procurement has meant that governments have put greater emphasis on “behind the border” barriers. Our interview results suggest that while foreign firms are somewhat disadvantaged by technical requirements, those requirements are not imposed with the intent of limiting foreign participation. We therefore hesitate to categorize these as “behind the border” barriers.

Asked what difficulties foreign firms face in municipal procurement markets, officials and our industry contact could point only to logistical and regulatory issues. For example, in the case of high value construction projects — the ones that are above trade agreement thresholds — non-local firms often must partner with local firms in order to meet tender requirements (e.g., for on-going service), and to source materials, services, equipment and labour efficiently. They also may have difficulties (or at least more difficulties than local firms) obtaining certification under local and provincial health and safety standards. Province-specific regulation of some professions — engineering is an example — also creates barriers for non-local firms. Our industry interviewee told us that knowledge of local technical standards and codes is not an issue for large multinational companies with international experience; nonetheless, it might be an issue for small- or medium-sized foreign companies. Government interviewees echoed this. A more important barrier, it was suggested, is experience operating in relevant climatic conditions. Government interviewees, however, emphasize that, with a few exceptions that they are working

¹² We spoke in person and by telephone with municipal staff and an industry representative (Ottawa, December 2016; Edmonton, March 2017; Toronto, April 2017; Winnipeg, April 2017). Our conversations were semi-structured and we asked open-ended questions that were broadly similar, but tailored to the experience and context of the municipality and the official with whom we were speaking.

to eliminate, such requirements are fair because they do not refer to specific locations or geographies, but to technical aspects of projects.

Turning to the potential effects of CETA, a procurement official from the City of Edmonton provided some historical context. The official argued that CETA is unlikely to lead to important changes in local procurement practices because a major shift, and one consistent with CETA provisions, already occurred as a result of the AIT. The prohibition of local preference practices, introduced in the AIT, transformed the way the City did business. The official claimed that the City never had explicit local preference clauses, but that because calls were never posted publicly, there was *de facto* local preference through control of the list of firms that were invited to submit bids. When the AIT came into force they began to post bids above the agreement threshold publicly through the MERX subscription system. Because they no longer controlled the invitation list, this opened City of Edmonton procurement to a broader range of local firms and to firms across the country and internationally. For contracts that are valued below the threshold of the AIT and the NWPTA, the City continues to issue invitations to bidders in order to promote local economic development, a goal that is explicitly advanced by the City Council. Thus the increased transparency required by the AIT had an added effect of enhancing competition. Accordingly, this official argued, CETA is unlikely to change procurement practices or outcomes: its thresholds are above those in the AIT and NWPTA, municipal calls are already posted publicly and are open to all firms regardless of physical location, and although firms will be allowed more time to prepare bids, this will likely require only minimal changes (and is unlikely to result in many more foreign bids).

As noted above, local governments continue to pursue what Arrowsmith (2010) calls “horizontal policy”. In other words, local governments seek to achieve policy goals such as local economic development, redistributive justice, and environmental protection through the procurement process. For example, the City of Toronto’s Social Procurement Policy explicitly requires supply chain diversity and workplace development as criteria for the evaluation of bids for contracts over CAD50,000 and for deciding which firms to invite to bid on contracts under that self-imposed threshold. The City of Toronto and other governments argue that their policies are consistent with the provisions of both interprovincial and international trade agreements.

Our respondents, for the most part, were eager to say that procurement in their City promoted the participation of local firms. They also noted that this is a priority for politicians; some are required to report on the proportion of contracts awarded to local businesses. This is consistent with the public statements of local leaders. For instance, Toronto Mayor John Tory is reported to have told a gathering of small business owners that work needs to be done to streamline Toronto’s procurement process in order “to make it easier for small companies to do business with the [C]ity” (Leeder, 2017).

Support for local businesses can be provided in ways compatible with trade agreements. Officials argued that preferential treatment in the bidding process takes place only below the thresholds of trade agreements and therefore is not subject to the non-discrimination clauses. They also teach small local firms to bid on government contracts and conduct technical consultations with industry organizations. While these supports may create home bias, they appear to be outside the scope of the trade agreements under consideration here.

Note, however, that defining the term “local firm” in this context can sometimes create difficulties. In general, municipal procurement officials defined “local firm” as any firm with a physical presence in the City. For example, a multinational firm with a local office would be considered a “local firm”. Other actors might contend, however, that a multinational firm with a local office is better thought of as a foreign firm. For example, when Shanghai Construction Group Canada, an Edmonton-based and wholly-owned subsidiary of the Chinese government, won a contract for a sewer tunnel in that city, the construction industry protested. There was vocal opposition – particularly by industry associations such as the Canadian Concrete Pipe and Precast Association – to awarding the contract to a “foreign” firm (Tumilty, 2014).

5. Data Analysis

In addition to interviewing municipal officials, we analyzed quantitative data on companies participating in two municipal procurement markets — the City of Vancouver and Edmonton.¹³ We examine the extent of foreign companies' participation in those two procurement markets; we ask how many foreign companies bid, how many of them win and whether there are any changes across the years for which data are available. We also analyze the relationship between a company's location and the probability of winning a contract. Our conclusions help us to speculate as to whether CETA will have a material impact on municipal government procurement.

Data collection and identification of firms' country of control

There is no single source of municipal procurement data and no established methodology for its reporting. Data recorded by different municipalities cover different elements of the procurement process, refer to different years and are held in files with different formats. We are interested in data, over time, on types of bids, names of bidders, offered prices, an indication of which bidder was awarded each contract, and a brief description of what was being procured.

An important piece of information for us is whether the bidder is a foreign company or a domestic company. From information provided on bids, the municipalities know the location of at least one office for each bidder; the location of that office is reported in their procurement data. But that does not tell us whether the firm is under domestic or foreign control. We therefore turn to the Inter-corporate Ownership (ICO) tables, published by Statistics Canada.

In the supporting documentation for the ICO tables, Statistics Canada asserts that they are “the most authoritative and comprehensive source of information available on corporate ownership; a unique directory of “who owns what” in Canada.” The tables provide corporate ownership information on individual companies that are part of a group of companies with combined assets greater than \$600 million or combined revenues greater than \$200 million or foreign debt (or foreign equity) greater than \$1 million.¹⁴ The ICO tables are publicly available on a quarterly basis.

The first step in our empirical analysis is to match the names of the firms (both bidders and contract winners) appearing in the municipal databases to the ICO data. The municipal data contain the names of bidding companies, as reported on the bids. We first electronically searched

¹³ We intend to add analysis of procurement outcomes in all eight of Canada's largest municipalities as we gain access to those data.

¹⁴ The threshold for companies with foreign debt or equity of \$1 million appears to be quite low in terms of business size. Therefore, the ICO tables cover even small foreign-controlled companies. However, in the case of purely Canadian companies, only large ones are covered. This coverage works well for our purposes as we are trying to identify, to the extent possible, foreign-controlled bidders.

the ICO database to identify possible matches — all the ICO companies that might be the same as the company in the municipal database. For example, if the bidder was “Edmonton Roofing”, we extracted all of the ICO companies whose names start with either “Edmonton” or “Roofing” or “Edmonton Roofing”. We then manually went through the possible matches to identify those that seemed to refer to the same company. When a bidding company was matched to an ICO company, we then used the ICO database to identify the controlling firm and the country in which that controlling firm was based.

In this way, we are able to distinguish between: (1) those with no match in the ICO database;¹⁵ (2) companies controlled by Canadian parent firms, as identified in the ICO and; (3) companies controlled by foreign parent firms, as identified in the ICO.

Data summary

Our Vancouver data cover the 2012-2016 period while the Edmonton data cover the 2015-2017 period. Overall, the dataset includes 12,228 bids on 5,114 contracts. Many companies bid on more than one contract so there are fewer than 12,228 firms in the data set. Table 1, below, shows the breakdown of the contracts by type.

The largest category of contracts is tenders. Requests for proposals (RFPs) are another important category. The type of contract matters because evaluation criteria differ among them. For tenders, municipalities specify exactly what they need and the most important (and often the only) criterion is price. For RFPs, as well as for requests for quotations (RFQs), municipalities do not have detailed specifications for the desired goods or services, but instead seek proposals from companies. For these types of contracts, price considerations are balanced with quality considerations. Edmonton data includes a type of contract that is not included in the Vancouver data – “non-competitive” – contracts.

The most common type of contract in Vancouver was the RFP (Table 1A) while the non-competitive contracts were the most common type in Edmonton. It is surprising that the latter category is very large – it accounts for more than 50% of all Edmonton contracts. According to Edmonton policies, non-competitive contracts should be awarded only in situations when there is a lack of potential bidders (e.g., only one supplier exists). Edmonton and Vancouver are also quite different in terms of the number of bidders relative to the number of contracts. For example, Edmonton had 2,542 bidders (Table 1B) on its 563 RFP contracts, while Vancouver had only 723 bidders on its 347 RFP contracts. On tenders, however, Vancouver had 739 bids on 167 contracts while Edmonton had 4,148 bids on 918 contracts.

¹⁵ These are assumed to be small Canadian-controlled companies as even small foreign-controlled companies will appear in the ICO tables.

Table 1A: Number of contracts, by type and municipality

	Edmonton	Vancouver	Total
Request for Proposal	563	347	910
Request for Quote	94	129	223
Tender	918	167	1,085
Noncompetitive	2,709	N/A	2,709
Other	63	38	101
Missing	86	0	86
Total	4,433	681	5,114

Table 1B: Number of bids, by type and municipality

	Edmonton	Vancouver	Total
Request for Proposal	2,542	723	3,265
Request for Quote	167	281	448
Tender	4,148	739	4,887
Noncompetitive	2,779	N/A	2,779
Other	462	289	751
Missing	158	0	158
Total	10,256	2,032	12,288

The three panels of Table 2, below, show the composition of bidders and winners in terms of country of control, where “country of control” was determined by the process of matching the names in the municipal data to the ICO database. The key observation is that the percentage of winners among bidders (Panel C) is smaller for EU companies than for Canadian companies — 41 percent versus 48 percent — but for all foreign companies (including US-controlled companies) it is higher, at 51 percent. On this basis, there does not appear to be discrimination against foreign firms.

Table 2: Bidders and winners, by type of contract and location*Panel A. Bidders*

<i>Country of control</i>	RFP	RFQ	Other	Tender	Noncompetitive	Missing	Total
Canada	627	44	110	615	344	25	1,765
European Union	101	14	17	249	101	6	488
Other Foreign	400	52	43	201	258	14	968
Total Foreign	501	66	60	450	359	20	1,456
Small firms	2137	338	581	3822	2076	113	9,067
Total	3,265	448	751	4,887	2,779	158	12,288

Note: “Small firms” refers to companies that do not appear in the ICO tables. Given the coverage rules of the ICO tables, those companies are most likely small Canadian companies.

Panel B. Winners

<i>Country of control</i>	RFP	RFQ	Other	Tender	Noncompetitive	Missing	Total
Canada	250	20	35	198	342	9	854
European Union	30	7	4	57	100	1	199
Other Foreign	136	25	23	82	258	14	538
Total foreign	166	32	27	139	358	15	737
Small firms	771	190	310	1,401	2,036	63	4,771
Total	1,187	242	372	1,738	2,736	87	6,362

Panel C. Winner-to-bidder ratio (percent)

<i>Country of control</i>	RFP	RFQ	Other	Tender	Noncompetitive	Missing	Total
Canada	39.9	45.5	31.8	32.2	99.4	36.0	48.4
European Union	29.7	50.0	23.5	22.9	99.0	16.7	40.8
Other Foreign	34.0	48.1	53.5	40.8	100.0	100.0	55.6
Total Foreign	33.1	48.5	45.0	30.9	99.7	75.0	50.6
Small Firms	36.1	56.2	53.4	36.7	98.1	55.8	52.6
Total	36.4	54.0	49.5	35.6	98.5	55.1	51.8

The relationship between the probability of award and the location of firms

For contracts classified as tenders, any hypothesized relationship between the probability of award and discrimination by firm location is easily rejected. In our sample, almost all tenders were awarded to lowest-price bids. Of the 918 Edmonton tenders, only 44 (5 percent) had bidders that offered a price lower than the price offered by the winner. The corresponding number of Vancouver tenders is only 3 of the 167 tenders (2 percent). These percentages suggest that, at most, there is minimal discrimination, at least on the surface.¹⁶ We therefore examine the relationship between the probability of award and firm location only for the subset of contracts that are not tenders with some additional exclusions mentioned below.

To examine the relationship between the probability of award and firm location, we estimate logit regressions. Our unit of observation is a bid by a firm, rather than a firm. For example, if Company A bids on Contract X and on Contract Y, there will be two observations involving Company A. That is, some firms bid on more than one project and, therefore, appear in the data set more than once.

Variable Definitions for Multivariate analysis

Our dependent variable is a 0-1 indicator called “Awarded” which is equal to 1 if a bid is a winner and 0 otherwise. Our main independent variable is the country of control of the bidder. For “country of control”, we define three 0-1 dummy variables:

- (1) D1=1 for small firms whose country of control is unknown as they do not appear in the ICO, but that is very likely to be (and is assumed to be) Canada;
- (2) D2=1 for large companies whose country of control is Canada as identified in the ICO;
- (3) D3=1 for large companies whose country of control is not Canada as identified in the ICO.

We exclude D1 from the model specification so that the coefficients on D2 and D3 tell us whether a contract is more or less likely to be awarded to large Canadian or large foreign companies as compared to small Canadian firms.

Our control variables include the following:

- *Competition*: number of bidders on the contract associated with the bid;
- *Experience*: the number of bids submitted by the firm in our sample;
- *Year* indicators;
- *RFP*: equal to 1 if a contract is RFP and 0 for all other types of contracts.

Sample definition

We want to analyze the choice of a winner among bidders on municipal contracts. For tenders, as noted above, price is almost always the sole determinant of whether or not a firm wins the

¹⁶ This assertion assumes no corruption. Bidders could manipulate the process if they bid for contracts cooperatively, essentially determining who wins which tenders.

contract. Similarly, there is no choice to be made for the many non-competitive Edmonton contracts. We therefore exclude tenders and the non-competitive contracts from this analysis. We also excluded contracts for which the type of contract was missing. Thus, we include only contracts that involve a competitive process –largely requests for proposals and requests for quotation but also expressions of interest, requests for information, requests for application and other types.

Our sample includes 951 Vancouver bids made in 2014-2016 and 2,853 bids from Edmonton. Table 3 shows the means and standard deviations of all variables used in our analysis.

Table 3: Means of Dependent and Independent Variables

	<i>Mean</i>			<i>Standard deviation</i>		
	Edmonton	Vancouver	All cities	Edmonton	Vancouver	All cities
<i>Dependent Variable</i>						
Awarded	0.30	0.41	0.33	0.46	0.49	0.47
<i>Independent Variables</i>						
Small Canadian	0.63	0.77	0.67	0.48	0.42	0.47
Large Canadian	0.21	0.12	0.19	0.41	0.32	0.39
Foreign	0.15	0.11	0.14	0.36	0.32	0.35
Number of bids on the contract	7.98	6.69	7.66	6.98	6.18	6.81
Number of bids by the bidder on all contracts	22.04	2.27	17.10	33.68	2.52	30.42
2014	0.00	0.16	0.04	0.00	0.37	0.20
2015	0.07	0.42	0.16	0.25	0.49	0.36
2016	0.74	0.42	0.66	0.44	0.49	0.47
2017	0.19	0.00	0.14	0.39	0.00	0.35

Table 4 shows the multivariate results of our analysis, with the Vancouver results in column (1) and the Edmonton results in column (2). The reported coefficients are partial derivatives, indicating the difference in the probability of winning created by a one unit change in the independent variable. For 0-1 variables like D2 and D3, the coefficient indicates the difference in probability compared to the excluded category (D1).

The results for Edmonton are clearly different than the results for Vancouver, suggesting differences either in the goods and services procured, in procurement practices, or both.

Nonetheless, the crucial point is that there is no strong evidence that being a foreign-controlled bidder is a major impediment to winning, compared to large Canadian-controlled bidders. In the case of Vancouver, this is shown by the similarity in the coefficients on the location indicators for Canadian-controlled large companies and foreign-controlled companies. However, small Canadian-controlled companies are significantly more likely to win contracts than these two categories of companies.

For Edmonton, our regression results are different but do not point to discrimination against foreign companies. Foreign-controlled companies are not less likely to win contracts than small Canadian companies. Large Canadian companies, however, are more likely to win contracts.

In Edmonton, the more bidders there are on any one contract, the less likely is any one bidder to win. This is as expected. In Vancouver, the coefficient is again negative, but it is not statistically significant. The experience coefficient – showing the effect of having made multiple bids on city contracts – is unexpectedly zero in Edmonton but positive and significant in Vancouver.

We experimented with a number of alternative specifications. In one case, we restricted the sample to include only RFPs and RFQs. In another case, we clustered the standard errors by firm on the thought that errors for the same company might be correlated. In both cases, the results were broadly similar.

One key caveat of the analysis is that the location variables are likely to be endogenous. For example, they may be correlated with the unobserved quality of bids which in turn affects award decisions. We also cannot control for the price offered by bidders because this information is missing for many bids. These unobserved prices may also be correlated with location and decisions on bids.

Table 4: Determinants of Winning a Contract

	Vancouver	Edmonton
Large Canadian-controlled bidder	-0.415* (0.230)	0.223* (0.120)
Foreign-controlled bidder	-0.451** (0.225)	-0.046 (0.166)
Small, likely Canadian-controlled bidder	Omitted	Omitted
Number of previous bids	0.059* (0.031)	0.001 (0.001)
Number of bidders on contract	-0.016 (0.012)	-0.073** (0.010)
Constant	1.398*** (0.227)	-2.163*** (0.286)
Observations	951	2,853

Notes. 1) Standard errors are shown in parentheses ***, **, * denote significance at the 1 percent, 5 percent and 10 percent levels, respectively; 2) Year and RFP dummies were included but are not reported.

6. Conclusion

Will CETA have any large impact on municipal procurement? Based on our analysis thus far, we make the following observations.

First, our interviews with those in charge of procurement in four Canadian cities suggest that the cities are already largely compliant with the rules that CETA will create. Most importantly, there does not seem to be any discrimination against EU firms in the current procurement policies and procedures of Canadian municipalities.

One reason for their compliance is that previous interprovincial trade agreements have required that cities treat firms from other provinces in non-discriminatory and transparent ways. CETA will simply extend that commitment to EU firms without any material change in current procurement practices.

In the longer term, however, the extension to EU firms of commitments to non-discrimination, transparency and competition might take on greater importance because they will reduce the uncertainty faced by EU businesses seeking to enter local markets. Making commitments that reduce uncertainty about potential future discrimination (which is particularly likely to occur during recessions) is not unique to government procurement. In fact, Canada's general negotiating position across a range of trade issues is to eliminate that uncertainty.¹⁷

Second, the geographic location of bidders seems not to matter in our two cities, from which we conclude that there is little evidence of discrimination in the Canadian municipal procurement market.

Further, recall that one fear about CETA's procurement rules is that they would limit the ability of municipalities to use procurement to achieve goals beyond "value for money". Municipal governments do have other goals that they incorporate into their procurement processes and decisions. Such policy goals, however, were thought by our interviewees to be consistent with CETA provisions, often because the value of the relevant contracts is below the specified thresholds. Moreover, the other goals – for example, "green procurement" – might be met by non-local firms. CETA's prohibition of offsets for local economic development could potentially affect the use of procurement for these other goals, despite the Joint Interpretative Instrument, but this remains to be seen.

Overall then, it seems that the short-term impact of the government procurement chapter of CETA will be minimal. In the long-term, it may stimulate investments of EU companies in the Canadian market, not only because it opens the municipal procurement market, but also because it eliminates some uncertainty. The entry of EU companies may harm some current local suppliers. If, as we expect, however, these new entrants establish local offices, they will likely be perceived by municipal governments as "local" companies, creating jobs and value added.

¹⁷ See Global Affairs Canada (n.d.), Services Trade: Modes of Supply Snapshot.

Our conclusions are only preliminary. We would like to collect contract-level data from more major Canadian cities. We would also like to extend our work to other parts of the MASH sector and to provincial governments.

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Appendix 1: Government Procurement Threshold Values in CETA

	Special Drawing Rights (SDR)	Value in Canadian dollars (as of writing)
Federal government		
Goods	130,000	235,825
Services	130,000	235,825
Construction	5,000,000	9,070,192
Provincial government, municipalities and MASH		
Goods	200,000	362,808
Services	200,000	362,808
Construction	5,000,000	9,070,192
Federal or provincial crown corporations and government-owned enterprises		
Goods	355,000	643,984
Services	355,000	643,984
Construction	5,000,000	9,070,192

Note: In CETA as well as in other international trade agreements, threshold values are specified in terms of Special Drawing Rights (SDRs). SDRs represent the value of a basket of major currencies expressed in US dollars. SDR is calculated by International Monetary Fund. The data are available at https://www.imf.org/external/np/fin/data/rms_sdrv.aspx. As of writing, 1 SDR = USD1.35. Further to express the threshold values in the Canadian dollars, we used the exchange rate USD1 = CAD1.34.