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# Tax Alert – Canada

## CIFTA modernization to take effect 1 September 2019

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

On 1 September 2019, the *Act to amend the Canada-Israel Free Trade Agreement Implementation Act and make related amendments to other Acts* (the Act) comes into force.<sup>1</sup> The Act allows for the implementation of the May 2018 *Canada-Israel Free Trade Amending Protocol 2018*, which provides for updates to provisions of existing chapters in and for the addition of several chapters to the *Canada-Israel Free Trade Agreement* (CIFTA).

### Background

CIFTA entered into force in 1997. CIFTA eliminated tariffs on all industrial products and some agricultural and fish and seafood products. In 2003, additional tariff concessions were implemented on agricultural and fish products.<sup>2</sup>

In July 2015, negotiations to expand and modernize CIFTA were concluded. These changes aim to improve access to the Israeli market for Canadian companies through further elimination and reduction of tariffs on agricultural, agri-food and fisheries products. In addition, in 2017, new inclusive elements on gender, small and medium-sized enterprises, corporate social responsibility, and labour and environmental protections were agreed to as part of the modernization to signal the importance of inclusive trade and ensure that the benefits and opportunities that flow from trade and investment are widely shared.<sup>3</sup>

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<sup>1</sup> SI/2019-77

<sup>2</sup> Explanatory Note to SI/2019-77

<sup>3</sup> <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/israel/fta-ale/index.aspx?lang=eng>

## Impacts

Upon entry into force of the modernized CIFTA, almost all Canadian exports of agricultural, agri-food, fish and seafood products will benefit from preferential tariff treatment in Israel. This is an increase from 90% of these types of goods benefitting from preferential tariff treatment under the non-modernized CIFTA. Canada will provide incremental duty-free access for Israeli agriculture and agri-food imports; however, Canadian over-quota tariffs on supply management goods such as dairy, poultry and eggs will remain. These goods are excluded from any tariff reduction, quota expansion or creation.<sup>4</sup> New provisions will also be added to address non-tariff barriers and to establish mechanisms under which Canada and Israel can cooperate to discuss, present and resolve issues related to non-tariff barriers.<sup>5</sup>

To reflect the above, four existing chapters in CIFTA have been updated:

- ▶ Dispute settlement
- ▶ Institutional provisions
- ▶ Market access for goods
- ▶ Rules of origin

Rules of origin under the modernized CIFTA have been simplified and liberalized. The modernized *CIFTA Tariff Preference Regulations* (the modernized *Regulations*) will now allow goods eligible for CIFTA preferential tariff treatment that are shipped indirectly between Israel and Canada to retain eligibility provided the goods remain under customs control. The modernized *Regulations* also expand the list of eligible “non-party” countries wherein minor processing of certain CIFTA-eligible goods,<sup>6</sup> or processing that does not increase the transaction value of certain CIFTA-eligible goods by more than 10%, will not disqualify those goods from originating under CIFTA.<sup>7</sup> Under the pre-modernization tariff preference regulations, the United States of America was the sole eligible non-party country. Under the modernized *Regulations*, the Member States of the European Free Trade Association the Member States of the European Union Jordan, and Mexico are now eligible non-party countries.<sup>8</sup>

Furthermore, nine new chapters and a provision have been added that address new and ongoing trade elements and issues:

- ▶ E-commerce
- ▶ Intellectual property
- ▶ Labour

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<sup>4</sup> Explanatory Note to SI/2019-77

<sup>5</sup> Explanatory Note to SI/2019-77

<sup>6</sup> Goods listed in any of Chapters 50 through 63 of the List of Tariff Provisions are excluded, as they are subject to other rules of origin within CIFTA.

<sup>7</sup> SOR/2019-278

<sup>8</sup> SOR/2019-278

- ▶ Sanitary and phytosanitary measures
- ▶ Technical barriers to trade
- ▶ The environment
- ▶ Trade facilitation
- ▶ Trade and gender
- ▶ Small and medium-sized enterprises
- ▶ Corporate social responsibility

With the modernization of CIFTA, Canadian importers will benefit by seeing a reduction in customs duties payable on CIFTA-originating imports. Likewise, the removal of tariffs on Canadian exports will make those goods more competitive in the Israeli market. As the global market continues to face challenges and uncertainties over the imposition of tariffs and their duration, the further liberalization of Canadian-Israeli trade should be welcome news to Canadian importers and exporters.

## **Learn more**

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