Opening Doors to the World

Canada’s International Market Access Priorities — 2002
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ABOUT THIS DOCUMENT

Opening Doors to the World: Canada’s International Market Access Priorities—2002 outlines the Government’s priorities for improving access to foreign markets for Canadian traders and investors through a range of multilateral, regional and bilateral initiatives in 2002. It also presents significant market-opening results from 2001 that will benefit Canadian business. Subjects range from Canada’s broad negotiating objectives at the World Trade Organization, to the details of specific bilateral trade irritants. It is not intended as an exhaustive catalogue of Government activities to improve access to foreign markets, nor as a comprehensive inventory of foreign barriers to trade or investment.

The Department of Foreign Affairs and International Trade (DFAIT), and its Embassies and missions abroad, coordinated the preparation of this report, with the assistance of other federal government departments (especially Agriculture and Agri-Food Canada, Finance Canada, Industry Canada and Natural Resources), as well as provincial governments, and, of course, Canadians doing business abroad. Its contents are current up to mid-March 2002.

Opening Doors to the World: Canada’s International Market Access Priorities—2002 updates and expands on topics presented in the 2001 report, which was released by the Minister for International Trade in April 2001. While recognizing the vital importance of the U.S. market, the current approach reflects Canada’s broader interests and the importance of work in such forums as the World Trade Organization (WTO) to strengthen the disciplines governing global trade and investment flows.

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MESSAGE FROM THE MINISTER FOR INTERNATIONAL TRADE

The past year was quite eventful. It was a year of significant challenges and important successes for Canada’s international trade policy agenda.

On the trade front, 2001 proved to be another good year for Canada, despite the downturn in the economy in the United States. After nine consecutive record-setting years, Canada’s exports of goods and services declined a modest 2.1%, to $467.6 billion, in 2001 (though exports of energy, consumer goods, and industrial goods and materials increased over 2000). Exports are expected to increase in 2002. At $412.9 billion, our imports were down 2.9% from a year earlier. Overall, Canada registered yet another record trade surplus: $54.7 billion, up from the record $52.6 billion in 2000.

Perhaps most significant, however, was the way in which Canada confronted the major challenges to our security and prosperity in 2001. The Canada-U.S. border issues that emerged in the aftermath of the tragic events of September 11, 2001 underscored the need for a border that operates efficiently and effectively. To further enhance our management of the border, the Governments of Canada and the United States signed on December 12, 2001, a declaration on the creation of a Smart Border for the 21st Century. We have the opportunity to build a smart border that securely facilitates the free flow of people and commerce and a border that reflects the largest trading relationship in the world.

The Government of Canada has established a Canadian Border Task Force to ensure that the Smart Border initiative is implemented effectively. In the December 10 Budget, the Government of Canada committed to investing more than $1.2 billion in measures designed to make the border more open and efficient. Of this amount, $600 million has been appropriated for a new program to improve infrastructure that supports major border crossings, such as highways and commercial vehicle processing centres.

Canada also realized several significant trade policy achievements in 2001, including:

- launching a new round of multilateral trade negotiations at the World Trade Organization (the Doha Development Agenda);
- Canada’s successful hosting of the Summit of the Americas in Quebec City;
- securing the agreement of our Free Trade Area of the Americas (FTAA) partners to release the draft negotiating documents;
- concluding a bilateral free trade agreement with Costa Rica; and
- launching trade negotiations with El Salvador, Guatemala, Honduras and Nicaragua (the Central America Four) and with Singapore.

“Opening Doors to the World: Canada’s International Market Access Priorities — 2002” (CIMAP 2002) outlines the federal government’s strategy for achieving improved access for goods, services and investments in key foreign markets. The CIMAP Report, as it is commonly referred to, also highlights significant market-opening results achieved by the government in 2001 to benefit Canadians and provide new opportunities for Canadian companies in world markets.
It is clear that improving and securing access to key markets is an important factor in ensuring continued prosperity for Canadians. That is why the Government of Canada remains so committed to bringing down barriers in key markets. In 2002, the Government will continue to pursue its objectives through multilateral and regional forums, bilaterally with key trading partners, and through the negotiation of new free trade agreements.

Among our key trade policy objectives for 2002 are:
- successfully resolving the softwood lumber dispute with the United States;
- ensuring the smooth flow of goods and services to our top market, the United States;
- resolving the dispute with Brazil regarding regional aircraft;
- making progress in the WTO negotiations (in particular, on agriculture) and in the FTAA negotiations; and
- concluding FTA negotiations with the Central America Four and Singapore.

The Government of Canada is pursuing the priorities outlined in this Report in full consultation with provincial and territorial governments, the business sector, non-governmental organizations (NGOs), citizen-based and public interest groups, and individual Canadians.

In addition to being a source of information on the Government’s actions on a range of trade issues of importance to Canadians, the CIMAP Report is intended to stimulate informed debate among readers. I invite all interested Canadians to visit the Trade Negotiations and Agreements Web site at www.dfait-maeci.gc.ca/tna-nac/menu-e.asp to review this Report and other up-to-date information on Canada’s trade policy agenda, and tell us what you think. Your comments and views will continue to inform and guide the Government in developing trade policies that protect Canadian interests and ensure our continued prosperity.
Introduction

The disruptions in the flows of goods and services between Canada and the United States and the consequent negative impact on both economies as a result of increased border security in the wake of the September 11, 2001 attacks served to remind Canadians and Americans that our current and future prosperity and security depend on a border that operates efficiently and effectively under all circumstances. Recognizing this, Canada and the United States signed on December 12, 2001, a declaration on the creation of a Smart Border for the 21st Century. It includes a 30 point action-plan based on four pillars — Secure Flow of People; Secure Flow of Goods; Secure Infrastructure; and Coordination and Information Sharing — to assist in determining and addressing security risks while efficiently and effectively expediting the flow of legitimate goods and people across the border, using enhanced technology, coordination and information sharing. The heightened interest in border-related issues may ultimately improve Canada’s vital trade relationship with the United States and lead to measures that will ease the flow of goods vital to Canada’s economy.

Thanks to the efforts and flexibility of customs and immigration officials, and other supporting agencies, in both Canada and the United States, wait times at the border were reduced relatively quickly, which minimized the direct impact on trade flows and the two economies. Overall, the reduction in Canada’s exports to the United States in 2001 can be attributed to the economic slowdown in the United States rather than to problems at the border. Moreover, despite the reduced U.S. demand for Canadian exports, Canada enjoyed a good year in trade in 2001, recording a trade surplus of $54.7 billion on exports of goods and services of $467.6 billion and imports of $412.9 billion; and the prospects for 2002 are good.

2001 also saw a number of significant achievements in the area of trade policy, including: the launch of a new round of multilateral trade negotiations at the World Trade Organization; Canada’s successful hosting of the Summit of the Americas in Quebec City, where a deadline was set for the Free Trade Area of the Americas (FTAA) negotiations; securing the agreement of our FTAA partners to release the draft negotiating documents; the clarification of NAFTA Chapter 11 investment provisions; the conclusion of a bilateral free trade agreement with Costa Rica; and the launch of trade negotiations with El Salvador, Guatemala, Honduras and Nicaragua (the Central America Four), and Singapore. The government will continue its efforts to bring down barriers in key markets so as to further secure and maintain predictable access for Canadian traders and investors. The government will also continue to strengthen the institutions and the rules that govern international trade and investment, forge relationships with new partners, and ensure that other countries live up to their commitments.

Opening Doors to the World: Canada’s International Market Access Priorities — 2002 presents significant market-opening results achieved over the past year and outlines the Government’s priorities in 2002 to further improve access to foreign markets. The Government will pursue these goals multilaterally, through the WTO; regionally, through the North American Free Trade Agreement (NAFTA) and the Free Trade Area of the Americas (FTAA); bilaterally,
with key partners; and through the negotiation of
free trade agreements with the Central America Four
(El Salvador, Guatemala, Honduras and Nicaragua),
and Singapore. In all cases, the Government’s objective
will be to ensure that Canada’s traders and investors
benefit fully from international trade agreements.

**International Trade Trends**

International trade has been an important engine of
economic growth over the centuries, particularly since
the end of World War II. Trade also helps bind nation
states into mutual dependency that promotes national
security objectives. The requirements of trade (rule of
law, transparency, enforcement of contracts) are impor-
tant external disciplines on governments worldwide and
reinforce our deeply held democratic principles.

International trade brings greater access to foreign
markets while opening up domestic markets to
increased competition from abroad. This combina-
tion tends to improve efficiency and productivity, as
firms seek to adopt new technology and better mana-
gerial and organizational practices to improve their
competitiveness. Increased economic integration with
the global economy also leads to further specialization
by firms and countries, which in turn results in lower
production costs and lower prices associated with
economies of scale.

Trade has led to vast improvements in prosperity in
Canada because it provides an efficient scale of opera-
tion for many of our corporations that would be
unavailable if there were no, or very limited, access to
foreign markets. In 2000, the latest year for which we
have complete data, Canada marked its ninth consecu-
tive year of steady economic growth with gross domestic
product (GDP) growth of 4.4%, keeping Canada in
the lead among the G7 countries. Much of that growth
in output, in 2000 and in the last decade, originated in
the trade sector. Growth in exports accounts for much
of the increase in real GDP. As trade has expanded
more rapidly than overall growth in GDP, the share of
GDP represented by trade has risen from less than
26% for both exports and imports in 1989 to 45.3%
for exports and to 40.3% for imports in 2000. Indeed,
the Canadian economy is more internationally oriented
than any other member of the G7 group of nations.

Canada’s exports of goods and services increased
14.6% in 2000. This robust growth was widespread
among Canada’s provinces and territories and among
all major sectors. An increasingly large proportion
of job growth has emanated from Canada’s foreign
trade, as trade has expanded much faster than the
overall economy. Between 1988 and 2001, the
growth in output in Canada led to the creation of
2.4 million new jobs, an increase equivalent to 19%
of total employment in Canada.

Although imports of goods and services also rose
strongly in 2000, by 10.5%, Canada enjoyed a record
merchandise trade surplus of $59.3 billion. As a result,
Canada’s current account balance improved markedly
to a record surplus of $26.9 billion, or 2.5% of GDP
in 2000. This surplus was almost six times the size of
the previous record established in 1996. On any given
day in 2000, Canada traded an average of $2.5 billion
worth of goods and services.

Within this context, our trading relationship with the
United States is paramount, as that country accounts
for 77.2% of Canada’s two-way trade in goods and
services — an amount equivalent to $1.9 billion worth
of trade daily. Canada and the United States are each
other’s largest customers and biggest suppliers. Between
1988 and 2000, two-way trade in goods and services
between Canada and the United States more than
tripled, benefiting from the Canada-U.S. Free Trade
Agreement and the North American Free Trade
Agreement, as well as from strong GDP growth in
both countries for much of the past decade. Other
important export destinations include Japan, the
United Kingdom, China and Germany.

Over the last 10 years, our exports and imports have
been increasingly dominated by manufacturing and
other non-resource-based products. In particular,
trade in high-tech products has shot up sharply as a
percentage of Canada’s overall exports and imports.
This trend away from dependence on the resource
sector is a result of structural changes in the interna-
tional trading environment, including multilateral
tariff reductions negotiated through the WTO.

**Investment Trends**

Our international orientation is also evident in
investment trends. Foreign direct investment flows
(FDI), whether inward or outward, are beneficial in
a number of ways. Such investment flows tend to
strengthen commercial links between the host and
recipient countries, and raise the overall level of trade between the two countries. FDI plays an important role in fostering international spillovers of technological information, through employee training and economies of scale in production and R&D investment. It also provides regional diversification of portfolios and reduces the risk of investment. Canada relies heavily on inflows of foreign capital to finance domestic investment activity as well as imports of technology from abroad.

The flow of foreign direct investment into Canada reached a new record high of $94.1 billion in 2000, a year in which Canada invested a record $65.4 billion abroad to expand its global business presence. As a result, the stock of FDI in Canadian companies rose to $291.5 billion. The stock of Canadian investment abroad also shot up to a new record high of $301.4 billion. While the bilateral flow of investment between Canada and the United States still dominates the picture, the share taken up by the European Union has grown in importance in recent years. The industrial composition of the stock of direct investment has shifted from resource-based industries (such as energy and metals, and wood and paper) to machinery and transport, finance and insurance, and services and retail. This pattern mirrors the trend in trade toward increasing dependence on non-resource-based products.

Canada's overall investment position, which takes into account direct investment, portfolio investment and other investment, has improved sharply in the last decade. Net liability to foreigners fell from a recent peak of 44.4% of GDP in 1993 to 23.1% in 2000, a 50-year low. Declining overall government debt, much of which was held by foreigners, contributed to this turnaround.

For a complete picture of Canada's trade performance in 2001, see the “Report on Canada's State of Trade”, prepared by the Economic and Trade Analysis Division of the Department of Foreign Affairs and International Trade. The publication is available on-line at www.dfait-maeci.gc.ca/eet/state-of-trade-e.asp.

**FOCUS ON THE FINANCIAL SERVICES SECTOR**

The financial services sector plays a critical role in a market economy, providing the means of channelling savings into investment and driving economic growth. It provides the capital necessary for the growth of existing businesses and the venture capital needed for new businesses. The financial services industry also enables governments to finance new debt issues and support programs and services. Finally, it provides the means whereby Canadians can carry out their everyday financial transactions (including chequeing and savings), manage their wealth and insure against risk and unexpected events. In this way, the financial services sector can be seen as the “engine” of a market economy, meeting the financial needs of governments, businesses and individual Canadians.

The financial sector in Canada includes banks, life insurance companies, property and casualty insurance companies, insurance agents and brokers, trust and loan companies, credit unions and caisses populaires, mutual funds, securities dealers, pension managers and investment advisers, as well as specialized finance companies. The following facts highlight the importance of the financial services sector to Canada and the lives of Canadians:

■ In 2000, Canada's financial services sector employed more than half a million people and represented approximately 5% of Canada's GDP. The industry's estimated assets and net income amounted to about $2.2 trillion and $16.3 billion respectively.

■ In 2000, banks and other deposit-taking institutions in Canada accounted for nearly 50% of total financial sector assets. The remainder was divided among life and health insurers (22%), mutual funds (19%), securities and commodities intermediaries (1%) and others (8%), including credit unions.

Many Canadian financial institutions have a long history of being active abroad. As intermediaries, they were “brought” abroad, often by Canadian clients that had significant export and/or production activities outside Canada. Moreover, expanding internationally has enabled them to grow in spite of the maturity of the Canadian financial market. In particular, the

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1 Data for banks and other deposit-taking institutions do not include credit unions and caisses populaires and are reported on a consolidated basis.
foreign operations of Canadian banks and life insurance companies account for almost 50% and 55% of revenue respectively. Their key foreign market is the United States. However, a number of Canadian financial institutions also have substantial interests beyond the U.S., for example, in Southeast Asia and, to a lesser extent, Latin America and Europe.

The majority of barriers to trade for this sector are found in Southeast Asia and Latin America. Trade barriers include restrictions on the type of legal establishment allowed, foreign ownership rules, lack of transparency in financial sector regulation, denial of national treatment in regulation (such as discriminatory capital requirements), and restrictions on permitted business lines.

Trade in Financial Services: The WTO General Agreement on Trade in Services (GATS)

Liberalization of trade in financial services provides benefits to the domestic financial sector, as well as the broader domestic economy. It can help strengthen domestic financial systems by enhancing the capital base and promoting state-of-the-art management practices in financial institutions, and it can improve credit quality control and risk diversification. It also encourages domestic capital market innovation that may help channel foreign and domestic savings to productive investments. In addition, by encouraging transparency and the efficient flow of related financial data and market information, liberalization enhances the functioning of this sector. All of this contributes to increased financial sector stability.

Increased competition in the financial sector also benefits users of financial services, such as businesses and individual consumers, by lowering costs, increasing quality and providing a greater variety of products and services.

The Government of Canada has always been a strong supporter of a GATS covering financial services. The WTO GATS provides Canadian financial institutions with the benefits of a rules-based system supported by: (1) a set of general obligations (such as most-favoured-nation [MFN] treatment, and the transparency and objectivity of regulations); (2) specific commitments with respect to market access and national treatment; and (3) an effective dispute settlement mechanism. The WTO and the GATS also provide a unique multilateral forum for the ongoing exchange of views on matters related to financial services trade liberalization.

It is important to note that a liberal financial services regime does not mean an unregulated regime. The GATS provides basic and extensive accommodations for the prudential regulation needed to protect the safety and soundness of financial systems, safeguard the integrity of financial markets and protect investors.

Canada's initial objectives for the current GATS negotiations on financial services include: seeking expanded and strengthened market access and national treatment commitments from our trading partners to further reduce barriers to trade in financial services; clarifying any definitional or classification issues that may exist in the Annex; strengthening transparency disciplines; and allowing developing countries to phase in commitments over a specified time period.

In addition to the GATS negotiations, trade in financial services will also be addressed in other trade agreement initiatives, including the Free Trade Area of the Americas, and in bilateral negotiations with, for example, the Central America Four and Singapore.

Focus on Ontario and Quebec

This year, Canada's International Market Access Priorities turns its attention to Ontario and Quebec, reviewing the significance for these provinces of opening markets to Canadian products.

Ontario and Quebec both have well-diversified economies. Ontario's primary exports are from the manufacturing sector, particularly in areas of transportation equipment, electrical and electronic products, and food processing. The agri-food industry also plays an important role in the province's economy. Quebec's
main exports are electrical and electronic products, transportation equipment, and paper and paper products. Both provinces have done well in the high-technology computer and software industries.

For Ontario and Quebec, the United States is by far the most important export market. Thus, maintaining and improving access to this market is a priority issue. Particular problems include the border delays that emerged following the September 11 terrorist attacks, as well as trade actions taken by the U.S. in a number of sectors, such as softwood lumber. The need for business people to easily gain temporary entry permits for the United States is also an important issue.

The opening of markets under the NAFTA and the WTO has generated new opportunities for domestic producers and services providers. Meanwhile, efforts to open markets continue at the bilateral, regional and multilateral level. This regional focus section outlines some important achievements in reducing barriers to exports from Ontario and Quebec and to identify some of the remaining obstacles that need to be addressed.2

ONTARIO

Overview

With 11.6 million people, Ontario is Canada’s most populous province. Its share of Canada’s GDP for 2000 was 40.6%, and it is Canada’s leading manufacturing province, accounting for 53.4% of total national manufacturing shipments in 2001.

A strong economic foundation is helping Ontario weather the current downturn in the world economy. The prospects for a return to healthy and sustainable economic growth remain solid. Ontario has a history of strong growth. In 2000, real GDP grew at a rate of 5.3%. Although the rate of GDP growth slowed to 0.9% in 2001, it is projected to rise by 1.4% in 2002. The Ontario economy is expected to rebound in 2003 with GDP growth of 4.8%.3

Ontario has a diverse and well-balanced economy. A vibrant agri-food industry injects $25 billion annually into the provincial economy. The manufacturing sector accounts for a quarter of the total provincial output and is supported by a strong and growing services sector.

The top three manufacturing industries are transportation equipment, electrical and electronic products, and food processing. Knowledge-intensive industries such as computers, software and medical technologies are among the fastest-growing. The Ontario economy is shifting toward export-oriented, higher value-added industries.

International Trade

Ontario’s export performance from 1996 to 2000 was extremely positive. Exports of goods and services in that period increased by over 45%, from just under $158 billion to over $229 billion. The United States remains Ontario’s largest foreign trading partner, absorbing 93.4% of the province’s exports in 2000. After the U.S., Ontario’s five largest trading partners in 2000 were the United Kingdom, Mexico, Germany and China/Japan (tied).

Within the United States, Michigan was the province’s most important export destination, accounting for over 32% of exports, with New York in second place at almost 9%. Ontario’s goods exports are heavily weighted toward manufactured goods, particularly automobiles and auto parts, which accounted for 41% of total merchandise exports in 2000. Overall, export-related activity represents approximately 50% of the province’s GDP.

Ontario agri-food exports to the end of the third quarter of 2001 continued to grow, reaching $5.7 billion, an increase of 13.4% over the corresponding period of 2000. The rise in third-quarter exports was led by increased exports of beverages, confectionery, meats, processed fruit, and fresh and processed vegetables. Top Ontario agri-food exports include beverages, value-added grain products (e.g. baked goods, cereals, mixes/doughs, milled products and pasta), vegetables and meats (including poultry and pet food). To the end of the third quarter of 2001, 86% of Ontario agri-food exports went to the United States. Other top markets include the European Community, Japan and Asia.

While goods exports account for the bulk of Ontario’s international exports, services exports are also important, totalling almost $27 billion in 2000 and representing over 10% of total exports. The province’s key sectors for services exports include business and computer services; finance, insurance and real estate services; accommodation services and meals; and wholesaling margins.

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1 Figures provided by Ontario and Quebec.
2 Projected GDP figures from the Conference Board of Canada.
In December 2000, Ontario announced its new Global Strategy — Ontario Abroad: Working Globally to Win Jobs Locally. The Strategy is an integrated, three-part program to enhance Ontario’s profile in key centres abroad, attract more investment and increase exports.

One component of the Strategy involves the creation of International Marketing Centres in five major locations: London, Munich, New York City, Shanghai and Tokyo. In every case, it is Ontario’s intention to co-locate with the Canadian mission in those cities. Each Centre will initially be staffed by one Ontario-based senior economic officer, supported by one locally hired person.

Establishment of the Centres demonstrates Ontario’s renewed commitment to international engagement (all previous Ontario offices were closed in 1993). They are mandated to provide an effective, cost-efficient commercial presence in the province’s major investment or trade markets. In addition to facilitating government-to-government contact, the Centres will serve as a platform for projecting Ontario’s image, while enhancing Ontario’s access to critical commercial information. All five Centres will become operational in 2002. Performance measures will be developed, and the Centres will be evaluated annually.

Ontario is determined to build upon its current export strengths by encouraging export growth in its information technology and high-technology sectors, and by promoting its products and expertise in regions of promising export growth outside the United States. To this end, Ontario’s lead trade agency, Ontario Exports Inc., is focusing on developing export expertise among the province’s innovative small and medium-sized enterprises.

Ontario Exports is also retaining local in-market consultants in Argentina, Brazil, Chile, Germany and Mexico. These in-market consultants will have the specific mandate of promoting Ontario’s firms and products in the countries and regions to which they are assigned.

Market Access Issues

Given the importance of the U.S. market for Ontario exporters, maintaining secure access to that market is crucial. Addressing recent problems for companies trying to cross the U.S. border has been a high priority for Ontario, which has been working cooperatively with New York State to improve trade flows across the border and enhance economic development. This activity complements actions recently taken by the Canadian and U.S. governments to improve security, cooperation and efficiency at border crossings.

Bilateral Canada-U.S. trade issues are also often significant for Ontario, given its share of the Canadian economy. A key issue that needs to be addressed is ensuring free access to the U.S. softwood lumber market for Canadian producers. Arbitrary and unfounded trade actions taken by the United States have also hurt Ontario’s commercial and farm business communities.

Ontario’s export development activities also aim to increase trade with other markets outside the United States. With the increasing importance of trade in services, the WTO services negotiations could certainly advance Ontario’s market interests. The agriculture negotiations will also be important for creating a fairer competitive environment for Ontario agricultural producers. The recent launch of a broader round of WTO negotiations will provide an opportunity to pursue these and other market access objectives.

QUEBEC

Overview

In 2000, Quebec’s GDP grew at one of the highest rates for any year since the start of the 1990s. At 6.7%, Quebec’s economic growth easily surpassed the average rate of increase (2.0%) observed from 1990 to 2000. In 2001, economic activity remained up (by 0.9%) despite the economic slowdown already taking place in Quebec’s main export markets.

Quebec’s GDP totalled $223 billion in 2000, and grew slightly to $225 billion in 2001.

Manufacturing activity in 2000 posted a steady growth rate of 13.5%, which compares favourably with average annual growth recorded between 1993 and 2000 (8.4%). The latest results for 2001 seem to indicate a pause in the expansion of recent years. For the first nine months of 2001, manufacturing shipments were down 2.9%. The reduced activity in the computer and electronic products subsector was largely responsible for this overall contraction. Manufacturing shipments totalled $127.65 billion in 2000 and $91.01 billion for the first
nine months of 2001. The computer and electronic products subsector had shipments worth $15.06 billion in 2000, versus only $6.35 billion for the first nine months of 2001.

In terms of industrial investment, total capital spending by Quebec industries increased by 0.4% to $33.6 billion in 2001, despite current economic conditions. However, this growth rate is well below the average annual rate of 3.3% achieved between 1992 and 2000.

To encourage investment, Quebec enjoys the benefit of reliable, low-cost electrical energy. This investment advantage was a factor in the launch of some 13 major capital projects in 2000-2001, including Alcan’s Alma plant ($2.4 billion — aluminum), Magnolia ($730 million — magnesium), Interquisa ($700 million — petrochemicals), QIT ($430 million — iron and titanium), Avestor ($340 million — lithium cells) and Bombardier’s Mirabel plant ($170 million — regional jets).

**International Trade**

In 2000, Quebec’s international exports entered their ninth consecutive year of growth. The 19.4% increase for that year was well above the average of 10.8% achieved for the 1990-2000 period. After the first eight months of 2001 the upward trend was continuing, but at a much slower pace of 2.1%.

The drop in demand already being felt in the U.S. market in late 2000 was the main reason for the slowdown in Quebec’s export growth. The United States is a key market for Quebec exporters as it accounts for over 85% of their foreign sales. The development of the Smart Border will make it easier for exporters to get their products to cross the border and will contribute to even greater integration of the North American economies.

From 1990 to 2000, Quebec’s exports to the U.S. market grew at an average annual rate of 12.2%, with the value of exported goods rising from $20 billion to over $60 billion. After the first eight months of 2001, Quebec’s exports of goods to the United States stood at $40.5 billion. The lower growth rate is largely attributable to the decline in the relative value of the Canadian dollar and unfavourable economic conditions, but also to the fall-out from the softwood lumber dispute.

For the manufacturing sector as a whole, Quebec’s exports abroad reached $68.8 billion in 2000, and $43.9 billion for the first eight months of 2001. Of these amounts, durable goods accounted for $46.7 billion in 2000 and $28.5 billion in the first eight months of 2001.

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**The other major manufacturing sectors in Quebec continued to expand in 2001,** as shown by the following data:

<table>
<thead>
<tr>
<th></th>
<th>2000 ($ billions)</th>
<th>2001 (9 months) ($ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>15.2</td>
<td>11.4</td>
</tr>
<tr>
<td>equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food products</td>
<td>12.7</td>
<td>9.9</td>
</tr>
<tr>
<td>Paper</td>
<td>12.0</td>
<td>9.1</td>
</tr>
<tr>
<td>Chemical products</td>
<td>7.1</td>
<td>6.1</td>
</tr>
</tbody>
</table>

**The following is a list of Quebec’s primary exporting industries and the value of their exports in 2000 and the first eight months of 2001:**

<table>
<thead>
<tr>
<th></th>
<th>2000 ($ billions)</th>
<th>2001 (8 months) ($ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical and</td>
<td>15.9</td>
<td>6.7</td>
</tr>
<tr>
<td>electronic products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>13.1</td>
<td>9.7</td>
</tr>
<tr>
<td>equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paper and related</td>
<td>7.9</td>
<td>5.2</td>
</tr>
<tr>
<td>products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary metal</td>
<td>7.5</td>
<td>5.3</td>
</tr>
<tr>
<td>industries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wood</td>
<td>4.4</td>
<td>2.9</td>
</tr>
<tr>
<td>Chemical products</td>
<td>2.7</td>
<td>1.9</td>
</tr>
<tr>
<td>Machinery</td>
<td>2.3</td>
<td>1.5</td>
</tr>
</tbody>
</table>

*For a number of years, high-tech products have been appreciably increasing their share of exports, reflecting the rapid shift of Quebec’s industrial structure toward high value-added products.*
**Market Access Issues**

Quebec supported the launch of a new round of multilateral trade negotiations. The negotiating agenda adopted covers the objectives pursued by Quebec, including tariff reductions for non-agricultural products as well as clarification and improvement of the trade rules governing subsidies and dumping and dispute settlement provisions.

Anti-dumping action by the U.S. can indirectly affect Quebec companies through trade diversion. For example, because of the U.S. anti-dumping duties imposed on Canadian hothouse tomatoes, Ontario growers are flooding the Quebec market, severely affecting local growers. The U.S. anti-dumping duties applied on certain steel products could have the same effect.

The softwood lumber dispute is also proving very harmful to the Quebec economy, as it is to the Canadian economy as a whole. This trade action also imposes substantial costs on U.S. consumers and the U.S. economy.

Bilateral negotiations should also give priority to issues relating to the temporary admission of business people such as manufacturers’ agents, antiques dealers and specialized technicians required for the execution of contracts in the United States. Numerous improvements are required in the area of access to the U.S. market, which is crucial for the Quebec economy.

Quebec supports the clarification of certain provisions of the NAFTA Chapter 11 dispute settlement system. To this end, Quebec intervened in the statutory review of *Metalclad vs. Mexico* before the British Columbia Supreme Court concerning the appropriate scope of the relevant provisions of Chapter 11. In its decision, the Court found that in several important respects the Tribunal had overstepped the bounds of its authority. Given the importance of issues arising under Chapter 11 to all levels of government, there is a need to continue cooperation between the provinces and the federal government on such matters.

Finally, the growth and prosperity experienced by Quebec’s economy over the last decade is largely attributable to the Canada-U.S. Free Trade Agreement and to NAFTA. Based on this experience, Quebec supports efforts under way to negotiate a Free Trade Area of the Americas.

**SUCCESS STORIES**

**Ontario’s Success Stories**

**Pressure Pipe Inspection Company Ltd.** (PPIC) of Mississauga performs non-destructive testing of large-diameter concrete water supply pipes using a patented electromagnetic system. PPIC’s inspections often result in rehabilitation rather than replacement, saving water authorities and power plants millions of dollars. The company, which was a 2001 Canada Export Award winner, exports 60% of its services to the U.S. and 40% to North Africa. Since 1998, the company has grown from 1 to 28 employees, and export revenues have grown by more than 5600%.

**Medtronic of Canada Ltd.** of Mississauga is the only manufacturer of implantable loop recorders used to diagnose unexplained fainting. The device, called Reveal, records electrocardiograms that can be read by physicians. Outstanding worldwide acceptance of Reveal has resulted in its use in more than 1500 medical centres. The company exports to Hong Kong, the United States, Europe, Mexico and other Latin America countries, Japan and Australia. Since 1997, it has grown from 80 to 119 employees.

Medtronic aims to become a world leader in its field.

**Wabi Iron & Steel Corp.** of New Liskeard has found that quality products have built-in cost advantages for its customers. A manufacturer of iron and steel components for machinery that must endure constant high impacts and abrasion, Wabi keeps ahead of the competition by improving its product with the systematic development and testing of new and better alloys. For the last five years, Wabi has partnered with Eagle Crusher Company of Galion, Ohio, a leading manufacturer of impact crushing technology, to test and improve its new alloys in components developed exclusively for Eagle products. As a result, the products Wabi produces for its client consistently perform at significantly lower cost and have been able to compete in new market segments. The success of this partnership has given Wabi the profile it needs to open new markets.

**Bryston Ltd.** of Peterborough is a premier manufacturer and designer of amplifiers, pre-amplifiers and other audio components. Renowned for their high standard of musical accuracy, technical excellence and reliability, Bryston’s products are sold to customers in over 40 countries on six continents. Bryston is a well-known name in...
the professional and high-end audio markets. The company’s roster of clients includes all the major North American television networks, IMAX theatres and many professional sound studios. Bryston’s innovative design team consistently comes up with the products and features the audio world wants. Exports account for more than 80% of sales, which were up almost 30% last year.

Comtek Advanced Structures Ltd. of Burlington specializes in repair, manufacturing and engineering services for aircraft components made from advanced composite materials and bonded metallic structures. Comtek is highly sensitive to aircraft operators’ and manufacturers’ needs for services that emphasize creativity, responsiveness, flexibility and speed of response. The company was founded in 1994. Expansions were soon needed, and Comtek moved to Burlington in 1997, doubling in size by 2000. Once a small start-up with a handful of employees, Comtek now occupies 35 000 square feet and employs over 100 people. In 2000 alone, the company increased sales by 75% over the previous year and was ranked 64th on the Profit magazine list of the fastest-growing companies in Canada, with 1507% sales growth during its first five years in business. Comtek has forged strategic alliances with government, industry and academic organizations to conduct applied research and development in new products and processes, and has pioneered an innovative apprenticeship for its technical staff in achieving aggressive growth targets.

MetalCraft Marine Inc. of Kingston and Connor Industries of Parry Sound have had a mutually rewarding partnership since the two companies teamed up in 1996. MetalCraft pursues foreign sales for Connor’s line of work boats, with great success. The first joint sale was to the U.S. National Parks Service, which purchased a boat from Connor through MetalCraft’s pre-approved U.S. government sales agreement. After this success, MetalCraft began an aggressive U.S. marketing campaign on behalf of Connor Industries, and the result has been a series of sales to U.S. government clients. Connor’s high-quality product and MetalCraft’s marketing skills have produced a winning export team.

Pro-Safe Fire Training Systems Inc. of Nobel produces fire training simulators that have attracted a high-profile clientele that includes the military (Canadian and U.S.), major municipal and state fire agencies, and international airports throughout North America. The company’s proprietary fire training systems use propane to simulate fire conditions in any number of environments, from buildings and vehicles to aircraft. To penetrate the large U.S. market, which now accounts for more than half its sales, Pro-Safe has met several different performance standards. This allows the company to supply virtually any U.S. client and to continue to expand its presence in a rapidly growing market.

Interhealth Canada Ltd. (ICL) won an international competition in 1999 that resulted in one of the largest Middle Eastern contracts ever awarded to an Ontario company. ICL will operate the Shaikh Khalifa Medical Centre in Abu Dhabi, United Arab Emirates. This new 335-bed multi-specialty hospital will serve as Abu Dhabi’s key tertiary and trauma hospital. The four-year contract, with an option for an additional two years, could result in more than $1 billion for ICL and deliver significant benefits for the company. ICL is owned by 50 private and public health care organizations from across Canada. Through its shareholders, ICL brings together under one umbrella significant experience in all aspects of health care, including planning and design of hospitals and management of health care facilities. The Hamilton Health Sciences Corporation, one of ICL’s shareholders and a leading Canadian academic health sciences centre, will play a key role in the project, providing consultation on recruitment, management and education.

Al Safa Halal of Cambridge is a food-processing company that serves a growing Muslim market. It has tapped into the ever-growing market for Halal food products — foods prepared in accordance with Muslim dietary laws — and is certified by the nonprofit organization IFANCA, the Islamic Food and Nutrition Council of America. Al Safa was founded in August 1999. Since then, it has seen double-digit monthly growth in product sales, both domestically and in the U.S. No other company in North America is producing Halal products to the level of Al Safa. The company currently has 30 products in its product line, with plans to add more. It sells Canada-wide and to every state in the U.S. except Hawaii. The company serves both the retail market and the food services industry (serving restaurants, schools and correctional institutions).

Pop-In Frozen Foods Ltd. of Downsview was started 25 years ago, when Arcady Krasnov and his two brothers arrived from Russia. The brothers began their business
by making perogies from a traditional recipe and selling them door to door. It was a simple, traditional recipe that launched an international food-processing business. Today, the company has expanded to a 21,000-square-foot facility with 26 staff. It supplies private label and institutional customers in Canada and the United States. Exports account for approximately 40% of the company’s sales. Now the company is exploring possibilities in the Japanese market.

**Quebec’s Success Stories**

**Jean Coutu Group Inc.** (GJC) started operations in 1969 with one drugstore located in the Montreal area. Since that time its business has grown steadily, to the point that it is now the largest distributor and retailer of pharmaceutical products in Quebec, second-largest in Canada and eighth-largest in North America. In November 2001, GJC had over 18,000 employees within a network of 257 franchises; 38 PJC Clinics in Quebec, New Brunswick and Ontario; and 252 corporate pharmacies (Brooks Pharmacy) in seven northeastern U.S. states.

As franchiser and distributor, Jean Coutu Group provides its network and clientele with a range of management and support services, as well as supply, storage and delivery of nearly 18,000 pharmaceutical/parapharmaceutical products and consumer staples. The Group’s head office and distribution centre in Longueuil employs over 900 people. Sales in 2001 stood at $1.4 billion for Canadian and $1.6 billion for U.S. operations, and net profit was $106 million.

**ADF Group Inc.** is a North American leader in the design, engineering, fabrication and installation of structural steel megaprojects. It has 45 years’ experience in the steel industry; over 12,000 employees, and 12 related product and service subsidiaries. ADF is an important player in the construction of bridges, office towers and industrial complexes. It is currently involved in the construction of a 55-storey building, the Columbus Center, in midtown Manhattan, New York City; the 50-storey Random House office tower, also in New York; the new Detroit Lions football stadium; the David L. Lawrence Convention Center in Pittsburgh; and the National Air and Space Museum in Virginia.

Over the first nine months of fiscal 2001-2002, ADF’s sales rose 75.8% to $388.7 million, 80% of which was in the United States.

**HydroNov Inc.** is a subsidiary of HydroSerre Mirabel Inc., which is involved chiefly in establishing hydroponic horticultural centres in various countries. HydroNov Inc. markets a revolutionary hydroponic greenhouse growing process; some of its major foreign development projects include Nikki’s Farms in Orlando, Florida (1995), Shenzhen Evergreen Vegetable Co. Ltd. in Shenzhen, China (1998) and Beijing Evergreen Vegetable Co. Ltd. in Beijing, China (1999).

With 125 employees and production centres located in Mirabel, the group’s parent company is the largest grower of hydroponic lettuce in the world.

**LBL Skysystems Inc.**, founded in 1979, specializes in the engineering, manufacturing and installation of curtain wall and glazing systems for commercial and institutional markets. LBL Skysystems is one of the top five manufacturers of curtain walls in North America, and is solidly established in Canadian, U.S. and U.K. markets. Located in Bois-des-Filions north of Montreal, its plant has a production capacity of over 1.2 million square feet of curtain wall per year. LBL employs more than 225 people.

The company’s sales, for the quarter ending September 30, 2001, rose 52% from the same quarter the previous year, to $22.2 million, and net profit was up 125% to $723,000.

**CML Air Traffic Control Technologies Inc.**, founded in 1998 as a spinoff of CML Technologies, is situated in Gatineau in the Outaouais region. A new telecommunication company, it develops, fine-tunes and markets highly sophisticated air traffic control voice switching systems. This dynamic young firm of 42 employees is expanding rapidly into a highly competitive market; close to 85% of its sales are beyond our borders, chiefly to clients in North America, Latin America, Africa and Asia.

Substantial promotional efforts enabled the company to land a first major sale to China’s air traffic regulatory agency in August 2001. Valued at US$350,000, this contract will probably be followed by a number of others in the years ahead, allowing the firm to expand further into Asian markets. In addition, CML ATC Technologies Inc. is developing important strategic alliances with systems integrators for the purpose of penetrating new markets. Some large foreign contracts have been finalized, including one in Singapore with SES Engineering Inc., another in China with the...
U.S. firm Raytheon Systems, one in Thailand with Aeronautical Radio of Thailand Inc., and still another in Antarctica with the U.S. firm ARINC Incorporated.

In recognition of the firm’s sustained and significant development efforts in foreign markets, in December 2001 it was given the “Canada International Market Development” Award at the Chambre de commerce et d’industrie de l’Outaouais Business Gala.

**MARKET ACCESS AND INTERNATIONAL BUSINESS DEVELOPMENT**

Capitalizing on improved market access is a vital element of the Government of Canada’s jobs and growth strategy. The Government of Canada, in partnership with other levels of government and the private sector, has put in place integrated trade and investment promotion programs and services to ensure that Canadian companies can take full advantage of international business opportunities created by the various bilateral and multilateral market-opening initiatives.

At the core of this partnership is Team Canada Inc, a “virtual” trade network of 23 federal departments and agencies. Team Canada Inc’s international business development programs and services, both domestic and overseas, are accessible to Canadian companies through a single window via the Internet (www.exportsource.ca), by phone (1-888-811-1119) or in person (at the regional offices of Team Canada Inc members across the country).

Team Canada Inc’s strategy and initiatives aim to improve the delivery of programs and services to Canadian exporters in Canada and to support their efforts in foreign markets. Regional Trade Networks have also been established in every province. They comprise representatives from the federal and provincial governments, as well as local public and private sector institutions involved in international business development. Their role is to ensure that Team Canada Inc programs and services are tailored to the specific needs of the exporter community across Canada and that regional priorities are met.

One of Team Canada Inc’s key objectives is to increase Canada’s export base, with particular emphasis on categories of business that have been under-represented in international markets. Small and medium-sized enterprises, particularly those owned by Aboriginals, women and youth, are encouraged to take advantage of government programs and initiatives.

Strategic global investment plays a key role in accelerating the innovative capacity of the Canadian economy. The competition for attracting strategic global investment, however, has intensified in recent years, in part reflecting the increasing globalization of the world economy.

Canada’s investment strategy is designed to attract and retain strategic global investment by systematically focusing on a selected group of industries from priority markets and improving Canada’s position as a preferred destination for investment. Canada is an attractive investment location, due to its productive and dynamic...
economy, high levels of innovation, access to a highly skilled work force, sectors with high growth potential and a healthy relationship with our trading partners. The Government of Canada continues to work to improve the domestic and international investment climate by adopting competitive, efficient and fair marketplace laws and regulations for both businesses and consumers. Actions to date include: strengthening the competition law; implementing policies to address investment barriers related to intellectual property, patent protection and risk management; harmonizing with other jurisdictions; promoting Canadian standards; and participating in bilateral, regional and multilateral trade and investment treaties.

The Program for Export Market Development (PEMD) continues to be an important support mechanism for Canadian companies seeking new opportunities abroad. Last year, 477 companies received assistance under that program. Sales reported by companies using PEMD assistance amounted to $136 million.

Export Development Canada (EDC) continues to respond to the financing needs of small and medium-sized companies, which constitute almost 90% of its clients. This community will remain a priority for EDC as it strives to increase its customer base. EDC’s two other priorities are (1) helping exporters to diversify into higher-risk developing markets and (2) building partnerships with other financial intermediaries in Canada to increase Canada’s overall export support capacity.

The Canadian Commercial Corporation is in the process of restructuring its operations in order to make itself more commercially oriented, more self-sufficient and more user-friendly. The Corporation has reorganized its business operations along sectoral lines, and it will also be implementing a new fee-for-service regime that will allow it to continue delivering the services clients have come to depend on. Small and medium-sized enterprises, which comprise 80% of the Canadian Commercial Corporation’s clientele, report that the Corporation’s support is instrumental in overcoming the financial, administrative and credibility constraints they face when trying to break into the highly complex and competitive government procurement markets worldwide.

The Trade Commissioner Service’s “New Approach” to serving Canadian business abroad centres on the creation of a more results-driven, client-focused organization. The New Approach is now standard client service policy, designed to better manage and focus the workload of trade officers abroad. The goal is to achieve more effective service and improved client outcomes and satisfaction.

Continued refinements of the New Approach will emphasize optimization of the Department’s human resources and electronic tools abroad, with a special focus on training and skills development for front-line employees. As well, an effective electronic delivery system for services will be introduced.

In response to priority needs identified by clients, the Trade Commissioner Service now delivers six core services from more than 130 posts abroad: market prospects, key contacts search, visit information, face-to-face briefing, local company information and troubleshooting. In addition, posts now partner with Canadian organizers under the terms of the Trade Commissioner Service Business Mission Agreement, with a view to making trade missions more effective. Non-core services such as foreign language translation and business events management are referred to third parties identified by posts in the target market. These non-core services are provided on a fee-for-service basis. More information on these and other services is available from the Trade Commissioner Service Web site (www.infoexport.gc.ca).

To reinforce its accountability to taxpayers, the Trade Commissioner Service welcomes feedback, comments or suggestions from clients. These can be communicated by calling the following toll-free, dedicated feedback line: 1-888-306-9991.
INTRODUCTION

WE’D LIKE TO HEAR FROM CANADIANS DOING BUSINESS ABROAD...

The Department of Foreign Affairs and International Trade consults Canadians on market access issues and international business development through a variety of means. For instance, the Trade Commissioner Service has regular meetings with national, regional and sectoral industry and trade associations, as well as with provinces, to seek their views on how to improve the delivery of its programs and services. Moreover, several of the Department’s trade promotion initiatives are undertaken jointly with industry and trade associations.

In view of the Government of Canada’s strong commitment to ensure that all Canadians continue to have input into the country’s overall trade agenda, the Department has established broad-based consultations with all interested Canadians to identify Canada’s trade policy objectives. Canadians are also encouraged to use the Department’s Trade Negotiations and Agreements Web site (www.dfait-maeci.gc.ca/tna-nac/), where up-to-date information on Canada’s trade policy agenda is posted and input is sought.

We particularly welcome direct input from Canadian exporters and investors describing barriers they have encountered in foreign markets. Individual companies, industry associations and other interested organizations are encouraged to contact the Department of Foreign Affairs and International Trade with specific information on tariff or non-tariff barriers and other business irritants. Business people are invited to report any problems they are experiencing by communicating in strictest confidence to:

“For Foreign Trade and Investment Barriers Alert”
Department of Foreign Affairs and International Trade
125 Sussex Drive
Ottawa, Ontario
K1A OG2
Fax: (613) 992-6002

Business people are also encouraged to remain in touch with the Department regarding market access and other issues through its Web sites (www.dfait-maeci.gc.ca/trade/menu-e.asp or www.exportsource.ca). These sites contain additional information on many of the issues covered in this document.
Introduction

Trade is at the heart of Canada’s economy. Our current and future growth and prosperity depend on open world markets, a stable and transparent trading environment and a means to settle trade disputes based on rules rather than political or economic might. Canada’s membership in the World Trade Organization helps us achieve these objectives. The WTO system of agreements is the cornerstone of the multilateral trading system. It is the foundation of Canadian trade policy and governs our trade relations with the European Union, Japan, other industrialized countries and a host of emerging markets worldwide. It also underpins much of our trade with the United States. The WTO provides a forum for trade negotiations; for monitoring the implementation of obligations and commitments under various agreements; for the review of members’ trade policies and practices; and for settling disputes between members arising out of the interpretation of the rules.

The fourth WTO Ministerial Conference in Doha, Qatar, in November 2001 was a notable success for the multilateral trading system. Trade ministers from 142 countries agreed to launch a new round of multilateral trade negotiations and approved the accessions of China and Chinese Taipei to the WTO. At a time of global economic slowdown, the agreement to further liberalize trade with the launch of new negotiations sends an important signal of confidence in the WTO system to consumers and businesses around the world. The new round will benefit all members and provide real gains for developing countries that will contribute to poverty reduction, development and long-term social and economic progress worldwide.

An intensive consultation process and improved transparency, both in the lead-up to the Ministerial Conference and at Doha, contributed to the success of the meeting. Canada played an active role in the preparatory process by helping to narrow the differences within the Quad (the United States, European Union, Japan and Canada) and between developed and developing countries. Canada was also instrumental in influencing the outcomes at Doha — a result aided by the selection of International Trade Minister Pierre Pettigrew to serve as one of the seven “friends of the Chair” to guide discussions on specific aspects of the draft Ministerial Declaration. Minister Pettigrew chaired the consultative group on “Singapore issues”: investment, competition policy, transparency in government procurement and trade facilitation.

Looking Ahead: The New Round of Multilateral Trade Negotiations

The new round of broad-based trade negotiations will benefit Canadians through further trade liberalization and improvements in trade rules. New negotiations will create new opportunities for Canadian exporters of goods and services by expanding access to global markets; they will also contribute to building a robust rules-based system by clarifying and improving multilateral trade rules. As well, the negotiations will help advance Canada’s broader foreign policy goals, most notably our sustainable development objectives. The Government will also preserve the ability of Canada to maintain and establish regulations in sectors such as health, public education and social services, and safeguard its right to promote and preserve its cultural diversity.
As a result of the launch at Doha, ongoing WTO negotiations on agriculture and services are joined by negotiations on market access for non-agricultural goods (including fish and fish products and industrial goods), anti-dumping and subsidy/countervailing duty disciplines, WTO dispute settlement, and certain aspects of trade and the environment. On the latter issue, negotiations include clarification of the relationship between WTO rules and trade obligations in multilateral environmental agreements (MEAs). The agriculture negotiations have been given ambitious goals: substantial market access improvements; substantial reductions in trade-distorting domestic support; and reductions, with a view to phasing out, of all forms of export subsidies. The services negotiations now have clear and realistic timelines for the request and offer phases. Focused work programs will be undertaken for “Singapore issues,” with a decision to negotiate to be taken at the fifth Ministerial Conference in 2003. The new round is to be concluded by January 1, 2005.

Ministers also agreed on the importance of improving transparency in the WTO’s operations; coherence in international economic policy making; and the International Labour Organization’s work on the social dimensions of globalization.

At Doha, a separate declaration was issued on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and public health. The declaration addresses the concerns of developing countries about access to medicines, while also preserving the integrity of the international pharmaceutical patent regime and acknowledging the role of research and development in the discovery of new and better medicines.

Ministers also issued a separate decision on implementation issues, which resolved many developing countries’ concerns about their ability to implement the Uruguay Round results. Outstanding implementation concerns will be dealt with in the relevant negotiations and mandated work programs.

The new round, known as the Doha Development Agenda, will have a significant development theme aimed at addressing the concerns of developing countries. There is a widespread consensus that developing countries should be supported in their attempts to integrate further into the world trading system. The Ministerial Declaration includes commitments to provide assistance to help the developing world build capacities to negotiate and implement WTO obligations and take advantage of enhanced opportunities to trade. Canada supports a comprehensive approach to trade and development that includes strengthening the capacity of countries, especially the least-developed countries (LDCs), to trade, in parallel with improving their access to markets. Canada advocates mainstreaming trade and trade-related projects in national development plans. Such an approach would make the most effective use of available funding.

In February 2002, Members agreed on the negotiating structure, on the WTO Director-General ex officio as Chair of the Negotiating Committee, on the chairs of the negotiating groups, and on principles to guide the negotiating process. Canada’s Ambassador Sergio Marchi was chosen as the new Chair of the General Council to oversee the work of all bodies of the WTO, including the negotiations.

In pursuing Canada’s trade policy, the Government will continue to maintain an extensive program of outreach and consultations with the provinces and territories, the business sector, non-governmental organizations (NGOs), other interest groups and the public. The Government’s trade policy Web site (www.dfait-maeci.gc.ca/tna-nac) will continue to provide information on trade policy issues and invite public comments on negotiating priorities and objectives.

Canada remains committed to a strategy of targeted regional and bilateral free trade agreements that complement its multilateral trade initiatives. Such strategic agreements can contribute to the development of common rules and standards to govern international trade, as well as build momentum and capacity for trade liberalization at a global level. As more and more countries pursue such regional and bilateral arrangements, it is incumbent upon all parties to ensure that these agreements are fully supportive of and consistent with WTO principles.
Non-agricultural Goods

At the WTO meeting in November 2001, ministers agreed that the new negotiations would include the goal of reducing or eliminating tariffs and would encompass the reduction or elimination of tariff peaks, high tariffs and tariff escalation, as well as non-tariff barriers.

Although significant tariff liberalization has taken place as a result of past international trade negotiations, one of Canada’s main objectives will be to address important tariff barriers that remain in many markets and sectors of export interest. For example, post-Uruguay Round most-favoured-nation (MFN) bound tariff rate averages for non-agricultural products include the following: India, 59%; Turkey, 41%; Indonesia, 39%; Colombia, 36%; Venezuela, 34%; Romania, 34%; Argentina, 31%; Brazil, 30%; Thailand, 28%; and Philippines, 25%. (Quad figures are Canada, 5.3%; European Union, 4.1%; Japan, 3.6%; and United States, 3.8%.)

“Non-agricultural products” comprise the full range of industrial goods, including forest and fisheries products. Canada’s position is that market access negotiations on industrial tariffs should be comprehensive, so as to provide an opportunity for improved market access on the broadest front possible. In this regard, Canada’s main objectives will include (1) reducing and binding applied tariff levels; (2) reducing high bound rates and re-binding them at lower rates; (3) expanding the scope of tariff bindings for WTO members; (4) eliminating nuisance tariffs (e.g. those less than 2%); and (5) maximizing the use of ad valorem (i.e. percentage) rates.

These negotiations should take into account the interests of all WTO members. As for the modalities of the negotiation, tariff reductions might best be achieved through a number of approaches including sectoral agreements, requests and offers, and “formula” cuts (e.g. overall percentage cuts, within which other levels of reductions could be agreed on for specific products).

A few examples of sectors of prime export interest to Canada are non-ferrous metals, chemicals, fertilizers, forest products, fisheries products and environmental products. In addition, in the electronics sector, Canada favours the conclusion of the second expansion of product coverage under the Information Technology Agreement (ITA II); we also support broader participation in the other existing sectoral agreements, especially by the newly industrialized countries.

On non-tariff measures (NTMs), Canadian objectives include further efforts to reduce and/or remove existing trade-distorting NTMs and to discourage and prevent the implementation of new ones. This could be done by augmenting and improving existing rules, developing additional disciplines, or negotiating specific measures on a case-by-case basis. Our overriding objective would be to establish or improve rules and disciplines that curtail inappropriate barriers and complement the trade facilitation agenda, while allowing governments to apply legitimate measures in support of valid objectives (i.e. protecting human, animal and plant life or health) in the least trade-restrictive manner possible.

Agriculture

Whether Canadian farmers and processors produce mainly for export or for the domestic market, their production and investment decisions are heavily influenced by the international environment. Clear, predictable rules in the international trade environment help to reduce business risks for Canadian producers. Further growth in Canada’s agriculture sector is dependent on finding new, and more diverse, export markets, not only for traditional exports of bulk commodities, but also for value-added processed products, the demand for which is growing more rapidly. Increasing the volume and value of exports will be crucial to sustained growth since Canada’s domestic market is limited by a stable population and mature market.

The World Trade Organization (WTO) Agreement on Agriculture was an important outcome of the Uruguay Round of multilateral trade negotiations. The Agreement provides a framework for the long-term objective of establishing a fair and market-oriented agricultural trading system through substantial progressive reductions in support and protection. The Uruguay Round strengthened the rules governing agricultural trade, and
specific binding commitments on market access, domestic support and export competition are reflected in the schedules of each WTO Member. Canada strives to ensure that commitments negotiated during the Uruguay Round are fully implemented through our participation in the monitoring process of the WTO’s Committee on Agriculture. This process will continue throughout 2002.

However, much still remains to be done. In the Uruguay Round Agreement on Agriculture, WTO Members undertook to embark upon new multilateral agriculture negotiations in early 2000. Canada’s initial negotiating position for these negotiations was announced in August 1999 by the Honourable Pierre Pettigrew, Minister for International Trade and the Honourable Lyle Vanclief, Minister of Agriculture and Agri-Food. The fundamental features of the initial negotiating position are:

- eliminating all export subsidies as quickly as possible;
- maximum possible reduction or elimination in domestic support that distorts trade or production;
- real and substantial improvements in market access for all agriculture and food products; and
- securing new disciplines on export taxes and export restrictions.

The key themes underlying Canada’s negotiating position are: level the international playing field; secure greater market access for value-added products; develop clear, enforceable trade rules applying equally to all countries; and that decisions about production and marketing of Canadian products should continue to be made in Canada. This position is the result of extensive consultations with provinces and with Canada’s agriculture and agri-food stakeholders.

These negotiations are now continuing within the context of broadened multilateral negotiations, further to their November 2001 launch at the 4th WTO Ministerial Conference in Doha, Qatar.

The Doha Declaration sets out an ambitious negotiating agenda on agriculture. Ministers have called for the agriculture negotiations to achieve fundamental reform through comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. These are Canada’s priorities in the negotiations and the Doha Declaration provides the scope for Canada to vigorously pursue its negotiating objectives for agriculture and enhances prospects for substantial and meaningful results.

Negotiations on agriculture are now proceeding in Committee on Agriculture Special Sessions reporting to the Trade Negotiation Committee. The work plan calls for the development of “modalities” (i.e. the draft framework for future rules and commitments) by March 2003. Other key benchmarks in the negotiations are: by the 5th WTO Ministerial, in 2003 — submission of offers (draft commitments); and January 1, 2005 — conclusion of the agriculture negotiations as part of the conclusion of the overall negotiating agenda agreed at Doha.

**WTO Information Technology Agreement (ITA)**

The World Trade Organization’s Information Technology Agreement (ITA), signed in December 1996, required participants to eliminate customs duties and other duties and charges on a wide range of information technology (IT) products by 2000. Canada and 57 other countries — which together account for more than 93% of world trade in this sector — have joined the ITA. As a matter of course, we are asking that countries acceding to the WTO join the ITA, and a number have done so, including Estonia, Jordan, Latvia and now China. We will continue to push for further expanding the list of participants, particularly from Latin America, as Argentina, Brazil, Chile and other South American countries have not joined.

The ITA mandates further efforts to expand product coverage (ITA II). In that context, a list of possible additional products has been developed, based on members’ proposals, but no agreement has been
reached. The draft list covers a wide range of products, including, for example, machinery and equipment for manufacturing printed circuit boards; selected radar and navigational aid equipment; and certain inputs for IT manufacturing, such as distribution boards. Canada has actively supported the effort to expand the product coverage and will continue to do so. The launch of a new, broad WTO round may provide scope to breathe new life into ITA II.

In addition to establishing duty-free tariff treatment, the Information Technology Agreement also provides for the examination of non-tariff measures affecting the import of IT goods. The ITA Committee agreed in November 2000 to adopt a work program to identify and examine non-tariff measures (NTMs) having “undue trade-distorting effects.” In this connection, ITA members have submitted a number of policy papers analysing problem areas. These could generate further consultations and point the way toward possible liberalization work. Canada has contributed to this activity by submitting two papers: one on “Import Licensing of IT Products” and another on “Conformity Assessment of IT Products & Components for Electro-Magnetic Compatibility.” We will continue to promote the examination of these issues and to work with ITA members to explore topics covered in other issue papers that have been submitted. Topics include standards and technical regulations (particularly those relating to conformity assessment and testing procedures), rules of origin, customs procedures and government procurement.

**Technical Barriers to Trade**

Canada’s objective is to ensure that regulatory measures and standards relating to goods that exist in other WTO member economies meet legitimate objectives and do not unjustifiably discriminate against Canadian products. Such measures include mandatory technical regulations, voluntary standards and conformity-assessment procedures that determine whether a product meets the requirements of a particular regulation or standard.

The WTO Agreement on Technical Barriers to Trade (TBT) defines the international rights and obligations of members with respect to the development and application of standards-related measures that affect trade. The Agreement is based on the principle that countries have the right to adopt and apply mandatory technical regulations (i.e. to regulate), as long as these do not restrict international trade more than is necessary to achieve a legitimate objective. TBT-related measures are subject to WTO rights and obligations, including dispute settlement provisions.

Canada promotes wide acceptance of and adherence to the TBT Agreement and its Code of Good Practice, which applies to voluntary standards. Canada also participates in the activities of many international standards bodies, including the International Organization for Standardization (ISO). Canada was among the first countries to develop the necessary infrastructure for Canadian companies to adopt ISO 14000 environmental management system standards, thus facilitating our exports by helping them meet the requirements of our foreign customers.

The role of precaution in regulation and its implications for trade are important issues that affect many areas of interest to Canada. The use of a science-based application of precaution is pervasive throughout Canada’s regulatory regime, particularly for protecting the health, social, economic and environmental interests of our citizens, as well as our international reputation for safe high-quality products and services. However, in recent years, the term “precautionary approach” (or “precautionary principle”) has also emerged, and this can have different interpretations both domestically and internationally, depending on the specific context. For this reason, the term has been open to misunderstanding and misuse. It has already been invoked in an attempt to justify trade-distorting measures, such as in the beef hormones dispute with the European Union, and in ways that undermine a science-based approach to regulation.

It is Canada’s position that the precautionary approach should be based on science-based risk assessment/risk management parameters, and should not be susceptible to abuse or arbitrary decision making. Moreover, in Canada, legal advice indicates that we do not yet consider the precautionary approach to be a rule of customary international law. Canada is working to ensure (1) that there is a clear and coherent Canadian understanding regarding the application of the precautionary approach both at home and internationally and (2) that our rights related to international trade, including those defined under the WTO agreements, are respected by our trading partners. In this regard, the Government of Canada has been consulting with
Canadians on “A Canadian Perspective on the Precautionary Approach/Principle.” The consultation document can be found on the departmental Web site (www.dfait-maeci.gc.ca), and we expect discussions on this issue to continue for some time, both domestically and in various international forums.

Under the WTO TBT Agreement, Canada will continue to press for the removal of unnecessary or inappropriate regulatory, standards-based and conformity assessment-based trade barriers, thus maintaining or enhancing market access and lowering costs to producers and exporters. Specifically, Canada has been raising concerns over other countries’ proposals for unnecessary or unjustifiable barriers to products derived from biotechnology, as well as over mandatory requirements for non-product-related process and production method labelling.

We will also work to improve transparency; promote regulatory reform and good regulatory practice by WTO members; align or harmonize standards internationally and with trading partners; and, if appropriate, negotiate mutual recognition agreements (MRAs) on conformity assessment. On this point, Canada has developed a policy approach to MRAs that assesses proposals on a case-by-case basis. It includes full consultation with federal and provincial (in their areas of jurisdiction) regulatory and trade officials, as well as with stakeholders, including industry.

Canada is an active participant in the ongoing work of the WTO Committee on Technical Barriers to Trade. We will continue to assist further implementation of the various obligations in the Agreement, which will reduce technical barriers to trade among Canada’s trading partners and potentially facilitate the flow of Canadian goods to other countries. In this context, we are seeking to strengthen multilateral discussions on specific issues of importance to Canadian producers, exporters and governments in areas such as good regulatory practice, labelling, conformity assessment procedures and technical assistance to developing countries. We believe the issues related to developing-country capacity and trade-related technical assistance required to fully implement the TBT Agreement, as well as labelling issues, will receive particular attention in the coming year given the focus on these issues in the Doha Declaration.

Sanitary and Phytosanitary Measures

The WTO Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures has been in force since 1995 and continues to work reasonably well. The Agreement stipulates that SPS measures must be based on scientific principles and scientific evidence; they must be applied only to the extent necessary, and they must not result in unfair discrimination or disguised restrictions on trade.

The Agreement established the Committee on Sanitary and Phytosanitary Measures (SPS Committee), which is responsible for the operation and implementation of the Agreement. The Committee generally meets three times a year. Canada continues to be an active participant in the Committee meetings.

Over the last year, the SPS Committee has continued to focus its efforts on the implementation concerns of developing countries. In particular, the Committee addressed, as a priority, the concerns of developing countries on equivalence, transparency and technical assistance.

The Committee is increasingly being used by WTO members as a forum for raising bilateral issues. In 2001, WTO members raised more bilateral issues than ever before. Canada, for instance, raised concerns regarding the EU’s proposed regulations on genetically modified organisms, the EU’s measures affecting Canadian exports of animal products, Hungary’s restrictions on Canadian meat, and India’s ban on Canadian bovine semen imports.

Canada’s position for the WTO Ministerial in Doha in November 2001 was to avoid re-opening the SPS Agreement, since re-opening might have risked weakening the Agreement’s scientific basis. We consider that existing disciplines are clear, sufficient and balanced, and our priority is to concentrate on improved implementation of the existing Agreement through the ongoing work program of the SPS Committee. It was agreed at Doha that the Agreement will not be re-opened during the next round of WTO negotiations.

Biotechnology and GM Labelling

Recently, a number of countries have implemented mandatory labelling requirements for food products processed or produced with genetically modified
organisms (GMOs). The use of labelling to indicate health and safety concerns is a legitimate objective, and Canada supports labelling to convey this sort of important information to consumers. However, Canada is concerned over the increased tendency towards mandatory method of production labelling when there are other options available that are equally effective. The use of mandatory labelling to indicate the process and production method (when it does not pertain to the characteristics of a product) could be used to discriminate against “like products” and could represent a technical barrier to trade. Non-discrimination is a principle enshrined in the WTO Agreement.

It is important to note that the issue of mandatory method of production labelling is not limited to foods derived from biotechnology. Mandatory method of production labelling could have very serious implications for other Canadian industries, including manufacturing, mining, forestry and fisheries. Canadian industry, consumers and producers have recognized the need to provide more information to consumers, as well. Through the Canadian General Standards Board, these groups are developing a voluntary standard which would provide a framework for the voluntary labelling of foods obtained through or not obtained through biotechnology. Canada has been promoting this approach with our trading partners, such as the European Union, China, Hong Kong, Korea, and Australia and will continue to do so. Along with this approach, Canada will continue to ensure that labelling requirements are practical and do not pose unnecessary obstacles to trade.

**Trade Remedies**

Canada welcomed the decision at the Doha Ministerial Conference to launch negotiations on anti-dumping and subsidies and countervailing measures, as part of the new round of multilateral trade negotiations. The pursuit of more specific disciplines, as well as improved transparency and clarity in the use of trade remedy measures by our trading partners, was a priority for Canada in the lead-up to Doha, and formed the basis of our support for WTO negotiations in these areas.

The importance of these objectives remains evident, as non-traditional users of trade remedies continue to initiate and conduct investigations, in particular in the area of anti-dumping.

Regarding subsidies, these negotiations will help curb the use of government subsidies that distort trade and improve rules for taking action against such practices. It is in the context of such an approach that the Ministerial Declaration cited the case of subsidies in the fisheries sector, an important sector for many developing countries. Canada supports discussions that will cover subsidies in this sector that contribute to overcapacity and overfishing. The aircraft, shipbuilding and steel sectors are further examples of areas in which Canadian concerns will be pursued in the negotiations.

Canada continues to monitor and assist Canadian exporters involved in investigations of Canadian exports; analyse changes in the trade remedy laws and practices of Canada’s most important trading partners; and make representations, as appropriate, in specific investigations. Regarding the latter item, the Government of Canada was active with respect to U.S. anti-dumping duty investigations involving mussels, tomatoes and steel wire rod; two U.S. safeguard investigations involving steel products, including one that covered almost all steel; and a U.S. Section 301 investigation involving the Canadian Wheat Board and Canadian wheat sector policies.

Canada continues to contribute to the work of the WTO committees on Subsidies, Anti-Dumping Measures and Safeguards to ensure that all members administer their trade remedy laws in a WTO-consistent manner. As well, Canada participates as a third party in WTO dispute settlement proceedings involving issues of importance to Canada. In this context, Canada participated as a third party in WTO proceedings regarding the U.S. Foreign Sales Corporation and the U.S. safeguard action on line pipe; Canada also participated as a co-complainant in the WTO challenge of the U.S. “Byrd Amendment.”

**Rules of Origin**

The WTO Agreement on Rules of Origin established a work program to develop common rules of origin for non-preferential trade. In the development of such rules, Canada’s objectives are threefold: to achieve common rules that will provide greater transparency and certainty for traders; to prevent countries from using rules of origin to impair market access; and to achieve rules that are technically proficient, reflecting the global nature of the production and sourcing of goods and materials.
The work program was originally slated for completion in July 1998; however, it has been extended due to the technical complexity of developing agreement on rules for all products. In January 2000, the WTO Committee on Rules of Origin agreed to undertake an ambitious notional work program, which included (1) work on the overall architecture of the harmonized rules of origin, (2) dealing with cross-sectoral issues, (3) review of the many outstanding issues relating to the product-specific rules of all chapters of the Harmonized Commodity Description and Coding System (Harmonized System) (upon which the rules are based) and (4) attempting to reach a consensus on these various issues. During 2000, the Committee on Rules of Origin held several meetings and made considerable progress on the work outlined above.

In late December 2000, the Committee established its 2001 work program, following the decision by the WTO General Council to expedite the remaining work on harmonizing non-preferential rules of origin. During 2001, the Committee met five times and resolved some 301 issues, leaving 155 issues still outstanding. Although much progress was made in all sectors, a significant number of the unresolved issues (95) lie in the agricultural and textile chapters.

At the December 19-20, 2001, meeting of the General Council, the Chair of the Committee on Rules of Origin reported on the Committee’s accomplishments and suggested that, in order to advance the work on harmonization, the General Council should give the Committee a mandate that would entail sharing the work between the General Council and the Committee. Accordingly, the General Council agreed that the Committee on Rules of Origin would hold two more sessions during the first six months of 2002 and that it would identify a limited number of key policy issues to bring to the General Council for resolution. It also agreed that the outcome of the Committee’s work would be reported to the General Council at the end of June 2002 and that the deadline for completion of the Harmonized Work Program would be extended to the end of 2002. The next meeting of the Committee on Rules of Origin will take place in April 2002.

**Trade Facilitation**

Over the years, the WTO has been dealing with issues related to trade facilitation, and WTO rules contain a variety of provisions aimed at enhancing transparency and setting minimum procedural standards (such as GATT Articles V, VIII and X). The WTO legal framework, however, sometimes lacks specific provisions, particularly with respect to customs procedures and documentation and transparency issues. We recognize that trade facilitation, as a separate topic, is a relatively new issue for the WTO, having been added to its agenda in 1996, when the Singapore Ministerial directed the Council for Trade in Goods “to undertake exploratory and analytical work ... on the simplification of trade procedures in order to assess the scope for WTO rules in this area.”

Much exploratory and analytical work has been done during the past five years, with WTO members, including Canada, engaging constructively in the debate. Delegations agree that simplifying trade procedures would result in considerable savings in time, money and human resources that would benefit every economy. WTO members also agree on the developing countries’ need for substantial and comprehensive technical assistance to strengthen their administrative capacities and support their national reform efforts. The importance of such assistance was underlined by donors and recipients at a WTO trade facilitation workshop held in May 2001, who called for the development of a more cooperative and coordinated approach in the future.

Canada supported the proposal that trade facilitation should be included in the new round of multilateral trade negotiations launched at the November 2001 Ministerial Conference in Doha. Canada believes that the benefits of trade facilitation would be best realized through a common set of international disciplines.

During the lead-up to the Doha Ministerial, many WTO members had considered trade facilitation as being ripe for negotiation in the WTO. Many, including Canada, believed that after almost five years of exploring and analysing the scope for WTO rules on this issue, it was time to move to the next stage and enter the negotiating phase. Others, while generally supportive of the objectives of trade facilitation, did not want to negotiate WTO commitments on trade facilitation at this time. The discussions at Doha resulted in deferral to the next Ministerial of a decision on whether to negotiate binding commitments on trade facilitation. Canada is pleased that members have recognized the case for further expediting the movement, release and clearance of goods by agreeing
to a focused trade facilitation work program in the Council for Trade in Goods. This will prepare the way for a decision, to be taken at the 2003 Ministerial, on how to proceed with negotiations.

Our objectives for negotiations on trade facilitation are to build on existing WTO obligations — i.e. GATT Articles V (freedom of transit), VIII (fees and border formalities) and X (publication and administration of trade regulations) — and to negotiate disciplines that would maximize transparency; expedite the release of goods; and reduce, simplify, modernize and harmonize border-related requirements and formalities. We see trade facilitation as a win-win for everyone and a natural complement to market access negotiations on goods. Our goal continues to be negotiations that would help establish transparent and efficient systems for the administration of trade and customs regulations, especially in emerging markets. Our view is that new trade facilitation rules will help countries modernize border systems to expedite the flow of goods across borders, while fully meeting non-trade objectives such as security.

Canada recognizes the legitimate concerns expressed by various developing countries about their capacity to implement any new commitments. We therefore agree that capacity building should be an integral element of any negotiations on WTO trade facilitation commitments, and we support technical assistance and capacity building that would help developing countries meet higher standards of border management. Accordingly, we will contribute actively to the work undertaken during the lead-up to the next Ministerial Conference in 2003 to review, clarify and improve relevant GATT rules and to identify the trade facilitation needs and priorities of developing countries.

Established as part of the WTO agreements in 1995, the General Agreement on Trade in Services (GATS) required that further negotiations on services begin no later than January 2000. Since then, talks have been taking place in special negotiating sessions of the WTO Council for Trade in Services. At the Ministerial Conference in Doha, WTO members agreed that countries would submit their initial requests for market access commitments (i.e. the liberalization that they seek from their partners) by no later than June 30, 2002, and their initial offers (i.e. the liberalization commitments that they are willing to offer their partners) by no later than March 30, 2003.

Canada is pursuing multilateral, legally enforceable rules that will allow increased access to foreign markets for Canadian services firms. It is working collectively with other WTO members to further enhance the Agreement’s transparency and clarity, in order to make it more user-friendly. Issues for consideration during the talks include sectors of export interest to Canadian industry; current or potential barriers faced by Canadian industry in providing services to foreign markets or consumers; improving access to countries that are key export destinations for Canadian services providers; and providing Canadians with access to quality services at a competitive price.

Canada will push for greater market access for services suppliers in various sectors, including professional, business, financial, telecommunications, computer and environmental services. In doing so, Canada will pay particular attention to the situation of our small and medium-sized enterprises. At the same time, however, there are certain domestic services sectors in which our interest in undertaking further liberalization may be limited. The Government will also preserve the ability of Canada to maintain and establish regulations in sectors such as health, public education and social services, and safeguard its right to promote and preserve its cultural diversity.

**Basic Telecommunications Services**

In order to ensure that Canadian industry can take full advantage of access to markets resulting from the 1997 GATS Agreement on Basic Telecommunications (ABT), Canada is closely monitoring implementation of this agreement by its trading partners. The Agreement on Basic Telecommunications consists of specific commitments by participating countries on
market access, national treatment and the application of pro-competitive regulatory principles. Eighty-eight countries, accounting for more than 90% of worldwide telecommunications revenues, have made such commitments.

There is a good basis for further liberalization of the telecommunications services market in negotiations under the GATS, as well as in other bilateral and multilateral fora. Canada’s position in all such negotiations is that market liberalization should be encouraged, based on the principle that all countries benefit from an expansion of the international market for telecommunications services. Such liberalization would benefit not only services exporters, but also exporters of telecommunications goods and computer-related goods and services. Moreover, because telecommunications is the backbone of the Internet, liberalization would facilitate the development of e-commerce. In particular, the ability of small and medium-sized enterprises to reach new markets through e-commerce depends on the economical and widespread availability of services such as the Internet.

Professional Services

In recent years, Canadian professional services providers (e.g. engineers, accountants, architects, legal consultants and geologists) have increasingly exported their expertise abroad. Canadian engineering consulting firms rank among the leaders in total international billings. Canadian law firms are well placed to take advantage of business opportunities worldwide, as Canada functions within the two main law regimes (common law and civil
Canadian accounting firms are moving to develop international alliances in addition to the national or interprovincial affiliations that some have established. Our architectural firms have undertaken projects in areas in which they are recognized world experts (school buildings, airports, Arctic design and construction technology, and office complexes) and are particularly active in the Asia-Pacific region.

Canadian professional services providers benefitted greatly from the commitments that Canada obtained from other countries in the GATS. Moreover, the ongoing GATS negotiations provide an excellent vehicle to promote greater market access for our professional services. Improved market access could be achieved through securing improved commitments from our WTO partners and through strengthening the existing GATS disciplines to ensure that measures such as qualification requirements and procedures, technical standards and licensing requirements are based on objective and transparent criteria. To this end, the World Trade Organization established a Working Party on Domestic Regulations in April 1999. The Working Party has a mandate to develop any necessary disciplines for professional services (and potentially other services), building on the work done since 1995 by the Working Party on Professional Services.

Another tool to enhance the potential for Canadian exports of professional services is the facilitation of mutual recognition agreement negotiations between Canadian and foreign professional bodies. The Government will continue to promote and support the negotiation of such agreements.

**Issues That Affect Access for Trade in Goods and Services**

**Temporary Entry for Services Providers**

Many Canadian firms export their services to foreign markets around the world. In order to continue to expand their export activities, these businesses require the additional certainty that is derived from the development of international rules on trade in services. This is particularly the case with respect to the mobility of people — companies often need to move key personnel to a foreign market on a temporary basis to assist with the delivery of products or services, or simply to consult with clients, negotiate contracts and so forth.

Canada is party to several regional, bilateral and multilateral trade agreements — the North American Free Trade Agreement (NAFTA), the Canada-Chile Free Trade Agreement (CCFTA), the GATS, and the Canada-Costa Rica Free Trade Agreement (CCRFTA). These agreements contain labour mobility provisions that promote trade in goods and services, as well as investment, by facilitating the temporary cross-border movement of persons. The provisions apply to the movement of short-term business visitors, intra-company transferees and certain professionals. In addition, the NAFTA and the CCFTA facilitate the movement of traders and investors.

Under the GATS, the NAFTA and the CCFTA, Canada has set aside the labour market test for certain categories of workers. The positive impact of facilitating the entry of temporary workers outweighs any negative impacts on the labour market.

Canadian services providers have benefited greatly from the commitments obtained from other countries in the last round of the GATS, and there are opportunities for them to benefit further from increased trade liberalization in the current GATS negotiations. Canada, as a trading nation, is interested in developing open and more secure conditions for international trade in services. In the GATS negotiations, we will continue to pursue commitments and rules to improve and secure access for Canadian services providers.

**Government Procurement**

To take advantage of the significant potential for international trade represented by the hundreds of billions of dollars spent annually on government procurement worldwide, Canada has pursued market access in the World Trade Organization. Increased sectoral coverage and a reduction of discriminatory barriers in the United States and other key markets would create significant opportunities for Canadian exporters. To increase opportunities, Canada supports a range of activities to broaden and strengthen government procurement disciplines and ensure effective implementation of existing commitments.

Canada, along with 27 other countries, is party to the WTO Agreement on Government Procurement.
(AGP). The AGP provides the basis for guaranteed access for Canadian suppliers to the United States, the European Union, Japan and other key markets. Canada continues to pursue greater and more secure market access through the AGP. A review of the AGP, with a mandate to expand coverage, eliminate discriminatory provisions and simplify the Agreement remains a priority. Work is continuing, with input from the provinces and other stakeholders, to establish Canada’s priorities for further market access.

**Electronic Commerce**

E-commerce is not an economic sector in itself but, rather, a means for conducting business across a wide range of sectors and for capturing new efficiencies in business processes. As a consequence, the rapid growth in e-commerce represents a significant development in international trade.

E-commerce has already begun to affect the way in which business is transacted and is likely to have further far-reaching effects on trade flows. For example, information products such as software and music, which have traditionally been sold attached to carrier media such as tapes and compact discs, are now increasingly being delivered electronically. Also of importance is the possibility of supplying a wide variety of complex services on-line and across borders, where such trade may have once seemed unfeasible. These and other changes have the potential to bring tremendous advantages for Canadian consumers in the form of increased access to information, a wider choice of products and the benefits of lively competition. They may also offer opportunities and benefits for Canadian businesses in the form of expanded access to international markets. At the same time, however, the changes pose new challenges to the traditional territorial basis of governmental regulatory jurisdiction.

In order to ensure that e-commerce realizes its full social and economic potential, attention has been directed to how existing rules and regulations governing international trade apply to e-commerce transactions. As work progresses, particularly within the World Trade Organization and the Free Trade Area of the Americas, the Government will continue to consult with Canadians on the development of a trade policy that will facilitate e-commerce.

**Dispute Settlement**

With 144 members, it is not surprising that disputes occasionally arise in the WTO over the application of the rules contained in the WTO Agreement. What is surprising, in fact, is how relatively few disputes there are at any given time. To resolve these trade disputes “peacefully,” WTO members have agreed to follow an elaborate process contained in the WTO Dispute Settlement Understanding. This process includes consultations, review by independent panels when parties are unable to settle their differences at the consultation stage, and possible recourse to a standing Appellate Body. In this way, the WTO Dispute Settlement Understanding helps ensure that members adhere to the trade rules they have negotiated; it also reduces the scope for unilateral trade actions and is without question a key element of the rules-based, multilateral trading system.

The WTO Dispute Settlement Understanding is arguably the most effective system that exists today for the resolution of disputes between sovereign states. We believe, however, that it can be further improved. Canada is pleased to see that WTO members agreed, at the fourth Ministerial Conference in Doha, to negotiate improvements and clarifications to the Dispute Settlement Understanding and to do so before May 2003. Included in the issues we would like to see reviewed are the rules relating to implementation and retaliation, where we believe there is a need for greater clarity and ways to improve the transparency of the dispute settlement process without compromising its state-to-state nature.

During the past year, Canada made use of the dispute settlement provisions of the WTO to challenge measures maintained by other members that we consider inconsistent with their international trade obligations. Canada also defended Canadian measures in the WTO, including certain measures affecting the export of civilian aircraft and measures affecting the importation of milk and the exportation of dairy products.

In the ongoing dispute with Brazil over its export financing program for regional aircraft, a compliance panel was established on February 16, 2001, at Canada’s request, to examine whether the revisions made by Brazil in the latter part of 2000 brought the Brazilian program PROEX into compliance with Brazil’s WTO obligations. In its report circulated in July 2001, the
panel concluded that the new PROEX program, independent of its application, does not appear to be WTO-inconsistent. However, the panel also indicated that PROEX could be applied in a non-compliant manner and established clear criteria that have to be met to ensure that future PROEX-supported transactions are compatible with Brazil’s WTO obligations. Discussions between Canada and Brazil resumed in November 2001 in an effort to achieve a mutually satisfactory resolution.

The other complaints brought by Canada concern U.S. trade remedy actions. A number of these cases are part of the Government of Canada’s ongoing efforts to defend the interests of the softwood lumber industry. On September 11, 2000, a panel was established to hear Canada’s complaint that the U.S. treatment of export restraints in countervailing duty investigations was contrary to U.S. obligations under the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement). While Canada lost the case, the Appelate Body upheld Canada’s position that export restraints do not constitute a “financial contribution” under the SCM Agreement and are not countervailable subsidies. The final report was adopted on August 23, 2001.

At Canada’s request, a panel was also established on August 23, 2001, to hear Canada’s challenge under the SCM Agreement and the Agreement on the Implementation of Article VI (Anti-dumping Agreement) of a provision of U.S. legislation (Section 129 (c)(1) of the Uruguay Round Agreements Act) that prohibits the United States from fully implementing WTO rulings in trade remedy cases. The panel is expected to circulate its final report in June 2002.

On September 10, 2001, a WTO panel was established to hear Canada’s challenge of a U.S. law, the Continued Dumping and Subsidy Offset Act of 2000 (“Byrd Amendment”), that requires U.S. customs authorities to distribute duties assessed pursuant to anti-dumping orders or findings, or countervailing duty orders, to affected domestic producers. Similar challenges have been launched by Mexico and a group of nine other WTO members, including the European Community, Australia, Brazil, Chile, India, Indonesia, Japan, Korea and Thailand. The panel is expected to circulate its final report in July 2002.

On December 5, 2001, a WTO panel was established to hear Canada’s complaint that the preliminary countervailing duty and critical circumstances determinations made by the U.S. Department of Commerce on August 9, 2001, with respect to certain softwood lumber from Canada, are inconsistent with the United States’ WTO obligations under the WTO SCM Agreement. Canada is also challenging the expedited and administrative review provisions of U.S. trade remedy law as being inconsistent with the United States’ WTO obligations.

Accessions to the World Trade Organization

Canada continues to play an active role in the WTO accession process. Our goals are twofold:

- to secure more open, non-discriminatory and predictable access for Canadian exports of goods and services; and

- to achieve transparent and rules-based trade regimes in new markets, thus contributing to global economic stability and prosperity.

Over the past year, Canada has been active in accession negotiations with many of the almost 30 applicants. In 2001, Lithuania and Moldova successfully acceded to the WTO, increasing the number of WTO members to 142. Also, at the fourth WTO Ministerial Conference in Doha in November 2001, members approved protocols of accession for China and Chinese Taipei. Both are now WTO members, bringing the membership to 144. A number of other major applicants, including Russia, Saudi Arabia, Ukraine and Vietnam, are under consideration. WTO members are committed to accelerating the accession of least-developed countries to help integrate these countries into the world trading system.

Accession negotiations take place on two parallel tracks: multilateral and bilateral. During the multilateral negotiations, a WTO working party, comprising interested WTO members, examines the acceding country’s economic and trade regime to identify inconsistencies with WTO obligations and ascertain what changes are required to achieve conformity with WTO rules. Progress depends on those changes, as reflected in the transparency, accuracy and detail provided by the
applicant in response to questions tabled by working party members. By participating in working party deliberations, Canada satisfies itself that the accession will bring about more predictable and less discretionary trading conditions in the applicant’s market.

In parallel with working party deliberations, WTO members hold bilateral market access negotiations with the acceding country. During the bilateral negotiations, Canada focuses on obtaining the reduction or elimination of tariffs and non-tariff barriers affecting access for goods and services that are of interest to Canadian companies. Canada encourages applicants to bind their tariff commitments, provide non-discriminatory access, and join the various zero-for-zero tariff elimination agreements and tariff harmonization initiatives developed by the WTO.

Negotiating positions for accessions are developed interdepartmentally and in consultation with provincial and territorial governments and the private sector. Accession negotiations offer an important opportunity to resolve Canadian market access problems.
Foreign investment flows worldwide have grown rapidly in recent years and have figured prominently in the trend toward global economic integration. The global stock of outward foreign direct investment (FDI) has increased more than tenfold over the past two decades, from US$568 billion in 1982 to US$5.976 trillion in 2000.

Canada is an active player in this global economy. The stock of Canadian direct investment abroad (CDIA) more than tripled from $98 billion in 1990 to $301 billion in 2000. Over the same period, the stock of foreign direct investment in Canada more than doubled, from $131 billion to $292 billion. Since 1996, the stock of Canadian direct investment abroad has surpassed the stock of foreign direct investment in Canada.

Outward investment by Canadian firms generates domestic economic activity and stimulates exports of Canadian goods and services. For many Canadian firms, investment abroad is an essential element of business strategy, particularly in high-growth markets, where a physical presence is often a prerequisite for effective access. These firms understand that higher levels of investment in foreign markets are often linked to higher levels of import penetration in those markets — in fact, the Organization for Economic Cooperation and Development (OECD) has found that each dollar of outward foreign direct investment is associated with some two dollars of additional exports.

In 2000, 51% ($154 billion) of Canadian direct investment abroad was located in the United States. A further 19% of CDIA ($56.5 billion) was based in the European Union. Other major Canadian investment locations include the Caribbean, Latin America and Japan. In line with global trends, developing countries are becoming increasingly important destinations for CDIA. In 1990, 13% ($13.1 billion) of Canada’s outward investment was in non-OECD developing countries. By 2000, that proportion had increased to approximately 25% ($76 billion).

With 34.4% of the total stock of CDIA in 2000, the finance and insurance sector continued to be the largest sector for CDIA. In 2000, significant amounts of CDIA were in the energy and metallic minerals and the machinery and transportation equipment industries, raising their proportion of the total stock of CDIA to 21.2% and 5.4%, respectively. Outward investment in the metals and minerals sector results in domestic sales of machinery and equipment, as well as sales of engineering, architectural and environmental services.
Foreign Direct Investment in Canada

The benefits of investment flows are now well recognized, and countries compete aggressively to attract inward investment. Inward foreign direct investment in Canada is an important source of jobs and economic growth. Foreign direct investment provides capital, new ideas, new technologies and innovative business practices.

In 2000, the United States accounted for $186 billion or 63.9% of foreign direct investment in Canada. The European Union represented $77.9 billion or 26.7% of total foreign direct investment in this country. Other significant investors included Japan ($8.4 billion) and Hong Kong ($4.5 billion). In 2000, the major recipient sectors for foreign direct investment flows into Canada were energy and metallic minerals and machinery and transportation equipment.

Canada’s International Investment Agenda

Investment rules play an important role in protecting and facilitating the foreign investment activities of Canadian firms. Canada is a medium-sized economy, thus its current and future prosperity depends on open markets, a stable trading environment and a fair and impartial means of settling trade disputes. Investment rules offer a greater measure of security for Canadian investors through assurances that national policies will not be unduly changed or applied in a discriminatory manner. Canadian firms can also mitigate their exposure when making foreign investments in risky regions by purchasing political risk insurance. Political risk insurance is available from commercial insurers, as well as from Export Development Canada (EDC). For more information, please visit the EDC Web site (www.edc-see.ca).

Canadian firms continue to encounter investment barriers abroad, including investment prohibitions, restrictions on the scope of business activity, performance requirements, investment authorizations, residency requirements and restrictions on the movement of business people. Difficulties tend to be most frequently raised with respect to Africa, South America, China and Russia.

Investment agreements do not restrict a country’s ability to regulate in the public interest. Foreign investors in Canada (and Canadian investors in foreign markets) must abide by the domestic laws of the host country and obey the same rules as nationals. For example, investors are not exempt from domestic competition laws or local regulations relating to health, labour or the environment.

Canada has a relatively open investment regime, which compares well internationally. Under the Investment Canada Act, foreign acquisitions of large Canadian companies (for WTO member countries, that means companies with assets of more than $209 million; for all other countries, the value is considerably lower) and foreign investments in certain sensitive sectors such as culture are subject to review. The Investment Canada Web site provides guidance as to which transactions will be subject to review (investcan.ic.gc.ca/index.htm).

Canada has long been a supporter of a rules-based (rather than power-based) approach to international trade and investment, with the objective of bringing the investment regimes in other countries to Canada’s level of openness.

For more information on international investment policy development, international investment discussions and negotiations, investment promotion, and investment research and analysis, please visit Canada’s International Investment Web site (intinvest.ic.gc.ca).

Bilateral Initiatives

Bilateral investment treaties are used extensively worldwide; there are currently more than 1600 such agreements. Since 1989, Canada has concluded and brought into force Foreign Investment Protection Agreements with 22 countries. FIPAs are bilateral, reciprocal agreements designed, through a framework of legally binding rights and obligations, to protect and promote Canada’s foreign investments abroad. Canada’s FIPAs provide assurances to investors that.
the rules governing investment will remain bound by certain standards of fairness and predictability. FIPAs help Canadian enterprises reduce the risks and many of the costs associated with making investments in emerging economies. A list of Canada’s FIPAs can be found at the Department of Foreign Affairs and International Trade Web site (www.dfait-maeci.gc.ca/tna-naclfipa-e.asp).

**Regional Initiatives**

As part of the NAFTA, Canada negotiated a comprehensive investment agreement with the United States and Mexico. The NAFTA investment chapter was the basis for the investment provisions in the Canada-Chile Free Trade Agreement and most of Canada’s FIPAs. As part of the Free Trade Area of the Americas and Central America Four initiatives, Canada is negotiating with its trade and investment partners in this hemisphere to develop investment rules that would provide protection, stability, transparency and predictability to Canadian investors in these markets.

**World Trade Organization (WTO)**

At the November 2001 WTO Ministerial Conference in Doha, Qatar, ministers agreed to launch investment negotiations after the next WTO Ministerial conditional upon an agreement on negotiating modalities. Canada will continue, through its work in the WTO Working Group on Trade and Investment, to advance members’ understanding of the benefits of such a multilateral framework for international investment and for economic growth and development. Consistent with all of our free trade agreements, Canada will ensure that any multilateral framework will safeguard Canada’s right to regulate in the public interest.

At Doha, there was a sense among some developing and least-developed countries that they required further time and technical assistance to understand the implications of multilateral investment rules for their national development objectives. Canada firmly believes that all WTO members should participate fully in the negotiation of any multilateral framework on investment and be enabled to take on the resulting rights and obligations of any such framework. To that end, work between now and the next WTO Ministerial Conference will include providing developing and least-developed countries with greater support in terms of technical assistance and capacity building in this area.

The World Trade Organization also incorporates a number of investment-related rules in its existing agreements. The Agreement on Trade-Related Investment Measures (TRIMs) will, when completely phased in, prohibit a number of performance requirements, such as trade-balancing requirements, domestic sourcing and export restrictions applicable to goods industries. Eight extensions to the phase-out period for their existing TRIMs have been granted to certain developing countries. Discussions concerning TRIMs are ongoing in the World Trade Organization.

**Asia-Pacific Economic Cooperation (APEC)**

Canada is also involved in regional investment discussions with Pacific Rim countries through the Asia-Pacific Economic Cooperation forum. Through a program of voluntary individual action plans (IAPs) guided by non-binding investment principles, APEC economies work to liberalize their investment regimes by removing restrictions on market access and strengthening their legislation to protect foreign investment. Canada has also worked with other APEC members in developing a more transparent and comprehensive template for investment IAPs. Canada’s detailed submission to APEC, based on the new template, can be viewed at the APEC Web site (www.apecsec.org.sg). In addition, Canada participated in the March 2001 APEC Investment Symposium, in Korea, and the June 2001 APEC Investment Mart, in China. Canada will continue to pursue similar activities during the year.
Corporate Social Responsibility (CSR)

Within the Canadian business community, there is a growing awareness of the need for, and the advantages of, ethical business conduct. The Government has been encouraging responsible corporate conduct through the promotion of voluntary instruments. Canada is party to the OECD Guidelines for Multinational Enterprises (MNEs), a framework of voluntary principles and standards of responsible business conduct recommended by member governments to multinational enterprises operating in or from OECD countries. The Guidelines address issues such as labour standards, environmental protection, anti-corruption and consumer protection. Originally adopted in 1976, the Guidelines were the subject of a two-year review completed in June 2000. The Government has established a National Contact Point (an interdepartmental committee) to work closely with business and other stakeholders to raise awareness of the Guidelines and assist in the resolution of issues. The Guidelines and other international standards and best practices, such as the UN Global Compact and Tripartite Declaration of the International Labour Organization, provide a frame of reference for the voluntary codes of conduct developed by companies themselves. A number of Canadian companies have endorsed the International Code of Ethics for Canadian Business, a voluntary instrument developed by the private sector in 1997. For further information, please visit Canada’s National Contact Point for the OECD Guidelines for MNEs Web site (www.ncp-pcn.gc.ca) or the Department of Foreign Affairs and International Trade’s CSR Web site (www.dfait-maeci.gc.ca/tna-nac/social-e.asp).
North American Free Trade Agreement (NAFTA)

In January 1994, Canada, the United States and Mexico launched the North American Free Trade Agreement and formed the world’s largest free trade area. Designed to foster increased trade and investment among the partners, the NAFTA contains an ambitious schedule for tariff elimination and reduction of non-tariff barriers, as well as comprehensive provisions on the conduct of business in the free trade area. These include disciplines on the regulation of investment, services, intellectual property, competition and the temporary entry of business persons.

Since January 1, 1998, virtually all Canada-U.S. trade has been tariff-free. Some tariffs remain in place for certain products in Canada’s supply-managed sectors (e.g. dairy and poultry), as well as for sugar, dairy, peanuts and cotton in the United States.

Total trade between Canada, Mexico and the United States has increased substantially since the NAFTA was implemented. Canada’s total merchandise trade with the United States and Mexico was approximately $584 billion in 2001. Two-way merchandise trade between Canada and Mexico grew 3.3% to reach $14.6 billion in 2001. Our merchandise trade with the United States reached $570 billion in 2001. In terms of Canada’s total merchandise exports, 86% goes to our NAFTA partners.

The NAFTA provides for virtually all tariffs to be eliminated on trade in originating goods between Canada and Mexico by January 1, 2003. A fourth round of “accelerated” tariff reductions was implemented in January 2002. Mexican tariffs were eliminated ahead of schedule on most motor vehicles, wood pulp, railway stock parts, and graders and levellers, representing close to $3.1 billion in bilateral trade. As of January 1, 2002, Mexican tariffs on Canadian products range between 0% and 3%, with a few higher tariffs remaining on certain agricultural products subject to tariff rate quotas (mainly corn, barley and dry edible beans) and on dairy and poultry products.

Under the NAFTA, Canadian producers are better able to realize their full potential by operating in a larger, more integrated and efficient North American economy. Canadian manufacturers are able to access tariff-free, high-quality intermediate goods from across North America in the production of final goods for export. Consumers benefit from this heightened competition and integrated marketplace with better prices, a greater choice of products and higher-quality goods and services.

The period since the implementation of the NAFTA has also been marked by an impressive increase in trade in services among the three countries. In 2000, Canada’s trade in services with the United States and Mexico was approximately $70.5 billion, up from $46 billion in 1994 (an average annual growth of 8.5%). During the same period, the two-way trade in services between Canada and Mexico has grown at an annual rate of 10%, to reach $1.04 billion in 1999. Our trade in services with the United States reached $69.5 billion in 2000, up from $42.3 billion in 1993. In terms of Canada’s total services exports, 59% goes to our NAFTA partners.
Improved access to NAFTA markets and the existence of clear rules on trade and investment have increased Canada's attractiveness to foreign and domestic investors. Total foreign direct investment into Canada reached $291.5 billion in 2000, more than 64% of which comes from our NAFTA partners. Foreign direct investment into Canada from the United States increased to $186 billion in 2000, while investment from Mexico reached $132 million, more than three times that in 1993. Canadian direct investment in the NAFTA countries has also increased, reaching $154 billion into the United States in 2000, more than twice the 1993 level, and $3.2 billion into Mexico, more than five times the 1993 level.

Institutionally, the implementation of the NAFTA is directed by the NAFTA Commission, composed of the trade ministers from each country. The Commission oversees developments and progress made in the work programs of the 30-plus NAFTA committees and working groups, which ensure the effective implementation of the NAFTA.

The Commission, comprising Canada’s Minister for International Trade, the Honourable Pierre Pettigrew, United States Trade Representative Robert Zoellick and Mexico’s Secretary of the Economy, Dr. Luis Ernest Derbez, met in Washington, D.C., on July 31, 2001. In the joint statement issued following this meeting, the trade ministers reaffirmed their commitment to the full implementation of the NAFTA and agreed to move forward in a series of areas where immediate benefits were achievable. These areas include work toward more liberal rules of origin and a fourth round of tariff elimination acceleration, which was implemented in January 2002.

In the joint statement, and pursuant to Minister Pettigrew’s initiative, the trade ministers also clarified the interpretation of the NAFTA provision governing the minimum standard of treatment to be accorded to foreign investors. NAFTA’s standard is the customary international law minimum standard of treatment. The trade ministers directed trade experts to continue their work examining the implementation and operation of Chapter 11, covering investment, including developing recommendations as appropriate. Each NAFTA partner confirmed that it will make available to the public all documents submitted to or issued by Chapter 11 dispute settlement tribunals, except in limited circumstances; and will share all relevant Chapter 11 documents, including confidential information, with their respective federal, state and provincial officials.

Day-to-day management of the NAFTA work program, and of the implementation of the Agreement more broadly, is carried out by the NAFTA coordinators — the senior trade department official designated by each country.

**Settling Disputes Under the NAFTA**

A remarkable achievement of the NAFTA’s rules-based framework is that the huge trilateral trading system, worth $1.9 billion per day, functions with a relatively few disputes. However, when a trade issue becomes a trade irritant and, more rarely, a trade dispute, the NAFTA’s dispute settlement process provides the necessary mechanisms to resolve it. The NAFTA provides a vehicle for the governments concerned to resolve their differences through NAFTA committees and working groups, or through other consultations. If no mutually acceptable solution can be found, the NAFTA provides for expeditious and effective dispute settlement procedures. Where WTO rights and obligations are at issue, NAFTA parties also maintain the option of recourse to WTO dispute settlement procedures as an alternative to NAFTA procedures.

Chapter 20 includes provisions relating to the avoidance or settlement of disputes regarding the interpretation or application of the NAFTA, except for trade remedy matters covered under Chapter 19. Chapter 19 of the NAFTA provides a unique system of binational panel review as an alternative to judicial review for domestic decisions on anti-dumping and countervailing duty matters. There are also separate dispute settlement provisions for matters under Chapters 11 (Investment) and 14 (Financial Services).

From November 2000 to November 2001, four panels under Chapter 19 of the NAFTA reviewed decisions made by Canadian agencies regarding anti-dumping or countervailing duty matters. These decisions involved dumping and injury cases relating to iodinated radiographic contrast media and household appliances.

As well, two requests were filed for panel review of decisions by U.S. agencies regarding Canadian products. The decisions involved carbon steel products (five-year review) and cut-to-length carbon steel (circumvention of the anti-dumping duty order).
Four panel reviews of decisions made by U.S. agencies and involving Canadian products remain active — three relating to pure and alloy magnesium and one to carbon steel products. During the same period, one panel proceeding was completed involving corrosion-resistant steel from Canada (dumping).

On January 17, 2001, Canada held Chapter 20 consultations with the United States on U.S. restrictions on P.E.I. potatoes. A NAFTA dispute resolution Panel ruled on February 6, 2001 that the United States must implement its NAFTA obligations and cannot impose “blanket” access restrictions on Mexican trucks. The Panel ruled that more rigorous inspection and certification procedures may be applied to Mexican trucks under “exceptional circumstances” and on a case-by-case basis to account for differences in the two countries’ domestic motor carrier regulatory systems. Canada participated in the dispute resolution proceedings as an interested third party.

In response to the Panel ruling, the Bush Administration committed to open access for Mexican carriers to U.S. highways by January 1, 2002. However, due to the events of September 11 and delays in the U.S. transportation appropriations process, the border opening was postponed.

One Extraordinary Challenge Committee (ECC) Proceeding involving the United States and Mexico, and relating to grey Portland cement and clinker from Mexico, is still active. Panel reports can be found at www.nafta-sec-alena.org/english/index.htm.

**Looking Forward/Re-energizing the NAFTA**

As part of the ongoing review by the parties of the operation of the NAFTA, Canada is continuing to work with the United States and Mexico to clarify a number of key procedural and substantive provisions of the investment chapter. Progress in this area was also achieved by the NAFTA Commission. In July 2001, ministers signed a note of interpretation of provisions related to access to documents and minimum standard of treatment, and directed experts to continue their work examining the implementation and operation of Chapter 11.
The Government’s plan is to promote investment through the use of a more integrated, sector-focused approach that builds on the cooperation between DFAIT and its Team Canada Inc partners.

In promoting Canada’s market access and business development interests in the United States, it is important to consider each region of the United States in its own right. Most U.S. regions and many individual states have economies that are larger than those of many countries. There are also different cultural and economic influences at play in different areas of that country. Over the past year, several federal Cabinet ministers and deputy ministers have made visits to important U.S. regions to help forge relationships with government and business leaders. These initiatives are necessary to advance Canadian priorities and highlight the attractiveness of Canada as an investment destination.

**Market Access Results in 2001**

- Canada and the United States adopted the Smart Border Declaration in December 2001. This is an action plan to ensure the secure flow of goods and people across the Canada-U.S. border.
- Canada and the United States resolved the issue of U.S. restrictions on P.E.I. potatoes.
- Canada resolved issues of tax liability with the State of Michigan over the Single Business Tax.
- Prime Minister Chrétien led successful Team Canada trade missions to Atlanta, Dallas and Los Angeles.

**Canada’s Market Access Priorities for 2002**

- Continue our two-track strategy to fight U.S. trade action on softwood lumber at the World Trade Organization, and continue discussions with the U.S. government to determine whether there is a basis for a durable alternative to litigation.
- Continue to work shoulder to shoulder with the United States to reconcile the need for free movement of goods, services and persons across the Canada-U.S. border with the priorities of security and law enforcement.
- Continue to defend our international trade agreement rights to maintain market access to the United States for Canadian wheat.
- Continue to press various U.S. states to ensure that Canadian firms are taxed in a fair, consistent manner, in accordance with international taxation norms.
- Continue to monitor closely and respond to key measures that may distort trade and investment decisions in the North American market.
- Continue to oppose the extraterritorial application of U.S. laws.

The remainder of this section provides additional detail on key U.S. market access issues for Canada over the next year. It should not be regarded as an exhaustive inventory of obstacles faced by Canadian firms doing business in the United States, nor as an exclusive list of issues that the Government of Canada will pursue.

**IMPROVING ACCESS FOR TRADE IN GOODS**

**Softwood Lumber**

On April 2, 2001, following the expiry of the 5-year Canada-U.S. Softwood Lumber Agreement on March 31, 2001, the U.S. lumber industry petitioned the U.S. Department of Commerce for countervailing and anti-dumping investigations of softwood lumber products from Canada. The Department of Commerce initiated the investigations on April 23, 2001.

A preliminary determination on subsidy was issued by the Department of Commerce on August 9, 2001, resulting in the imposition of a 19.3% provisional countervailing duty on imports of softwood lumber from Canada (excluding the four Atlantic provinces). The provisional countervailing duties expired in December 2001.

On October 30, 2001, the Department of Commerce issued a preliminary determination of dumping, establishing provisional dumping margins ranging from 5.94% to 19.24% for the six mandatory respondents, and an “all other” rate of 12.58% for the rest of Canadian exports to the United States, including the Atlantic provinces.

The Department of Commerce is expected to make final determinations of subsidy and dumping on March 21, 2002, followed by a final injury determination.
RESISTING U.S. MEASURES THAT CONSTRAIN ACCESS

Setting the Context: Canada-U.S. Trade Post-September 11

On September 10, many Canadians remained unfamiliar with the details of trade that occurred daily across the Canada-U.S. border — a border that was regarded as largely invisible. For over 100 years Canada and the United States have shared the longest undefended border in the world. For many, the certainty that trucks will cross, investment will flow and trade will get done developed along with the unique relationship that Canada enjoys with the United States. A partnership whose success is not solely derived from social and cultural similarities but also by the nature of highly intertwined economies. The importance to Canada of an open border cannot be underestimated. With 82% of Canadian exports bound for the United States and 25% of U.S. exports entering Canada yearly, Canada and the United States are each others biggest customers by far. The Canada-U.S. border is representative of a highly successful, active, and productive bilateral relationship.

The events of September 11, 2001 profoundly affected the U.S.’s perceptions of their borders. Increased border security in the wake of the attacks proved how vulnerable the flow of goods, services and people to and from Canada and the United States was to disruption. Sudden and lengthy backlogs at the border caused legitimate concern among exporters that the border would be tightened indefinitely, disrupting the free flow of goods between the countries.

In the weeks immediately following the attacks, vehicles crossing the Canada-U.S. border were subject to 100% inspections by United States (incoming and outgoing for the first few days) and Canadian Customs Officials, resulting in significant delays at the border often ranging from 8-20 hours. Such delays had a profound effect on many sectors of the Canadian economy, in particular the airline and hospitality industries, insurance companies, wholesale and retail trade and industries relying on just-in-time delivery such as automotive/auto parts. Canadian and United States businesses depend increasingly on just-in-time production practices or relatively short advance delivery time. Border traffic is now flowing normally and approaching typical volume, but the auto industry remains concerned about border security measures and the impact on the just-in-time manufacturing process.

**Government Response, Government Action**

In the aftermath of September 11, the Government of Canada took immediate action to address the backlog at the border while ensuring appropriate levels of border security. Specific measures included additional staff; dedicated traffic lanes for commercial traffic; opening more passenger vehicle lanes as required and placing trucks with expedited pre-clearance into special processing lanes. While close, cooperative contacts and pre-existing consultative mechanisms with U.S. counterparts facilitated the development of many ad hoc arrangements, the Government also engaged quickly with the U.S. Administration to find a more enduring approach to border management that takes account of the security interests of both countries. In close cooperation with the United States, Canada has endeavoured to develop a joint approach to border security.

On December 12, 2001, Minister Manley, Chairman of the Ad Hoc Cabinet Committee on Public Security and Anti-Terrorism, and Governor Tom Ridge, Director of Homeland Security in the United States, signed a declaration on the creation of a “Smart Border” for the 21st Century. It includes a 30-point action plan based on four pillars to assist in determining and addressing security risks while efficiently and effectively expediting the flow of legitimate goods and people across the border. The four pillars containing the 30 objectives are as follows:

- secure flow of people
- secure flow of goods
- secure infrastructure
- coordination and information sharing

The Government of Canada has established a Canadian Border Task Force to ensure that the Smart Border Declaration is implemented effectively.
On December 10, the Budget was tabled investing more than $1.2 billion in measures designed to make the border more secure, open and efficient. These funds provide:

- new technology to help the Canada Customs and Revenue Agency facilitate the passage of goods and people at border-crossing points;
- new Canadian multi-agency Integrated Border Enforcement Teams which work in cooperation with U.S. partners to coordinate intelligence and enforcement efforts along the Canada-U.S. border;
- advanced information-sharing technology to help Customs officers screen travellers arriving at airports and other border-entry points;
- better equipment for detecting explosives, firearms and other dangers without delaying the flow of legitimate commerce or tourism; and
- new secure Internet-based technology to ease Customs compliance for small business.

From the $1.2 billion, $600 million has been earmarked for a new program to improve infrastructure that supports major border crossings, such as highways and commercial vehicle processing centres. These infrastructure improvements will be done in cooperation with public and private stakeholders on both sides of the border.

On December 3, U.S. Attorney General John Ashcroft unveiled a US$31.5 million plan to improve security on the Canada-U.S. border. Two hundred army personnel will be used to patrol the air and reinforce intelligence and 400 National Guard troops will be dispatched to key crossings to help Customs officials to facilitate traffic flows at the northern border.

Also, on December 3, Minister Caplan, Solicitor-General MacAulay and U.S. Attorney-General Ashcroft signed a “Joint Statement on Cooperation on Border Security and Regional Migration”, the main elements of which are reflected in the Smart Border Declaration.

Next Steps

Deputy Prime Minister Manley and U.S. Director of Homeland Security Tom Ridge met again in February and March 2002 to review progress towards the objectives established in the Smart Border Declaration. Regular consultation will take place to ensure that there is continued progress and achievement of goals as quickly as possible. This joint action plan is an important step. It is reflective of both governments’ commitment to building on this plan to continually identify measures that can be taken to secure a “Smart Border”. Canada’s current and future security and prosperity are dependent upon a border that operates efficiently and effectively under all circumstances.


Canada, with the support of the Canadian provincial governments and industry, is pursuing a two-track strategy to protect Canada’s interests in this dispute. First, Canada is challenging the U.S. actions, including its legislation, regulations and determination in the trade investigations, in all available legal venues. It has launched several challenges to U.S. law and is taking measures before the World Trade Organization and NAFTA. At the same time, Canada is maintaining ongoing discussions with the U.S. government to determine whether there is a basis for a durable alternative to litigation to resolve this long-standing dispute.

On October 31, 2000, the U.S. Department of Agriculture (USDA) imposed restrictions on P.E.I. potatoes. This action followed confirmation by the Canadian Food Inspection Agency (CFIA) of the presence of potato wart in one field in Prince Edward Island. The USDA’s measures also included restrictions on the movement of P.E.I. potatoes within Canada.

Canada maintained that the U.S. restrictions were scientifically unjustifiable and inconsistent with U.S. obligations under the North American Free Trade Agreement. Agriculture and Agri-Food Minister Lyle Vanclief and International Trade Minister Pierre Pettigrew raised the issue with their U.S. counterparts, and Prime Minister Jean Chrétien raised the issue with
President George W. Bush at the April 2001 Summit of the Americas in Quebec City.

On April 26, 2001, the CFIA and USDA finalized a set of conditions that provided P.E.I. with limited access to the U.S. market for the 2000 crop year. Both sides further agreed to continue discussions with a view to obtaining improved terms of access to the U.S. market for the 2001 and future crop years. On August 1, 2001, Canada and the United States reached an agreement detailing conditions for the 2001 and subsequent crops of P.E.I. potatoes. The three-year operational work plan provided much improved access, replacing the restrictive import conditions with science-based risk management measures including crop surveillance and laboratory testing. The CFIA continues to work with the USDA to resolve all remaining issues relating to the export of P.E.I. potatoes to the United States.

**Wheat**

The U.S. investigation of Canadian wheat trade policies and Canadian Wheat Board practices under Section 301 of the U.S. Trade Act of 1974 continued through 2001. During the year, at the request of the U.S. Trade Representative (USTR), the U.S. International Trade Commission (ITC) carried out a fact-finding investigation comparing competitive conditions for U.S. and Canadian wheat. The ITC collected information through surveys of U.S. industry, a public hearing and submissions (including briefs provided by the Government of Canada and the Canadian Wheat Board). In a January 2002 letter to the USTR, responding to the release of the ITC’s report to the USTR, the Government of Canada noted that the ITC’s findings did not support the North Dakota Wheat Commission’s allegations of unfair trading by Canada, and reiterated that there is no basis for U.S. trade action against imports of Canadian wheat as requested by the petitioner. The Section 301 investigation concluded on February 15, 2002, with USTR’s announcement that trade action, as had been sought by the North Dakota Wheat Commission, would not proceed. USTR did undertake to review, with U.S. industry, countervail and anti-dumping options, as well as issues related to access to the Canadian market, and to examine the possibility of a WTO challenge. Canadian authorities will continue to defend Canada’s policies in the wheat sector, including responding to U.S. pressure in the WTO negotiations regarding the issue of state trading enterprises, and will closely monitor any developments emanating from the Section 301 outcome.

**U.S. Farm Bill**

U.S. federal agricultural and food policies are governed by various laws, many of which are considered, revised and renewed through an omnibus, multi-year Farm Bill. The current law, the Federal Agricultural and Reform Act of 1996, expires in September 2002.

On October 5, 2001, the U.S. House of Representatives passed its version of a Farm Bill which would cost about US$171 billion over 10 years. The House Bill would provide for significant increases in spending on trade-distorting forms of support. For example, the proposed Bill would extend eligibility for a new counter-cyclical program for grains and oilseeds, and re-authorize marketing loan and loan deficiency payments for those crops.

On February 13, 2002, the Senate passed its version of a new Farm Bill. The Senate version would provide for increased spending on production-distorting subsidies, reinstate abandoned ones (e.g. for honey) and extend them to new commodities such as peas and lentils. It also would include a counter-cyclical program which would provide the greatest assistance to producers of the main program crops (including wheat, barley, corn, soybeans) during low price periods. The Senate Bill would also require mandatory retail-level country-of-origin labelling for meats, as well as fruits and vegetables, and deny U.S. grading to U.S. meat obtained from Canadian animals slaughtered in the United States.

While the House and Senate versions have approved a similar amount of overall spending, there are significant differences in how the money would be spent. The two versions must be reconciled into a single bill through the Congressional conference process.

Canada has expressed serious concerns about the Farm Bill proposals, in particular, the increase in trade-distorting domestic support, and the provisions on meat grading and the mandatory country of origin labeling requirements. The dramatic domestic support increases run counter to the agreed objective in the WTO agriculture negotiations to achieve substantial reductions in trade-distorting domestic support.
Canada is examining carefully the consistency of the Farm Bill proposals with U.S. commitments under the World Trade Organization. We will continue to follow developments carefully and make our concerns known to Congress and the Administration as the legislation moves through Congress.

**Agricultural Subsidies**

Canada is increasingly concerned about the high and rising levels of domestic support to agriculture in the United States, especially to grains and oilseeds production, which contributes to the worldwide supply-demand imbalance that keeps prices down. Current proposals in Congress to further increase spending on trade-distorting forms of support and to extend such support to previously unsubsidized pulse crops are discouraging developments.

All WTO members are pursuing the objective of substantial reductions in trade-distorting domestic support, further to the WTO ministers’ declaration in Doha; however, developments in the United States do not appear to be consistent with that undertaking. Similarly, all WTO members committed themselves in Doha to reductions, with a view to phasing out, of all forms of export subsidies. It is the position of Canada and many other WTO members that we also need to address the export subsidy elements of other forms of export assistance, such as export credits, market promotion and development activities, and certain types of food aid. Canada also remains concerned about the possibility of increased use by the United States of export subsidies in third-country markets for certain commodities.

**Exports of Meat**

Cattle producers in the United States have been pushing for mandatory country-of-origin labelling for meat. Such a rule would require cattle, for example, to be born and raised in the United States for the meat to be labelled as U.S. beef. Given the highly integrated nature of the North American red meat industry, mandatory country-of-origin labelling would increase the costs of buying and processing imported meat and put Canadian exports at a disadvantage compared with U.S. meat. For example, trade impediments would result from a cumbersome and onerous U.S. identity preservation system for tracking animals born in Canada but raised and slaughtered in the United States. U.S. packers, processors, retailers and foreign governments, including Canada, have opposed mandatory country-of-origin labelling prompting the U.S. government to conduct two studies in 2000 to analyse the potential impact of a mandatory country-of-origin labelling requirement. Both studies concluded that mandatory country-of-origin labelling of meat is unlikely to provide any benefits to producers or consumers and is certain to impose costs on industry and government. Nevertheless, proposals were introduced in Congress regarding mandatory country-of-origin labelling for beef, lamb and pork in 2001. These proposals have been included in some versions of the new Farm Bill that Congress was still debating when this Report was prepared.

In addition, Congress is under pressure from domestic producers to discontinue U.S. Department of Agriculture (USDA) grading of imported beef, pork and lamb. A proposal to this effect was included in one version of the new Farm Bill. If implemented, this proposal would adversely affect Canadian exports and interfere with the growing integration of the North American red meat industries. Canada will continue to oppose elimination of USDA official grading for imported beef, swine and lamb.

**Sugar Syrups**

In 1999, U.S. Customs Service sought to reclassify sugar syrups so that the imports of the product would be classified under a tariff line subject to restrictive U.S. sugar tariff rate quotas. The U.S. Court of International Trade overturned this proposed reclassification in October 1999. In March 2000, the U.S. government and the U.S. Sugar Beet Association filed an appeal with the U.S. Circuit Court of Appeals of the U.S. Court of International Trade’s ruling. On August 30, 2001 the U.S. Circuit Court of Appeals upheld U.S. Customs’ proposed reclassification. The affected company has appealed the decision by requesting the Court to reconsider its findings.

There have been attempts to push legislation through Congress that would expand the scope of the U.S. sugar tariff quota to capture sugar syrups. A recent amendment attached to the Senate version of the Trade Adjustment Assistance bill, put forward by Senators Breaux and Thomas, was approved by the U.S. Senate Finance Committee. It would grant clear legal authority...
to the Secretary of Agriculture to halt imports of products deemed to be produced solely to circumvent U.S. customs law without regard to due process or U.S. international trade obligations. The amendment would cover agricultural products contained in Chapters 17, 18, 19 and 21 of the Harmonized Tariff System.

Canada has intervened with the U.S. Administration and Members of Congress to express Canada’s concerns about any attempts to legislate increased trade restrictions on sugar syrups. We have also expressed concerns about the broad scope and far-reaching implications of the proposed Breaux-Thomas amendment. The potential to reclassify a range of products into a trade-restrictive category without regard to established WTO procedures would constitute a clear breach of U.S. WTO obligations.

**Electricity**

As outlined in the U.S. National Energy Policy (Cheney Report), the U.S. Administration supports increased cross-border trade in electricity and reform of domestic mechanisms affecting trade, while respecting Canadian jurisdiction in areas such as reliability. Congressional efforts to restructure the sector and implement Administration initiatives remain stalled by concern arising from California’s failed deregulation and disagreement over federal and state jurisdiction. Canada continues to strongly oppose proposals for U.S.-imposed continent-wide systems reliability standards. Proposed requirements to provide reciprocal access for retail sales have disappeared from the federal landscape, but Canada remains concerned with provisions excluding Canadian-origin products and hydroelectric power from U.S. renewable energy markets. In the absence of federal legislation, states may proceed with initiatives inconsistent with the trade agreements, potentially affecting access for Canadian exporters. Canadian advocacy in this sector has raised U.S. awareness of a North American electricity market and the impact that discriminatory measures could have on this market.

While ongoing restructuring may create risks for Canadian electricity suppliers in the U.S. market, opportunities for increased trade are also available, influenced by new markets and market structures, innovation in services and expanding energy demand.

**Hemp Products**

On October 9, 2001, the U.S. Drug Enforcement Agency (DEA) published regulations regarding hemp foods and oil. These rules, which were effective immediately, ban hemp food products that use ingredients (hemp seed or oil) containing any tetrahydrocannabinol (THC) and require hemp body care companies to file for exemptions with the DEA to secure hemp oil imports. Hemp food companies were given a 120-day grace period to dispose of inventories, and all consumption was immediately banned. Any person who, as of October 9, 2001, possessed a THC-containing hemp product not exempted from control under this interim rule had until February 6, 2002, to dispose of the product in the manner described in the document. On February 7, 2002, the DEA extended the grace period for an additional 40 days, until March 18, 2002.

Interested parties were given until December 10, 2001, to comment on the new rules. Canada submitted comments on December 6, 2001. If the DEA determines, based on comments received, that a modification of this interim rule is warranted, such modification will be specified in the final rule. The Government of Canada is very concerned with these actions. It will continue to consult closely with Canadian industry on the matter and make representations to avoid any future trade problems.

**MONITORING DEVELOPMENTS AFFECTING CANADIAN INTERESTS**

**Record of Understanding on Agriculture**

The December 4, 1998, Canada-U.S. Record of Understanding (ROU) and Action Plan has continued to contribute to the management of bilateral agricultural trade relations. The Consultative Committee on Agriculture established under the ROU met twice in 2001, as did the Provinces/States Advisory Group. Intensified communications resulting from these meetings have helped both countries to better understand bilateral trade issues and have accelerated work to define solutions to emerging problems.

Real benefits to both countries have resulted from these cooperative efforts. For example, Canadian and U.S. agencies responsible for regulating pesticides
have agreed on work plans aimed at increasing information exchange and harmonizing their regulatory systems. Other positive aspects of the ROU include:

- the in-transit grain rail program, which moved 10,223 rail cars (about 941,000 tonnes) of U.S. wheat, barley and oats through Canada between January and October 2001, compared with 7,511 rail cars (about 691,000 tonnes) in all of 2000 and 6,998 rail cars (about 650,000 tonnes) in 1999;
- the joint publication of data concerning the U.S. and Canadian cattle inventories; and
- the expansion of the Restricted Feeder Program (formerly known as the Northwest Cattle project) to include additional states, with the result that imports under the program during the 2000-2001 import season reached a new high of 209,480 head of cattle.

Under the Action Plan, both sides have agreed to remove a range of measures that restrict access for livestock, equine semen, horticultural products and nursery stock. The work on minimizing the trade effects of regulatory requirements has become an even greater priority in the wake of the September 11 terrorist attacks and the subsequent moves by both Canada and the United States to enhance the security of their respective food supplies.

**Forest Certification**

There is an ongoing demand in the U.S. market for forest products that are certified as having been manufactured using wood that comes from sustainably managed forests. The Canadian industry is endeavouring to address this demand, using one or more of the four certification schemes currently available or under development in Canada.

Canada is broadly supportive of certification as a voluntary, market-based tool to promote sustainable forest management. However, we want to ensure that certification is not used as a market access barrier. In particular, Canada would be concerned by any measure requiring mandatory labelling for forest products based on non-product-related process and production methods. Also of concern are procurement policies that specify that all product must carry the label of one specific certification scheme to the exclusion of other equivalent approaches. As well, Canada remains vigilant to protect against raw material specifications based on local conditions or inappropriate criteria. We will continue to monitor our access to key markets with a view to ensuring that certification remains a voluntary marketplace activity and that criteria consistent with Canadian forest values are used to evaluate Canadian products.

Certification best supports sustainable forest management when all equivalent certification schemes are recognized in the market. For this reason, we support those who propose equivalency and mutual recognition of various similar certification schemes.

**Industrial Alcohol**

United States regulations require that all industrial alcohol must pass through a U.S. registered Distilled Spirits Plant (DSP) for testing to avoid an excise tax of $13.50 per proof gallon on all alcohol entering the U.S. market. Because most American manufacturers of industrial alcohol are already recognized as DSPs, this situation provides an unfair competitive advantage for U.S. producers, and allows U.S. DSPs to acquire privileged information about their Canadian competitors. Canadian officials have conveyed to the Office of the U.S. Trade Representative the view that the DSP system is not consistent with U.S. obligations under NAFTA and the WTO Agreements with respect to national treatment and conformity assessment procedures. Discussions with the U.S. government are ongoing in an effort to resolve this issue.

**U.S. State Taxation Issues**

**Michigan**

Imposition of Michigan’s Single Business Tax has been resolved favourably for both manufacturers and transportation firms, with compromise solutions agreed to by the major industry associations in Canada. Although some tax will be collected by Michigan, the amount of tax collected and the administrative burden will be minimal. Canadian firms must be aware of their tax liability in Michigan. For more information, please visit the Michigan treasury Web site (www.treasury.state.mi.us/lawrules/rabs/rabindex.htm).

**Ohio**

A bill in the Ohio House of Representatives, HB405, would deny a deduction of payments for royalties and
interest made by corporations headquartered in the state, including payments made to entities outside the United States. Interest and royalty payments paid by a foreign subsidiary to a Canadian parent are generally taxable in Canada, which raises the potential for double taxation. Canada is concerned with this bill for the impact it could have on Canadian companies operating in Ohio and the considerable uncertainty it would create. An Ohio Senate version of the same bill does not contain this provision.

**Pennsylvania**

State taxes, including the Capital Stock/Franchise Tax, the Corporate Net Income Tax and the Gross Receipts Tax, have been applied to Canadian trucking companies retroactive to 1992. Only income-based taxes are recognized by Revenue Canada as creditable against income tax in Canada. The imposition of taxes that are not based on income carries an element of double taxation that has a negative impact on Canadian trucking companies with business in Pennsylvania. Moreover, Canada is also concerned with the retroactive imposition of taxes on a somewhat arbitrary basis, as there is evidence to suggest that the amount of tax claimed differs considerably across firms of roughly similar profiles and business volumes in the state.

The Gross Receipts Tax was abolished by the state in 1998, and the Capital Stock/Franchise Tax, called a “job killer” by the previous governor, is being phased out, but not until 2008. Canada has made representations to the state that, in addition to our concerns above, the relatively small amount of tax claimed does not justify the significant administrative burden either for the state or for the firms involved.

**Marine Mammal Protection Act (MMPA)**

The U.S. Marine Mammal Protection Act prohibits trade in marine mammal products regardless of a species’ conservation status. It therefore appears to be inconsistent with U.S. international trade obligations. For example, under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), neither ringed nor harp seals are considered threatened or endangered, and therefore no monitoring or trade restrictions are justified on the movement of products from either species. However, under the MMPA, both species are restricted, so that no imported product made from individuals of these species is allowed into the United States. Canada has communicated its concerns to the U.S. Administration.

**OTHER ISSUES**

**Customs and Administrative Procedures**

Customs officials from both Canada and the United States continued work on initiatives under the Shared Border Accord. These included the promotion of programs for low-risk travellers, simplifying the process for traders of low-risk commercial goods, and exploring the use of technology and the possibility of joint inspection facilities. The NEXUS pilot, for travellers pre-approved by Canadian and U.S. inspection agencies, continued with an evaluation being carried out. A positive evaluation result is expected to lead to expansion of the NEXUS program. As well, a report, *Building a Border for the 21st Century*, jointly authored by Canada and the United States, was produced outlining the discussions that took place during the two meetings of the Canada-U.S. Partnership (CUSP).

Further progress on customs and administrative procedures has been shaped by the terrorist attacks of September 11, 2001. Both countries are committed to a secure border that will not negatively affect the flow of legitimate trade and travel. This commitment was underlined in December 2001 with the signing of the Smart Border Declaration by Canada’s Minister of Foreign Affairs and the Director of Homeland Security for the United States.

**Intellectual Property**

Under Section 337 of the U.S. Tariff Act of 1930, imported products that are alleged to infringe upon U.S. intellectual property (IP) rights can be barred from entering the United States by the U.S. International Trade Commission. Section 337 provisions contain more direct remedies against alleged infringers than those available in U.S. domestic courts, and the administrative procedures in the U.S. International Trade Commission can be more onerous. U.S.-based alleged infringers face proceedings only in the courts, whereas non-U.S.-based importers may face proceedings both in the courts and the U.S. International Trade Commission.
In 1989, a GATT panel found that Section 337 violated GATT obligations. The Uruguay Round implementing legislation has removed some of the inconsistencies with new WTO Trade-Related Aspects of Intellectual Property Rights obligations. However, Section 337 complaints are still being brought against Canadian companies, which thereby face additional procedural burdens in defending against allegations of intellectual property infringements. The Government of Canada will continue to monitor specific cases closely, including potential international trade disputes on the matter, in order to determine what steps might be taken to ensure that Canadians are treated in accordance with U.S. international trade obligations.

**Trade Remedies**

The Government of Canada continues to monitor trade remedy developments in the United States in order to ensure that any new rules, and the implementation of existing ones, conform with U.S. international trade obligations. In this regard, Canada made specific representations on regulations regarding Section 29 of the Crude Oil Windfall Tax Act of 1980, which directly subsidizes U.S. coal exports; on regulations implementing the Agricultural, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2000 (“Byrd Amendment”), which provides for the distribution of anti-dumping and countervailing duties to domestic producers afforded import protection by such duties; on a proposed modification of the Emergency Steel Loan Guarantee Act of 1999; on proposed changes to International Trade Commission procedures for conducting a Section 201 or safeguard investigation; on Canadian policies covering the wheat sector, in the context of the investigation under Section 301 of the U.S. Trade Act of 1974; and on several anti-dumping, countervailing and safeguard investigations conducted by the United States.

**Trade Remedy Investigations**

In 2001, four anti-dumping investigations were initiated and conducted by the United States on imports from Canada: softwood lumber, mussels, tomatoes and steel wire rod. All four were still active at the end of 2001. In addition, countervailing duty investigations were initiated on imports from Canada of softwood lumber and steel wire rod, and these also were still ongoing at the end of the year.

**Tomatoes**

At the time this Report was prepared, the U.S. International Trade Commission was continuing its analysis of alleged injury to the American greenhouse tomato industry. Public hearings on this issue were held on February 21, 2002 and the final decision by the ITC is expected in early April 2002. Canadian tomato exports to the U.S. were valued at $244 million in 2000. A final anti-dumping duty order would have the greatest impact on producers in British Columbia, who export 80% of their tomato crop to the U.S. The Government of Canada continues to monitor the investigation and to make representations as necessary.

**Steel**

On March 5, 2002, U.S. President Bush announced that the U.S. would impose additional tariffs on imports of fourteen specific steel products further to the recommendations of the U.S. International Trade Commission. Imports from Canada, and other countries with whom the United States has trade agreements, such as Mexico, Israel and Jordan, were excluded from any restrictions, as were imports of steel from developing countries.

The decision follows the recommendations made by the U.S. International Trade Commission (ITC) on December 7, 2001, which called for trade restrictive action on imports of a number of steel products, including several from Canada. The ITC had conducted a safeguard investigation in response to a request made by the U.S. Trade Representative in June 2001. Canada consistently and forcefully argued throughout the investigation, and through the U.S. Administration's consideration of its response, that restrictions on imports from Canada were not warranted. The Canadian Government, industry and unions all conducted an extensive advocacy campaign in the United States, aimed at the U.S. Administration, Congress, and the private sector. Canada argued strongly that steel imports from Canada are not contributing to any injury to the U.S. industry and therefore should not be subject to any import restrictions.

Restrictions on steel exports to the U.S. would significantly disrupt the operation of the integrated North American steel market. In 2001, Canadian steel exports to the United States were valued at $3.6 billion.

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OPENING DOORS TO THE AMERICAS
Government Procurement

Canada will continue to press the U.S. government to further open its procurement markets to Canadian suppliers. Currently, U.S. government exceptions under NAFTA and WTO procurement agreements prevent Canadian suppliers from bidding on a broad range of government contracts in sectors of key importance. Especially onerous are the set-aside programs for small and minority-owned businesses and the Buy American provisions. In addition, both long-standing and ad hoc legislative provisions, as well as conditions attached to funding programs, impede access for Canadian suppliers. The need for progress in both assuring and improving access for Canadian suppliers at the U.S. federal, state and local levels remains a key issue for provincial governments in determining whether to offer to open Canadian provincial and local government markets.

Small Business Set-Asides

The Government of Canada remains concerned about the extensive and unpredictable use of exceptions to the NAFTA and WTO agreements on government procurement for small business set-asides. Canadian suppliers face the ever-present possibility that government markets that they have successfully developed and supplied competitively will subsequently be closed through the application of the set-aside exception. The definition of a U.S. small business varies by industry, but is typically an entity with less than 500 employees in a manufacturing firm (up to 1500 employees in certain sectors) or annual revenues of up to US$17 million for services firms — determined by NAICS (North American Industry Classification System) code. Recently, U.S. federal departments and agencies have not been meeting their target of awarding 23% of contract dollars to small business. This has already resulted in new directives on enforcement of the existing programs and may lead to pressure to create new programs. In addition, the U.S. government requires contractors and major subcontractors on projects worth more than US$500,000 to include plans to subcontract work to U.S. small business. Canada is concerned that the use of such subcontracting plans impedes Canadian access to the U.S. market. We will continue to press the U.S. Administration on this matter.

Buy American

Buy American provisions are applied extensively to U.S. federal government procurement that is not covered by the NAFTA or the WTO. Since these trade agreements require equal treatment of Canadian offers only on direct purchases by the U.S. federal government, a wide range of other federal government procurement contains Buy American provisions.

Department of Defence Procurement

Under the Canada-U.S. Defence Production Arrangement and the Defence Development Sharing Arrangement, Canadian industry has access to a huge market for equipment and R&D. This relationship requires continuous vigilance and maintenance to prevent erosion, whether intentional or inadvertent.

Buy American Provisions in Federally Funded Sub-Federal Procurement

Buy American provisions are attached by the U.S. federal government to federally funded sub-federal procurement (i.e. by making such provisions a condition of funding to state and municipal organizations). Canada continues to seek improvements to the limited access available to this important U.S. procurement market, which includes transit, highway and aviation projects.

Almost all large transportation contracts in the United States are federally funded, but they are administered by state and local government or private sector organizations. The Transportation Equity Act for the 21st Century (known popularly as TEA-21) provides funding for these projects through fiscal year 2003. The Federal Highway Administration (FHWA) and Federal Transit Administration grant TEA-21 funds to state and local governments and transportation authorities for transportation projects on condition that U.S. material and equipment are used. Projects funded by the FHWA require all iron and steel products and their coatings to be 100% U.S.-manufactured. Projects funded by the Federal Transit Administration require all steel and manufactured products to have 100% U.S. content and be 100% U.S.-manufactured. Rolling stock (trains, buses, ferries, trolley cars, etc.) components must have 60% U.S. content, with final assembly occurring in the United States. The codification, in 1998, of a definition of “final assembly,” which
was formerly left to the discretion of the procuring organization, has resulted in a further narrowing of the opportunities for Canadian suppliers to participate in such projects.

Similar conditions prevail for airport projects that receive funds from the Federal Aviation Administration as authorized by the Airport and Airways Facilities Improvement Act. Such projects require that all steel and manufactured products have 60% U.S. content and that final assembly occur in the United States. Canada will continue to press for improved access to procurement markets in these areas.

**State and Local Government Preferences**

A wide variety of procurement preferences exist at the state and local levels. For example, in 2000, New York State amended legislation resulting in the addition of Ontario and Quebec suppliers to a list of several U.S. states whose suppliers are excluded from New York State procurement. Ontario and Quebec suppliers were removed from this list in 2001. In addition, many U.S. federal government Buy American provisions are included in state and local procurement when federal funding is provided. Canada remains concerned that access for Canadian suppliers is constrained and unpredictable as a result of these preferences. Canada will continue to press for elimination of U.S. state and local level preferences.

**Legislative and Regulatory Changes**

Regulations in civilian and defence procurement, which can affect market access for Canadian suppliers, change constantly. Canada continues to press the United States to clarify and resolve potential inconsistencies between its NAFTA obligations and certain acquisition procedures that appear to limit Canadian participation. These include simplified acquisition procedures for all procurement under US$100 000 and those used for commercial items to a value of US$5 million. Canada is also concerned about the propensity of U.S. legislators to incorporate restrictive procurement provisions into legislation, such as appropriations acts, on an ad hoc basis. Often relating to specific products, such action appears to be taken without full consideration of the potential for inconsistency with international trade obligations.

**IMPROVING ACCESS FOR TRADE IN SERVICES**

**Financial Services**

The Gramm-Leach-Bliley Act, passed in 1999, is the most important piece of financial services legislation enacted in the United States in decades. The act allows foreign financial institutions to become financial holding companies and to engage in activities that they could not engage in before. With respect to the cross-border provision of services, Canada continues to seek a level playing field in securities, and it continues bilateral discussions with the United States on this. Further, as required under the NAFTA, Canada, the United States and Mexico meet annually to address financial services issues.

**Telecommunications**

Some Canadian services providers have encountered problems and lengthy delays in obtaining licences to provide telecommunications services in the United States. Consequently, Canada will continue to carefully monitor U.S. implementation of its WTO commitments with respect to telecommunications services to ensure that Canadian services providers are subject to timely and transparent licensing procedures.

**Shipping**

A number of maritime laws (collectively known as the Jones Act) impose a variety of limitations on foreign participation in the U.S. domestic maritime industry. Canada’s particular concerns relate to the “U.S.-build” requirement, which precludes the use of Canadian-built vessels in U.S. domestic marine activities. In international shipping, there are limitations on foreign ownership of vessels eligible for documentation in the United States. In addition, several subsidies and other support measures are available to operators of U.S. vessels. These restrictions (coupled with the defence-related prohibitions of the Byrnes-Tollefson Amendment) limit Canadian participation in U.S. shipping activities.

Maritime transportation services will likely form part of the discussions in the current negotiations on services in the WTO. Canada will continue to use every appropriate opportunity to raise the issue of U.S. limitations on maritime transportation services that adversely affect Canadian interests.
Temporary Entry

Cross-border trade and the facilitation of temporary entry to the United States remain priority issues for trade in services. Canada continues to discuss broader border management issues on an ongoing basis with Canadian services providers and the United States, through a variety of bilateral mechanisms including the Shared Border Accord, Border Vision and the Canada-U.S. Partnership.

Section 343 of the U.S. Illegal Immigration Reform and Immigrant Responsibility Act would require any alien seeking U.S. employment as a health care worker to present a certificate from a U.S. credential-issuing organization verifying the person’s professional competency and proficiency in English. An interim rule is currently in place that affects only those health care workers seeking admission to the United States on a permanent basis. An indefinite waiver of inadmissibility for health care workers seeking temporary entry remains in effect pending final implementation of the regulations. However, this waiver is a temporary solution, and Canada continues to press its view to the U.S. Administration and Congress that the duplicative certification requirements of Section 343 violate U.S. NAFTA obligations. Our ultimate goal is to see the U.S. Administration maintain a permanent waiver of inadmissibility for health care workers seeking temporary admission to the United States. There has been no recent action on Section 343 by the United States. Canada continues to pursue the issue.

STANDARDS-RELATED MEASURES

Canada continues to engage in a constructive dialogue with the United States, principally in the NAFTA Committee for Standards-related Measures, to urge that national regulatory burdens on industry be minimized while allowing industry to self-regulate in the context of an increasingly integrated North American market.

The four NAFTA sectoral subcommittees — automotive, land transportation, telecommunications and textile labelling — also provide excellent forums for trilateral cooperation in the area of standards and regulations. The land transportation and textile labelling subcommittees are pursuing a work program intended to harmonize standards and facilitate trade; they have achieved substantial progress in the area of driver/vehicle compliance for trucks and the care labelling of textile goods, respectively. In the telecommunications and automotive sectors, where standards measures have been generally complementary, the subcommittees are pursuing further bilateral cooperation, along with increased coordination of activities in international forums.

Canada is seeking more complete implementation by the United States of its NAFTA and WTO sub-federal commitments, with a view to the upgrading or modernization of U.S. sub-federal standards measures, complementing the volume and variety of our trade in manufactured goods. Canada is also working to enhance bilateral dialogue at the provincial and state level in order to increase cooperative activities in the area of standards and regulations development.

Finally, Canada will continue to encourage cooperation with the United States in the development and use of voluntary consensus standards for the North American market as a substitute for national regulatory requirements. These standards initiatives will be joined by moves designed to provide appropriate conformity-assessment services.

Mexico

Overview

Since the mid-2000 historic election of President Vicente Fox, the Mexican government has continued its attempts to push various reform measures through an opposition Congress. Attracting foreign investment is a priority for the Fox administration, along with job creation, fiscal reform and elimination of the budget deficit, government restructuring, further privatization, further reduction of inflation, restoration of credit markets and a more equitable redistribution of wealth. The fundamental building block of economic stability has been assisted by the stabilization of inflation, which for 2002 has been forecast to reach a record low of 4.5%, possibly dropping to 3% in 2003. Foreign direct investment flows into Mexico have continued apace, doubling in 2001 to a record estimated US$22 billion. Risks include the continued slow pace of necessary economic and political reforms, and the timing of the U.S.-led recovery. Another key variable is the price of oil, as petroleum continues to account for over one third of the government’s revenue.
With an economy increasingly in step with the North American business cycle, Mexico has had to adjust to the general downturn. Growth in gross domestic product (GDP) fell to around zero in 2001, a steep decline from the 2000 rate of 7.1%. For 2002, there should be renewed growth projected at 1.7%, as the heavily export-based economy revives; for 2003, GDP growth may reach 4%. Imports, which dropped 4.1% in 2001, should see a 1% growth rate in 2002, with exports (which dropped 3.9% in 2001) increasing 2.4%.

Mexico’s strategic trade liberalization policy, initiated a decade ago, has consolidated its position as a global trading hub. It has now established a wide network of agreements that provide it with preferential access to over 30 countries, including those of the European Union. This network accounts for more than 60% of the world’s GDP and provides preferential access to a potential market of over 870 million consumers.

In spite of these achievements, more than 85% of Mexico’s trade remains with the U.S. Implemented in 1994, the NAFTA has spurred Mexican economic and trade development. Canada-Mexico two-way trade soared from $5.6 billion in 1994 to $14.6 billion in 2001; in the same period, Canadian exports more than doubled from $1.1 billion to $2.5 billion. Canada is Mexico’s second-largest export market and trading partner.

With respect to foreign direct investment, Mexican investment in Canada remains low at $132 million in 2000. Canadian investment, however, has tripled since 1994, reaching $3.4 billion in 2000. More than 50% of Canadian investment is in manufacturing.

Canada has an increasingly broad relationship with Mexico. While implementing the NAFTA has been a priority, it represents only one aspect of this expanding bilateral relationship. Contacts between heads of government and ministers are increasingly frequent. With Mexico playing host to Asia-Pacific Economic Cooperation meetings in 2002, these relations will continue to be strong.

Continued market expansion and increased penetration potential will keep export attention focused on priority sectors, including energy equipment and services, agri-food, automotive and auto-related industries, environmental technologies, and information and communications technologies. Under the NAFTA, as of January 1, 2003, all tariffs will be eliminated on trade in originating goods between Canada and Mexico except for tariffs on beans and corn, which will be eliminated in 2008, and on dairy, poultry and egg products, which were excluded from the agreement with Canada.

**Market Access Results in 2001**

- As part of the NAFTA tariff acceleration exercise, on January 1, 2002, Mexico eliminated tariffs for certain automobiles, trucks and wood pulp, railway stock parts, and graders and levellers a year ahead of schedule.
- The Government of Canada and the governments of Quebec, Ontario, Manitoba, Saskatchewan and Alberta have joined efforts, in a pilot project, to offer a new service for Canadian agri-food exporters at the Mexico-U.S. border. The service, officially launched on October 30, 2001, consists of the presence of a full-time border clearance representative stationed at Nuevo Laredo, Mexico, to ensure that Canadian companies are well prepared to meet Mexican requirements. This individual will also be available to ensure that any difficulties that do occur are resolved quickly, so that Canadian agri-food products can move more smoothly across the border.

**Canada’s Market Access Priorities for 2002**

- Continue representations to remove the ban on P.E.I. and New Brunswick seed potatoes and for a resumption of trade based on the 1998 bilateral agreement.
- Clarify Mexican requirements for certification of processed foods.
- Continue discussions for improved Canadian access for frozen french fries and dry beans.
- Monitor Mexico’s implementation of the elimination of duty drawbacks for final products being exported to Canada, which began on January 1, 2001, in particular the sectoral promotion programs (Prosecs) established to compensate for the elimination of duty drawbacks.
- Secure the implementation by Mexico of a mutual recognition agreement to allow Canadians to provide engineering services in Mexico.
- Continue to advocate in favour of a stronger and wider mandate for the country’s national energy
regulatory agency (CRE), which will level the playing field for Canadian energy investors facing the dominant market power of the state-owned energy companies in Mexico.

Continue to urge Mexico to finalize its list of services excluded from the NAFTA government procurement chapter, to monitor the use of national content requirements in government procurement in Mexico, and to ensure that the National Petroleum Utility (PEMEX) and the National Electricity Utility (CFE) comply with NAFTA disciplines on government procurement.

**IMPROVING ACCESS FOR TRADE IN GOODS**

**Acceleration of Tariff Elimination for Canadian Goods Exported to Mexico**

The NAFTA provides for the eventual elimination of most duties on goods traded between its three members by January 1, 2003. Article 302 of the NAFTA provides for accelerated elimination of duty on goods traded under the Agreement, subject to consultation and agreement between the governments. Following consultation with the private sector, Canada and Mexico agreed to a fourth acceleration exercise that eliminated customs duties as of January 1, 2002, on most motor vehicles, wood pulp, railway stock parts, and graders and levellers. Under the NAFTA, these duties were originally scheduled to be eliminated on January 1, 2003. Additionally, Mexico has agreed to eliminate duties on a series of goods that, as a result of the Mexico-European Union Free Trade Agreement, are now free of duty for the EU.

**Seed Potatoes**

Canada and Mexico concluded a bilateral phytosanitary agreement in 1998. The agreement worked well for two years. However, in December 2000 and January 2001, Mexico imposed bans on imports of New Brunswick and P.E.I. potatoes on alleged phytosanitary grounds. Canada has been making high-level representations objecting to these recent actions. Our position is that there is no scientific justification for these measures. Over the last year, agreement has been reached on the establishment of a technical committee to address these issues. We will continue representations to Mexico to allow trade from all provinces to resume under terms of the 1998 agreement.

**Processed Food Certification**

Canada and Mexico agreed at the September 2000 meeting of the WTO Committee on Sanitary and Phytosanitary Measures to hold further bilateral discussions on Mexico’s certification requirements for processed food. This continues to be a priority for Canada, as we need to clarify Mexican requirements for some processed foods and discuss a range of related issues. Canada has engaged the services of a border clearance representative to assist with border clearance of processed foods, but documentation remains problematic and changes are frequent.

**Frozen French Fries**

Under the NAFTA, Mexico established a TRQ on frozen fries with an over-quota tariff of 20%. This tariff is due to be eliminated on January 1, 2003. Demand for frozen potato products in Mexico, especially from food services chains, has been growing rapidly and has been supplied by imports. However, market access for frozen french fries has been limited by the small size of the TRQ, while the 20% over-quota tariff imposes unnecessary costs on importers and consumers. Canada has raised this issue with Mexico on several occasions and will continue bilateral discussions aimed at obtaining better market access for this product.

**Dry Beans**

Under the NAFTA, Canada was allocated a TRQ for dry beans. Unfortunately, Mexico has not administered the quota allocation process in a transparent way. Canadian exporters are concerned that their ability to fill the quota has been affected both by the uncertainty associated with delays in quota allocation and by the resulting short time frame for delivery of product to market. Some progress was made on this issue in 2000, when Mexico agreed to implement three auctions a year for the allocation of the dry bean TRQ. However, once again there were delays in the auctions and pressures from Mexican industry for protectionist measures. Canada will continue to advocate for increased transparency and predictability in the auction system and for the possibility of maintaining a continuously open market throughout the year.
**High Fructose Corn Syrup**

On January 2, 2002, the Mexican government introduced a point-of-sales tax on soft drinks containing sweeteners other than cane sugar. This tax effectively closes the door to exports to Mexico from Canada's primary high fructose corn syrup producer as soft drink manufacturers in Mexico switch to cane sugar as their principal sweetener. Canadian exports of high fructose corn syrup to Mexico have been significant in recent years and were expected to increase in 2002. Canadian corn producers will be adversely affected as well. The tax also raises questions as to its consistency with Mexico's international trade obligations. On March 5, 2002, President Fox announced a seven month suspension of the tax using special powers allowed him under the Constitution. The seven month time frame will allow the government to put into place its new National Sugar Policy, which will be designed to stimulate the recovery of the Mexican sugar sector. The Government of Canada had already made several representations to the Government of Mexico outlining its concerns regarding the tax and will continue to follow the issue closely and intervene as necessary.

**Customs-Related Issues**

Mexico requires that all goods, prior to entering the country, be customs-cleared and have any duties paid on the U.S. side of the border, adding extra time and costs to all shipments. Mexico also currently lacks an expedited process to deal with the movement of small packages and courier goods across its border. Canada will explore ways to deal with systemic border issues. In the case of agricultural products, Canada has established a border clearance representative to assist with border clearance; it has also reached agreement with Mexico to hold further consultations on opportunities to exchange information and to explore the potential for cooperation on border management issues, with the goal of improving transparency and efficiency. In the case of meat products, delays at the border and product rejections have been more frequent recently due to changes in the application of Mexican sanitary standards (NOMs). Animal health products have also been affected. The Canadian Food Inspection Agency and embassy officials have met with Mexican representatives to address these concerns, but resolutions to the problems have been slow in coming.

**Elimination of Duty Drawbacks on January 1, 2001**

As of January 1, 2001, Mexico phased out the duty-drawback system in order to comply with its obligations under NAFTA Article 303. The obligation effectively put an end to the duty-free import status for inputs from non-NAFTA countries that were subsequently exported to Canada and the U.S. In order to offset the potentially devastating effects on the maquiladora industry, Mexico instituted a system of sectoral promotion programs (Prosecs), reducing duties on a most-favoured-nation basis on various non-NAFTA country inputs used in the maquiladora industries. Canada will continue to monitor the elimination of the duty drawbacks and the use of the Prosect system.

**Mexican Mandatory Technical Regulations**

Mexico maintains an elaborate system of mandatory technical regulations knowns as NOMs. The Federal Metrology and Standardization law of 1992 laid the foundation for Mexico’s system for standards and mandatory technical regulations. Under the system, standards development is coordinated by the trade and industry ministry (Ministry of the Economy or Economia). Each year, Economia issues a national standardization plan that outlines areas where ministries intend to amend or add technical regulations and standards. Standards development activities not listed in the annual standardization plan must wait for the next year’s cycle to commence. Canada continues to monitor the establishment and implementation of new and existing mandatory technical regulations in Mexico, in particular where there is a potential for negative impact on Canadian exports.

**Improving Access for Trade in Services**

**Professional Services**

In June 1995, the engineering professions of the NAFTA parties signed a mutual recognition agreement (MRA) on the licensing and certification of engineers. However, this agreement has not been implemented on a trilateral basis due to lack of support in the United States. (Only Texas has taken steps to implement the MRA.) The relevant engineering bodies of Canada (the Canadian Council of Professional Engineers [CCPE])
and Mexico have been ready to implement the agreement for over two years. In the absence of consensus among U.S. engineering interests, the CCPE and its Mexican counterpart have decided to implement on a bilateral basis. This was confirmed by an exchange of letters between our respective trade ministers in early 1999. Canada will work with Mexico to ensure that the bilateral agreement is implemented in 2002.

**Trucking**

Under Chapter 12 (cross-border trade in services) of the NAFTA, the United States agreed to open its border states (Texas, Arizona, New Mexico and California) to Mexican trucks carrying international cargo by December 18, 1995, and to open its entire territory to them by January 1, 2000.

However, citing safety concerns, the United States refused to approve any new applications from Mexican trucking firms for operating authority in the United States. Following a NAFTA panel decision in favour of Mexico in November 2001, the U.S. reached domestic agreement on a measure that will give Mexican truckers wider access to U.S. territory. The accord may achieve the twin goals of assuring the safety of Mexican trucks operating in the U.S. and honouring NAFTA trade obligations, but the Mexican government will need time to evaluate the implementation of the U.S. decision. Canada expects that Mexico will cooperate fully in ensuring that Canadian trucks will be able to cross the U.S.-Mexico border and have full access to the Mexican trucking services market, as required by the NAFTA.

In the meantime, Canadian trucking companies continue to enjoy successful business relationships with Mexican trucking companies. Access to Canada for Mexican and American cross-border trucking services will remain open, provided that trucks meet Canada’s transportation requirements, especially with respect to safety.

**OTHER ISSUES**

**Investment Climate in Mexico**

Since 1994, Mexico has implemented a series of regulatory and legal reforms designed to provide more legal certainty and transparency to both domestic and foreign investors. Mexico has also signed numerous reciprocal investment protection agreements. While welcoming these reforms and the Administration’s commitment to improving investor confidence, Canadian companies continue to ask for improvements in the Mexican investment climate, in particular with respect to the complexity and lack of transparency of the Mexican legal, tax and procurement systems and to personal security issues. Canada will continue to monitor Mexico’s progress toward more transparent and consistent legislation and regulation for Canadian investments in Mexico. Canada will also monitor further investment opportunities for Canadian companies in the Mexican energy sector and the strengthening of the Mexican energy regulator (CRE).

**Government Procurement**

According to NAFTA Annex 1001, Mexico should have developed, consulted with other parties and completed its list of excluded services by July 1, 1995. This list is still pending, creating uncertainty for Canadian business. Canada will continue to press Mexico to finalize its schedule of excluded services as early as possible.

The implementation of the NAFTA has improved the transparency and openness of the Mexican procurement process. However, Canada would like to work with Mexico to resolve certain concerns that have been raised, including those over pressures in Mexico for local subcontracting.

Mexico negotiated set-asides from full NAFTA procurement coverage for the state oil (PEMEX) and electricity (CFE) firms for a transitional period (until January 1, 2003). Canada will continue to monitor Mexico’s application of these set-asides to ensure that Canadian companies can fully benefit from procurement by these two state-owned companies.

**Trade Data Reconciliation**

The significance of commercial relationships is measured to a large extent by the size of trade flows. However, statistics produced by countries on their merchandise trade with the rest of the world frequently differ from the statistics published by their trading partners. These differences reflect legitimate conceptual differences between import and export statistics, as well as possible errors. Discrepancies between Canadian and Mexican statistics are significant and increasing. For this reason,
agencies from Canada and Mexico continue to carry out reconciliation exercises to identify and quantify the causes of the differences in merchandise trade statistics reporting.

**Free Trade Area of the Americas (FTAA)**

Canada is one of the 34 democratic countries of the hemisphere engaged in negotiating the Free Trade Area of the Americas. The FTAA negotiations, which were launched in April 1998, hold the potential to create the world’s largest free trade area, with 800 million people and a combined gross domestic product of nearly $17 trillion. The FTAA will build on Canada’s free trade ties with the United States, Mexico, Chile and Costa Rica, and its expanding links elsewhere in the hemisphere, allowing Canada to take full advantage of emerging hemispheric markets. The FTAA will co-exist with pre-existing agreements such as the NAFTA. This means that Canada’s trade with the United States and Mexico will continue to be governed by the NAFTA. The FTAA would substitute for the NAFTA in these relations only if all three parties agreed. Even excluding Canada’s NAFTA partners, the region is already a $3.7-billion export market for Canada, and it is the destination for $44 billion in Canadian direct investment (representing 14.6% of Canada’s total direct investment abroad). The negotiations are to conclude by 2005.

The origins of the FTAA initiative date back to the first Summit of the Americas, held in Miami in December 1994. The Summit process was established to strengthen cooperation among the community of nations in the Americas, with the objective of promoting prosperity, democracy and development throughout the hemisphere. Detailed plans of action were endorsed by leaders at the Miami, Santiago and Quebec City Summits, addressing education, democracy and human rights, economic integration and free trade, poverty and discrimination, and the environment. At the Quebec City Summit, it was also agreed that the draft negotiating texts of the FTAA would be made public. The FTAA is the most visible element of the Summit process, but its principal objectives — growth and development through enhanced economic integration — are ultimately intended to reinforce the Summit’s broader objectives. Canada continues to play a significant role in the broader Summit process, having hosted the third Summit of the Americas in Quebec City, from April 20 to 22, 2001.

Canada’s leadership role as first chair of the FTAA negotiations was seen as a key opportunity to demonstrate our commitment to strengthening ties within the hemisphere, as well as to further the trade liberalization agenda. By the conclusion of Canada’s chairmanship of the negotiations at the November 1999 Ministerial Conference in Toronto, concrete progress had been realized and the groundwork laid for the next phase of the negotiations. The second phase of the negotiations, chaired by Argentina, concluded with the Ministerial held in Buenos Aires in April 2001. Chairmanship of the FTAA process was transferred to Ecuador on May 1, 2001, and will be held jointly by the United States and Brazil from the next Ministerial in October 2002 to the end of the negotiations. Canada is working closely with Ecuador to advance the negotiations and currently chairs the Joint Government-Private Sector Committee of Experts on Electronic Commerce. Logistical support for the negotiations is provided by an Administrative Secretariat, located as of March 1, 2001, in Panama City.

**FTAA Results in 2001**

- Production (by negotiators, carrying out ministers’ instructions) of a draft, square-bracketed text of the various issue areas of the FTAA Agreement for ministerial review in Buenos Aires in April 2001.
- Commitment by ministers to conclude negotiations by January 2005 and implement the Agreement by no later than December 2005.
- Agreement to make public the draft negotiating texts of the FTAA.
- Precise negotiating instructions and time lines for the negotiating groups for the next phase of negotiations.
- Development of a more effective mandate for the FTAA Committee of Government Representatives on the Participation of Civil Society.

**Canada’s Objectives in 2002**

- Advance agreement on an integrated draft text of the FTAA Agreement and begin sectoral market access negotiations by May 2002.
■ Obtain consensus among FTAA countries on the establishment of an interim FTAA committee on sanitary and phytosanitary measures (SPS) to facilitate FTAA countries’ day-to-day SPS activities.
■ Advance the development of an institutional structure for the FTAA.
■ Continue to enhance, through active engagement in the FTAA Committee on the Participation of Civil Society, the participation of civil society in the FTAA process.
■ Ensure greater transparency of the FTAA process, for example, through enhancing the public’s access to information.

Mercosur

Overview

Argentina, Brazil, Paraguay and Uruguay established the Southern Cone Common Market (Mercosur) in 1991 through the Treaty of Asunción. Mercosur provides for the free circulation of goods, services, capital and labour; a common external tariff; and harmonized macroeconomic and sectoral policies by 2006. With 215 million consumers (compared with 400 million in the NAFTA), this customs union is Canada’s largest export market in South America. In 2001, reflecting a decrease in trade with Argentina, two-way trade was $3.1 billion, with Canadian exports totalling $1.1 billion compared with $1.29 billion in 1999. Canada’s main exports to Mercosur are paper products, potash, wheat, telecommunications equipment and information technology (IT), aircraft parts, petroleum products, machinery, malt, minerals, plastics, rolling stock and pharmaceuticals. Canadian foreign direct investment (FDI) is concentrated in the aluminum, oil and gas, mining, power generation, telecommunications equipment and services sectors and has increased significantly in recent years. In 2000, Canadian FDI was estimated at $8.7 billion for the Mercosur countries and an additional $5.5 billion for Chile, an associate member.

Partially harmonized common external tariffs were implemented in 1995, and already about 90% of all internal trade is duty-free. The exceptions to the common external tariff, such as the hundreds of individual tariff lines for each country, are to be eliminated by 2006. In 2000, after months of difficult negotiations, Brazil and Argentina concluded the final text of Mercosur’s automotive regime. As trade in automobiles and auto parts comprises at least 30% of intra-Mercosur trade, this is an important agreement. Several irritants in the agricultural sector are yet to be resolved. As well, there has been no progress on the free movement of labour component of the Mercosur agreement.

Mercosur is engaged in an expansive external agenda that includes negotiating closer ties with the Andean Pact, the EU, South Africa and the United States, on the one hand, and a dialogue with Japan, China, the European Free Trade Association (EFTA), Canada and Israel, on the other. Since its inception, Mercosur has negotiated and entered into free trade agreements with Chile and Bolivia. Although Chile and Mercosur were to have deepened their discussions with respect to Chile’s full participation in the bloc, the timing is now unclear in light of Chile’s bilateral free trade negotiations with the United States. Further integration of Chile into the Mercosur trading bloc is problematic because Chile has a significantly lower import tariff structure — 9% on average compared with Mercosur’s 14%.

Mercosur has also reached a framework agreement with the EU and is looking at 2005 for full implementation. Offers have been made on both sides, and these are currently being reviewed. Market access for Mercosur agricultural products remains a key condition for significant progress in these discussions. Mercosur countries have also agreed to launch free trade talks with South Africa, with significant bilateral trade in automotive parts being a key area of convergence. As well, Mercosur and Mexico have had negotiations on the expansion of their current automotive trade regime, which would include progressive tariff liberalization on autos and auto parts and be completed by 2010. Since September 2001, the U.S. and Mercosur have held high-level discussions under a 4+1 bilateral consultation mechanism established in 1991 and now reactivated.

At the August 2000 meeting of 12 South American presidents in Brasilia, initiated by Brazil, presidents agreed to establish a “senior officials and civilian representatives consultative forum.” This forum would explore joint actions in the area of trade and investment with a view to consolidating and deepening integration in the region. Presidents also agreed to begin negotiations to establish a free trade area encompassing Mercosur and...
the Andean Community before January 2002. Suriname and Guyana would eventually be invited to participate, thereby creating an “integrated economic area” throughout South America. At the Summit of the Americas in Quebec City in April 2001, Brazil’s President Fernando Cardoso underscored his commitment to Mercosur, describing it as “an absolute priority for Brazil, an achievement that is here to stay [and] which will not cease to exist because of participation in integration schemes of a wider geographical range.”

Despite widely publicized internal problems, Mercosur member countries consider Mercosur’s political and economic achievements to date to be substantial. Nonetheless, various factors — Argentina’s economic problems and that government’s recent steps to try to alleviate the situation, Brazil’s own internal economic problems (the energy crisis, fall in the value of the real, etc.), rumblings of discontent in Uruguay and Paraguay with respect to the level of the common external tariff, and further fine-tuning of the automotive regime — all point to challenging days ahead.

**Trade and Investment Cooperation Arrangement (TICA)**

Signed in June 1998, the Canada-Mercosur Trade and Investment Cooperation Arrangement laid the foundation for enhanced bilateral trade and investment and established a framework for collaboration in the FTAA, the WTO and the Cairns Group. The first Consultative Group meeting called for under the TICA took place during the FTAA meeting in Toronto in November 1999. At that meeting, a proposal was made to form two committees: one to study customs and technical cooperation and a second to study “best practices” in trade development and promotion.

In addition, it was agreed that the Business Advisory Council established by the TICA would provide the mechanism for business representatives to provide input directly into the Canada-Mercosur trade and investment relationship. Canada has held meetings with business representatives (in Calgary, Toronto and Montreal) to seek input on the most beneficial activities that might be engaged in under the TICA. As a follow-up, the Canadian Council of the Americas (CCA) successfully organized a meeting of the Business Advisory Council in Buenos Aires on April 3, 2001, on the margins of the FTAA. The Business Advisory Council recommended a permanent exchange of information that would reflect participants’ views on issues of common interest, as well as regular working-level meetings to culminate in a formal meeting in Quito, Ecuador, in October 2002, on the margins of the next FTAA.

On November 21, 2001, the TICA Consultative Group, consisting of senior trade officials, met in Montevideo, Uruguay, to determine the next steps of a Canada-Mercosur action plan under the TICA. The Group agreed on a work plan covering issues related to trade development, connectivity and ways of strengthening customs procedures. It plans to meet again in mid-2002.

**BRAZIL**

**Overview**

As a member of Mercosur, Brazil, the largest market in Latin America, attaches high priority to the eventual free circulation of goods, services and capital within the four countries. At present, most agricultural products have free access within the Mercosur countries; the exception is sugar, which remains the subject of a major trade dispute between Brazil and Argentina. The establishment of the common external tariff has already resulted in each of the member countries exceeding their WTO bound tariff rates for certain products. The current level of common external tariff on agricultural products varies between 0% and 18.5%, with the tariff on malt barley currently at 16.5% — now 6.5% above its WTO bound rate. With the worsening economic situation in Argentina, there has been considerable debate on how the common external tariff should be maintained.

In 2001, the Brazilian real depreciated 25% to 30% against the U.S. dollar, largely due to economic factors including the energy crisis in Brazil, the deteriorating economic climate in several Mercosur partners, and the slowdown in the international economy. Canadian exports for 2001 declined 13% from the same period in 2000. Despite reduced expectations for the performance of the Brazilian economy, the medium- and long-term prospects for Canadian exporters continue to be strong.

**The Merchant Marine Renewal Tax**

Canada has raised concerns about the imposition of duties and charges on imports that are not notified in
Brazil’s WTO schedule, such as the Merchant Marine Renewal Tax, with its potential trade-restricting and trade-distorting effect. The amount of this tax is 25% of the ocean freight of imported goods. Since the tax does not apply to domestically produced goods, nor to goods imported over land from neighbouring countries, Canada considers that it violates both the national treatment and most-favoured-nation obligations of the GATT. Also, in many cases where Brazil’s applied tariff is within the level of its WTO binding, the combination of the Merchant Marine Renewal Tax and the applied tariff exceeds the WTO binding.

**PROEX**

Since 1998, the WTO Dispute Settlement Body (DSB) has issued five rulings that PROEX, a Brazilian export finance program that reduces financing costs for Brazilian exports under its “interest equalization” component, is a prohibited export subsidy as applied to regional aircraft.

On December 12, 2000, following the breakdown of bilateral negotiations, Canada requested and received WTO authority to impose countermeasures on Brazil up to a level of $344.2 million per year, for a total of $2.1 billion. On that same date, Brazil informed the WTO that revisions to PROEX brought that prohibited export subsidy into compliance with its WTO obligations. Canada disagreed with Brazil’s claims.

On February 16, 2001, at Canada’s request, the WTO established a panel to examine whether the revisions brought the program into compliance with Brazil’s WTO obligations. The panel’s report, issued on July 26, found that PROEX III was compliant, as such, but could be applied in a WTO-inconsistent manner. More importantly, the panel established clear criteria (minimum commercial interest and reference rate, maximum 10-year term, maximum 85% of transaction to be financed) that PROEX financing must follow in order to comply with Brazil’s WTO obligations. These were essentially the same criteria that Canada had been seeking from the beginning of the dispute, and which Brazil had consistently rejected. On August 23, the WTO adopted the panel’s report.

On January 10, 2001, then Industry Minister Brian Tobin announced a proposal to provide below-market Canada Account financing to Air Wisconsin to assist Bombardier in securing a sale of 75 regional jets. The financing terms matched the terms of the proposal made by Brazil on behalf of its aircraft producer, Embraer.

On March 12, in response to the matching strategy employed by Canada, Brazil initiated a challenge at the WTO, alleging that Canada Account financing provided in the Air Wisconsin transaction constituted a prohibited export subsidy. The DSB issued its final report on the Air Wisconsin transaction on January 28, 2002. The report found that Canada Account financing of the Air Wisconsin transaction and the matching tool used by Canada (though allowable under the OECD Arrangement) contravened WTO rules. Importantly, the Canada Account and Corporate Account, as well as the Investissement Québec program, were found compliant, as such.

Following a year-long hiatus, Canadian and Brazilian officials restarted discussions in November. Initial talks were cordial and professional, and the two parties agreed to meet again in 2002 to work toward a negotiated solution in this five-year-old dispute.

**Customs Valuation**

On February 13, 1998, Brazil published Decree No. 2.498/98, implementing the Customs Valuation Agreement of the World Trade Organization. The Agreement was further regulated by the adoption of two normative instructions (16/98 and 17/98) issued by the Brazilian Revenue Department, which establish that all goods are subject to verification and that the process is a selective one. The verification process takes into consideration the declared price of the merchandise, the integrity of the documents presented, freight costs, costs related to loading and unloading the merchandise, and costs of freight insurance. In addition, Brazilian authorities may request further documentation from the importer to confirm the declared price of the merchandise.

In practice, 80% of goods enter Brazil under the automatic licensing system (SISCOMEX) introduced in 1997. The remaining 20% of goods (normally goods subject to health and phytosanitary requirements) require approval and are reviewed by the respective decision-making ministries. While Brazil has hailed SISCOMEX as a significant step forward in streamlining customs procedures, many current and potential exporters find the system cumbersome and inflexible.
Canada will continue to monitor how Brazil applies its customs valuation regime on Canadian exports to ensure that this is consistent with Brazil’s international trade obligations.

**Meat Certificate Validation Requirements**

Canadian exporters remain concerned that the Brazilian consulates must validate inspection certificates for meat products prior to export (so-called consularization requirement). This step creates additional delays and costs for Canadians in advance of shipping. Canada does not impose such a requirement on imports from Brazil or any other country. Moreover, we consider that this requirement is contrary to common international practice and that it constitutes an unnecessary barrier to trade. Over the years, Canada has made many representations requesting removal of the requirement. Although Brazilian senior government officials have given repeated assurances that this will be done, the requirement remains. Canada will continue to press the Brazilian government for official confirmation that the validation requirement for Canada is removed.

**Mutual Recognition of Poultry Inspection Systems**

Brazil does not allow the import of most Canadian poultry meat on the grounds that Brazil has not yet reviewed and recognized Canada’s meat inspection system for poultry or approved Canadian establishments (Brazil accepts ostrich, emu and duck meat from Canada). However, Canadian exporters have expressed an interest in exporting processed food containing chicken to Brazil. Canadian Food Inspection Agency (CFIA) officials and their Brazilian counterparts are now working on a mutual review of the poultry meat inspection systems. Both countries have completed their information-gathering exercise and are reviewing reports on the applicable trade conditions for poultry meat. Completion of this process would allow exports of Canadian poultry (i.e. chicken and turkey) into Brazil and Brazilian poultry into Canada. Bilateral discussions are ongoing.

**Brazilian Tariff on Wheat**

In 1996, Brazil notified WTO members that it had withdrawn a market access concession of 750 000 tonnes of duty-free imports of wheat from its WTO schedule and would begin applying a duty, currently set at 12.5%, to wheat imports. As a major supplier of wheat to Brazil, Canada exercised its right to request compensation for the non-implementation of this concession and the raised tariff. Since that time, Canada and Brazil have held a series of consultations but have not yet agreed on a settlement. Canadian exports of wheat to Brazil in 2001 were valued at $7.2 million, a decrease of 72% from the previous year.

**Telecommunications Services**

As deregulation of Brazil’s communications industry progresses, Canadian exporters of telecommunications services continue to demonstrate strong interest in opportunities in that market. When several WTO member countries declined to accept Brazil’s revised offer of commitments under the WTO Agreement on Basic Telecommunications, Brazil withdrew its offer. Consequently, Brazil has made no market access commitments on basic telecommunications services under the WTO. Canada will continue to work, in negotiations under the WTO and the FTAA, to put trade with Brazil in this important sector on a more secure foundation.

**Investment**

In 2000, Canadian foreign direct investment in Brazil was approximately $4.6 billion, making Brazil Canada’s 14th-largest destination for foreign direct investment. Due to the significant levels and long history of Canadian investment in Brazil, it is regarded as one of Canada’s priority countries for concluding a Foreign Investment Protection Agreement (FIPA). Several consultations have been advanced since the mid-1990s, but we have not yet concluded a FIPA.

**ARGENTINA**

**Overview**

Latin America’s third-largest economy is struggling through its fourth year of recession, following several years of economic expansion and optimism. The 1980s in Argentina were blighted by a foreign debt crisis, disarray in public finances and high inflation. In April 1991, the government implemented a stabilization plan (under the Convertibility Law), which included the adoption of a Currency Board to ensure that monetary expansion was restricted to money demand. The Board prevented the government from
financing operations via money issuance. The Argentine peso was pegged one-to-one with the U.S. dollar. While the Currency Board did help tame hyperinflation, other imbalances have developed over the subsequent years. The unemployment rate has been rising steadily, the government has relied on debt financing (which in turn has led to a sharp rise in government and external debt), and the economy has lost its competitiveness in large part due to the strength of the U.S. dollar and the Brazilian devaluation. The Argentine authorities have yet to find a way to jump-start the economy and put the country’s finances on a sustainable path.

The administration of former President Fernando de la Rúa devised various policies to energize the flagging economy, which has shrunk more than 10% since 1998. In particular, the government introduced competitiveness programs to provide tax and financing incentives to exporters and specific economic sectors (such as transportation, construction and agriculture). One of these measures involved the creation of an export peso (a hybrid of the U.S. dollar and the Euro, providing a subsidy to exporters). It also greatly altered the tariff structure originally shared with Brazil, Paraguay and Uruguay (the Mercosur Common External Tariff) by raising tariffs on consumer goods to 35% and lowering those on capital goods to zero. To stimulate consumption, the government also introduced a new bond (the “Lecop”) to substitute for various previously issued provincial bonds that are valued nominally at par with the peso. Due to severe budget cuts at the provincial level, many provinces now pay both employees and contractors using these bonds. Burdened with US$141 billion in debt (foreign and domestic), Argentina endeavoured to renegotiate with lenders (at much lower interest rates) to forestall a liquidity crunch. Having completed the first $50 billion phase of the swap with domestic banks, the government planned to swap approximately $20-25 billion in international debt (excluding the $35 billion borrowed from international institutions). At the same time, the International Monetary Fund (IMF) imposed strict conditions on Argentina for the release of any further monies, including controls over federal and provincial spending and the creation of a “zero deficit” policy (which saw public sector salaries and pensions cut 13%).

However, consistent difficulties in maintaining these spending limits, alongside tumbling tax revenues and industrial production, led to an unsustainable financial situation despite a US$48 billion IMF bailout package, a US$29.5 billion bond swap and the adoption of a new dollar-peso-euro peg. On January 3, 2002, Argentina formally defaulted on part of its US$141 billion debt when it missed a payment of US$28 million due on an Italian lira bond; it also suspended payment on its debt. Argentina is expected to maintain the announced sovereign debt moratorium on external financing obligations until a new agreement is reached with the IMF and international private creditors.

Recent Developments

On January 6, 2002, both houses of Congress approved a “public emergency and currency reform law” delegating extraordinary powers to the Eduardo Duhalde Administration until December 10, 2003 (Duhalde was appointed President by the Legislative Assembly on January 1, 2002). The main element of the new legislation is the end of the 10-year “convertibility” regime of the one-on-one peso-dollar peg. The new legislation gives the President sweeping “emergency powers,” including power to devalue the peso. The Executive has the power to design and regulate any new currency regime(s).

A dual exchange rate regime has been adopted. For most financial transactions (e.g. import and export transactions), the exchange rate is fixed at 1.4 pesos per U.S. dollar (an implied currency devaluation of 28.6%), while for other transactions (e.g. those of tourists and ordinary Argentines) the peso will float freely. The government has indicated that it wants to move to a single, floating exchange rate over the course of the next few months. The maintenance of the fixed exchange rate is seen as a government attempt to manage a transition toward a comprehensive free-floating currency regime. The central bank will be authorized to buy and sell foreign currency with its own reserves in order to maintain the official rate, as well as print pesos. The government still intends to tie the peso to a basket of currencies (e.g. the dollar, euro and real). It also intends to implement a host of parallel measures aimed at controlling the impact of this drastic move among the economic actors and the disenchanted and nervous Argentines.

The key issue is not the devaluation rate, but rather the ability of the new currency regime to generate local confidence, reverse capital flight and resume a trend of
sustainable growth. The devaluation-related inflation pressure will remain a significant factor in continued social and financial instability during the first half of 2002. The economic, political and social situation remains very uncertain, and the consensus is that further deterioration is likely before the situation improves.

**Bilateral Trade**

Bilateral trade between Argentina and Canada increased markedly during the 1990s. From $173 million in 1989, two-way trade reached $641 million in 1997 and totalled $602 million in 1998. Reflecting the economic recession in Argentina in 1999, trade retracted to $515 million in 1999. At the end of 2001, bilateral trade was $482 million, down 22% from 2000. Canadian exports shrank to $132.1 million, a 46% drop, while Canadian imports reached $350 million, down 15% from 2000. Domestic consumption in Argentina has dropped sharply, and foreign enterprises are retrenching. The new banking measures have created additional trade hurdles. Some Canadian companies have already reported difficulties in acquiring or transferring funds related to trading activities.

Approximately 40% of current Argentine exports to Canada are agri-food products; a further 20% are copper ores and concentrates; almost 20% are steel-mill products; and the balance includes leather products, fish and seafood, rubber, wood products, plastics, metals, minerals and chemicals. Current Canadian exports to Argentina include electrical machinery (including telecommunications equipment), machinery, newsprint, plastics, optical and medical instruments, dried vegetables, fertilizers, synthetic fibre and cosmetics. In addition, during the last four years, there have been discussions on cooperation between Canada and Argentina on their common interests in the areas of nuclear energy, geoscience, mining, fisheries, space, agriculture, environment, and information and communications technologies.

In November 2001, Canada held bilateral political and economic consultations with Argentina in Buenos Aires, the fifth such consultations since 1995. In December 2001, the Steering Committee of the Memorandum of Understanding on Environmental Cooperation convened a two-day meeting in Buenos Aires attended by representatives from Industry Canada, Environment Canada and Argentina’s ministries of social development and environment.

**Investment**

Argentina is an important investment location for Canada. In 2000, Canadian direct investment in Argentina totalled $3.6 billion, a 10% increase from 1999 ($3.3 billion). In 1990, Canadian investments in Argentina amounted to a mere $123 million. Canada remains one of the most important foreign investors in Argentina. The main focus of this investment has been the oil and gas, mining and energy, agro-industry, banking and telecommunications sectors. The forest sector may also offer potential for further Canadian investment.

Generally, Argentina presents an open market to foreign investors, who are free to enter the country through mergers, acquisitions, greenfield investments or joint ventures. While foreign firms may also participate in publicly financed R&D programs on a national treatment basis, Argentina reserves the right to maintain exceptions to national treatment for real estate in border areas, air transportation, shipbuilding, nuclear energy, uranium mining and fishing. Technical discussions on upgrading the existing Foreign Investment Protection Agreement between Canada and Argentina were last held in January 1998. Canada has been pressing to improve the existing agreement to provide additional stability and transparency to an already-positive bilateral investment relationship.

Due to continuing market and liquidity uncertainties and current foreign exchange controls, foreign direct investment in Argentina is expected to decline significantly in the short and medium terms.

**Chile**

**Overview**

The Canada-Chile Free Trade Agreement (CCFTA) and its two parallel agreements on environmental and labour cooperation are now nearly five years old. On July 5, 1997, under the CCFTA, tariffs were eliminated on the majority of products that make up Canada-Chile bilateral trade. For products on which tariffs are being gradually eliminated, the sixth round of tariff cuts will be made on January 1, 2003.
As a result of a November 4, 1999, agreement, Canada and Chile accelerated the elimination of tariffs on a selection of products. Through the bilateral Committee on Trade in Goods and Rules of Origin, Canada and Chile agreed to accelerate elimination of tariffs on turkey poults and hatching eggs, feed peas, fresh or chilled tomatoes, peaches, plums, sloes, certain colour pigments, certain articles of plastic and several textile products. Eight committees and working groups are in place to carry out any outstanding implementation elements of the CCFTA and to resolve problems before they escalate into formal disputes. Progress has also been made in fulfilling CCFTA obligations on such matters as model rules of procedure for dispute settlement, publication of documentation on temporary-entry procedures and mutually compatible procedures for recognition of test reports in the telecommunications sector. Chile has also demonstrated its willingness to facilitate trade by agreeing to lower its visa-processing fees from US$650 to US$100.

Implementation of the CCFTA has precipitated a new era of bilateral cooperation with Chile. The total value of two-way trade in goods between Canada and Chile neared $1 billion in 2001, while Canada’s exports of goods totalled $359 million and imports reached $640 million. Canadian foreign direct investment in Chile was $5.5 billion in 2000. In recent years, over 70% of Canadian investment has been in the mining sector, which has generated substantial spinoffs for Canadian companies in other manufacturing and services sectors. Significant Canadian investments were also directed to the energy and information technology sectors.

The entry into force on January 1, 2000, of the Convention on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, the first of Chile’s new generation of tax treaties, met one of the key commitments contained in the CCFTA. This convention facilitates the growth of trade and investment between Canada and Chile by establishing a more stable taxation framework for individuals and companies that do business in each other’s countries. The Chilean government announced that it would reduce its uniform most-favoured-nation (MFN) tariff by 1 percentage point per year until the tariff reaches 6% in January 2003. In two cases, bread mixes and cereal preparations, these MFN reductions trigger guaranteed minimum margins of preference for Canadian goods in the years 2001, 2002 and 2003. In these two cases, Canada will seek to ensure that Chile honours its CCFTA obligations by adjusting downwards the preferential rate for Canada.

**Market Access Results in 2001**

- In January 2001, the Chilean Congress passed new legislation in response to a WTO panel on discriminatory liquor taxes, which will result in a final rate of 27% applicable to all spirits as of March 2003.

- In January 2001, the Chilean government granted Canada an exclusion on a provisional safeguard measure imposed in 1999 on wheat and wheat flour, edible vegetable oils and sugar, as well as on powder and UHT fluid milk.

- On October 25, 2001, Canada and Chile signed a protocol under the CCFTA to accelerate the elimination of tariffs on Canadian dried beans, frozen potatoes and pet food exported to Chile. This action compensated Canada for the application by Chile of a safeguard measure on wheat from January 2000 to July 2001.

- Government of Canada intervention following the Chilean announcement of a ban on the production, import, sale and use of construction materials containing any type of asbestos has resulted in a renewed dialogue between Canadian and Chilean officials on the safe use principle with respect to chrysotile.

- Canadian fisheries officials met with their Chilean counterparts to develop mutually acceptable sanitary and phytosanitary standards and certification procedures that would enable Chile to end its ban on the import of Canadian fish eggs.

**Safeguards/Compensation Protocol Under the Canada-Chile Free Trade Agreement (CCFTA)**

In 1999, Chile imposed a safeguard measure on products subject to its price band system, that is, on wheat and wheat flour, edible vegetable oils and sugar. Chile extended this measure during 2000. In May 2001, Canada and Chile agreed that compensation would take the form of almost immediate tariff elimination on imports of Canadian frozen french fries, dried beans and peas, and pet food. Elimination
of tariffs on pet food was previously slated for 2002 and on the other items by 2007.

**Salmon and Trout Eggs**

In July 2000, Chile amended its regulations so as to subject all imported fish eggs to a case-by-case scrutiny and quarantine, effectively preventing access to the Chilean market. Canada’s position is that there is no scientific justification for the restriction, and it is making representations to the Chilean authorities requesting its removal. Canadian fisheries officials met with their Chilean counterparts during 2001 to develop mutually acceptable sanitary and phytosanitary standards and certification procedures that would enable Chile to end its ban on the import of Canadian fish eggs.

**Andean Community**

The Andean Community is a common market encompassing Bolivia, Colombia, Ecuador, Peru and Venezuela. These countries are an important commercial region for Canada; bilateral trade in 2001 reached $3.6 billion (greater than that with the Mercosur countries), with Canadian exports reaching $1.5 billion. Cumulative Canadian investment in Andean countries is approximately $3 billion, primarily focused in the natural resource and telecommunications sectors. These markets offer excellent opportunities for Canadian business as they continue to modernize their economies and expand institutional capacity and transparency.

Canada and the Andean Community signed a Trade and Investment Cooperation Arrangement (TICA) on May 31, 1999 (www.dfait-maeci.gc.ca/tica-e.asp). The TICA establishes the framework for pursuing stronger commercial and economic cooperation and calls for periodic consultative group meetings. The last such meeting occurred in November 1999.

The TICA forms the basis for enhanced trade and investment activity between Canada and the Andean Community, and our trading relationship is overwhelmingly positive. However, market access problems do sometimes arise. These generally involve difficulties encountered by Canadian exporters seeking necessary permits for the export of agricultural products. Canada pursues a range of strategies to resolve these matters, including interventions with officials in the countries involved, “expert group” discussions to clarify the legitimacy of procedures and requirements for certificate issuance, and interventions with country representatives at trade bodies such as the WTO and other appropriate forums, such as meetings of the Inter-American Institute for Cooperation on Agriculture.

**VENEZUELA**

**Overview**

Venezuela is an important commercial partner for Canada in South America. It is Canada’s second-largest trading partner in South America and third-largest in Latin America behind Mexico and Brazil. Bilateral trade in 2000 totalled $2.05 billion, with Canadian exports valued at $636 million and imports at $1.41 billion. The main Canadian exports to Venezuela are motor vehicle parts and accessories, telecommunications equipment, wheat, newsprint, wood pulp, potatoes, oilfield equipment, computers and components, beans and lentils, malt, motor vehicles and papers. Canada’s imports from Venezuela consist of petroleum products, bitumen/asphalt, semi-finished iron for motor vehicle parts, iron and steel products, chemicals, rubber and plastics.

There is significant Canadian investment in Venezuela’s telecommunications, banking, mining, and oil and gas sectors. In addition, Canadian exporters and investors are pursuing opportunities in the agri-food, environment and forestry sectors.

**Agreements**

The Foreign Investment Protection Agreement between Canada and Venezuela was signed in 1997 and came into force in January 1998. A double taxation agreement was signed in July 2001 and is expected to come into effect in early 2002. As a member of the Andean Community, Venezuela signed the Canada-Andean Community Trade and Investment Cooperation Arrangement in May 1999.

**Market Access Priority**

Canada is concerned about Venezuela’s import permit policy for agricultural products. Venezuela routinely delays or denies the issuance of permits in contravention of its international trade obligations. Canadian exporters of meat, potatoes and onions have been most adversely
affected. Canada made a number of high-level representations in 2001 and is making resolution of the issue a high priority for 2002.

Central America and the Caribbean

Overview

Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama are emerging economies with generally good economic growth. Canadian exports to Central America reached $265 million in 2001. Canadian exports face import barriers in traditional sectors, particularly agricultural products such as milk and pork in Panama, pork in Guatemala and frozen food (french fries) in Costa Rica.

On April 23, 2001, after nine months of negotiations, Canada and Costa Rica signed a bilateral free trade agreement (FTA) and two cooperation agreements on labour and the environment. On November 21, to facilitate further access to the Central American markets, Canada launched free trade negotiations with El Salvador, Guatemala, Honduras and Nicaragua as a group (the Central America Four, or CA4). The conclusion of free trade agreements with these countries will signal Canada’s continued commitment to the hemisphere and help realize the potential for further developing the trade relationship between our countries, particularly with regard to small and medium-sized businesses. More details on these negotiations are set out below.

The Caribbean Community (CARICOM) is a welcoming market for Canadians. There are few barriers to trade, English is a common language, legal codes and business practices are similar to those in Canada, and Canadian banks are well-established in the region. The 15 members of CARICOM are Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti (all but ratification), Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Montserrat (U.K. dependency). The Bahamas is a member of CARICOM but not of the Caribbean Common Market.

Market Access Results in 2001

- Conclusion of the Free Trade Agreement with Costa Rica.
- Preliminary FTA discussions with El Salvador, Guatemala, Honduras and Nicaragua.
- Preliminary discussions with CARICOM on a framework for FTA negotiations.
- Ongoing discussions with Guatemalan counterparts to reach agreement on sanitary requirements for Canadian meat imports.

Canada’s Market Access Priorities for 2002

- Conclude FTA negotiations with El Salvador, Guatemala, Honduras and Nicaragua.
- Advance FTA negotiations with CARICOM.
- Pursue discussions with the Dominican Republic on barriers to the import of Canadian wood and agricultural products.
- Continue to press Panama for the removal of restrictive import permit requirements, sanitary and phytosanitary measures, and other trade barriers adversely affecting Canadian exports of agri-food products.

COSTA RICA

The Canada–Costa Rica Free Trade Agreement will increase our access to a dynamic new market, especially for Canadian fish, paper products, auto parts, plastics, wood and agricultural goods. One of the main accomplishments of this FTA is the successful negotiation of a precedent-setting framework for competition policy, which could serve as a model for the region. Additionally, the FTA includes a comprehensive chapter on trade facilitation that will help make trade procedures more efficient and reduce formalities and costs for Canadian businesses at the border. The Agreement also sends a clear signal of our commitment to the hemisphere and will give momentum to the Free Trade Area of the Americas negotiations.

The two additional agreements on environmental and labour cooperation will help Costa Rica strengthen its environmental and labour management systems while reaping the benefits of increased trade with Canada.
Two-way trade in merchandise between Canada and Costa Rica amounted to $250 million in 2001, despite a 25% drop in exports. The FTA and the two parallel accords will come into force in early 2002, once the legislative implementation process is successfully completed in both countries.

**EL SALVADOR, GUATEMALA, HONDURAS AND NICARAGUA (CA4)**

Following an agreement by leaders at the Canada-Central America Summit in September 2000 and after extensive consultations with Canadians, International Trade Minister Pierre Pettigrew announced on November 21, 2001, the launch of free trade negotiations with El Salvador, Guatemala, Honduras and Nicaragua. The negotiations are well under way and could conclude by the end of 2002. In 2001, Canadian exports to the CA4 totalled $165 million, while imports stood at $361 million. In the negotiations, Canada is seeking to secure preferential access for Canadian goods and services to the CA4 markets and the elimination of tariffs on key Canadian exports such as telecommunications goods and services, environmental equipment and services, value-added processed foods, automotive parts, and construction equipment and services. A chapter on investment is also anticipated. Side agreements to address labour and environmental issues are also being pursued.

**PANAMA**

With a GDP of US$10 billion, the second-highest per capita income and the most stable consumer prices in the region, Panama still leads its Central American neighbours as a potential market for Canadian goods and services. Panama’s key location and excellent infrastructure are two of the many advantages to doing business both in this country and, through it, with its neighbours in Latin America and the Caribbean.

2002 will bring major opportunities in the construction sector, with the initiation of two large projects: the construction of a second bridge over the Panama Canal with access highways and the construction of a light rail system for Panama City. These two projects are worth some US$100 million and US$200 million, respectively. As well, in 2002, the Panama Canal Authority may announce the Canal Expansion Project, which will be worth up to US$8 billion and include construction of new water reservoirs (hydroelectric plants/dams), dredging of the channel, and construction of a third set of locks for post-Panamax-type vessels. The rehabilitation of the main potable water plant and construction of a second pipeline also offer potential for Canadian firms.

On market access, non-tariff import barriers continue to affect Canadian agri-food exports to Panama. There are also serious concerns regarding the administration of tariff measures affecting imports of agricultural products that have been designated as sensitive, especially meat products. Canadian agri-food exports also face cumbersome and trade-restrictive plant inspection requirements, among other barriers.

**CARIBBEAN COMMUNITY (CARICOM)**

Annual two-way merchandise trade between Canada and CARICOM countries amounted to $1.2 billion in 2001, with Canadian exports totalling $405 million and imports $821 million. (These statistics do not include goods transshipped through the United States.) More than $200 million in contracts for Canadian consulting, engineering and contracting services are awarded annually.

Canadian investment in CARICOM countries as a group exceeds $25 billion and is mainly in financial services (banking, insurance), particularly in Barbados and the Bahamas. Canadian investment diversified in the 1990s to include Trinidad and Tobago’s energy sector and Guyana and Suriname’s mining sectors. Canadian investment in Trinidad and Tobago is now estimated at more than $2 billion, due to major investments in the petrochemical sector by Potash Corporation of Saskatchewan and the current construction of an US$400 million methanol plant by Methanex of Vancouver.

At the Canada-CARICOM Summit in Jamaica on January 19, 2001, Prime Minister Jean Chrétien and the heads of government of the Caribbean Community and Common Market countries agreed to initiate discussions toward bilateral free trade. Canadian and CARICOM representatives held a preliminary meeting in March 2001. Consultations with Canadians were launched in December 2001 to obtain advice and views on priorities, objectives and concerns regarding such an initiative.
The Dominican Republic

With GDP growth reaching 7.4% in 2000 and imports of goods and services totalling US$9.6 billion, the Dominican Republic is one of the Caribbean’s largest and fastest-growing markets and duty-free manufacturing zones. Official statistics put two-way trade between Canada and the Dominican Republic at a modest $199 million in 2001, but these statistics do not reflect the large portion of bilateral trade trans- shipped through the United States. Canadian investment is substantial, mainly in telecommunications, mining, banking and tourism.

Canadian agricultural (i.e. potatoes) and wood products (i.e. lumber and plywood) are subject to unnecessarily trade-restrictive phytosanitary measures, including the use of an import licensing regime to ban the import of various agricultural products. In Canada’s view, these practices violate the Dominican Republic’s WTO commitments. Dominican Republic phytosanitary authorities have indicated their readiness to address Canadian concerns, and the Canadian Food Inspection Agency has agreed to send two experts to initiate discussions.

The Dominican Republic has expressed interest in a free trade agreement with Canada. Canada has indicated that, if the Dominican Republic is prepared to negotiate on the basis of the FTA with the Central America Four, which is currently under negotiation, Canada would be willing to initiate exploratory discussions when the negotiating agenda permits.

Cuba

Cuba is Canada’s largest export market in the Caribbean and its fourth largest in Latin America with $392 million in exports in 2001. In addition, Canada is Cuba’s second largest trading partner and its second largest source of foreign investment. Canadian companies who are used to taking on entrenched American competitors in other Latin American markets will find a much different environment in Cuba (see section on U.S. sanctions).

In 2001 and at the start of 2002, Canadian exporters encountered problems with respect to the interpretation of Canada-Cuba SPS agreements. Canadian and Cuban authorities are working together to resolve these differences.

At the end of 2001, Cuba amended rules regulating the opening of offices by foreign entities, an amendment which appears to discourage smaller companies. Requirements for opening a representative office include having a prior volume of business with Cuba of US$500 000 annually for three years and providing audited accounts. This legislation, of course, does not affect selling direct from Canada.

Liquidity in Cuba will be tight in 2002 owing to destruction caused by Hurricane Michelle and post-September 11 reductions in tourism receipts; however, Cuba is still an emerging market with significant potential in priority sectors for experienced and well-prepared Canadian exporters and investors.
The European Union is the world’s largest single market, having surpassed the United States in population and exports and rivalling it in GDP. With its population of 376 million and its enormous market and production capacity, the EU’s share of the world’s aggregate GDP in 2000 was 20%, compared with 22% for the United States and 2% for Canada. The EU is also the world’s largest trader of goods and services: in 2000, it accounted for 36% of all exports of goods and services in the world, while the U.S. accounted for 14.2% and Canada 4.2%.

As a group, the 15 EU member states continue to rank as Canada’s most important trading partner after the United States, as well as the largest source and destination of foreign direct investment (FDI) in Canada after the United States. Bilateral Canada-EU trade and investment flows reached record levels in 2000. Total two-way merchandise trade between Canada and the EU grew from $48.3 billion in 1999 to $56 billion in 2001. In absolute terms, imports into Canada from the EU grew more than did Canadian exports to the EU. As a result, the deficit in Canada’s balance of trade with the European Union set a new record of -$20.1 billion in 2001, surpassing the previous record in 2000 of -$17.8 billion.

Likewise, the stock of both EU FDI in Canada and Canadian FDI in the EU also reached record levels in 2000. The flow of EU FDI to Canada totalled $28.3 billion in 2000. This raised the stock of EU FDI in Canada from $49.6 billion in 1999 to $77.9 billion in 2000. The sharp rise in investment from the EU in 2000 reversed the situation that had existed since 1996, in which Canadian FDI in Europe had been higher than EU FDI in Canada. Major acquisitions included Alcatel’s purchase of Newbridge and Vivendi’s acquisition of Joseph E. Seagram & Sons, Inc. The inward flow of $28.3 billion included $22 billion from France and $5 billion from the U.K. The flow of Canadian FDI to the EU in 2000 totalled $4.1 billion. This increased the stock of Canadian FDI in the EU from $52.4 billion in 1999 to $56.5 billion in 2000.

Several major trade and economic developments in the European Union have implications for Canada, including economic and monetary union (EMU), market distortions in the agriculture sector arising from domestic support, protective tariffs in certain sectors, further development of the single market, negotiations on enlargement and new regional trade agreements, and the imposition of EU import bans/restrictions based on its interpretation of the precautionary approach. The EU will continue to grapple with the question of institutional reforms, which the accession of new members makes necessary if the European Union is to function effectively in future.

The euro is the official currency of 12 of the 15 EU member states, with only Denmark, Sweden and the United Kingdom as non-members. Although the economic and monetary union was launched on January 1, 1999, euro notes and coins only began circulation on January 1, 2002. Together with the private sector, the Government is helping to ensure that Canadian business is prepared for the changes that the euro may bring to trade and investment. A number of European Commission-sponsored conferences and workshops on the euro will also be held across Canada in 2002. However, it is not anticipated that the currency change will in any way harm Canadian economic interests.
Regarding enlargement of the European Union, negotiations are under way with Poland, Hungary, the Czech Republic, Slovenia, Estonia, Cyprus, Latvia, Lithuania, the Slovak Republic, Malta, Bulgaria and Romania. Turkey is also an official candidate for membership, although negotiations with it will begin only after the EU’s political criteria have been met. While reluctant to establish a precise date, member states agreed at the December 2000 Nice Summit that they hoped that those candidates deemed ready to join by the end of 2002 will be able to do so before the next European Parliamentary elections, which are scheduled for 2004. The EU is also negotiating regional free trade agreements with other parts of the world; in recent years, agreements have been reached with Mexico and South Africa. Some 70 developing countries that are signatories to the Lomé Convention already enjoy preferential access to the European Union. The EU intends to convert these arrangements to free trade agreements in time. Economic ties with Switzerland, with which it has a free trade agreement, have also been deepened through a series of bilateral agreements. In addition, the European Union is engaged in negotiations with the Mercosur countries and Chile. Canada is one of only eight economies worldwide that does not have some form of preferential trading relationship with the European Union.

**Canada-EU Trade Relations**

A number of bilateral instruments are in place to help manage Canada-EU trade relations. The 1976 Framework Agreement for Commercial and Economic Cooperation established the Joint Cooperation Committee, which meets annually at the senior officials level. The 1996 Joint Political Declaration on Canada-EU Relations and the Canada-EU Action Plan (www.dfait-maeci.gc.ca/english/geo/europe/eu/action-e.htm) set goals for broadening Canada-EU relations, not only in the trade and economic areas, but on a broad range of foreign and domestic policy issues as well.

The EU-Canada Trade Initiative (ECTI) (www.dfait-maeci.gc.ca/english/geo/europe/EU/ECTI-Dec-2000-E.html), launched in December 1998, established a subset of objectives for market access and economic cooperation drawn from the action plan, which were considered achievable within a reasonable time frame. These objectives include: regulatory cooperation, services, government procurement, intellectual property (IP), competition issues, cultural cooperation, business-to-business contacts, and electronic commerce. ECTI also calls for regular consultations between both parties on multilateral trade issues.

A report on progress made under ECTI is submitted to trade ministers at each twice-yearly Canada-EU Summit. The report also sets priorities for the coming period. Under ECTI, implementation of a mutual recognition agreement (MRA) on conformity assessment bodies remains a priority. Both sides will continue to encourage the mutual recognition of professional accreditation through agreements negotiated between the respective professional associations. The EU removed regulatory barriers to the import of Canadian ice wine in May 2001, and progress has been made toward agreements on wine and spirits through negotiations that were initiated in November 2001. The establishment of a dialogue between the respective business communities has been a key ECTI objective. A Canada-Europe Round Table (CERT) has been established, which brings together firms from a range of sectors that support the development of the Canada-EU economic relationship. CERT is in the process of expanding its membership base and setting itself on a sustainable financial footing. A major conference on competition policy was organized by CERT in November 2001.

ECTI has already achieved many of its objectives. In order to identify new ECTI goals, both Canada and the EU agreed to undertake separate but coordinated surveys of their respective business communities to better identify priority constraints to transatlantic trade and investment. The Canadian survey will also encompass exporters not currently active in Europe, in an effort to get a sense of the factors preventing them from seeking opportunities in that market.

The Minister for International Trade and his counterpart, the EU Commissioner for Trade meet frequently to discuss bilateral and multilateral trade questions. Canada-EU trade questions are also dealt with by officials through the Joint Cooperation Committee (JCC) and the Trade and Investment Sub-Committee (TISC), as well as in other sectoral working groups.

In October 2001, the Government tabled its response to the 25 recommendations found in the SCFAIT report entitled, “Crossing the Atlantic: Expanding the Economic Relationship between Canada and Europe.” The report called for the Government to attach higher priority to
Canada–Europe economic relations to ensure that Canada is able to take full advantage of Europe’s growing potential with respect to both trade and investment. Among other things, it called for free trade with Europe, and said that an aggressive campaign should be undertaken with European decision makers to convince them of its virtues. The Government in its response concurred with the report’s assessment of Europe’s importance for Canada. With respect to a Canada–EU Free Trade Agreement, the Government indicated that if both further study (i.e. work in addition to a tariff elimination study completed June 2001) and consultations reveal that a Canada–EU FTA is in Canada’s interests, then Canada would launch the recommended steps with the European Union. Further analytical and consultative activity is in progress.

**Market Access Results in 2001**

- In May 2001, the EU removed regulatory barriers to the import of Canadian ice wine. Negotiations were subsequently launched in November, which should improve market access for Canadian wine more generally.

- Canada and the EU have agreed on the equivalency of their respective legislation concerning the protection of data privacy. This agreement removes any potential threat to the free flow of data between the two jurisdictions.

- Negotiations with the Finnish government led to the review of their application of EU regulations resulting in Canadian bivalve molluscs regaining their access to that market.

- In October, Canada and the EU successfully implemented the Recreational Craft Annex of the MRA, thus facilitating the entry of recreational craft into each other’s territory.

**Canada’s Market Access Priorities for 2002**

- Seek the elimination of export subsidies and maximum possible reduction or elimination of production and trade-distorting support, and an overall limit on the amount of domestic support through the World Trade Organization (WTO) agriculture negotiations.

- Continue negotiations of agreements that will improve market access for Canadian wine and spirits.

- Continue to press the EU for improved market access for cooked and peeled shrimp, including the relaxation of the requirement for further processing.

- Seek recognition of Canada’s Bovine Spongiform Encephalopathy (BSE)-free status under the EU’s risk management system.

- Engage the EU in an exploration of the advantages and disadvantages of a Canada–EU FTA.

- Continue with the confidence-building phase to enable implementation of the 1998 Canada–EU MRA.

- Encourage professional associations in Canada and the EU to work toward agreements concerning the mutual recognition of qualifications.

A number of barriers to trade exist in the EU that are of concern to Canada, particularly in the agriculture and natural resource sectors. In the wake of food-safety crises in the European Union, the European Commission and member state positions on consumer health and safety issues have grown more cautious, and factors other than scientific considerations appear to be growing in influence.

**IMPROVING ACCESS FOR TRADE IN GOODS**

**Common Agricultural Policy and Subsidies on Agricultural Products**

In March 1999, the EU heads of state approved Agenda 2000 EU Common Agriculture Policy (CAP) reform for the period 2000 to 2006. The approved policy was disappointing in that it resulted in only modest reductions to agriculture price supports, and allowed direct production-linked subsidies to remain, although many sectors will be subject to a mid-term review. As a result, the CAP will continue to restrict access to the EU market for most Canadian agricultural products and will distort third-country markets.

Canada will continue to closely monitor the Agenda 2000 reform and the mid-term reviews. Canada will also pursue the maximum possible reduction or elimination of production and trade-distorting support, and the elimination of all export subsidies through multilateral WTO negotiations on agriculture.

**Wine and Spirits**

Continued dialogue between Canada and the EU on issues related to trade in wine and spirits, including between leaders and ministers, has resulted in significant developments over this past year. First, Canada and the
EU have engaged in discussions covering all issues of interest to both sides, with a view to concluding satisfactory agreements as soon as possible. Secondly, the EU adopted regulatory changes, effective May 17, 2001, to allow access and marketing of Canadian ice wine into the EU market. Finally, both sides have obtained mandates from their respective governments to engage in negotiations to improve access for trade in wine and spirits. In this connection, the first negotiating session between Canada-EU officials took place in Ottawa on November 7 – 8, 2001.

**Fish**

Canadian fish and seafood exports to the EU have declined since the beginning of the decade, stabilizing around the $300 million level. In 1990, seafood exports to the EU represented about 20% of Canada's global fish and seafood exports; the 2000 figure was 8%. Major factors have been the reduced supplies of groundfish, high EU tariffs and the privileged access that Canada's major competitors have to the EU market. The EU groundfish tariffs on many items of interest to Canada fall within the range of 12% to 23%.

**Shrimp**

Cold water shrimp exports are faced with tariff rates of up to 20%, depending on the product form. Primarily because of these barriers, it will continue to be a priority for the Canadian government to seek improved access to the EU for Canadian fisheries exports.

In April 1999, the EU opened a 4000-tonne autonomous tariff rate quota (ATRQ) for cooked and peeled shrimp, under which the product was subject to a reduced duty of 6%, if imported for further processing in the European Union. EU member state fisheries ministers have since extended the ATRQ to cover the years 2001-2003, and have increased the quantity to 5000 tonnes annually. In the medium term, Canada will address the broader seafood tariff issues during the current round of multilateral trade negotiations. In the short term, Canada is seeking to persuade the EU to make improvements to the ATRQ for cooked and peeled shrimp, including a further increase in the quota and a relaxation of the ATRQ's restrictive end-use requirements, which call for further processing in the European Union.

**Aluminum**

Reduced tariffs on aluminum ingot and other non-ferrous metals remain a priority for Canada. With regard to aluminum, the Government will continue to support the Canadian industry’s efforts to encourage like-minded producers and users of ingot in the European Union to urge the European Commission to reduce or suspend the 6% tariff. Canada will pursue this issue in the WTO negotiations.

**Genetically Modified Organisms: Canola**

The EU approval process for genetically modified organisms (GMOs) has been stalled since March 1998. Six member states have acted together to form a blocking minority that prevented the restart of the EU GMO approval process. In an effort to unblock the approval process and gain public confidence in GMOs, the EU revised legislation for GMO approvals (EU 2001/18).

The EU has yet to approve all of Canada's genetically modified (GM) canolas varieties currently in production, and thus Canada is unable to export canola to the European Union. Canadian canola exports to the EU peaked in 1994 at $425 million. Canada's position is that there are no health, food safety or environmental reasons that GM canola varieties under commercial cultivation in Canada should not be approved for the EU market. Canada's largest export markets for canola (Japan, China, the United States and Mexico) have accepted the varieties under commercial cultivation. Some 60% of Canadian canola acreage has been seeded to varieties with novel traits. Canada continues to express its concerns to the EU at the highest levels regarding this market access barrier for genetically modified canola currently cultivated in Canada.

**Genetically Modified Organisms: Labelling and Traceability**

In an effort to unblock the approval process and rebuild public confidence in EU food safety regimes, the European Commission proposed additional regulations on labelling and traceability. These regulations will require GMOs to be documented on a transformation event basis, and dictate that each point of contact in the food distribution chain must maintain documentation on all of the events (i.e. different GMOs) within each shipment throughout all stages of placing a product.
on the market, “from the farm to the store shelf.” The
1% threshold for the adventitious presence of GMOs
in the shipments of other bulk commodities cannot be
practically reached.

Canada is of the view that the proposed EU regulations
are not commensurate with the risks, and that the regu-
lations will be a serious barrier to trade that will not
only result in effectively blocking trade in approved
GMO canola varieties, but that will also affect conven-
tional grains and oilseeds. Canada has made several high
level representations to the EU on this matter.

**Bans and Restrictions on Certain Non-ferrous Metals**

The European Commission has adopted directives on
waste management of electrical and electronic equip-
ment and on end-of-life vehicles, and has proposed a
directive on batteries and accumulators. These direc-
tives provide for restrictions and an eventual ban on
the use of certain substances of which Canada is an
exporter, including lead, mercury and cadmium. These
substance bans, when implemented, will have adverse
trade implications for Canada with respect to both the
non-ferrous metals in question and the manufactured
products making use of them. While Canada shares
the Commission’s commitment to the protection of
health and the environment, it continues to question
whether such product bans are proportionate to any
attendant risks, and is concerned that such measures
may be more trade restrictive than necessary to achieve
their intended objectives.

Canada is of the opinion that the phase-out and ban
of these materials in electrical and electronic equip-
ment may result in negative environmental impacts
by forcing the adoption of substitutes that could have a
more detrimental environmental impact than the
substances they replace. Moreover, the phase-out and
ban measures will have significant adverse trade impli-
cations affecting the design, manufacture, production
and distribution of all electrical and electronic equipment
around the world. Inasmuch as the directives mandate
the selective treatment of individually identified materials
and components, they represent an infringement into
the manufacturing/production cycle of resource recovery
and, as such, take an overly prescriptive approach.

The directives refer to a “producers’ responsibility
network,” but it is not clear who will be responsible for
the creation of the end-of-life collection, the take-back
and dismantling schemes, or the recycling, reuse and
recovery programs that the directives set out. Canada is
concerned by the potential to create a closed market for
raw material resources whose access is limited to those
treatment facilities operating strictly within a closed
“producers’ network.” The directives also appear to
contain export restrictions that may be inconsistent
with international trade rules.

As discussions are still taking place within the EU on
the substance and the domestic implementation of
these directives, Canada will continue to monitor them
and will convey its concerns to the Commission, the
Parliament and the member states at the various stages
of the EU decision-making process.

**Eco-Labelling**

The European Commission has an eco-labelling scheme
called the “Flower Program” that covers a number of
paper products such as sanitary papers. The criteria
used for the program largely reflect European domestic
environmental requirements, values and European-
based performance measures. Canada has been excluded
from the process of setting criteria, and is concerned
that the Flower Program has not been developed in a
transparent manner and that it discriminates in favour
of EU producers.

Canada will closely follow EU developments in this
field to ensure that the European Union adheres to the
WTO Technical Barriers to Trade Agreement’s Code of
Good Practice in its eco-labelling programs, particularly
provisions dealing with transparency and ensuring fair
access of foreign producers to eco-labelling programs.

**Forest Certification**

There is an ongoing marketplace demand in Europe —
especially within the United Kingdom, Germany and
the Netherlands — for forest products to be certified as
having been manufactured using wood that comes
from sustainably managed forests. The Canadian
industry is endeavouring to address this demand, using
one or more of the four certification schemes currently
available or under development in Canada.

Canada is broadly supportive of certification as a
voluntary, market-based tool to promote sustainable
forest management. However, we want to ensure that
certification is not used as a market access barrier. In
particular, Canada would be concerned about any
measure requiring mandatory labelling for forest products based on non-product-related process and production methods. Procurement policies that specify that all products must carry the label of one specific certification scheme to the exclusion of other equivalent approaches are also of concern. We also remain vigilant to protect against raw material specifications based on local conditions or inappropriate criteria. Canada will continue to monitor our access to key markets with a view to ensuring that certification remains a voluntary marketplace activity and that criteria consistent with Canadian forest values are used to evaluate Canadian products.

Certification best supports sustainable forest management when all equivalent certification schemes are recognized in the market. For this reason, we support those who propose equivalency and mutual recognition of various similar certification schemes.

**Organic Food Products**

The EU has detailed regulations on the production, labelling and inspection of organic products, and maintains a list of countries from which imports of organic products are permitted. Canada does not appear on this list. Until December 31, 2005, countries not on the list may still export organic products to the EU, provided that the importer furnishes evidence that the imported products were produced in a manner equivalent to EU rules and inspected according to EU-equivalent measures. The case-by-case nature of this approval process creates uncertainty for Canadian exporters. After 2005, imports of organic products must originate in countries appearing on the EU list.

Canada will submit a formal application for inclusion on the EU list demonstrating how Canada’s certification system and national production standard are equivalent to that of the EU. This application will be submitted once a reasonable number of certifying bodies have been accredited to the national standard.

**SANITARY AND PHYTOSANITARY IMPORT REGULATIONS**

**Pinewood Nematode**

Since July 1993, the European Union has required that Canadian exports of softwood lumber, except Western Red Cedar, must be heat-treated in order to ensure the destruction of the pinewood nematode (PWN). This requirement has effectively eliminated Canadian exports of green softwood lumber to the European Union. Canada has indicated on numerous occasions that it views this mandatory requirement as excessive, given the negligible risk of establishment of pinewood nematode in the European Union as a result of trade in Canadian green softwood lumber.

Over the years, Canada has proposed alternative measures to control pinewood nematode, while allowing trade in green lumber. However, the EU has not accepted Canadian proposals for less trade-restrictive measures. At Canada’s request, WTO consultations were held on July 15, 1998, but the issue remains unresolved. Government officials have been working closely with industry and provincial representatives over the last year to review options.
In 2000–2001, Canada developed and sought EU approval of an innovative paperless certification program to streamline (e.g. reduce the paperwork burden) for exports of kiln-dried lumber that has been heat-treated (KD-HT) as part of the kiln drying process. The new system would have facilitated exports of value-added lumber to the EU. This proposal was rejected by the EC as too difficult to implement administratively. Canada has proposed that technical discussions take place in early 2002.

**Beef Hormones**

In 1989, the EU banned the use of growth-promoting hormones in livestock and imposed a ban on the importation of beef produced with such hormones. Both Canada and the United States consistently opposed the ban on the grounds that it was not based on scientific evidence, and it was an unjustified barrier to trade. The safety of growth-promoting hormones has been endorsed by the Codex Alimentarius and by Canada’s own scientific reviews.

After Canada and the United States referred the matter to the WTO, a panel concluded in August 1997 that the EU ban violated the Sanitary and Phytosanitary Measures Agreement since it could not be justified by scientific evidence. The panel’s conclusion was further confirmed by the WTO Appellate Body in January 1998. The European Union was given until May 1999 to implement the WTO rulings, but it failed to do so.

In August 1999, because the European Union did not implement the WTO rulings, and given the absence of an acceptable offer of compensation as an interim solution, Canada imposed retaliatory tariffs on a list of imports from the European Union, including beef, cucumbers, gherkins and pork. These measures will remain in effect until such time as the EU implements the WTO rulings or offers a satisfactory compensation package on an interim basis pending implementation of the WTO rulings. Canada’s objective remains open access to the EU market for Canadian beef. For more information, please visit [www.dfait-maeci.gc.ca/tna-nac/dispute-e.asp](http://www.dfait-maeci.gc.ca/tna-nac/dispute-e.asp). A third meeting of the JMC was held in Brussels in October 2001. The Agreement has increased contact, cooperation and communication between our two countries. Of the three technical working groups, established last year, on audit/verification, information exchange/notification and equivalency, progress was made on a joint audit protocol and improving information exchange/notification. Progress on equivalency has been slow. It was agreed to focus attention on advancing equivalency discussions.

**Animals and Animal Products**

On October 1, the EU implemented measures related to BSE and TSE. These measures have prohibited Canadian exports to the EU of live bovine animals, embryos, certain pet foods, and tallow and gelatine for food use. Canada, which has never had a native case of BSE, is BSE-free under International Organization for Epizootics (OIE) criteria. Nonetheless, the EU has given Canada a geographic BSE risk (GBR) rating of two, which entails a de facto prohibition on trade in the above-mentioned items. Canada disputes the rating and will continue to try to have the EU change it.

In addition to the BSE-TSE related regulations, the proposed EU Animal Waste Directive would further limit Canadian exports to the EU. This regulation as written will eliminate or limit exports of inedible tallow, pet food, yellow grease, beef and beef products, processed animal protein and possibly other fish, poultry and swine products. Canada views many of the measures in this regulation as neither scientifically justified nor risk-based.

**Seed Potatoes**

A derogation from EU phytosanitary requirements is required for continued access to the European Union for Canadian seed potatoes. The particular pests of concern are bacterial ring rot (BRR) and potato spindle tuber viroid (PSTV).

Traditionally, an annual derogation had been granted based on requirements that Canada conduct stringent laboratory testing and certification of disease-free zones in Prince Edward Island and New Brunswick for all exports to the European Union.
In September 1999, the EU Standing Plant Health Committee approved a three-year derogation for Canadian seed potatoes. The European Union published its decision in November 1999, which authorizes four member states (Italy, Portugal, Greece, Spain) to import seed potatoes originating from Canada for the next three seed potato marketing seasons or shipping periods (January 15, 2000 to March 31, 2000; December 1, 2000 to March 31, 2001; and again December 1, 2001 to March 31, 2002). Historically, Italy and Portugal are the only member states who take advantage of the derogation. For both the January-March 2000 and the January-March 2001 shipping period, Portugal was the only member state to use the derogation, and imported 282 tonnes and 100 tonnes, respectively, from Prince Edward Island. Canada will seek renewal of the derogation for the next seed potato marketing season, which begins in December 2002.

**OTHER ISSUES**

**Government Procurement**

Canadian suppliers do not have full access to EU public procurement opportunities in a number of sectors, including telecommunications equipment and services, transportation equipment and electric utilities. Particular barriers that serve to restrict access include standards, certification, qualification and local-content requirements. Canada is addressing these issues with the EU in the WTO Government Procurement Working Group to further reduce or eliminate tariff and non-tariff barriers.

**Telecommunications**

Canadian companies have benefited from ongoing liberalization of EU telecommunications regulatory frameworks, and are following closely the process of unbundling local loops in the European Union, including issues of costs, transparency and timeliness. In Germany, Canadian firms look forward to a new licensing regime that would implement a recent German Court decision to reduce current high up-front licensing costs to reflect actual administrative costs. They also welcome another recent German Court decision permitting resale of local network services and the requirement by the national regulator for more timely delivery of leased lines by the incumbent operator. While these decisions are important steps in improving the terms of access for competitors, Canadian firms remain concerned that unless the regulator plays an equally strong role in ensuring their proper and timely implementation, delays will continue to frustrate competitors and the development of a truly competitive German market.

**European Free Trade Association**

The Government announced the launch of free trade negotiations with the European Free Trade Association (EFTA) countries on October 9, 1998. The EFTA comprises Iceland, Norway, Switzerland and Liechtenstein. In 2001, Canada exported $1.3 billion worth of goods and imported goods valued at $5 billion from the region. Foreign Direct Investment (FDI) from EFTA members into Canada in 2000 was more than $7.4 billion, a 60% increase over the previous year.

This would be a “first generation” free trade agreement, and as such, would not include negotiations in the areas of services, investment, government procurement or intellectual property. It is expected to include some liberalization for agriculture, and new cooperation in trade facilitation and competition policy.

Agreement has been reached on most issues, and final discussions to resolve those still outstanding, such as the treatment of ships, offshore vessels and platforms used in oil and gas production, are under way.

**Mutual Recognition Agreement**

A Mutual Recognition Agreement (MRA) facilitates trade in regulated products by allowing manufacturers in the exporting party to complete the testing, inspection and certification requirements in their home territory. In July 2000, Canada signed three bilateral agreements (in one document) with Iceland, Liechtenstein and Norway on mutual recognition of conformity assessment of certain regulated products. The sectors covered are information technology and telecommunications equipment; electrical safety; electro-magnetic interference; medical devices; and good manufacturing practices for pharmaceuticals and recreational craft. The confidence-building period provided for under the MRA started in early 2001 and is continuing. These MRAs complement the Canada-EC MRA and the Canada-Switzerland MRA.
Overview

The Russian economy has recovered strongly from the financial crisis of 1998, which resulted in a drastic decline in Canada’s goods exports to the Russian Federation. Exports began growing slowly again in 1999, and continued building through 2000, but there has been a noticeable upsurge in 2001. Imports of goods from Russia to Canada registered a slight improvement in 2000 over 1999, but declined in 2001. Canadian exporters who had been reticent about entering the Russian market following 1998 have taken the economic good news as a sign that it is now time to re-engage in Russia. In February, Prime Minister Jean Chrétien led the Team Canada 2002 trade mission to Russia during which 77 new business deals were signed by Canadian enterprises, with a value of $337 million. According to Statistics Canada, Canadian investment in Russia was estimated at $423 million in 2000. Canadian direct investment is principally in the mining, high technology and agri-food sectors.

President Putin’s emphasis on Russia’s accession to the WTO has provided impetus to the economic reform process. The Russian Duma ended its spring 2001 session by passing tax, land and legal reform legislation. Russia will continue to be a strategic market for Canadian resource extraction, housing/construction materials and agri-food sectors. The Canadian government is working to improve access to this important emerging market along three main tracks: through the bilateral Intergovernmental Economic Commission (IEC); accession negotiations on Russia’s entry into the WTO; and the negotiation of a new Foreign Investment Protection Agreement (FIPA).

Bilateral Trade

The Canada-Russia Intergovernmental Economic Commission was established in 1993 with a mandate to improve trade and investment and to identify and resolve trade and investment irritants and obstacles that Canadian and Russian companies face in each other’s markets. It met most recently in Ottawa in November 2001, and the Canadian delegation was led by the Minister for International Trade, the Honourable Pierre Pettigrew. Sectoral working groups (focusing on oil and gas, agriculture, housing and construction, mining and Arctic and the North) work to enhance opportunities and market access for Canadian investors and traders. As outlined in the new Canada Russia Joint Action Plan issued during Team Canada 2002, consideration is being given to the establishment of new IEC working groups on market access, transportation, and advanced technologies including telecommunications, aerospace and information technologies.

Through the Intergovernmental Economic Commission and other bilateral initiatives, including technical cooperation, Canada is promoting the transition to a market economy in Russia. We have also pressed for the removal of numerous administrative barriers to trade and investment and for uniformity in the application of laws and regulations. During the Team Canada 2002 mission in February, Canada Mortgage and Housing Corporation (CMHC) signed a Protocol with the State Committee on Construction, Architecture and Housing Policy which marked the establishment of a new Russian building code for single-family dwellings based on Canada’s building code. This will create new opportunities in the Russian market for Canadian builders and construction material suppliers.

WTO Accession

The Russian Federation applied to join the World Trade Organization in 1993. Canada is a member of the WTO Working Party (WP) charged with examining Russia’s application and is holding bilateral discussions with the Russian Federation to advance the accession. The first of 13 WP meetings was held in July 1995 and the most recent in January 2002.

Canada has underlined its support for Russia’s eventual membership in the WTO on commercially viable terms generally applicable to newly acceding Members. Russia’s membership in the WTO will give Canadian traders and investors enhanced and more predictable access to this important market. It will also help to consolidate the economic transition process in the Russian Federation and will strengthen the multilateral trading system. Although much has been achieved in recent years, Russia has more work to do to bring its trade and economic policies up to WTO requirements, particularly including the area of agricultural support policies that distort trade.
Canada will continue to press for increased transparency as well as for more open, secure and non-discriminatory market access for Canadian providers of goods and services. Working party meetings are expected to be held regularly throughout 2002 in light of a renewed commitment by many WTO members to move the process forward now that the China accession and Doha Ministerial meeting have been concluded.

The Russian Federation presented its initial tariff offer in February 1998. In June 1998, Canada initiated bilateral discussions in Moscow leading to several revised offers from Russia over the last two years — most recently in February 2002. Progress has been made, primarily on industrial tariffs, during bilateral discussions that are continuing on an accelerated basis. Canada is seeking tariff concessions on products of current and future export interest to Canadian suppliers of goods such as oil and gas equipment, agricultural and agri-food products, fish and fish products, vehicles, aircraft and telecommunications equipment. Canada will, among other things, encourage Russia to bind all of its tariffs at or below currently applied rates, to join various zero-for-zero initiatives agreed in the WTO and to provide non-discriminatory access, for example, in the oilseeds sector.

The Russian Federation presented an initial services offer in October 1999. In May 2000, Canada initiated bilateral discussions on services and subsequent bilateral meetings were held throughout 2000 and 2001. Russia submitted a revised services offer in February 2001 and another in January 2002. Canada is seeking from Russia binding commitments relating to the temporary movement of natural persons and the establishment of commercial presence. Canada has particular interests in the areas of professional and other services, including computer and related services, basic and enhanced telecommunications, financial services, construction services, environmental services and transport services. Canada is also looking for the removal of restrictions and discriminatory measures for the cross-border, consumption-abroad and commercial-presence modes in these sectors.

Canada currently funds two projects — Macleod-Dixon’s WTO Assistance and Carleton University’s Capacity Building in Trade Policy and Law, for a total of $6.3 million, providing direct support to Russia’s decision makers in their efforts to facilitate Russia’s accession to the WTO.

Investment

The protection of Canadian investment in Russia remains a priority for Canada. Canada has a significant interest in Russia, particularly in the mining and oil and gas sectors. Natural resource development and other forms of infrastructure, services and industrial development are key areas of potential interest for Canadian investors. While the encouragement of foreign investment is a stated priority of the Russian government, there have been difficulties creating a stable, attractive investment climate. Concerns for investors in the Russian Federation have included: poor corporate governance; taxation levels; the complexity and uncertainty concerning domestic legislation; and a lack of effective recourse through the judicial system in order to resolve investment disputes. Over the past year, the Russian government has introduced new legislation in areas such as taxation, customs procedures, and judicial reform which are encouraging. Business registration, licensing and verification requirements have been streamlined and a new voluntary corporate governance code is expected to be introduced in 2002.

The existing FIPA signed between Canada and the USSR in 1989 provides more limited protection for Canadian investors than more recent NAFTA-style investment agreements. Negotiations were initiated in January 1998 and are continuing with the aim of developing a new and enhanced FIPA to improve conditions for increased Canadian investment.

Ukraine

Overview

Canada-Ukraine bilateral trade was below potential at $148 million in 2000, and dropped significantly to $81 million in 2001. The trade balance has historically been in Ukraine’s favour and dominated by steel exports. Canada’s export market in Ukraine is for unique, value-added, highly-engineered products; typically in the energy, construction and agri-food sectors.

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improve access to the Ukrainian market and expand bilateral trade and investment through WTO accession negotiations and the bilateral Canada-Ukraine Intergovernmental Economic Commission (IEC).

The Canada-Ukraine IEC was established in 1996 with a mandate to identify opportunities and resolve trade and investment irritants and obstacles for Ukrainian and Canadian companies. The fourth IEC was held in October 2001 in Ottawa co-chaired for Canada by the Minister for International Trade, the Honourable Pierre Pettigrew, and has been hailed as successful as there was significant progress towards establishing more regular meetings of the sectoral working groups on agriculture, construction and energy, as well as agreement to begin jointly working on impediments to trade which still exist, including: enforceability of court rulings; a new Land Code; the removal of export taxes; and a process to facilitate the resolution of commercial disputes.

**WTO Accession**

Ukraine applied to join the World Trade Organization in 1993. Since then, Canada has focused on the need for more open, secure, and non-discriminatory market access for Canadian exports of goods and services. In 2000, Canada’s Ambassador to the WTO, the Honourable Sergio Marchi, was chosen by its Members as the Chair of the Ukraine Working Party. As Chair, he went to Ukraine in August 2001 to discuss its accession with Ukraine’s Deputy Prime Minister, Trade Minister and senior officials.

On the multilateral front, while slow progress was made during the first seven years, the pace began to improve with the WP meeting held in July 2000. In the past year, Ukraine has taken important steps in preparing domestic legislation and regulations to bring significant parts of its trade regime into conformity with WTO obligations. Nevertheless, further work is still required in a number of important areas, including customs fees, customs valuation, agricultural support programs, technical barriers to trade, sanitary and phytosanitary measures, and, in particular, intellectual property, as well as in establishing the domestic regulations and administrative practices to implement the required domestic legislation. In December 2001, Ukraine provided the WTO Secretariat with a considerable amount of new information, including draft laws and legislative action plans, in many of these areas. The next formal WP meeting is not expected until the spring of 2002 at the earliest. Parliamentary elections scheduled for March 31, 2002 may slow the process of legislative reform at the beginning of the year.

Since 1997, as part of the accession process, Canada has held bilateral market access negotiations with Ukraine on goods and services. At the last bilateral meeting on February 18, 2001, Canada concluded negotiations with excellent results and on February 20, 2002 a bilateral Record of Agreement was signed. Canada will, however, continue to work with other WTO members in the multilateral process to ensure that the results of these bilateral negotiations and stable and predictable market access to the Ukraine are not jeopardized by high and complicated import fees and charges, burdensome customs procedures, and other non-tariff measures. Ukraine has stated that it has recently amended these measures, but we will continue to be vigilant in the multilateral process where these issues are negotiated.

The Centre for Trade Policy and Law (CTPL) of Ottawa and Carleton Universities is working with the Ukrainian Ministry of Economy to build Ukraine’s capacity to participate effectively in the accession process and to implement their WTO obligations. The Trade Policy Capacity Building project involves three areas:

- technical assistance on international trade issues to address short-term needs in accession to the WTO;
- institutional capacity building by developing a Ukrainian Centre patterned after CTPL Ottawa to meet longer-term needs of both the Government and the private sector; and
- an internship program for graduate students of international trade.
Asia-Pacific Economic Co-operation

Since its inception in 1989, the Asia-Pacific Economic Co-operation (APEC) forum’s agenda has evolved in response to developments in world trade. APEC Ministers and Leaders will continue to act as an informal caucus in support of strengthening the multilateral trading system. In the declaration that came out of the latest APEC Economic Leaders’ Meeting held in Shanghai, China in October 2001, Leaders expressed a strong message on the collective resolve of the Asia-Pacific community to counter terrorism. They also expressed their determination to reverse the emerging economic downturn and maintain public confidence at a time of uncertainty by fighting protectionism and committing to the launch of a new round of multilateral trade liberalization in the WTO. Leaders also adopted a “Shanghai Accord,” which will reinvigorate APEC’s trade agenda and help provide momentum to achieving APEC’s goal of reaching free and open trade and investment in the region by 2010 for developed economies and 2020 for developing economies.

The Shanghai Accord, which Canada strongly supports, inaugurated the “pathfinder approach” that will allow sub-groupings of APEC economies to accelerate economic liberalization in some new areas. Other results of the Shanghai Accord include a new focus on the need to work on the development of trade policies for the New Economy, a recognition of the importance of ensuring greater transparency, and a new emphasis on trade facilitation, which resulted in Leaders committing themselves to reduce transaction costs for business in the region by 5% over the next five years. The introduction of clear performance targets, such as this, will give new impetus to APEC’s work on trade facilitation. Trade facilitation holds great promise, as underscored in a 1999 study that concluded that APEC trade facilitation commitments in areas such as customs, standards, and business mobility could expand the region’s GDP by up to US$46 billion.

In order to build confidence in the multilateral trading system, APEC has launched a WTO capacity building initiative, aimed at helping developing APEC economies to participate more effectively in the WTO process. Canada has played a leadership role in this initiative, and Prime Minister Chrétien announced in October 2001 that the Canadian International Development Agency (CIDA) will commit $9 million to an APEC economic integration program in support of WTO-related capacity building within APEC.

While rule-making and liberalization in future WTO negotiations will be the key means by which APEC member economies will progress toward the goal of free and open trade and investment, APEC Leaders are supportive of the pursuit of WTO-consistent bilateral or regional free trade agreements as an additional way to reach this goal.

Throughout 2001, Canada also continued to support APEC’s work on e-commerce and the new economy, and was involved in a number of projects aimed at providing a better analytical framework for policies in support of the new economy. Canada also co-organized with China a Young Entrepreneurs Forum on the...
new economy, which drew more than 200 young business leaders to Beijing and Shanghai, China in July 2001.

APEC results in 2001

- APEC Leaders adopted the Shanghai Accord, which will accelerate movement toward achieving the Bogor Goals.
- APEC Leaders strongly called for the launch of a new round of WTO negotiations.
- The APEC Individual Action Plan (IAP) peer review mechanism was strengthened.
- Canada and China co-hosted the APEC Young Leaders and Entrepreneurs Forum in Beijing and Shanghai, China in July 2001.
- A major new study on APEC and the New Economy was prepared by the APEC Economic Committee.
- Member economies, for the first time, prepared APEC Ecotech Action Plans, providing an overview of individual economies’ involvement in economic and technical cooperation work.
- A new Collective Action Plan on Intellectual Property Rights was developed.
- The first APEC-OECD cooperative workshop on regulatory reforms was launched with two of four major workshops held.
- A paper entitled Business Mobility Standards: A Key to Capacity Building was released.
- Recommendations to address barriers to the interconnection of power grids were developed.
- A “road map” on interoperability to provide advice on cross-border e-commerce was produced.
- The APEC Tourism Information Network was implemented.
- A program on the Development and Validation of Phycotoxin Analytical Standards and Reference for Seafood Certification and Safety was implemented.
- A number of multi-year assistance programs on the Harmonized Standards (HS) Convention, Advanced Classification Ruling, Temporary Importation, Risk Management, and Express Consignment Clearance and Integrity were completed.

Mexico, which will host APEC in 2002, will emphasize gender integration and issues related to micro-enterprises in addition to APEC’s normal trade liberalization and facilitation agenda. During 2002, Canada will continue its efforts to develop a comprehensive initiative to strengthen trade facilitation in APEC, consistent with the direction provided by the Shanghai Accord, and aiming to expand opportunities for Canadian businesses in the region. Canada will also continue to push for APEC to address the various areas of trade facilitation in an integrated manner, with a view to identifying crosscutting synergies. In addition, Canada will continue to play a major role in the APEC WTO capacity building initiative. Canada plans to continue to promote meaningful public engagement in APEC, including dialogues with civil society organizations, in order to build popular support for the economic reforms needed to sustain regional growth and prosperity.

Japan

Overview

Japan is Canada’s third-largest trading partner (after the United States and the European Union), with 2% of total exports, and is the third-largest source of Foreign Direct Investment (FDI) in Canada. Canada is a leading supplier to Japan of a number of key products, such as lumber, pulp and paper, minerals, meat, fish, grains and oilseeds, and prefabricated housing. While resource-based exports continue to represent much of our trading relationship, Canada is also becoming an increasingly important source of a range of sophisticated, value-added, technology-driven products and services imported by Japan. Aircraft, software, telecommunications equipment, resource and environmental products and services are all entering Japan at a faster rate than before. Japan is also a major source of portfolio investment in Canada, and Canadian direct investment in Japan continues to respond favourably to deregulation and market opportunities in the Japanese economy.

In 2001, Canada’s total merchandise trade with Japan amounted to $22.7 billion. Continuing the decline in exports to Japan that began in the late 1990’s, in 2001 Canadian exports decreased by 12% to $8 billion. Imports from Japan decreased by 12% in 2001 to $14.6 billion. Canada exported $1.5 billion in services and imported $1.9 billion in 2000. The long-term trend in Japan is toward a growing demand for cost-competitive and innovative imports, which
represents a significant market opportunity for Canadian exporters.

In order to identify opportunities arising through regulatory reform and restructuring in Japan’s changing marketplace, the Department of Foreign Affairs and International Trade carried out an analysis of trading patterns in potential sectors of opportunity. The results of this study have been shared with Canadian and Japanese business, and interested representatives of the Government of Japan. The analysis points to new opportunities in information and communications technologies, value-added food products, transportation equipment, building products and prefab buildings, medical devices and pharmaceuticals, energy, power generation and environment. In addition, DFAIT and Industry Canada are now studying opportunities in the services sector. Results of this work will be incorporated into a revamped trade action plan for Japan in 2002.

In support of efforts to “rebrand” Canada in Japan as a technologically sophisticated society and to encourage a diversification of our traditional commodities-based trade relationship, the 1999 Team Canada trade mission to Japan emphasized the strengths of Canada’s high-technology sectors. These efforts have begun to bear fruit, with signs of increased business activity, especially in the high-tech sectors. Some two dozen Canadian information technology (IT) firms have opened up offices in Japan in the last two years, and the share of manufactured goods and value-added services exports to Japan continues to increase.

Building on momentum generated by the Team Canada mission, the Department of Foreign Affairs and International Trade, along with the provincial and territorial governments and with the support of the Japan External Trade Organization (JETRO), has undertaken a series of promotional activities and seminars. Starting with 15 promotional seminars across Canada, including a media tour, these activities have centred around the theme of promoting the “Canada Brand”—an ongoing initiative to update Canada’s image in Japan.

Another example of such activities was the creation of a Japanese language Web site that offers a wealth of material on Canada’s commercial capabilities in all our priority sectors, as well as information on the wide range of Embassy services available. Following the success of the IT trade mission that visited Canada in the previous year, JETRO Executive Vice President Hiroshi Yokokawa led a second IT trade mission to Canada in November 2001. This one-week tour of Canada, with stops in Montreal, Toronto, Calgary and Vancouver, brought the 23 Japanese companies into contact with dozens of interested Canadian companies in each of the cities visited. There was provincial and federal participation in all events, and overall, the mission was deemed a great success. Events such as these provide many opportunities for companies to meet and develop relationships, and thus are held with high regard in the business community. Work is under way planning tightly focused events bringing Canadian companies involved in specific sectors of high-tech to Japan to meet with interested companies and contacts there.

In order to continue to exploit the opportunities opening up in the various regions of Japan, the regional program was strengthened by the opening of the Trade Section of the Honorary Consulate in Hiroshima in September 2000. A similar office was opened in Sapporo in June 2001. The appointment of commercial officers to the trade sections allows the new offices to seek increased opportunities for Canadian and local companies to forge new business relationships, especially small and medium-sized companies.

Further reinforcing our efforts, a Think Canada 2001 festival comprising more than 140 events was held from April through July 2001. This celebration featured a series of cultural, trade, people-to-people, peace and security, and educational events that took place across Japan. The events highlighted our culture, our technologies, our traditional strengths, and our role in the world in terms of peace and security and environmental management.

Managing the Relationship

Canada and Japan continue to promote trade development and economic cooperation under the 1976 Framework for Economic Cooperation and the Joint Communiqué announced during the 1999 Team Canada mission led by Prime Minister Chrétien. The Joint Communiqué reaffirmed the intention of the two governments to advance regulatory cooperation with a view to facilitating trade in regulated products. It also welcomed the interest expressed by the private sector to undertake a study of bilateral trade and investment opportunities.
While trade policy meetings provide a comprehensive view of the trade and economic relationship, they are complemented by regular issue-specific talks conducted by government departments and agencies in Canada and Japan, in such sectors as telecommunications, culture, building-product standards, environment, tourism, air services, oilseeds and transportation, to note a few. This range of themes is indicative of the breadth of our trade and economic relationship with Japan. A review of the more than 40 bilateral consultative mechanisms between Canada and Japan was completed in June 2001 by the Canadian and Japanese governments. The exercise was designed to identify mechanisms that have completed their roles as well as those that should be strengthened in the context of efforts to revitalize the bilateral relationship.

Regulatory cooperation between Canada and Japan also continues to advance on many fronts, both multilaterally and bilaterally. Canada will continue efforts to extend cooperation in areas like biotechnology, competition policy, customs administration and in particular, will continue discussions between health authorities on the observation of inspections and the possibility of mutual recognition on pharmaceutical good manufacturing practices.

Regulatory reform has been a Japanese government priority for a number of years, with Canada making regular annual submissions to the Japanese regulatory reform authorities (along with the U.S., the EU, Australia and New Zealand and domestic organizations such as Keidanren), whose latest incarnation is the Regulatory Reform Council (formerly the Regulatory Reform Committee). Canada’s submission in 2001 to the Regulatory Reform Council was expanded to include not only specific areas of particular concern to Canada, such as telecoms and building standards, but also more cross-cutting structural issues related to the overall investment environment in Japan. Many of these issues have serious implications for the overall recovery on the Japanese economy and for the ability of Japan to attract foreign, including Canadian, investment. The Regulatory Reform Council made public in December its first report of recommendations to the Japanese government after several months of deliberations, and will release another report in the first quarter of 2002. Submissions from foreign governments are an integral part of this process. Canada welcomes and encourages private-sector initiatives to improve trade relations. In May 2000, at the Canada-Japan Business Committee (CJBC) meeting in Tokyo, the CJBC leadership emphasized the need for greater diversification and announced that “concrete steps toward a Japan-Canada Free Trade Agreement would be an effective tool for promoting bilateral trade and investment.” At the most recent CJBC meeting in Calgary, in May 2001, the CJBC proposed that the two governments, in consultation with the Canadian and Japanese private sectors, explore the idea of a “new comprehensive partnership framework for enhancing the two countries’ economic relationship.”

The Canadian and Japanese business communities have carried out an analysis of trade and investment opportunities. Following up on these studies and efforts, the Canadian and Japanese governments, in consultation with the private sector, have also undertaken research and analysis in consideration of ways to enhance our trade and economic relationship. As part of this effort, DFAIT has conducted, in collaboration with business associations, roundtables in Toronto, Montreal and Vancouver, and a survey of more than 1400 Canadian companies to obtain their views on and experiences in the Japanese market. In addition, DFAIT is carrying out analyses of bilateral trade in goods and services and investment to determine trends, areas of unrealized potential, as well as challenges and opportunities, and to define Canada’s interests. This program of research and analysis is geared to enhance our understanding of areas of strength and weakness, areas for potential closer cooperation, and ways to enhance this relationship.

**Market Access Results in 2001**

- Japan implemented a revised Japan Agricultural Standards (JAS) Law allowing foreign organizations to obtain Registered Certification Organization (RCO) and Registered Grading Organization (RGO) status provided the foreign country was deemed to have an equivalent system of conformity assessment. In March 2001, Japan recognized Canada’s system of conformity assessment for wood products as equivalent to the Japanese system under the JAS Law.

- Canada and Japan worked in cooperation to resolve delays in regulatory approval for transgenic crops. Some recent submissions have been dealt with expeditiously.
Regulatory reform and restructuring of Japan’s telecommunications services sector resulted in a modest reduction of interconnection rates.

Japan replaced the system of building product testing and approval based on Section 38 of the Building Standards Law (BSL) with a system allowing for foreign recognized evaluation bodies and foreign recognized approval bodies.

Japan continued to move toward increased adoption of international (ISO) standards for building products.

**Canada’s Market Access Priorities for 2002**

- Continue to press for a reduction of duties applied to vegetable oils (particularly canola), processed foods, forest products (spruce-pine-fir lumber, softwood plywood, laminated veneer lumber, oriented strand board and laminated beams), red meats, fish, non ferrous metals and leather footwear.
- Continue to press for the elimination of specific technical and regulatory barriers in Japan to facilitate Canadian exports in such priority sectors as agri-food, building products, and services.
- Continue to participate in Japan’s official consultation process and identify domestic regulatory impediments that limit economic growth or add unnecessary costs to business and consumers, especially through the identification of regulations and standards that vary from international norms, thereby requiring extensive additional testing and documentation (e.g. Japan Industrial Standards for plastic resins).
- Continue to seek an agreement on Totalization and Social Security with a view to reducing costs of social security contributions and helping to protect the pension rights of employees in both countries.
- Continue to negotiate access to a small number of the new slots available at Narita Airport when the second runway opens in the spring of 2002.
- Regulators will continue to extend cooperation in areas such as pharmaceuticals, biotechnology, and competition policy, and will continue to welcome further regulatory cooperation in such areas as medical devices, customs procedures, and food.

**Improving Access for Trade in Goods**

**Agri-food, Fish and Beverage Products**

Japan is the world’s largest net importer of agri-food, fish and beverage products. In 2001, Canadian agri-food and fish exports to Japan amounted to $2.6 billion. Canada seeks further access to this important market, and has concerns with Japanese measures regarding tariffs, safeguards, labelling of food derived from GMOs, and import requirements regarding plant health. In many cases, Japan maintains that its policies conform to the commitments made at the Uruguay Round of negotiations, and that any further tariff reduction or market access concessions will be considered in the context of WTO negotiations.

**Safeguard Measure on Chilled and Frozen Pork**

Canada remains concerned about the Japanese snapback safeguard measure on pork in the form of an increased minimum import price. Since it was first triggered in 1995, the snapback safeguard has been of significant concern to the Canadian pork sector. As currently administered, this measure creates considerable uncertainty for Canadian suppliers and Japanese importers. Canada is seeking a resolution that addresses the concerns of both exporters and importers in eliminating the negative market impacts of the snapback safeguard. This will be a priority in the WTO agriculture negotiations.

**Tariffs on Canola Oil**

Japan’s duties on imported cooking oils are applied on a specific rate basis (i.e. a certain number of yen per kilogram). As a result of the Uruguay Round of Multilateral Trade Negotiations, specific duties for these products have decreased in Japan. As ad valorem equivalents (AVEs) of specific duties are inversely related to import prices (i.e. when import prices fall, the AVEs rise, and vice versa), specific duties progressively cushion domestic producers against competition from lower-priced imports, thereby counteracting cuts in specific duty rates. For example, due to the low product prices experienced in 2000, the AVEs of specific rates on canola oil have ranged from 23% to 28%. These high tariffs are designed to protect Japan’s domestic oil-crushing industry, and other related products such as margarine. Canada will seek the maximum negotiable reduction in these high tariffs in the WTO agriculture negotiations.
**Labelling of Food Products Containing Genetically Modified Organisms**

As of April 1, 2001, Japan requires mandatory labelling and import notification for foods containing organisms derived from biotechnology. The requirements apply to crops and food products containing GMOs that have been previously approved by the Ministry of Health and Welfare. In the case of processed foods, the requirements apply only to ingredients that are among the top three by weight and that account for 5% or more of the content, also by weight. Foods for which it is not possible scientifically to measure the presence of GMOs are to be exempted (e.g. canola oil).

The potential impacts of this measure are not fully evident at this time. Many issues remain to be determined, including the scope of the labelling scheme and the extent to which it will be exercised on new products. Canada has raised concerns about Japan’s approach to mandatory labelling of a non-product-related production and processing method, both bilaterally and in the WTO Committee on Technical Barriers to Trade. Canada will continue to follow this issue closely so that access for Canadian foodstuffs is preserved.

**Greenhouse Peppers**

The Canadian greenhouse vegetable industry, specifically in British Columbia, is developing markets for its products in Japan but has been unable to gain access for greenhouse peppers. In November 2000, the Canadian Food Inspection Agency (CFIA) provided Japanese officials with data to substantiate Canada’s claim that no pest of concern has ever been found to have occurred in British Columbia. This further supports Canada’s position that the province of British Columbia has a pest-free area status as per International Plant Protection Convention standards. Japan has requested further information.

**Bovine Spongiform Encephalopathy in Japan**

Following the detection of a BSE case in Japan, the Japanese government has implemented a series of domestic measures and import restrictions, including a ban on imports from all countries of specified processed animal proteins. As a BSE-free country, Canada expects that its exports will receive the same treatment as products from other BSE-free countries. In addition, Canada is concerned about the new requirements for certification of fish meal exports to Japan.
Also, Canada will continue to consult bilaterally with Japan on the revision of other aspects of its building codes and standards to aid Japan’s objective of stimulating improvements in the quality of housing stock and to facilitate Canadian exports of building materials. Specifically, Japan will be urged to adhere to international standards and practices, and to allow Canadian organizations to become recognized testing and approval/certification bodies.

**Registered Certification Organizations and Registered Grading Organizations**

In June 2000, Japan implemented a revised JAS Law allowing foreign organizations to obtain Registered Certification Organization and Registered Grading Organization status provided the foreign country was deemed to have an equivalent conformity assessment system. Once approved, foreign RCOs/RGOs would be able to inspect and apply the JAS stamp to products meeting the JAS standard. In 2000, Canada applied to the Ministry of Agriculture, Forestry and Fisheries to confirm “equivalency” for wood products. After extensive consultation, Canada was granted equivalency for wood products in March 2001, thereby allowing Canadian organizations to gain RGO/RCO status and improving market access for wood products. Since that time, three Canadian organizations have been approved as RCOs, potentially affecting exports currently exceeding $1.5 billion a year.

**Tariffs on Spruce-Pine-Fir Lumber and Softwood Plywood**

Japan’s system of tariff classification distinguishes between the species and dimensions of lumber, regardless of end use. As a consequence, spruce-pine-fit (SPF) lumber imports, worth over $600 million per year to Canada, are subject to duties ranging from 4.8% to 6%, whereas other species imported for the same purpose enters duty free. The 6% tariff on softwood plywood is also considered to severely limit Canadian exports and unfairly favour the domestic Japanese industry. The SPF and softwood plywood tariffs are a high priority for Canada, and will be pursued in the WTO multilateral trade negotiations.

**Restrictions on Three and Four-Storey Wood Frame Construction**

Most of the Japanese market is subject to highly restrictive prescriptive codes related to fire, and land economics favour three- and four-storey construction. Although three-storey wood frame construction is now allowed in quasi-fire protection zones (QFP), it is restricted to a maximum of only 1500 square metres, and requires severe property line setbacks and limiting distance calculations for exterior wall openings. These restrictions unfairly and sharply limit the use of three-storey wood construction. There is also a size limit of 3000 square metres for non-QFP, and wood cannot be used in the construction of special buildings like hotels. Four-storey wood frame construction is increasingly being used in North America, but faces a difficult and unclear regulatory regime in Japan. Canada will press for the adoption of international standards for fire walls.

**Revision of Japan Agricultural Standards for Building Products**

Under the Japan Agricultural Standards system, specific standards are now reviewed on a five-year cyclical basis. Canada continues to work with the Ministry of Agriculture, Forestry and Fisheries (MoAFF) in various technical forums to provide data to assist in the revision of standards related to building products. In 2001, the MoAFF launched the review of the standards for flooring, glue laminated timber, laminated veneer lumber, and oriented strand board. In 2002, the review of the softwood plywood standard will be initiated. Canada will work to ensure that Canadian stakeholders have access to the MoAFF process and full membership on the review committees and continue to press for a performance-based approach.

**Performance Requirements for Lumber for Traditional Housing**

Canada is working to ensure that performance criteria being developed for traditional zairai housing in Japan should not be based solely on the use of tsugi lumber, but rather should recognize the characteristics of other species (e.g. hemlock). The approval in October 2001 of a new performance grade for Canadian Coastal Hemlock Lumber in Japanese post and beam housing caps a multi-year research and development program undertaken by Canadian industry, and supported by Canada. Canada’s Embassy and consulates in Japan will monitor closely the implementation of this new product in Japan.
Housing Quality Assurance Act

The Housing Quality Assurance (HQA) Act introduces a mandatory 10-year warranty system and a voluntary housing performance indication system for new housing. Canada is encouraging Japan to allow for foreign testing organizations to test performance characteristics, and is seeking to ensure that the requirements, and the process for attaining the requisite proof of performance, are not so onerous as to discourage small and medium-sized enterprises (SMEs) from competing in the Japanese market. Canada also continues to urge the Japanese government to accept international approaches to test methods in this regard.

Improving Access for Trade in Services

As the number of international firms doing business in Japan continues to rise, there is an increasing focus on regulatory and other non-tariff barriers that may be impeding the development of business in underdeveloped areas of the Japanese economy, particularly in services. There has been significant business development in those areas in which there has been regulatory reform, notably financial services and telecommunications. Canada continues to point out areas in which further regulatory reform would have similar stimulative effects.

Telecommunications Services

The Japanese market for telecommunications services has seen a significant opening to foreign companies. All restrictions on foreign investment in the telecommunications sector, except in Nippon Telegraph and Telephone (NTT) Corporation, have been lifted. Canada continues to monitor Japanese implementation of GATS commitments for basic telecommunications services and is encouraged by Japan’s move to reduce the interconnection rates for foreign carriers to NTT’s local and long distance networks.

Several concerns, however, have been flagged by Canadian companies with respect to the ability of new entrants to access the network; reporting procedures required of new entrants by the Ministry of Public Management, Home Affairs, Posts and Telecommunications; regulation of dominant carriers (the local distance service provider NTT Communications, NTT West and NTT East in the local communications market, and NTT DoCoMo in the wireless market); and the ability of new entrants to build new networks which could be improved by ensuring fair access (including rights of way) to land and facilities owned or controlled by utilities and facilitating construction and expansion of infrastructure over public land and facilities. Canada urges Japan to continue to lower the interconnection rates by adopting a Long-Run Incremental Cost (LRIC) system, a pro-competitive methodology for interconnection fees. Canada is also concerned about the independence of the regulator, and is monitoring any changes in its role as a result of the former Ministry of Posts and Telecommunications becoming part of the larger general affairs ministry with the implementation of administrative reform on January 6, 2001.

Air Transport

In the context of our long-standing and productive bilateral air relationship, Canadian officials have tried over the past two years to obtain for Air Canada access to a small number of the new slots available at Narita Airport when the second runway opens in the spring of 2002. Air Canada and All Nippon Airways have been working very closely to develop their plans especially for code-sharing beyond Japan. Their intensified commercial cooperation will clearly benefit both airlines.

Canada is concerned that, following a number of discussions between our respective negotiators as well as through diplomatic channels, Japanese officials have declined to consider granting Canada any of the new slots; this exclusion from the use of the new runway at Narita will compromise Canada’s opportunity to expand our services to Tokyo for years to come. If Japan were to reconsider its position on additional access to Narita for Air Canada, it would result in obvious commercial benefits for the airlines of both countries.

Financial Services

Japan has made significant progress in deregulating the financial services sector in recent years. This has brought about more competition and consumer choice. Over the past year, Japan has introduced the “No-Action Letter” system and a defined contribution pension system (“401k” accounts), which Canada welcomes. But Japan can do more to foster a dynamic and efficient financial sector.
As a general concern, Canada believes that most government-backed financial institutions in Japan significantly overlap with services that private-sector institutions can provide efficiently. The involvement of government enterprises in the financial sector, some of which (such as the postal savings system or yucho) have very sizeable market shares, has a distorting effect on competition. Public institutions should be made to compete in a manner that does not discriminate against the private sector through, for example, government-backed guarantees. Canada supports the efforts of the Japanese Government to streamline and privatize government-backed financial institutions.

**Banking**

The Government of Japan has stated that it has a long-term policy objective of turning Tokyo into one of the world’s most innovative financial centres. To the extent that Japan is able to restructure the financial system, notably the banks, this objective will be more achievable. In addition, Canada believes that modernizing Japan’s financial regulatory structure is critical to Japan’s future as a global financial centre. Most major industrialized countries have moved to a financial conglomerate regulatory structure, which allows for greater synergies between banking, securities, insurance and fund management. The United States was the most recent major economy to adopt such an approach, with the repeal of the Glass-Steagle Act, which required a strict separation between banking and securities (“firewalls”). In Japan, the Glass-Steagle approach to regulation is still in place.

The requirement in Japan to maintain so-called “firewalls” between banking and securities is a significant concern to Canadian financial institutions operating in Japan. It imposes considerable additional costs, and does not allow for optimal efficiencies for clients. Canada continues to request that the Financial Services Agency (FSA) offer a more flexible regime, which is sensitive to smaller institutions’ need to contain costs.

**Securities and Investment Advisory Companies**

The Government of Japan has set the policy objective of developing deep and liquid securities markets in order to reduce the current over-reliance on banks for financing. The Government should encourage greater household and pension fund investment in securities and investment trusts by increasing the safety, flexibility and understandability of investment trusts and by lowering the costs of providing this key investment vehicle. The Financial Services Agency should amend the investment trust regulations so that it is easier for a fund management company to close down a fund, while respecting investor rights.

**Insurance**

The postal insurance system or kampo holds some 25% of life insurance assets in Japan. It is not subject to the same kind of regulatory oversight as private-sector life insurers although this should change. As a first step toward rolling back its activities, the Government should instruct kampo not to engage in the creation of new products that could be provided by private-sector insurers. Failing this, Canada requests that any new financial service activities proposed for the postal financial institutions (whether kampo or yucho) be subject to full public notice and comment, and that the responses be given due consideration by officials before their introduction.

With the purported goal of ensuring consumer transparency, the Financial Services Agency applies a micro-level analysis to product and rate approvals. This supervisory approach hinders competition because it is time-consuming and stifles the forces of innovation. Canada’s federal life insurance regulator, the Office of the Superintendent of Financial Institutions, applies an ex post supervisory approach that promotes efficiency and competition, whereas Japan adopts an a priori regulation and supervision approach. In a sector in which there is demand for new products closely tailored to consumer needs, Japan’s financial supervisory practices should promote competition and innovation.

**Legal Services**

In the face of globalization, increased merger and acquisition activity, and domestic regulatory reform in Japan, the demand for legal services with expertise in cross-jurisdictional issues to assure due diligence is acute. These services could be provided through the cooperation of Japanese (bengoshi) and foreign lawyers (gaiben), however, due to the restricting structure of specified joint-enterprise system, the expertise in Japan is limited and Japan-based businesses often seek services abroad. The Foreign Lawyers Law explicitly forbids partnerships and most joint enterprises between
Japanese and foreign lawyers. The exception is a specified joint-enterprise system, which allows for such partnerships but limits the scope of their practice to a tightly defined mandate. In addition, foreign lawyers cannot employ Japanese lawyers, and are subject to restrictions with respect to the type of advice they are allowed to provide, while their Japanese counterparts are not subject to similar limitations. Canada continues to urge Japan to remove restrictions on partnerships and employment between foreign and Japanese lawyers, and to abolish current restrictions on the ability of foreign lawyers to provide legal advice on home or third-country law for which they are qualified.

**Investment**

Japan is the third-largest source (after the United States and the European Union) of FDI in Canada, with a stock of $8.4 billion. Over 440 Japanese-affiliated companies established in over 740 locations currently create more than 52,000 jobs for Canadians. Japan’s relationship with Canada through its foreign direct investment greatly enhances the ability of Canadian industry to compete in the global marketplace. Canada accounts for a relatively minor portion of Japanese FDI worldwide, at 3.7% in 1999, according to Japanese Ministry of Finance figures (up from between 1% and 2% over the previous 10 years). Investment has traditionally been in the resource industries and heavy manufacturing, but trends indicate a shift to high-technology industries. While large greenfield investments still happen, an increasing number of smaller investments, strategic partnering and joint ventures are taking place. These investment decisions are often decided by Japanese subsidiaries in North America, who are assuming the responsibility that had belonged to the Japanese head offices — reflecting the globalization process of successful Japanese industries.

Canadian FDI in Japan is lagging behind other OECD countries, although there have been some notable investments in the past two years. Regulatory reform in Japan’s financial sector and the shift to consolidated accounting should increase financial transparency and encourage more Canadian investment into Japan. On a prefectural level, a growing interest in attracting foreign investment, especially into high-technology areas, has been noted, although to date, growth in Canadian FDI has concentrated in the important urban areas.

Japan imposes few formal restrictions on FDI and is working to remove or liberalize most of the legal restrictions that apply to specific economic sectors. Prior notification is now required only for investment in certain restricted sectors. However, the long-standing structural impediments continue to hamper FDI into Japan. These impediments include a high overall cost structure, bureaucratic discretion, exclusive buyer-supplier networks, a lack of labour mobility, bankruptcy regulations, and a lack of financial transparency, which serves to inhibit the establishment and acquisition of businesses.

**China**

**Overview**

The People’s Republic of China (not including the Hong Kong Special Administrative Region) is Canada’s fourth-largest export market. In 2000, Canada’s total exports of goods to China reached $4.2 billion, an increase of 15% over 2000. The total value of imports of goods in 2001 was $12.7 billion, an increase of 13% over 2000.

In recent years, and in preparation for its accession to the WTO, China accelerated the pace of liberalization and reaffirmed its commitment to social and economic reform. Results of the reform initiatives can be seen in the increased degree of personal freedom and choice afforded the general population. The combination of these major changes has resulted in the world’s largest consumer market. Moreover, China’s population of 1.3 billion is growing, and commensurately, the size of its consumer market will also keep pace. With China growing in international prominence, its citizenry charged with an ever increasing discretionary income, and a buying population with a predilection for procuring international goods and services, changes to the economic landscape in Asia, and quite likely, the world, will soon follow.

Canada’s approach to its relationship with China takes full account China’s rapidly growing importance in world affairs. An economic partnership between China and Canada is a key element in supporting long-term relations and encouraging China’s further integration in global and regional political and economic institutions.
In February 2001, the Prime Minister led the largest-ever Team Canada mission to China and Hong Kong, with 600 business delegates, eight provincial premiers and three territorial leaders. The mission raised the profile of Canadian businesses in nine key economic sectors: information and communications technologies; agriculture and agri-food; construction, building materials, products and services; environmental industries and technologies; transportation; energy resources and technologies; health and financial services; educational technologies and services; and tourism.

Team Canada’s visit sent a strong message that Canada has a long-term commitment to doing business in China. The presence of the Prime Minister and the provincial and territorial leaders facilitated Canadian businesspeople’s access to key economic decision makers in China. The mission resulted in $5.7 billion in new business deals and letters of intent for Canadian enterprises.

Despite the opportunities that China presents, a number of significant problems and practices impede broad Canadian access to all segments of the Chinese market. Canadian companies must bear in mind that China consists of a number of distinct regional markets, similar to the United States or the European Union, each operating and evolving in a distinct and sometimes autonomous fashion. Some elements of the former planned economy remain, however, so in certain types of economic activity, or in projects whose scale exceeds a threshold size, the central government continues to play a key and sometimes decisive role.

As a component of the regular, high-level contact between the two countries, Canada and China engage in formal consultations to review matters of interest and concern related to economic development, trade and investment. This is facilitated through regular bilateral discussions, the most prominent being the Joint Economic and Trade Committee. These country-to-country meetings permit Canada the opportunity to register its concerns regarding access to the Chinese market, and to communicate its views on economic development and the importance of transparency and rules-based market economics. The 17th Joint Economic and Trade Committee meeting is planned for May 2002 in Beijing.

A major achievement in 2001 was China’s formal accession to the World Trade Organization, which took place on December 11, 2001. The extensive commitments China has made to substantially lower barriers to foreign trade and investment, and to increase the predictability and transparency of its trade regime, will engender profound changes in its economy and governance. This will result in significant new business opportunities for Canadian exporters and investors in sectors in which Canadian firms have a comparative advantage. China will face considerable challenges in fully implementing the agreement and in pursuing further economic reform, but in the long run, economic growth and prosperity will be strengthened.

**MARKET ACCESS RESULTS IN 2001**

**China’s Accession to the WTO**

China announced its intention to join the General Agreement on Tariffs and Trade (GATT) in 1986. Negotiations did not begin in earnest until 1994, and it was unable to secure membership before the launch of the WTO in 1995, which incorporated and built upon the GATT. Bilateral negotiations with interested WTO members addressed specific market access barriers; Canada and China concluded a bilateral agreement in November 1999. Some 40 other WTO members also negotiated individual agreements with China, the results of which were consolidated into a single schedule of market access commitments by China, and which were applied to all WTO members on a most-favoured-nation (MFN) basis. Multilateral negotiations at the WTO headquarters in Geneva sought commitments that China would make changes to its trade regime to ensure consistency with WTO obligations.

In acceding to the WTO, China has agreed to liberalize access for foreign goods and services, and has accepted the rights and obligations that are embodied in the WTO Agreement, including the fundamental principles of national and MFN treatment. China has also made specific commitments on matters of concern to WTO members regarding the consistency of its existing trade policy regime with the WTO Agreements. The contractual nature of the WTO means that all the commitments contained in the accession documents constitute new rights for China’s trading partners in the WTO, and as such they are enforceable through the WTO’s dispute settlement system, a central element...
in providing security and predictability to the multi-
lateral trading system.

China formally became a member of the WTO on
December 11, 2001. For more information on the
terms of China’s accession to the WTO, please visit
the Canada and China Page of the Department of
Foreign Affairs and International Trade’s Web site at

**IMPROVED MARKET ACCESS
FOR GOODS AND SERVICES**

**Industrial and Agricultural Products**

China agreed to make immediate tariff cuts in industrial
and agricultural products upon accession. Further tariff
reductions will be phased in over the next nine years,
with most being completed by 2005. By 2005, industrial
tariffs will have fallen from a simple average of 16.3% in
1999, when a Canada-China bilateral agreement on
accession was signed, to 9.2%. Agricultural and agri-food
tariffs will have fallen from 21.4% in 1999 to 15.1% by
2005. These averages hide steep cuts in the tariffs
charged on some exports from Canada: Table 1 summa-
rizes concessions on a selection of such goods.

Some examples of tariff reductions which will signifi-
cantly improve market access for goods exported by
Canada include:

- Motor vehicle parts and accessories: China imported
  about $418 million from Canada in 2001 at an
  average tariff of 22%. This average tariff will fall
to 11.5% by 2006. Tariffs on finished vehicles will
  be slashed over the next 4 years. For example, current
  rates on finished cars will drop from 70-80% cur-
  rently to 25%.

### Table 1: Notable Tariff Cuts Under China’s WTO Accession

<table>
<thead>
<tr>
<th>Product Description</th>
<th>Cdn Exports, 2000, $m</th>
<th>2001 Applied Tariff</th>
<th>Final Bound Tariff</th>
<th>Final Binding Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor vehicle parts and accessories</td>
<td>$543.8</td>
<td>21.1(^1)</td>
<td>11.51</td>
<td>2006</td>
</tr>
<tr>
<td>Canola</td>
<td>$405.2</td>
<td>40(^2)</td>
<td>9</td>
<td>Upon accession</td>
</tr>
<tr>
<td>Canola oil</td>
<td>$38.1</td>
<td>100(^3)</td>
<td>9</td>
<td>2006</td>
</tr>
<tr>
<td>Electrical equipment for line telephony and parts</td>
<td>$267.3</td>
<td>13(^4)</td>
<td>0</td>
<td>2004</td>
</tr>
<tr>
<td>Polymers of ethylene</td>
<td>$161.8</td>
<td>16(^5)</td>
<td>6.51</td>
<td>2008</td>
</tr>
<tr>
<td>Artificial filament tow</td>
<td>$128.8</td>
<td>10(^6)</td>
<td>41</td>
<td>2004</td>
</tr>
<tr>
<td>Uncoated kraft paper and paperboard</td>
<td>$57.4</td>
<td>14(^7)</td>
<td>3.51</td>
<td>2004</td>
</tr>
<tr>
<td>Injection moulding machinery for plastics</td>
<td>$19.4</td>
<td>15</td>
<td>0</td>
<td>2003</td>
</tr>
<tr>
<td>Industrial dust collectors</td>
<td>$9.9</td>
<td>18</td>
<td>5</td>
<td>2004</td>
</tr>
<tr>
<td>North American ginseng</td>
<td>$39.6</td>
<td>36</td>
<td>7.5</td>
<td>2006</td>
</tr>
<tr>
<td>Beer, made from malt</td>
<td>$0.2</td>
<td>RMB 7/L(^8)</td>
<td>0</td>
<td>2004</td>
</tr>
<tr>
<td>Malt</td>
<td>$0.2</td>
<td>26</td>
<td>10</td>
<td>Upon accession</td>
</tr>
<tr>
<td>Crustaceans (including shrimp, crabs)</td>
<td>$100.8</td>
<td>19.8(^9)</td>
<td>9.31</td>
<td>2005</td>
</tr>
<tr>
<td>Poultry cuts and offal, frozen</td>
<td>$23.7</td>
<td>RMB 1.0</td>
<td>10</td>
<td>2004</td>
</tr>
<tr>
<td>Beef, frozen, cuts with bone in and boneless</td>
<td>$0.2</td>
<td>39</td>
<td>12</td>
<td>2004</td>
</tr>
</tbody>
</table>

Notes: This table shows a number of Canadian exports to China in 2000 and the corresponding trade liberalizing commitments that China has made under the
terms of its accession to the World Trade Organization (WTO). The export values in this table are those reported as imports from Canada by the Customs General
Administration of the People’s Republic of China. The 2001 applied rate reported here is the China’s MFN rate, which would be applied to imports from Canada.

A “bound” tariff is a maximum rate; applied rates may be lower. The “initial bound rate” refers to the rate upon the date of accession. For many goods, China has
committed to make equal cuts in tariff rates for a certain period following the date of accession; the “final bound tariff” will therefore apply on the date specified.

A number of the HS headings described encompass a large number of individual product types, which may face different tariffs than the averages listed here.

1. Average tariff. 2. In-quota tariff. 3. Out-of-quota tariff. 4. Approximately 58% ad valorem by 2000 import quantity and value; average 2000 exchange rate was
   $1 = RMB 5.57. 5. Approximately 40% ad valorem by 2000 import quantity and value.
Telephone equipment and parts: China imported about $27 million of Canadian equipment and parts in 2001 at an average tariff of 13%. This tariff will fall to zero by 2004 as China has now joined the WTO’s Information Technology Agreement.

Canola seed: Chinese imports from Canada were valued at over $300 million in 2001. A quota covered these exports and the applicable tariff was 12%. China agreed to eliminate the quota under its WTO membership and lowered the tariff to 9%.

Frozen shrimp and crabs: China charged an average tariff of 19% on imports from Canada of over $75 million in 2001. This tariff will be reduced to an average of 9% by 2005.

Polyethylene: China imported over $120 million in 2001 from Canada, at a tariff of 16%. This tariff will fall to 6.5% by 2008.

Services

China’s services sector has been one of the most heavily regulated and protected, and consequently it is underdeveloped (services as a proportion of GDP is among the lowest in the world) and has minimal foreign participation. The completion of negotiations heralds dramatic changes. All important sectors will be opened to foreign investment, with, in many cases, majority foreign ownership permitted within two to three years and, in some cases, wholly foreign-owned subsidiaries within two to five years. Geographic restrictions that currently exist in a number of key sectors (telecoms, banking, insurance and distribution) will be phased out over five to six years. In addition, regulatory procedures will be improved: licensing procedures and conditions will be published, relevant regulatory authorities will be separate from service suppliers they regulate, and foreign service suppliers will be able to partner with any Chinese entity of their choice.

Standards and Technical Regulations

Under the terms of accession, China made commitments on technical barriers to trade, or standards and technical regulations that affect imported goods. Product standards and standards-related procedures will be improved and brought into line with international practices. Existing standards and technical regulations will be subject to periodic review in order to harmonize them with international norms, where appropriate. China has committed to ensure that standards, technical regulations and conformity-assessment procedures will be the same for imported and domestic products upon accession— they currently differ substantially in some cases. To provide additional assurances of non-discriminatory treatment, China’s product inspection agencies will be restructured within 18 months of accession.

Procurement by Government

WTO membership will impose new disciplines on procurement by Chinese government entities. Procurement by Government ministries and agencies at all levels will be conducted in a transparent manner, and all foreign suppliers will be provided with equal opportunity to participate in that procurement. Procurement laws and regulations will be published. Procurement by state-owned and state-invested enterprises of goods and services for sale will not be considered to be “government” procurement, and will therefore be subject to normal WTO non-discrimination requirements. All state-owned and state-invested enterprises will make purchases and sales based solely on commercial considerations (e.g. price, quality, marketability and availability), and the enterprises of other WTO members will have an adequate opportunity to compete for sales to and purchases from these enterprises on non-discriminatory terms and conditions.

Intellectual Property Rights

The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is a comprehensive and detailed agreement which, among other things, extends the obligations of MFN and national treatment to all aspects related to the protection of the intellectual property rights of the nationals of WTO members. To bring its intellectual property system into conformity with WTO rules, China has committed to expand the scope of its laws on copyright, trademarks, and patents. Regulations on the protection of undisclosed information, such as trade secrets and test data, will also be improved. Laws and other measures will be modified to ensure national and MFN treatment of foreign rights-holders regarding all intellectual property rights. China has made a number of commitments to improve enforcement of

* In other words, China will apply MFN treatment to procurement by government ministries and agencies, but not necessarily national treatment — foreign companies will not necessarily have access to procurement contracts, but if they do, all foreign companies will be treated equally.
intellectual property laws and regulations, including lowering the threshold value required to take criminal action against intellectual property piracy and counterfeiting, and agreeing to fair and equitable judicial procedures for plaintiffs and defendants in cases alleging violation of intellectual property.

**Import and Export of Goods and Distribution of Goods**

China currently maintains a number of controls on the import and export of goods (referred to as trading rights) and on the trade and distribution of goods within China. In 2001, only about 35,000 Chinese enterprises were authorized to import and export. Under the terms of accession, China will progressively liberalize the availability and scope of trading rights, so that, within three years after accession, all enterprises in China (both foreign and Chinese) will have the right to trade almost all goods throughout the customs territory of China. Upon accession, foreign-invested joint ventures will be allowed to provide wholesale distribution services upon accession, and foreign-invested enterprises will be able to distribute products they have manufactured in China. Retailers will face some geographic restrictions for the first three years after accession. A small number of products will face limitations on distribution by foreign-invested companies for up to five years after accession.

**Foreign Investment**

Foreign investment regulations will be liberalized. China has been the developing world’s largest recipient of foreign direct investment (FDI) since the early 1990s. However, due in part to the Government’s performance and technology transfer requirements, the quality of foreign investment has generally been low, as has been the value that FDI has added to the economy. WTO rules do not govern the conditions of foreign or domestic investment within a member per se, but they do limit the use of certain investment requirements that violate the WTO principle of national treatment of imported goods and the prohibition against quantitative restrictions on imports. Under the terms of accession, China will eliminate and cease to enforce legal and regulatory requirements for trade and foreign exchange balancing, export performance, and use of local content. China will not enforce provisions of contracts imposing such requirements. Transfers of technology and proprietary knowledge will only require agreement between the parties to the investment. Permission to invest in China will be granted without regard to the existence of competing Chinese domestic suppliers. China has also made extensive commitments on foreign investment in services.

**Telecommunications**

The telecommunications sector will be a major beneficiary of China’s accession. Under the terms of its accession to the WTO, China will join the WTO’s Information Technology Agreement (ITA) and will therefore eliminate tariffs on telecommunications equipment by 2004, from an average of about 13% in 2001. Canadian exports of such products were more than $200 million in 2000. Mobile, paging and value-added telecommunications services will be opened to foreign-invested joint ventures upon accession, with geographic restrictions that will be phased-out within two to five years. The larger international and domestic voice and data market will be opened to foreign-invested joint ventures three years after accession, with geographic restrictions that will be phased out three years thereafter.

**Financial Services**

Financial services is another major sector of interest to Canadian exporters that will be opened to foreign companies under the terms of accession. Different levels of foreign ownership will be allowed, depending on the type of corporate structure (e.g. joint venture or subsidiary) and the subsector. Geographic restrictions on foreign provision of services will be phased out three years after accession for insurance and five years after for banking. Three years after accession, foreign-invested joint ventures will be able to underwrite all shares on Chinese stock markets, as well as government and corporate debts, and to launch domestic securities investment funds. Foreign banks will be allowed to provide services in Chinese currency to Chinese businesses within two years and to all Chinese clients within five years.

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1 Foreign-invested enterprises may also be granted foreign trading rights, but only for the import of equipment and inputs to production, and for the export of goods they have produced in China.

2 The TRIMS Agreement does not apply to services.
Newsprint

China’s WTO accession might also help to resolve a number of issues that concern Canadian exports of newsprint. The “sliding scale” duty rate, which was inversely proportional to the price per tonne and first applied to newsprint in 1997 at rates between 3% and 45%, will be replaced upon accession with a tariff of 12%, declining to 5% by 2006. China applied anti-dumping duties to Canadian newsprint exports in 1999. As a WTO member, for new cases, China will apply WTO-consistent rules for determinations and procedures. For measures that were in place upon the date of accession, China will be required to review the margin of duty and the need for continued anti-dumping duties, upon request of another WTO member and five years after their imposition.

Canada’s Market Access Priorities for 2002

Administration of Tariff-Rate Quotas

China introduced tariff-rate quotas (TRQs) on imports of several foodstuffs in 1996, but published neither the regulations governing TRQ administration nor the quota quantities. Under the terms of accession to the WTO, China will eliminate TRQs that currently apply to a number of products and subject them only to tariffs, including potash (which will face a tariff of 3%), barley (3%), and canola seed (9%). A number of existing quotas will be replaced with new, WTO-compliant agricultural TRQs, including those for wheat, corn and canola oil. Upon accession, TRQs will also replace the existing import licence requirements and quotas on certain chemical fertilizers (urea, DAP and NPK).7

TRQ quantities will represent significant potential increases from recent imports. The TRQ on wheat and wheat products will rise to over 9.6 million tonnes by 2004, from actual Chinese imports of only 920 000 tonnes in 2000, while the out-of-quota tariff rate will fall from 114% in 2001 to 65% in 2004 (the in-quota rate will be constant at 1%). The TRQ for canola oil will start at 878 900 tonnes in 2002, rising to 1.2 million tonnes by 2005 (versus 2000 imports of 170 000 tonnes). The in-quota tariff will be 9%. The over-quota tariff will be 63.3% in 2002, falling to a single tariff of 9% in 2006, at which point the canola oil TRQ will be effectively eliminated. Similarly, the TRQ quantity for urea will rise to 3.3 million tonnes by 2006, from 2000 imports of only 30 000 tonnes.

China has committed to henceforth administer TRQs in a transparent, predictable, and uniform way using clearly specified time frames and administrative procedures. China has agreed to a set of specific yearly dates for the completion of certain steps in the quota allocation process. The agency responsible for TRQ allocation will be the State Development and Planning Commission (SDPC), except for allocation of fertilizer, which will be the responsibility of the State Economic and Trade Commission (SETC).

“State trading entities” (STEs) have monopoly import status on a number of commodities in China, including goods that are also covered by TRQs, such as wheat and canola oil. These privileges will be reduced or eliminated after China’s accession to the WTO, depending on the schedule negotiated for each product.

The TRQs that have been agreed under the terms of China’s accession represent very important gains for Canadian agricultural and fertilizer exporters. Canada’s priority will be to monitor implementation of the new TRQs to ensure that it is consistent with agreed principles, time frames, and quantities.

Administration of Automotive Quota

Under the terms of accession, China will establish a number of import quotas, or limits on the total annual value of imports, which will apply after accession, including one that will apply to “automobiles and parts” quota. This quota (with the exact product coverage defined by an 8-digit HS code) will be set at US$6 billion upon accession and will grow by 15% per year until it is eliminated on January 1, 2005 (although a number of products will be moved out of the quota before then). The requirement to possess an import licence for these products will also be eliminated.

Tariffs charged on automotive parts and accessories currently range from about 20% to 40%; these will be cut in half by 2006. Tariffs on finished vehicles will be slashed over the next 4 years — for example, current rates on finished cars will drop from 70-80% currently to 25%. According to China’s Customs General Administration, total imports in

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7 It was also agreed under the terms of accession that existing import licence requirements and quotas on other chemical fertilizers would be eliminated upon accession or by 2002.
2000 of the products that will be covered by this quota were US$1.2 billion, including US$11.6 million from Canada — the tariff reductions and large quota size show there is lots of room for growth of such imports.

During the quota phase-out period, China will implement a simple and transparent procedure for quota allocation and issuance of import licences, so as to ensure the full use of the quota. A number of criteria for quota allocation are specified under the terms of accession, such as the consideration of historical performance, a provision for new applicants to receive quota, and protection for quota-holders who have filled their past allocations.

As for the administration of TRQs, transparency and predictability, in particular timely publication of allocation and administration procedures, will be crucial to ensuring that Canadian exporters are fully able to benefit from China’s accession.

**Regulations on Imports of Genetically Modified Organisms**

China promulgated its new Safety Regulation of Agricultural Genetically Modified Organisms on May 23, 2001, without prior notification. The new regulation covers the labelling, research, production, marketing, movement and import/export of agricultural GMOs. However, the regulation is difficult to interpret, is lacking numerous essential details and has the potential to have a long-term negative impact on exports of canola seed to China. At present, it remains unclear how this regulation will be applied, and this uncertainty is having a negative impact on trade.

As a WTO member, it is important that China meet its obligations, particularly with regard to transparency. WTO members are required to notify of new regulations prior to their promulgation, to allow other members sufficient time to review the regulations and comment on their content. Furthermore, members are also required to ensure that their technical regulations are not more trade-restrictive than necessary to fulfill a legitimate objective. We are currently discussing our concerns about China’s GMO regulation with Chinese authorities to ensure that China adopts a regulatory approach that is consistent with WTO principles, and to ensure that all regulations are implemented in a transparent and workable manner that does not impede legitimate trade.

**Meat Plant Inspections**

In 1997, Canada signed beef and pork import protocols with China. At that time, it was expected that under these agreements, exports of Canadian pork and beef to China would commence; however exports did not materialize under the protocols. In November 1999, China signed a Record of Understanding (ROU) with Canada that set out clear timetables for addressing these market access issues, among others.

In response to the ROU, in April and June 2000, Canada and China successfully renegotiated the pork and beef protocols allowing for the export of meat products from approved plants within Canada. To date, 13 meat processing plants (11 beef, 2 pork) have been approved for export of meat products to China. In 2000, the CFIA recommended 39 additional meat-processing plants for approval to the State General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) and in October 2001, AQSIQ inspected 12 plants as a representative sample of the 39 recommended plants. AQSIQ has not yet completed its report regarding the plant inspections. The CFIA continues to work closely with AQSIQ in order to ensure that plants are approved in a timely manner, with the goal of obtaining Chinese approval of the Canadian Meat Inspection program.

**Canadian-Style Wood Frame Construction**

The Canadian system of platform frame construction using softwood dimension lumber and wood-based panel products (softwood plywood and oriented strandboard — OSB) is gaining recognition within the developing villa and townhouse niche in China. An estimated 300 houses are currently under construction, with a further 9000 under planning. Estimates have been made that China will build 15 000 wood frame houses a year within five years. This offers a huge potential opportunity to Canadian producers of dimension lumber, OSB and/or plywood, as well as suppliers of goods and services to China.

China’s building codes are currently being revised. Existing building codes do not recognize the Canadian platform wood-frame construction method of building or reference Canadian products, grading rules or design properties. The federal government, in partnership with the Canadian wood products industry, is working closely with the Chinese Ministry of
Construction to address amendments to specific codes that will cover wood-frame construction.

The ability to have input into the development of the Chinese building code provides Canada with an opportunity to influence the future design of Chinese housing which, if accepted, would allow for the inclusion of Canadian wood products. The building code work is the first critical step in the longer-term strategy of introducing the use of the Canadian wood-frame construction system into China.

To facilitate the development of the platform frame construction system in China, on October 30, 2001, the Government of Canada committed up to $5.3 million over four years to increase exports of Canadian wood products to China. The initiative, which is expected to be financially matched by provincial governments and the Canadian wood products industry, will incorporate a number of elements (builder training, housing certification, promotion, etc.) to capitalize on the anticipated outcome of the revisions to the Chinese building codes.

**Investment**

For the past six years, China has been the second-largest recipient of FDI in the world. Canadian direct investment in China has shown a consistent increase in recent years, rising from $257 million in 1994 to $734 million in 2000 (while Canada received $215 million in direct Chinese investment during 2000). The average size of new investments is steadily increasing, and the profile of the average investment is shifting from small family enterprises to more sophisticated operations of multinational companies. Canada continues to consider China a top priority for the negotiation of a Foreign Investment Protection and Promotion Agreement, and discussions are ongoing.

**Hong Kong**

**Overview**

The Hong Kong Special Administrative Region (HKSAR) maintains considerable autonomy in economic, trade, cultural and political affairs and will continue to do so until the year 2047. Hong Kong has its own financial system and formulates its own monetary and financial policies. The Hong Kong dollar, pegged to the U.S. dollar, continues to circulate as legal tender. Hong Kong remains a free port and a separate customs territory. It conducts relations with states and international organizations on the economy, money and finance, shipping, communications, tourism, culture and sports. Under the name “Hong Kong, China,” this distinct economy is a member of APEC and the WTO.

Hong Kong remains an aggressively free-market economy, with virtually no barriers to entry or to doing business. With the exception of excise taxes on autos, fuel, liquor and cigarettes, there are no duties, taxes or quotas on imported goods.

Canadian firms continue to enjoy excellent access to the Hong Kong market, and there are no outstanding bilateral market access issues. Canada exported $1.2 billion to Hong Kong in 2001 and also imported goods worth $1.2 billion. Trade in services is extensive. The Hong Kong government continues to develop its own economic, fiscal and budgetary policies based on its own interests and its dependence on trade. The policy of minimal government interference in the economy continues to apply equally with respect to trade in goods and services and to investment. In addition to being an attractive market in its own right, Hong Kong remains China’s largest port, and the entrepôt for most of China’s value-added imports and exports, particularly goods exported by SMEs.

**Investment**

FDI in Canada from Hong Kong continues to show a consistent increase, rising from $2.8 billion in 1995 to $4.5 billion in 2000. In general, Canadian investors face few difficulties in the Hong Kong market. Canadian investment in Hong Kong has grown from $2.4 billion in 1995 to $3.8 billion in 2000.

**Republic of Korea**

**Overview**

In 2001, Canada’s goods exports to the Republic of Korea totalled $2 billion, and imports were $4.6 billion. Korea is Canada’s third-largest market for goods exports in the Asia Pacific region (after Japan and China), and the 8th-largest worldwide. While exceptions
exist, the Republic of Korea's economic policies are typically designed to protect its domestic industry, encourage exports, and discourage imports of some value-added goods. Generally, tariffs, import licences, import procedures and social norms all favour the importation of raw materials and industrial equipment rather than finished goods. While there has been significant liberalization of import procedures over the past few years, significant obstacles and rigidities remain a problem in some areas.

The Canada-Korea Special Partnership Working Group (SPWG), launched in April 1994, has the objective of increasing cooperation in such areas as trade, investment, industrial cooperation and technology transfer. A subcommittee of the Canada-Korea Special Partnership Working Group addresses market access issues. A Committee on Industrial and Technological Cooperation has also been created to further increase cooperation between the private sectors of both countries, initially focusing on manufacturing technology, new materials, biotechnology, environment, energy and telecommunications. There was no meeting in 2001.

**Market Access Results in 2001**

- Korea has brought its restrictions on the sale of fresh, chilled and frozen beef into compliance with its WTO obligations.

**Canada’s Market Access Priorities for 2002**

- Continue to monitor applied tariffs that are subject to possible adjustment every six months to ensure that market access for Canadian products is not reduced (many products of interest to Canada are covered by these applied tariffs including alfalfa, barley, malt and canola products.)
- Continue to press for lower tariffs on feed peas and for parity of treatment between canola and canola products compared to soy and soy products.
- Continue to press for changes to soybean tendering procedures.
- Continue to make representations on technical market access problems regarding bottled water, such as restrictive government-mandated shelf-life requirements and onerous testing requirements.
- Continue to press Korean authorities to obtain the necessary approvals for the sale of seal meat for human consumption in Korea.

**IMPROVING ACCESS FOR TRADE IN GOODS**

**Canola Seed and Canola Oil**

Canadian exports of canola products to Korea are negatively affected by Korean tariff practices in several ways. In January 2000, Korea differentiated between crude and refined canola oil and applied a significantly higher tariff on refined oil. Canola oil is the only imported edible oil that is subject to this treatment. Second, Korea maintains lower tariffs for soybean products than it does for the corresponding canola products, despite the fact that these products are interchangeable and compete with each other on price. Korea also favours the use of tariff escalation (i.e. low tariffs on raw materials and higher tariffs on processed goods), as a means of protecting Korean oilseed processors. Parity of treatment between canola and soy is a high priority for Canada, and we will continue to pursue this with Korea, including in the WTO agriculture negotiations.

**Tariffs on Feed Peas**

Korea's applied tariff for feed peas is 30%. The tariffs for most of the competing feed products, such as barley, wheat and lupins, range from zero to 5%. The current tariff prevents the importation of feed peas compared to other feed imports, which is also detrimental to the Korean domestic feed industry. Pulse Canada, in cooperation with a Korean feed miller, has completed feeding trials in Korea that have produced positive results. However, Korea is still refusing to lower the tariff on feed peas. To allow the Korean compounding industry to have access to this alternative feed product, Canada has requested a tariff of no more than 5% for feed peas.

**Soybean Tendering**

The tendering system administered by Korea's Agricultural Fishery Marketing Corporation prevents Korean importers from accessing the high-quality, premium-priced food-grade soybeans that Canada produces. Korea has a tariff rate quota for food-grade soybeans, which is administered through international open tender, mainly on the basis of price. This is an inflexible system that has no provision for price premiums for quality, tendering on small lots or long-term contracting. Korea produces less than 40% of its
soybean requirements and cannot currently fully supply its soy-processing sector with the required high-quality product. Canada considers that it would be to the mutual advantage of both countries to provide more options in the administration of imports.

**Bottled Water**

Canada remains concerned about Korea’s trade-restrictive government-mandated shelf-life requirements and onerous testing requirements for bottled water. Canada will continue to make representations in an effort to resolve these issues.

**Seal Meat**

Korea continues to maintain a de facto import prohibition on seal meat for human consumption by refusing to list the product on the Korean Food Code. Canada has made numerous representations to Korean authorities since 1995 to have seal meat approved for human consumption. We will continue to press Korea on this issue.

**Beef**

*WTO Panel on Korea’s Beef Import Measures*

Canada and New Zealand participated as third parties in the WTO panel which was requested (under Article XXII of the GATT 1994) by the United States and Australia on Korean measures affecting the sale of fresh, chilled and frozen beef. A final ruling found that Korea was in violation of its WTO obligations. Korea has already notified the WTO that it has implemented the dispute settlement rulings. With respect to the elimination of the dual retail system for imports and domestic product, Korea agreed to bring its measures into compliance with the WTO by September 1, 2001. Both the complainants, the U.S. and Australia, accepted the Korean response as adequate.

**Government Procurement**

On September 1, 2001, a bilateral agreement between Canada and Korea regarding the Government procurement of telecommunications equipment was implemented. This agreement provides Canadian suppliers non-discriminatory access to the procurements of telecommunications by Korea Telecom, Korea’s state-owned telecommunications service provider. Canadian firms will gain access equivalent to that currently provided by Korea to the United States and the European Union.

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**Chinese Taipei (Taiwan)**

**Overview**

In 2001, Canadian goods exports to Chinese Taipei totalled $988 million. Chinese Taipei ranked fourth among Canada’s export markets in the Asia Pacific region, accounting for 10% of our total exports to the region. Canada’s goods imports from Chinese Taipei in 2001 totalled $4.4 billion. Chinese Taipei’s economy remains very dependent on trade. It is a major exporter, as well as a major source of investment for the region, particularly to China and Southeast Asia, and it is growing as an important regional importer. This has given strong impetus to trade and market liberalization, though domestic political pressures continue to lead to protectionist measures, which affect agricultural and agri-food imports, as well as the financial services area.

**WTO Accession**

Chinese Taipei’s WTO accession negotiations concluded on September 18, 2001, after over a decade of talks. Ministers approved the terms of the accession at the WTO’s Fourth Ministerial Conference at Doha, Qatar, on November 11. Chinese Taipei officially joined the WTO as of January 1, 2002. As Chinese Taipei is a prominent export market for Canadian suppliers, its formal membership in the international rules-based trading system is an important development. Chinese Taipei has undertaken significant reforms and liberalization in order to bring its economic and trade regime in line with the WTO framework. A key outcome is the fact that preferential market access previously accorded to U.S. suppliers in a number of product areas will disappear, as Chinese Taipei is now bound by the WTO principle of non-discrimination.

Chinese Taipei is now implementing market access terms that had been negotiated with Canada and other WTO members in both goods and services. These include tariff elimination or reductions for so-called “zero-for-zero” or “tariff harmonization” goods such as chemicals, pharmaceuticals, paper and medical devices. Chinese Taipei had already signed on to the ITA, agreeing to full tariff elimination on ITT products. Canadian suppliers have gained more secure and open access for these and other industrial priorities, including plywood
and aerospace products. Canadian suppliers’ access to the Chinese Taipei market for automobiles remains favourable, as Chinese Taipei proceeds with the liberalization of its import regime in this sector.

Access has also improved for a range of agricultural, agri-food and fish and seafood products, including gains in areas like meat products, grains, oilseeds and processed foods. Accession means equitable and more open access for suppliers of canola oil and beef. The dismantling of earlier import prohibitions on products such as meat offal and several fish products, including mackerel sardines and herring, was begun before accession and has now been fully implemented.

In services, Chinese Taipei included commitments in areas of prime interest to Canada, including financial services, basic and advanced telecommunications services and professional services.

Chinese Taipei has also applied to join the WTO Agreement on Government Procurement, and has agreed to market access concessions in the Agreement for some key sectors of interest to Canada. Chinese Taipei has also granted assurance that public tendering procedures will be fair and transparent and that a mechanism will exist for suppliers to challenge the consistency of procurement actions with the agreement.

**Canada’s Market Access Priorities for 2002**

- Monitor Chinese Taipei’s compliance with its WTO accession commitments, as they affect access for products of interest to Canadian firms.
- Encourage the accession of Chinese Taipei to the WTO Agreement on Government Procurement.
- Continue technical discussions with Chinese Taipei authorities on seed potatoes and greenhouse vegetables.
- Continue to press Chinese Taipei authorities to provide a prescriptive building code on softwood lumber.
- Continue to press Chinese Taipei authorities to recognize the equivalency of Canadian and U.S. quality control regimes on medical devices.
- Continue to press Chinese Taipei to be notified in advance of any changes in its regulations affecting agricultural trade on regulatory changes in agriculture.

**Improving Access for Trade in Goods**

**Beef**

The long-standing discriminatory tariff treatment of some grades of high-quality beef from Canada compared to equivalent grades from the United States will be phased out as a result of Chinese Taipei’s accession to the WTO. Currently, only certain cuts of Canada Prime and Canada AAA beef attract the Special Quality Beef preferential tariff rates that Chinese Taipei applies to all U.S. high-quality beef (U.S. Department of Agriculture prime and choice). The Special Quality Beef preferential tariff will be phased out by 2004, at which point all beef imports will receive the same tariff treatment.

**Meat Quotas**

In mid-1999, as a pre-accession concession, Chinese Taipei implemented MFN quotas on imports of several meat products that had previously been banned, such as beef offal, pork offal and pork belly. As of its WTO accession, Chinese Taipei removed the quota on beef offal, replacing it with a tariff only, and introduced a new TRQ system for certain pork and other meat products. Access for Canadian suppliers under these TRQs is being monitored for compliance with Chinese Taipei’s market access undertakings.

**Greenhouse Vegetables**

In its efforts to develop export markets, the Canadian greenhouse vegetable industry has indicated that Chinese Taipei is a priority market. Canada is seeking access to the Chinese Taipei market for greenhouse grown peppers and tomatoes from British Columbia. Canada has proposed that a technical working group be formed to discuss and work on these and other issues. Chinese Taipei continues to restrict tomatoes unless they can be certified that they originate from an area free from potato late blight type A-2, to which tomatoes are susceptible. Although the A-2 mating type of the late blight fungus has been reported to be worldwide in distribution, Chinese Taipei continues to insist that tomatoes originate from an area free from the pest. Canada maintains that certification that the fruit is free from A-2 late blight is sufficient. Canada will continue to pursue this issue with Chinese Taipei.
Peppers from British Columbia are not permitted access to Chinese Taipei because they are alleged to be a potential host for tobacco blue mould (TBM). Although known to occur in Ontario, TBM has never been reported in British Columbia. In line with the Pest Free Area Standard of the International Plant Convention (IPPC), Canada will continue to press for recognition of the entire province of British Columbia as a pest-free area or an equivalent thereof with regard to TBM. Canada has provided Chinese Taipei with detailed historical data confirming that there has never been a reported case of TBM in British Columbia. In order to ensure that exports from this province are permitted, Canada will continue to pursue this issue with Chinese Taipei.

**Seed Potatoes**

Following a request from the seed potato industry in the Western provinces in 1994, Canada approached Chinese Taipei to remove its ban on imports of seed potatoes from Canada. Chinese Taipei prohibits the importation of seed potatoes from Canada due to concerns regarding the presence of golden nematode, potato wart, and potato late blight in Canada. While Canada has demonstrated that its strict quarantine measures prevent the spread of golden nematode and potato wart, Chinese Taipei continues to insist on additional survey data. In addition, despite the fact that potato late blight has worldwide distribution, Chinese Taipei continues to request area freedom from this pest. Canada will continue discussions for access and stress the desire for consistency in the adherence to International Plant Convention rules and guidelines.

**Softwood Lumber**

Chinese Taipei is a major export market for softwood lumber, but only for the lower grades used for packaging. The market is open to increased use of wood in construction, but the opportunity is held back by the concern of financial and insurance institutions that the Chinese Taipei wooden-building code is insufficiently prescriptive to provide assurance of adequate quality. The Canadian wood products industry is currently working with the Chinese Taipei government in the revision of its Technical Code for the Design and Construction of Wood. Initial discussion indicates that Chinese Taipei is receptive to the inclusion of separate chapters within the revised code for different wood construction systems such as wood-frame, post and beam and log home construction.

**Consultations on Regulatory Changes in Agriculture**

Canada has expressed concerns to the Board of Foreign Trade regarding the lack of prior consultation on changes to regulations affecting agricultural trade. Some progress has been made over the past year when, for example, Canada was consulted on the extension of food inspection to several food items. Most recently, however, we were disappointed to see that the Chinese Taipei Department of Health implemented amendments to its regulations on food labelling without notifying foreign trade offices. The Department of Health has justified its action by noting that food importers (through their associations) were informed.

**India**

**Overview**

The Indian economy has changed dramatically since 1991, when India launched its program of economic reforms and trade and investment liberalization. India’s economic growth rate has averaged 6.5% between 1993 and 2000. The economy slowed down in the first half of 2001, and projections for 2002 range from 5.5% to 6%. The fundamentals of the Indian economy remain sound, and, just as India was not affected by the Asian financial crisis in the 1990s, its relatively more isolated economy may not be suffering as much as others from the current global slowdown. India is the fourth-largest economy in the world in terms of purchasing power parity, and has the second-largest gross domestic product (GDP), US$490.5 billion, among the emerging economies and is predicted to remain one of the fastest growing economies in Asia.

The process of economic reforms, started in 1991, continues, if somewhat hesitantly. All remaining quantitative restrictions were lifted in April 2001. The insurance sector has been opened to private and foreign investment. More sectors (garments, leather, toys, shoes) have been “de-reserved” from the small-scale industries. Further liberalization of capital account, FDI and foreign institutional investment rules has been effected. Legislation to reform the bankruptcy, competition and labour regimes, among others, is being contemplated.
Total Canada-India merchandise trade for 2001 reached $1.7 billion, with a balance of $530 million in India's favour.

FDI is allowed in all areas, except a limited number of sensitive sectors (e.g. atomic energy, railways). FDI ceilings and approval process have been progressively relaxed, so that a large majority of sectors are now open to 100% foreign equity, via the automatic approval route. In a diminishing number of sectors, such as insurance (26%), defence (26%) and banking (49%), ceilings on FDI remain, and, in certain cases, approval has to be obtained from the Foreign Investment Promotion Board under the Ministry of Commerce and Industry. Canadian investment in India is relatively modest compared with that of other major industrialized countries, with approved direct investment of $257 million in 1999, while Indian investments in Canada for the same period were a mere $12 million. However, the recent opening of several Information Technology and Research and Development centres in Canada may attract additional Indian investment in Canada. The growing Canada-India bilateral trade and investment ties have been facilitated by a number of organized business associations, most notably the Confederation of Indian Industry (CII) and the Canada-India Business Council (C-IBC).

India constitutes a massive market for almost any goods, services and technologies. It offers significant opportunities for trade and investment, particularly in areas of traditional Canadian strengths. These include telecommunications, transportation, agriculture and agri-food, power equipment and engineering, infrastructure development, oil and gas, mining and environmental technology.

Market Access Results in 2001

Under an agreement announced in January 2000, quantitative restrictions (QRs) and import-licensing requirements have been lifted on 1429 agriculture, textile and consumer products. This was done in two steps, with quantitative restrictions on 714 tariff lines eliminated in April 2000, and the remainder phased out in April 2001. Although tariffs did increase as a result of the removal of the quantitative restrictions, India has agreed to a scheduled reduction of these tariffs. Exports of Canadian goods and services, will therefore, become more competitive in the Indian domestic market, as tariffs are reduced.

Canada’s Market Access Priorities for 2002

- Press India to respect its WTO Information Technology Agreement commitments, particularly for telecommunications equipment.
- Ensure that restrictions on the import of bovine semen from Canada to India are eased.
- Continue to assist India in reforming its telecommunications policies and regulations.

Telecommunications

India’s information technology and telecommunications (ICT) sector is wide open to change, with a healthy annual growth rate of 40% projected. India has taken a major step by announcing several policy initiatives to make it more ICT-enabled, including for example the opening of National Long Distance Operations (NLDO) in telecommunications. The Union government will reduce customs and excise duty on the import of every kind of IT hardware, and states will not levy taxes on e-commerce for a period of three to five years. Internet service providers have been allowed to uplink directly to foreign satellites on both K_u and C bands to connect their gateways to overseas backbones, and third-generation licences have been auctioned in order to increase FDI into the country.

The Indian IT sector alone is expected to generate US$70 billion in revenue within the next 10 years.

A number of IT areas are ripe for exploration in India, including Internet applications and services, telecoms software, banking and insurance, multimedia and animation, distance education and tele-health, IT-enabled services, and wireless communications technologies. Canada, being one of the most “connected” countries in the world and a leader in the Internet economy, is well-positioned for the emergence of e-commerce in India, where a newly created Ministry of Information Technology has sole responsibility for e-commerce.

A delegation of 35 IT companies and government representatives from India attended Softworld in Halifax in October 2000, indicating an awareness of Canadian expertise in this sector.

Power

India’s power sector promises to be one of the fastest-growing in the world, experiencing annual growth rates in the range of 9% to 10%. India’s Ministry of
Power estimates that India would need an additional 93,000 MW of installed capacity in the next 10 years, requiring an investment of Rs. 4 trillion (approximately $135 billion), in order to meet the rising demand.

Despite strong domestic demand for additional power development, and many government proclamations of fast-track projects and one-stop application processing, few private projects have been implemented in the power sector. Further delaying much-needed projects are the current regulatory regime, complicated state-level approvals (in addition to those required by the central government) and a lack of transparency in the approvals process. The Government has introduced a number of new policies to help move new projects forward. These include the development of central and state regulatory commissions, a new hydro policy, a policy for mega-projects, a policy on privatization of transmission and distribution, and allowing foreign firms 100% equity in power-generation projects.

State electricity boards are largely in poor financial condition and will need greater support, major reforms and/or privatization to help reduce India’s significant power-supply shortage. A number of state electricity boards, with funding from the World Bank and the Asian Development Bank (ADB), have embarked on the path of restructuring their operations. These include the states of Orissa, Andhra Pradesh, Haryana, Uttar Pradesh, Rajasthan, Tamil Nadu and Kerala. The CIDA-funded energy infrastructure services project in Kerala is aimed at enhancing the capabilities of personnel and restructuring the state electricity board to make it better able to plan for the development of the power sector. Restrictions in the Indian financial services sector also limit the number of projects that can gain adequate financing. Canada will continue to use every opportunity to advocate further reforms in this sector. Export Development Canada (EDC) is quite active in India, having allocated a significant portion of its estimated $2 billion commitments in India to the power sector.

**Mining, Metals and Minerals**

Possessing a wealth of mineral resources and a flourishing mining industry that produces over 84 minerals valued at approximately US$8.6 billion, this sector contributes around 11% of India’s total industrial production and has the potential to increase this share to 20% to 25%. With major changes in the ownership laws for mines and expanding opportunities of FDI, the Indian mines, minerals and metals market has become extremely attractive to foreign companies and domestic investors. In an effort to increase FDI in exploration, mining, mineral processing and metallurgy, the Indian government has allowed 100% foreign investment for all minerals except diamonds and precious stones. In the case of diamonds and precious stones, foreign equity positions of up to 74% will be allowed automatically for both exploration and mining and exploration operations.

The Indian and Canadian mining sectors are complementary, given Canada’s capabilities in technology in mining, coal and steel production and metal processing. Areas of potential growth include mineral exploration and mine development, sale of minerals and coal, mineral and coal processing (such as coal washery), mining equipment (including large mining equipment and small components such as drill bits), technical services (including consulting engineering, laboratory and airborne surveying) and management services (including privatization, venture capital, investment advisory).

Investment in mining (both incoming and outgoing) is becoming a hot area in India. The Government is keen to attract and effectively use state-of-the-art technology, and modern management methods and expertise, which the major mining houses from other countries bring along with their capital resources. Indian companies are pursuing investment leads in this sector in Canada. While India is still a developing country, it also has companies with money to invest outside India — the total amount in all sectors could soon surpass the $100 billion mark.

**Agricultural and Manufactured Goods**

India maintains a number of restrictions related to balance-of-payments (“negative list”), affecting both agricultural and manufactured goods. The list includes banned items (for example, offal and animal tallow, and bovine genetics) and restricted items that require an import licence. However, the Special Additional Duty (SAD) of 4% on imports of edible oils has been withdrawn.

The 1999 central budget moved about 1000 consumer products from the restricted list to the open general list (OGL). In the agri-food sector, up to 50% of the production of export-oriented units (EOUs) are allowed to be sold in the domestic market, as compared to a 20% limit in other sectors, thus encouraging foreign investment in the food sector.
As announced on January 10, 2000, the Government of India has agreed to lift quantitative restrictions and import-licensing requirements on a total of 1429 agriculture, textile and consumer products. The agreement was pursuant to the August 23, 1999 decision of the WTO Appellate Body in which the United States had successfully contested the WTO-consistency of the quantitative restrictions maintained by India on the grounds of balance of payments (BoP) problems. The restrictions on a total of 714 tariff lines were eliminated by April 2000, with the remaining 715 phased out by April 2001. The benefits of eliminating these restrictions will accrue to all of India’s trading partners, including Canada, since under WTO rules the results will have to be implemented on an most favoured nation basis. Canada is monitoring the process. Since the removal of quantitative restrictions on imports of consumer goods and the reduction in the rate of import duties, India has become a very lucrative market for value-added food products. Since 1997, Canadian government officials have held discussions with the Indian government on the issue of access for Canadian live cattle, embryos and bovine semen. To date, no concrete resolution of Canadian concerns has been achieved; however, we continue to pursue the issue as a priority.

India’s non-transparent licensing system lends itself to inconsistent decisions and circumvention. The purported intent of this system is to protect Indian companies in such sensitive sectors as agriculture and food. The effect of these policies on the Indian economy is to permit both public- and private-sector domestic firms to operate inefficiently, with little or no competition, and to limit the quality and quantity of goods available to Indian consumers. Tariffs remain high on many food and consumer items. Canada will seek the reduction or elimination of tariffs on priority goods in the WTO negotiations.

**Investment**

Extensive reforms were introduced in India in 1991 to liberalize foreign investment and simplify the approval process. Prior to that time, companies could enter India only if they brought technology with them. Although investors still face certain restrictions, the number of sectors that do not require approvals, or for which approval limits have been raised, has been growing rapidly in recent years. Total FDI inflows into India have increased dramatically from less than US$300 million in 1992-1993 to more than US$2.2 billion in 1999. Canadian direct investment in India is still modest, but increased to $257 million in 1999 from $122 million in 1997.

According to the current policy, foreign investment can be approved either through the automatic route or by the Government. Companies proposing FDI in areas covered by the automatic route do not require any Government approval. As of December 1999, three sectors are eligible for automatic approval of up to 50% foreign equity participation, 21 sectors automatically allow up to 51% foreign equity, and nine sectors allow up to 74% foreign equity. In addition, foreign equity positions of up to 100% are given automatic approval in the following sectors: electricity generation, transmission and distribution; and construction and maintenance of roads, highways, vehicular bridges, toll roads, vehicular tunnels, ports and harbours. These rules are being reviewed constantly, and more changes, favouring higher levels of foreign investment in more and more sectors, are likely in the short to medium term. Foreign equity participation in sectors not identified above, as well as in sectors eligible for automatic approval but where foreign equity caps are exceeded, will require the approval of the Foreign Investment Promotion Board. A number of other measures have been implemented to facilitate inward investment, including liberalized foreign exchange requirements and administrative procedures, simplified procedures for non-automatic FDI approvals and opening up of FDI in the non-banking financial services sector to include credit card business.

Non-resident Indians and overseas corporate bodies with majority non-resident Indian ownership may hold 100% ownership stakes in all industries except those reserved for the public sectors (e.g. defence industries, atomic energy, railway transport, coal and lignite). The current investment policy requires no local content for new and existing investment. However, in some consumer goods industries (e.g. automobiles) the Indian government requires the signing of a Memorandum of Understanding (MOU) by the concerned foreign party to ensure net inflow of foreign exchange. Foreign equity must cover the foreign exchange requirement for imported capital equipment.

In November 1997, India announced specific rules applicable to all new foreign automotive sector investment in India. Under the policy, new and
existing joint-venture companies seeking to import unassembled kits and automotive components must sign a standardized MOU with the Indian government with several requirements relating to minimum equity investment, local-content requirements, export obligations and foreign exchange balancing. Prior to this policy, investors in the automobile sector were required to conclude MOUs on a case-by-case basis.

### Australia

**Overview**

Australian imports from Canada totalled $1.1 billion in 2001, while Canadian imports from Australia amounted to $1.6 billion, for a two-way total of $2.7 billion. In 2000, Canadian direct investment in Australia amounted to $4.1 billion and foreign direct investment in Canada from Australia was $1.5 million. Canadian sales successes in Australia continue to be oriented toward fully manufactured goods, including aircraft and automobile parts.

There are natural affinities between Canada and Australia arising from similar legal and regulatory systems, comparable federal structures and a trading relationship reaching back over 100 years. Most trade between the two countries takes place at most-favoured-nation rates, including substantial amounts at duty-free rates.

Some important non-tariff measures have an impact on market access, especially the tough sanitary and phytosanitary requirements imposed by the Australian Quarantine and Inspection Service. Most fisheries, meat, livestock, fruit, vegetable and food product imports face restrictive measures, ranging from prior approval to lengthy delays in quarantine. Other measures affecting access for Canadian goods and services include product standards, government-procurement practices (which vary from sector to sector, and from Commonwealth to state levels) and trade-remedy laws (Australia is among the most active users of anti-dumping and countervailing duty statutes).

**Canada’s Market Access Priorities for 2002**

- Work with Australia to ensure that softwood lumber regulations do not restrict Canadian lumber exports.
- Continue to press Australia to remove their ban on imports of pork products.

### New Zealand

**Overview**

In 2001, Canada exported $216 million in goods to New Zealand and imported $524 million in return. In 2001, Canada’s leading exports to New Zealand were fertiliser, frozen pork, and lumber. Canada was New Zealand’s largest foreign supplier of each of these products. In the same period, Canada’s leading imports from New Zealand were fresh, chilled and...
frozen beef and lamb meat. New Zealand’s market shares for these products were 2nd and 1st, respectively. Total Canadian foreign direct investment in New Zealand was $1.6 billion in 2001.

Canada’s Market Access Priorities for 2002

Canada will continue to make representations pressing for the removal of New Zealand’s restrictions on pork, trout and salmon.

IMPROVING ACCESS FOR TRADE IN GOODS

Pork

Effective September 1, 2001, New Zealand imposed new requirements suspending the importation of unprocessed pork products including from Canada and other countries due to alleged animal health concerns. The new measure requires that imported pork must be either cooked in the exporting country or in a transitional facility in New Zealand, similar to Australian restrictions imposed upon Canadian unprocessed pork for several years. Canada has made high level representations objecting to New Zealand’s new requirements as we consider them to be more trade restrictive than necessary and not based on science. Canada is attempting to resolve the issue through technical level discussions.

Trout

In December 1998, New Zealand imposed a “temporary” ban on the importation of trout. Since then, the ban has been extended several times. On October 13, 2001, New Zealand announced the replacement of the existing Customs Import (Trout) Prohibition Order 1998 with an entirely new one, which will be in force through November 7, 2004. New Zealand claims that the ban is for conservation reasons. Canada argues that New Zealand has provided no scientific information to justify the ban on conservation or any other grounds. Canada has made several representations to New Zealand requesting removal of the ban.

Salmon

In 1995, New Zealand approved the importation of headless, gutted, wild, ocean-caught, Pacific salmon products from Canada, based on the conclusion of a 1994 risk analysis document. However, New Zealand maintains a number of sanitary-related post-entry restrictions which discourage imports from Canada, including a requirement that imported salmon, trout and char, in bulk form, be processed in plants that are not certified for export. These restrictions effectively prevent Canada from exporting salmon in bulk for further processing in New Zealand. Indeed, there are currently no New Zealand plants able to process Canadian salmon. Canada has made representations pressing for removal of these restrictions and is working at the technical level to address outstanding fish health concerns.

Southeast Asia

SINGAPORE

Overview

With one of the world’s most open economies, Singapore presents few barriers to Canadian exporters. The same open policy also extends to immigration, and the Government proactively encourages foreign talent to live and work there. In 2001, Canadian exports of goods to Singapore were up 4% to $382 million, and imports from Singapore were down 18% to $1.14 billion. Singapore continues to offer significant opportunities for Canadian exports of goods, services and technologies. Already the region’s premier transportation hub, Singapore is investing heavily to position itself as an information technology and telecommunications (ICT) and financial services hub, and also devotes a large part of its budget to health, education and further infrastructure development. Recently, an increased focus has also been placed on life sciences, biotechnology, media and cultural industries. In October 2001, Canada announced the launch of negotiations with Singapore toward a bilateral free trade agreement.

Market Access Results in 2001

There have been a number of successful strategic alliances between Canadian and Singaporean R&D firms. These linkages provide both countries with access to expertise and resources in order to further their innovation agendas.
Canada’s Market Access Priorities for 2002

- Encourage partnerships and joint ventures with Singaporean firms, including both companies and research centres, in the ICT and life sciences sectors. These sectors have been identified by the Singaporean government as key growth sectors, and are the target of numerous investment and development schemes that are aimed at enhancing Singapore’s role as the telecommunications, financial and technology hub of Southeast Asia.

- Seek removal of remaining tariff barriers to trade in goods and improve access for Canadian companies to Singapore services sectors, including financial and professional services through a bilateral free trade agreement, among other avenues.

- Encourage resumption of discussions on the outstanding matters with a view to concluding an Air Transport Agreement, following consultations between the respective airlines or completion of Canada’s air policy review.

- Develop the educational sector in Singapore, including the recruitment of Singaporean students to study in Canada, and promote partnerships and joint ventures between Canadian and Singaporean educational institutions.

Investment

Inward FDI to Canada from Singapore increased from a total of $176 million in 1999 to $194 million in 2000. Canadian direct investment in Singapore remained stable over the same time period at $2.9 billion in both 1999 and 2000. Most of the Canadian direct investment in Singapore is in the form of regional offices, primarily in services sectors, such as banking and other financial services.

The Singapore government is extremely active in investing in key technology sectors, in part, through the creation of several investment funds administered through government statutory boards such as the National Science and Technology Board (NSTB) and the Singapore Economic Development Board (EDB). For example, in April 1999, the NSTB established a US$1 billion Technopreneurship Investment Fund, now spun off to TIF Ventures Pte Ltd., to invest venture capital to draw technology and talent into Singapore. Private-sector firms could access this fund for the development of new products, as long as 30% of the company ownership is Singaporean. This fund has been extremely successful in attracting international top tier venture capital companies to locate in Singapore and in making finance more easily available for startups in Singapore and in the region.

Additionally, the Singapore Economic Development Board (EDB) administers several funds aimed at developing specific technology sectors of the economy, especially life sciences. These include Life Sciences Investments (LSI), which was established in 1990 to invest in cutting-edge life sciences companies located primarily outside of Singapore. Its first fund of S$40 million is fully invested, and a second fund of S$70 million has been allocated for new investments. LSI’s mission is to make investments in cutting-edge life sciences companies worldwide, thereby promoting spin-off activities in Singapore. Similarly, the PharmBio Growth Fund Pte Ltd. was established jointly by the EDB and NSTB at the end of 1997 as a US$100 million life sciences investment fund. Its mission is to build and strengthen the capabilities of the life sciences industry cluster in Singapore by making direct equity investments in strategic development, manufacturing and related services projects.

INDONESIA

Overview

In 2001, exports to Indonesia declined by $244 million from the previous year, but nearly all of that can be attributed to two market developments: first, the business failure of Asia Pulp and Paper, which resulted in a decline of wood pulp sales from $339 million in 2000 to a mere $141 million in 2001 and second, depressed prices for plantation-sector products (coffee and palm oil) resulted in a 10% collapse in fertilizer sales from $37 million to $33 million. On the latter, there was a turn around in sales for the last half of 2001. There has been impressive growth of processed food products, increasing from $1.3 million last year to $7.5 million to date, which reflects strong market penetration of the dynamic Indonesian food distribution sector by Canadian companies. Sales of machinery, electrical and communications equipment have also grown significantly.

With continued encouragement from the International Monetary Fund (IMF) and the World Bank, Indonesia is continuing a program of structural economic reform,
distressed asset sales and privatization of the state sector, although at a somewhat slower pace than originally anticipated. Liberalization of trade and economic activity continues to be implemented, including a program of decentralization of government functions to regional administrations, although inadequate funding is leading to doubts about a smooth transition. Moreover, there are serious concerns about police action intervening in the affairs of the Indonesia Bank Restructuring Agency (IBRA), which is delaying economic reforms through the sale of distressed assets. As this type of activity continues, Indonesia is having a difficult time attracting foreign investment. Increased security concerns are also challenging a smooth economic recovery by scaring off potential investment.

**Market Access Results in 2001**

- Canada improved its market share in wheat.
- The Canadian Embassy continued to press Indonesian customs authorities to improve transparency and eliminate a check price system that disadvantages some Canadian products.

**Canada’s Market Access Priorities for 2002**

- Continue to maintain equitable access for Canadian wheat, especially in the face of competition from aggressive U.S. financing programs and subsidized EU wheat entering the Indonesian market.
- Ensure that Indonesia does not impose increased tariffs on soya beans and other agriculture products.
- Ensure that Indonesia’s check price system does not disadvantage Canadian exporters.
- Monitor Indonesia’s intention to implement a product labelling system and provide timely advice to Canadian exporters.
- Press the Indonesian authorities to offer the same types of exemptions for insurance companies under the new bankruptcy laws as those allowed for Indonesian banks.

**Investment**

While total Canadian FDI exceeds $2.2 billion, the flow of new Canadian direct investment has dried up due to continued uncertainties about the future political and economic climate in Indonesia. In addition, the recent law on regional autonomy, which was implemented on January 1, 2001, has led to a “wait and see” attitude amongst potential investors, who are awaiting a clearer understanding of the actually applied regulatory structure and its implications.

A number of Canadian resource companies have been actively planning major new investments in the mining and petroleum sectors but decisions to proceed with these investments are awaiting clarity on the political, economic and regulatory climate. The Embassy continues to monitor developments and make presentations on behalf of specific companies.

Canadian investors continue to face numerous challenges in accessing the Indonesian market, including a complex and non-transparent legal system, that does not provide an efficient or effective recourse for addressing commercial disputes. Indonesia’s political bodies are making some effort to reform the judicial system. Business firms also continue to face time-consuming procedures in obtaining approvals for licences and permits required to implement their investment plans. A limited number of sectors are closed to all foreign investment, including freshwater fishing, forestry, public transportation, broadcasting, film making, telecommunications and medical clinics.

The new law on regional autonomy, implemented in January 2001, is a bold attempt by the Indonesian government to decentralize all aspects of the economy except monetary, defence, foreign policy and judicial matters. As a result, it is expected that investment approvals will no longer be dealt with at the national level. Decentralization is causing some initial confusion.

The Canadian government has long supported investment in Indonesia by placing advisors inside the Ministry of Investment/Investment Coordinating Board and other locations under the auspices of the Canada-Indonesia Business Development Office (CIBDO). This program has been extended for another term. Canadian investment is expected to increase once again as stability returns to the country and obstacles to investment security are removed.

**THAILAND**

**Overview**

Until recently, Thailand was one of the fastest-growing economies in the world. In July 1997, however, the economic crisis resulted in a 50% decline in the value of the Thai baht against the U.S. dollar, a change of
government and an IMF rescue package of US$17.2 billion. Following an economic contraction of over 9% in 1998, the Thai economy began to recover in 2000 with 4.3% growth. In June 2000, Thailand officially graduated from its IMF program and began to make IMF loan repayments in November. Growth has declined however, in 2001 (GDP growth projected to be 1.3% to 1.8%) with slowdowns in the U.S. and other world economies largely to blame. Although Thailand still faces serious challenges, notably related to the very precarious situation of its financial sector, its medium- to long-term prospects remain positive, particularly with additional reform legislation.

In 2001, Canadian goods exports totalled $434 million (up 16% from 2000), while Thai exports to Canada were $1.1 billion (up 1%). The 140-member Thai-Canadian Chamber of Commerce in Bangkok attests to the strong bilateral commercial interest.

**Market Access Results in 2001**

- Taxes have been reduced from 50% to 5% for yachts and other water vessels which are used for entertainment.
- Import tariffs will no longer be levied on recycling machinery and companies using recycled materials will be eligible for tax breaks, depending on their location in Thailand.
- Prime Minister Thaksin is considering a finance ministry proposal that will see import duty reductions to 1% on more than 200 production inputs. The cuts aim to improve Thailand’s competitiveness by reducing the costs of raw materials used in local food, textiles, chemicals and steel production that are unavailable from local sources.
- The Life Insurance Association of Thailand has reported that the Government has agreed to revise the Insurance Act, allowing a foreign company to own a maximum of 49% stake in Thai insurance firms, up from 25%.

**Canada’s Market Access Priorities for 2002**

- Seek a reduction in the tariff for feed peas to a level comparable to other feed ingredients.
- Seek to address the limit on foreign equity investment in joint ventures of 49%.
- Seek fast-track approval for establishing regional headquarters in Bangkok.
- Ensure full implementation and enforcement of IP rules in accordance with Thailand’s WTO obligations.

**VIETNAM**

**Overview**

Canada’s exports to Vietnam in 2000 totalled some $58 million (up 13.8% from 2000). These numbers are quite modest considering that Vietnam’s overall imports are approximately US$15.2 billion, with GDP per capita of US$368. Vietnam is absorbing increasing levels of debt associated with infrastructure development; however, the IMF is satisfied that the fundamental economic indicators are sound. Vietnam is also dependent on large amounts of aid (US$2.4 billion in 2002). Canada announced at the APEC Summit in October 2001 that it will be providing an ambitious trade-related technical assistance program to some low income APEC economies, including Vietnam.

Vietnam continues to slowly reform its economy and its external trade regime. Vietnam began the process of acceding to the WTO in 1995. Canada supports Vietnam’s efforts to accede, including through the provision of accession-related technical assistance. Vietnam’s WTO accession negotiations are expected to intensify as Vietnam tabled its initial market access offers on goods and services in January 2002. Vietnam’s eventual membership in the WTO will consolidate its economic reforms and yield a more open, stable and predictable environment for Canadian traders and investors. Despite urging by foreign donors, including Canada, to accelerate the equitization (purchase of shares by employees) of state-owned enterprises and dismantle competitive barriers against private sector companies, the Government has been slow to respond on these issues.

**Market Access Results in 2001**

There have been some positive steps in the Vietnamese economy in 2001, including the establishment of a
Malaysia initiated a high-profile campaign against piracy of software and movies in 2001. Despite this, the country remains one of Asia’s three main hubs for pirated software and movies. Pirated software, including from Canadian companies such as Corel, is readily available for a fraction of the legitimate selling price.

Market Access Results in 2001

- The Malaysian government now allows 100% foreign equity in investments. Companies like Teknion Furniture Systems and Celestica have established wholly owned manufacturing subsidiaries in Malaysia recently.
- Malaysia has been gradually lifting the capital control measures it imposed in 1998, though the Government intends to keep the Ringgit pegged to the U.S. dollar for the time being, which gives Canadian products a price advantage in the Malaysian market.
- Malaysia has been pressing for progress in corporate governance and judicial reform, which act as non-tariff barriers to Canadian trade and investment.

Canada’s Market Access Priorities for 2002

- Monitor both intellectual property legislation and enforcement. Legislation was enacted to assist in the development of the Multimedia Super Corridor, but enforcement has been limited to a few high profile operations in the last quarter of 2001.
- Pursue further trade liberalization for goods and services, notably financial services, in the context of the WTO negotiations.
- Continue to press for progress in corporate governance and judicial reform, which act as non-tariff barriers to Canadian trade and investment.

Malaysia

Overview

Malaysia is Canada’s largest trade partner in the 10-country ASEAN grouping. Canadian goods exports totalled $405.8 million in 2000, a decrease of 3.5% from 1999. Malaysia is the primary source of Canadian imports from the ASEAN region. In 2000, Malaysian sales to Canada totalled $2.5 billion, an increase of 20.8% over the previous year. The Malaysian economy is hurting because of the slowdown in its main export markets. GDP growth slowed in 2001 from the 8.6% growth seen in 2000. Because of slumping exports, especially those related to the electronics sector, the Malaysian government has tabled an expansionary 2002 budget that includes more government spending and lower taxes to boost domestic demand. This is in addition to the $3 billion in off-budget fiscal stimulus announced in 2001. Malaysia has a relatively open, market-oriented economy and Canadian exporters have not reported any major market access barriers.

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- Malaysia has been pressing for progress in corporate governance and judicial reform, which act as non-tariff barriers to Canadian trade and investment.
Press Malaysia to fully implement the Asean Free Trade Agreement (AFTA) by 2003. Currently, Malaysia has extended tariff protection for its automobile industry until 2005, limiting joint-venture and market opportunities for Canadian parts manufacturers.

PHILIPPINES

Overview

The Philippines is still experiencing slow economic growth following the Asian financial crisis.

Despite initial optimism in 2001 following the installation of a new government, the slowing U.S. economy, and the terrorist attacks in the United States have all negatively affected the economy of the Philippines. Growth in calendar year 2001 is nonetheless expected to remain positive (i.e. better than in some of its Southeast Asian neighbours).

The Philippine Government is committed to eliminating the budget deficit by 2006, but it appears that targets for this year may not be met due to poorer than expected revenue collection.

The Philippine Government sent a strong signal that it intends to pursue needed structural reforms by successfully enacting the Power Sector Reform Bill.

Market Access Results in 2001

- Canada successfully developed with the Philippine Department of Agriculture a mutually acceptable protocol for the registration of Canadian animal feed ingredients derived through biotechnology.

Canada’s Market Access Priorities in 2002

- Engage the Philippines in Canada’s pursuit of a multilateral approach to the problems facing the steel industry.

Investment

In 1998, Canadian direct investment in the Philippines was $370 million. The largest Canadian investors in the Philippines are SunLife and Manulife.

Canadian investors face some challenges in the Philippine market. This is particularly so in the mining sector, where Canadian companies have experienced setbacks due to unpredictable and non-transparent decision-making involving Mineral Production Sharing Agreements and Environmental Clearance Certificates and due to the inability of Government at the local level to protect against the presence of illegal small-scale miners and processors.

CAMBODIA

Overview

Cambodia has a relatively open, market-oriented economy and Canadian exporters have not faced major market access barriers. Cambodia’s period of economic growth continued in 2001, despite a global slowdown affecting the garment and tourism sectors. However, the IMF was satisfied with Government reforms in key area.

The Royal government of Cambodia has developed a Pro-Poor Trade Policy Strategy, under which Cambodia was selected as one of the three pilot countries under the Integrated Framework. This consists of the six core agencies (IMF, ITC, UNCTAD, UNDP, World Bank and the WTO). Cambodia has obtained its status as a WTO observer and is hoping to join the WTO soon.

Total bilateral trade from January to September 2001 was more than $25 million. Canadian exports reached more than $1.5 million, and Cambodian imports more than $23 million.

Market Access Results in 2001

- The Cambodian government has continued to liberalize foreign investment requirements in the country, and 100% foreign equity is now allowed in investments.
For all information technology and telecommunications products imported in Cambodia, the import tax will be reduced by 70% starting from January 2002.

**Canada’s Market Access Priorities for 2002**

- Play a positive role, through bilateral and multilateral programs, in developing a capacity-building program for trade and economic policy.
- Advocate interests of Canadian companies in the market.
- Continue to press for progress in corporate governance and judicial reform, which act as non-tariff barriers to Canadian trade and investment.
Middle East

Israel

The year 2002 marks the fifth anniversary of the implementation of the Canada-Israel Free Trade Agreement (CIFTA). The most significant factors in increased trade between Canada and Israel continue to be the absence of tariffs on virtually all industrial products and the reduction of tariffs on many agriculture and agri-food products. Bilateral trade has more than doubled since the CIFTA came into effect. Trade in goods and services exceeded $965 million in 2001, an increase of 5.8% from the previous year. Machinery, newprint and high-technology products comprise the bulk of our exports. Canadian companies are also strong service exporters, particularly in such sectors as transportation and infrastructure.

Both Canadian FDI in Israel and Israeli investment in Canadian companies are estimated to approach $1 billion in each direction in 2002, and investment potential remains high given Israel’s attractive investment incentives. Increasing investment activity by Canadian firms in the telecommunications and software sectors has led to significant commercial successes.

Although negotiations on a FIPA have not progressed, Canadian firms report no difficulties in this market.

As provided for under the CIFTA, Canada and Israel continue to engage in discussions to further liberalize bilateral trade in agriculture and agri-food products. Progress has been made in a number of areas. Following consultations with Canadian producers and exporters, Canada will continue to press for improved access to the Israeli market in the following priority areas: prepared foods; canola oil; frozen foods; fresh and frozen fruit and vegetables; fish and fish products; pulse crops; and pet food. Canada is also seeking improved access for pharmaceutical products.

Canadian firms continue to make strong gains in such priority sectors as telecommunications, transportation, agri-food, construction equipment and pulp and paper.

West Bank and Gaza Strip

Canada is committed to promoting trade and investment relations with the Palestinians. The Joint Canadian-Palestinian Framework on Economic Cooperation and Trade, signed in 1999, establishes a commercial relationship based on free trade. Aside from eliminating tariffs, the Framework aims at improving market access and customs procedures while supporting emerging industries in this market.

Palestinian law stipulates that a local agent or representative is required to sell into this market. The state of the Middle East Peace Process can affect the movement of goods in and out of the West Bank and Gaza Strip.

Saudi Arabia

The Saudi economy remained strong in 2001, despite reduced oil revenues. The government has continued to pursue, at least in principle, various economic restructuring and deregulation strategies, with a focus on
encouraging a bigger role for the private sector, diversification and domestic job creation. In 2001, Canada's goods exports totalled $326 million, consistent with the levels reached in 2000, while Canadian imports decreased to $778 million in 2001.

Sectors of opportunity for Canadian exporters include: oil and gas, telecommunications, electrical power, health care products and services, water and sewage treatment, education and training and security and defence equipment, petrochemicals and mining equipment and services.

The Saudi government has recently made clear that it sees private sector investment as the main driver of job creation. The key measure in this regard has been the passage of a new foreign investment law and the creation of the Saudi Arabian General Investment Authority (SAGIA), set up as a “one-stop shop” for investment. The new foreign investment law, as approved in April 2000, provides a number of incentives previously offered only to Saudi businesses. Other recent reforms, including the privatization of the telecommunications and electricity companies, as well as the invitation extended by authorities at the beginning of 2000 to international oil companies to present investment plans for the gas sector, including downstream activities, have opened various joint venture and investment opportunities to international investors.

**SPECIFIC MARKET ACCESS CONCERNS**

**Genetically Modified Organisms (GMOs)**

The Canadian government has made several bilateral representations to Saudi Arabia in an effort to obtain additional details and to clarify the rationale behind Saudi import restrictions on genetically modified organisms (GMOs). In December 2000, the Saudi Minister of Commerce announced an outright ban on imports of GMOs, which could result in limited access for many Canadian exports to Saudi Arabia. The Canadian government will continue to address this issue bilaterally, as well as through the WTO Accession process, to ensure that Saudi Arabia lives up to its international obligations.

**WTO Accession**

Multilateral negotiations regarding Saudi Arabia's accession to the World Trade Organization began in May 1996 and bilateral market access negotiations shortly thereafter. Canada's underlying objective in both is to secure reform and market access commitments that are commensurate with Saudi Arabia's role in global trade and investment.

The WTO Working Party on Saudi Arabia's accession has made significant progress in its examination of Saudi Arabia's foreign trade regime. At its two meetings during 2000, the Working Party began to shift its focus to setting out the detailed terms of the accession. Although, for various reasons, the WTO Working Party on Saudi Arabia's accession did not convene in 2001, Canada and other Members of the Working Party continued to emphasize to Saudi Arabia that it will need to assure WTO Members that it is making the necessary changes to bring its foreign economic and trade regime into full conformity with WTO rules upon accession.

Canada and Saudi Arabia achieved significant progress in bilateral negotiations on market access during 2000. In these negotiations, Canada has been seeking lower tariff rates on key agricultural and industrial exports, such as grains, wood products, paper, information and communications technology products and medical equipment. On services, Canada is seeking more open and predictable access for its services providers in such key sectors as telecommunications, professional and financial services. Canada is also seeking improvements regarding the types and level of foreign commercial presence permitted and conditions for the temporary entry of individuals. As the number of outstanding issues is relatively small, Canada hopes to be able to conclude its bilateral negotiations with Saudi Arabia as soon as possible. To further secure market access improvements, Canada will seek to ensure in the Working Party negotiations that Saudi Arabia fully implements its obligations under all WTO Agreements, including the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS) and the Agreement on Technical Barriers to Trade (TBT).
The Maghreb

The Maghreb region represents a $894 million market for Canadian goods and services. The region as a whole has made important progress in trade liberalization and openness to foreign trade and investment in recent years. Efforts to encourage foreign investment and improve market access have been undertaken in all Maghreb countries. The G8’s new Africa Initiative may also have an important impact on expanding trade between Canada and the region.

Algeria

Algeria has undertaken an ambitious campaign of privatization and modernization, as well as regulatory reforms that have opened up sectors such as mining and telecommunications to foreign investors.

Algeria’s working party on accession to the WTO was established in 1987, and met for the second time on February 7, 2002. The third meeting of the working group will take place at the end of April 2002, at which time bilateral accession negotiations will also begin. Negotiations toward an Association Agreement with the European Union ended successfully in December 2001, and the Agreement was initialed by both parties on December 19.

Market access priorities for the coming year will include support for Algeria’s accession to the WTO, as well as the bilateral negotiations related to its accession.

Morocco

Morocco has been a member of the WTO since January 1995. Its economy is undergoing a period of transition as substantial economic reforms — encouraged by the IMF — are implemented. These reforms should allow for a modernization of the economy while promoting market access. Morocco has been actively engaged in negotiating regional free trade agreements with its neighbours. An Association Agreement with the European Union entered into force in 2000.

Libya

United Nations sanctions against Libya were suspended in April 1999. Canada established an embassy in Tripoli in April 2001 to develop political and commercial relations between the countries. The embassy is available to help Canadian companies with any market access issues they may have.

Tunisia

Tunisia is actively pursuing a trade liberalization policy. The first Maghreb country to sign an Association Agreement with the European Union, it is also pursuing free trade agreements with the Maghreb Arab Union, Jordan and Egypt, among others. Tunisia has introduced a large number of structural and regulatory reforms in order to promote foreign investment, including free-trade zones and updating of infrastructure. Tunisia is also engaged in an aggressive privatization program. Since 1987, more than 100 state companies have been privatized.

South Africa

Overview

Post-Apartheid South Africa is still undergoing transformation — including social and economic — following the first democratic elections of 1994. Amid a sustained reservoir of international goodwill, Thabo Mbeki, the successor to former president Nelson Mandela, is keeping course on a tight monetary policy and fiscal discipline. The fundamentals of the South African economy are sound, although the rand (the South African currency) has depreciated significantly in the last few years against the dollar and the British pound due to investors’ generally negative perception of emerging economies, and the Government’s decision not to protect its currency. Economic growth in 2001 slowed down relative to growth in 2000, due mainly to a decline in agricultural output and weak growth in the mining and manufacturing sectors. For 2002, economic growth is expected to be weak in the first half of the year as the demand for South African exports decreases due to the global economic slowdown exacerbated by the events of September 11, but is expected to rise slightly in the
second half of 2002 as export demand and inward investment increase. Overall, a slight rise in GDP growth is forecast for 2002, with increasing growth forecast for 2003 as global demand for exports increases. Economic growth in 2002 and beyond, coupled with a stable political environment and willingness on the part of the South African government to address the issues of privatization and deregulation, while maintaining the long-term goal of making the country more investor friendly, will attract renewed interest on the part of foreign trade and investment partners.

The domestic market is characterized by increasing competition in almost all fields, and expenditures to upgrade or build local infrastructure — already the best on the continent — will offer good prospects for economic growth. South Africa’s market of 43 million people, excellent infrastructure, and pro-business environment make it the logical choice for an increasing number of companies seeking a stepping stone to conduct business on the continent, as evidenced by the number of Canadian and other foreign firms that have made Johannesburg their continental base. By far the most advanced, broad-based and productive economy in Africa, South Africa is characterized by standards and business practices similar to those found in developed countries. The country can rely on a sophisticated financial sector, with well-developed financial institutions and a stock exchange (Johannesburg Stock Exchange) that ranks among the top exchanges in the world. However, the spread of HIV/AIDS, regional instability, exchange controls and skilled labour shortages will continue to present challenges for the African National Congress (ANC) government in its attempts to foster an attractive climate for FDI.

An active WTO member, South Africa participates in the G20 finance initiative, is a member of the Cairns Group, chairs the Non-Aligned Movement and is a key member of regional trade initiatives such as the Southern African Development Community (SADC), the South African Customs Union (SACU) and the Indian Ocean Rim Initiative. South Africa has recently negotiated a number of free trade agreements outside of the African continent. A South Africa-European Union free trade agreement has been in force since January 2000, a free trade agreement was signed with the Mercosur countries of Latin America in December of 2000, and consultations for a free trade agreement are under way with India.

South Africa is one of the key players behind the New Partnership for Africa’s Development (NePAD), an initiative put forward by a number of African leaders as a means to further the continent’s development. The Action Plan for Africa, announced at the G8 Summit in Genoa, Italy in July 2001, seeks to support the NePAD process. G8 leaders have committed themselves to retain Africa as a central item on the agenda of the next G8 Summit, to be chaired by Canada next June.

South Africa offers significant opportunities for Canadian trade and investment, with outstanding potential in mining, transportation, telecommunications and infrastructure development. Canadian FDI to South Africa has grown dramatically in recent years, with Placer Dome, McCain, SouthernEra, Hatch and others acquiring large stakes in the country. In addition, South Africa generates substantial investment in Canada: large conglomerates such as Anglo American/De Beers, BHP Billiton (now London-based), and Harmony, already well-established in Canada, plan to increase their investments. South Africa is by far Canada’s largest trading partner in Sub-Saharan Africa and while trade flows have reached a plateau in the last 18 months, new opportunities are constantly being identified in the areas of information technology and telecommunications (including e-commerce), the health sector and the environment, as these particularly address the social needs of South Africa. Canada-South Africa trade and investment ties are facilitated by a proactive bilateral Chamber of Business in Johannesburg, a number of business delegations visiting each other’s territories, and by partner projects such as the Canadian Alliance for Business in South Africa (CABSA). In addition, Canada and South Africa concluded a Trade and Investment Cooperation Agreement (TICA) in September 1998, providing a framework for enhanced dialogue on bilateral and multilateral trade and investment matters.

**Market Access Results in 2001**

- Under a funding agreement with CIDA, Canada has been assisting South Africa in developing an industrial strategy in the IT sector, with a view to promoting more private-sector involvement, both local and foreign, in emerging IT market opportunities.
Transport Canada, under a Declaration of Intent on Technical Cooperation in Transportation signed with the South African Department of Transport, is providing technical assistance to South Africa in a number of areas related to the transportation sector, opening up business opportunities for Canadian companies.

**Canada’s Market Access Priorities for 2002**

- Continue to press the South African authorities to clarify and streamline the rules applicable to exchange controls affecting potential mergers between South African and Canadian firms.
- Ensure full clarity on offset requirements (both military and civilian) on large procurement contracts, which have in the recent past created transparency problems.
- Monitor Canada’s competitiveness in South Africa in light of the recent South Africa/EU Free Trade Agreement, South Africa/Mercosur Free Trade Agreement, and pending free trade agreement with India.
- Monitor proposed amendments to South African mining legislation to ensure that the interests of Canadian investors are protected.
ACCESSION: The process of becoming a contracting party to a multilateral agreement such as the WTO. Negotiations with established WTO contracting parties, for example, determine the concessions (trade liberalization) or other specific obligations a non-member country must undertake before it will be entitled to full WTO membership benefits. *(Accession)*

APPLIED TARIFFS: An applied tariff is the rate of duty actually in effect at the border. *(Tariif appliqué)*

ANTI-DUMPING (AD): Additional duties imposed by an importing country in instances where imports are priced at less than the "normal" price charged in the exporter’s domestic market and are causing material injury to domestic industry in the importing country. *(Antidumping)*

APEC: Asia Pacific Economic Cooperation forum. APEC comprises 21 countries around the Pacific Rim that seek further Asia Pacific economic co-operation. Members are Australia; Brunei; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; Republic of Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; the Philippines; Russia; Singapore; Chinese Taipei (Taiwan); Thailand; United States; Vietnam. *(APEC)*

BINDING: A nation’s commitment to maintain a particular tariff level or other legal restriction, i.e. binding it against increase or change. *(Consolidation)*

CA-4 (Central America Four): El Salvador, Nicaragua, Honduras and Guatemala, currently in free trade negotiations as a group with Canada.

CAIRNS GROUP: A coalition of eighteen agricultural exporting countries (Australia, Bolivia, Costa Rica, Guatemala, New Zealand, Argentina, Brazil, Uruguay, Chile, Colombia, Thailand, Philippines, Indonesia, Malaysia, South Africa, Fiji, Paraguay and Canada) that develops proposals in the context of multilateral trade negotiations. *(Groupe de Cairns)*

CANADA-EU ACTION PLAN: Signed on December 17, 1996, the Action Plan is designed to strengthen Canada-EU relations and consists of four parts: Economic and Trade Relations, Foreign Policy and Security Issues, Transnational Issues, and Fostering Links. *(Plan d'action commun Canada-UE)*

CCFTA: Canada-Chile Free Trade Agreement. Implemented July 5, 1997. *(ALECC)*

CIFTA: Canada-Israel Free Trade Agreement. Implemented January 1, 1997. *(ALECI)*

CITT: Canadian International Trade Tribunal. A body responsible under Canadian legislation for findings of injury in anti-dumping and countervailing duty cases and the provision of advice to the Government on other import issues. *(TCCE : Tribunal canadien du commerce extérieur)*

COUNTERVAILING DUTIES (CVD): Additional duties imposed by the importing country to offset Government subsidies in the exporting country, when the subsidized imports cause material injury to domestic industry in the importing country. *(Droits compensateurs)*

CUSTOMS VALUATION: The appraisal of the worth of imported goods by customs officials for the purpose of determining the amount of duty payable in the importing country. The GATT Customs Valuation Code obligates Governments that sign it to use the “transaction value” of imported goods — or the price actually paid or payable for them — as the principal
basis for valuing the goods for customs purposes.  

**DISPUTE SETTLEMENT**: Those institutional provisions in a trade agreement which provide the means for settling differences of view between the parties.  

**DOHA DEVELOPMENT ROUND**: A new round of World Trade Organization negotiations, launched at the Ministerial meeting at Doha, Qatar, in November 2001.  

**EFTA**: European Free Trade Association. When founded via the Stockholm Convention in May 1960, there were seven members. Since its foundation the composition changed as new members joined and others acceded to the EU. Currently, there are four members: Iceland, Norway, Switzerland, and Liechtenstein.  

**FOREIGN DIRECT INVESTMENT**: The funds committed to a foreign enterprise. The investor may gain partial or total control of the enterprise. An investor who buys 10% or more of the controlling shares of a foreign enterprise makes a direct investment.  

**FTA**: Free Trade Agreement. In particular, the Canada-U.S. Free Trade Agreement that entered into force on January 1, 1989.  

**FTAA**: Free Trade Area of the Americas. Proposed agreement between 34 countries of the Western Hemisphere to create a Free Trade Area by 2005, launched in Miami in December 1994.  

**GATTS**: General Agreement on Trade in Services. The first set of multilaterally-agreed and legally-enforceable rules and disciplines ever negotiated to cover international trade in services.  

**GATT**: General Agreement on Tariffs and Trade. From 1947 to 1995, the multilateral institution overseeing the global trading system, as well as the international agreement governing trade in goods (GATT 1947). As an organization, superseded by the WTO in January 1995. GATT 1994 (the agreement) has been amended and incorporated into the new WTO Agreements and continues to govern trade in goods.  

**GDP**: Gross Domestic Product. The total value of goods and services produced by a country.  

**INTEGRATED FRAMEWORK**: A plan for the provision of trade-related technical assistance, including human and institutional capacity-building, for supporting trade and trade-related activities of the least-developed countries, led by the WTO and five multilateral organizations.  

**INTELLECTUAL PROPERTY**: A collective term used to refer to new ideas, inventions, designs, writings, films, etc. and protected by copyright, patents, trademarks, etc.  

**ITA**: Information Technology Agreement. A WTO-based agreement endorsed by several Members that calls for the gradual elimination of most-favoured-nation tariffs on many information technology and telecommunication products.  

**LIBERALIZATION**: Reductions in tariff and other measures that restrict world trade, unilaterally, bilaterally or multilaterally.  

**MFN**: Most-favoured-nation treatment (Article I of the GATT 1994) requiring countries not to discriminate between goods on the basis of country of origin or destination.  


**NON-TARIFF BARRIERS (MEASURES)**: Government measures or policies other than tariffs which restrict or distort international trade. Examples include import quotas, discriminatory government procurement practices, measures to protect intellectual property. Such measures have become relatively more conspicuous impediments to trade as tariffs have been reduced during the period since World War II.  

**OECD**: Organization for Economic Co-operation and Development. Paris-based organization of industrialized countries responsible for study of and cooperation on broad range of economic, trade, scientific and educational issues.
OSAKA ACTION AGENDA: Adopted in 1995, the Osaka Action Agenda is the framework for implementing the Leaders’ Declaration (adopted in Bogor, Indonesia, 1994) that APEC member economies would achieve the free and open trade within the region by 2010/2020. (Programme d’action d’Osaka)

QUOTA: Explicit limit on the physical amounts of particular products which can be imported or exported during a specified time period, usually measured by volume but sometimes by value. The quota may be applied on a “selective” basis, with varying limits set according to the country of origin, or on a global basis which only specifies the total limit and thus tends to benefit more efficient suppliers. (Contingent)

RULES OF ORIGIN: Laws, regulations and administrative procedures which determine a product’s country of origin. A decision by a customs authority on origin can determine whether a shipment falls within a quota limitation, qualifies for a tariff preference or is affected by an anti-dumping duty. These rules can vary from country to country. (Règles d’origine)

SMART BORDER DECLARATION: A 30-point action plan developed by Canada and the United States to manage the Canada-U.S. border.

SUBSIDY: An economic benefit granted by a Government to producers of goods often to strengthen their competitive position. The subsidy may be direct (a cash grant) or indirect (low-interest export credits guaranteed by a Government agency, for example). (Subvention)

TARIFF: Customs duties on merchandise imports. Levied either on an ad valorem (percentage of value) or on a specific basis (e.g., $5 per 100 kgs). Tariffs give price advantage to similar locally produced goods and raise revenues for the Government. (Tarif de douanes)

TARIFF RATE QUOTA: Two-stage tariff: imports up to the quota level enter at a lower rate of duty; over-quota imports enter at a higher rate. (Contingent tarifaire)

TRANSPARENCY: Visibility and clarity of laws and regulations. (Transparence)


WTO: World Trade Organization. Established on January 1, 1995, to replace the Secretariat of the General Agreement on Tariffs and Trade, it forms the cornerstone of the world trading system. (OMC : Organisation mondiale du commerce)

WTO APPELLATE BODY: An independent seven-person body that, upon request by one or more parties to the dispute, reviews findings in panel reports. (Organe d’appel de l’OMC)

ZERO-FOR-ZERO: Refers to a market access agreement where all the participating countries eliminate the same barriers on the same products. Although it most frequently refers to tariff elimination, a zero for zero agreement could include elimination of non-tariff barriers as well. (Accords zéro-zéro)
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<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>ABT</td>
<td>Agreement on Basic Telecommunications</td>
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<td>ADB</td>
<td>Asian Development Bank</td>
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<td>AFTA</td>
<td>ASEAN Free Trade Area</td>
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<td>AGP</td>
<td>Agreement on Government Procurement</td>
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<td>APEC</td>
<td>Asia-Pacific Economic Cooperation</td>
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<td>ASEAN</td>
<td>Association of South-East Asian Nations</td>
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<td>AVE</td>
<td>ad valorem equivalents</td>
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<td>BSE</td>
<td>bovine spongiform encephalopathy</td>
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<td>BSL</td>
<td>(Japan’s) Building Standards Law</td>
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<td>CA-4</td>
<td>Central American Four – El Salvador, Nicaragua, Honduras and Guatemala</td>
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<td>CAP</td>
<td>Common Agricultural Policy</td>
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<td>CARICOM</td>
<td>Caribbean Community</td>
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<td>CCC</td>
<td>Canadian Commercial Corporation</td>
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<td>CCFTA</td>
<td>Canada-Chile Free Trade Agreement</td>
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<td>CDIA</td>
<td>Canadian direct investment abroad</td>
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<td>CET</td>
<td>common external tariff</td>
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<td>CFE</td>
<td>Comisión Federal de Electricidad (Mexico's state electricity firm)</td>
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<td>CFIA</td>
<td>Canadian Food Inspection Agency</td>
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<td>CIFTA</td>
<td>Canada-Israel Free Trade Agreement</td>
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<td>CCPE</td>
<td>Canadian Council of Professional Engineers</td>
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<td>CERT</td>
<td>Canada-Europe Round Table</td>
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<td>CIDA</td>
<td>Canadian International Development Agency</td>
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<td>CUSP</td>
<td>Canada-U.S. Partnership</td>
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<td>DFAIT</td>
<td>Department of Foreign Affairs and International Trade</td>
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<td>DSP</td>
<td>Dispute Settlement Body</td>
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<td>EC</td>
<td>European Commission</td>
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<td>ECTI</td>
<td>EU-Canada Trade Initiative</td>
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<td>EDB</td>
<td>(Singapore’s) Economic Development Board</td>
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<td>EDC</td>
<td>Export Development Canada</td>
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<td>EFTA</td>
<td>European Free Trade Association</td>
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<td>EMU</td>
<td>Economic and Monetary Union</td>
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<td>EU</td>
<td>European Union</td>
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<td>EVSL</td>
<td>Early Voluntary Sectoral Liberalization</td>
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<td>FDA</td>
<td>(U.S.) Food and Drug Administration</td>
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<td>FDI</td>
<td>foreign direct investment</td>
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<td>FHWA</td>
<td>U.S. Federal Highway Administration</td>
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<td>FIPA</td>
<td>Foreign Investment Protection Agreement</td>
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<td>FSA</td>
<td>(Japan’s) Financial Services Agency</td>
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<td>FTA</td>
<td>(Canada-U.S.) Free Trade Agreement</td>
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<td>FTA</td>
<td>U.S. Federal Transit Administration</td>
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<td>FTAA</td>
<td>Free Trade Area of the Americas</td>
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<td>GATS</td>
<td>General Agreement on Trade in Services</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>GM</td>
<td>genetically modified</td>
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<td>GMO</td>
<td>genetically modified organism</td>
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<td>G7/8</td>
<td>Group of Seven leading industrialized nations plus Russian Federation</td>
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<td>Acronym</td>
<td>Full Form</td>
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<td>HKSAR</td>
<td>Hong Kong Special Administrative Region</td>
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<td>IAP</td>
<td>individual action plan</td>
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<td>ICT</td>
<td>information technology and telecommunications</td>
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<td>IEC</td>
<td>Intergovernmental Economic Commission (Canada-Russia, Canada-Ukraine)</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IP</td>
<td>intellectual property</td>
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<td>IPPC</td>
<td>International Plant Convention</td>
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<td>ISO</td>
<td>International Organization for Standardization</td>
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<td>IT</td>
<td>Information Technology</td>
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<td>ITA</td>
<td>Information Technology Agreement (1997)</td>
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<td>ITC</td>
<td>U.S. International Trade Commission</td>
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<td>JAS</td>
<td>Japan Agricultural Standards</td>
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<td>JETRO</td>
<td>Japan External Trade Organization</td>
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<td>LDC</td>
<td>least-developed countries</td>
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<td>MoAFF</td>
<td>(Japan's) Ministry of Agriculture, Forestry and Fisheries</td>
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<tr>
<td>Mercosur</td>
<td>Southern Cone Common Market (Argentina, Brazil, Paraguay and Uruguay)</td>
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<td>MFN</td>
<td>most-favoured-nation</td>
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<td>MMPA</td>
<td>(U.S.) Marine Mammal Protection Act</td>
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<td>MOU</td>
<td>Memorandum of understanding</td>
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<td>MRA</td>
<td>Mutual recognition agreement</td>
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<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<td>NATAP</td>
<td>North American Trade Automation Prototype</td>
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<td>NEBS</td>
<td>New Exporters to Border States</td>
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<td>NGO</td>
<td>non-governmental organization</td>
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<td>NSTB</td>
<td>(Singapore's) National Science and Technology Board</td>
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<td>NTB</td>
<td>non-tariff barrier</td>
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<td>NTM</td>
<td>non-tariff measure</td>
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<td>NTT</td>
<td>Nippon Telegraph and Telephone</td>
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<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>OIE</td>
<td>International Organization for Epizootics</td>
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<td>OSB</td>
<td>oriented-strand board</td>
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<td>PEMD</td>
<td>Program for Export Market Development</td>
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<td>PEMEX</td>
<td>Petróleos Mexicanos (Mexico's state oil firm)</td>
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<td>PWN</td>
<td>pinewood nematode</td>
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<td>QFP</td>
<td>quasi-fire protection zone</td>
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<td>R&amp;D</td>
<td>research and development</td>
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<td>RGO</td>
<td>Registered Grading Organizations</td>
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<td>ROU</td>
<td>record of understanding</td>
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<td>SAGIT</td>
<td>Sectoral Advisory Group on International Trade</td>
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<td>SBT</td>
<td>(Michigan) single business tax</td>
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<td>SCFAIT</td>
<td>Standing Committee on Foreign Affairs and International Trade</td>
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<td>SERC</td>
<td>State Regulatory Commission</td>
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<td>SMEs</td>
<td>small and medium-sized enterprises</td>
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<td>SPS</td>
<td>sanitary and phytosanitary</td>
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<td>SPWG</td>
<td>(Canada-Korea) Special Partnership Working Group</td>
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<td>TBT</td>
<td>technical barriers to trade</td>
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<td>TEA-21</td>
<td>(U.S.) Transportation Equity Act for the 21st Century</td>
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<td>TICA</td>
<td>Trade and Investment Co-operation Arrangement</td>
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<td>TRIMs</td>
<td>Agreement on Trade-Related Investment Measures</td>
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<td>TRIPs</td>
<td>trade-related aspects of intellectual property rights</td>
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<td>TRQ</td>
<td>tariff rate quota</td>
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<td>UN</td>
<td>United Nations</td>
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<tr>
<td>USDA</td>
<td>U.S. Department of Agriculture</td>
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<td>USTR</td>
<td>U.S. Trade Representative</td>
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<td>WPPS</td>
<td>Working Party on Professional Services (WTO)</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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