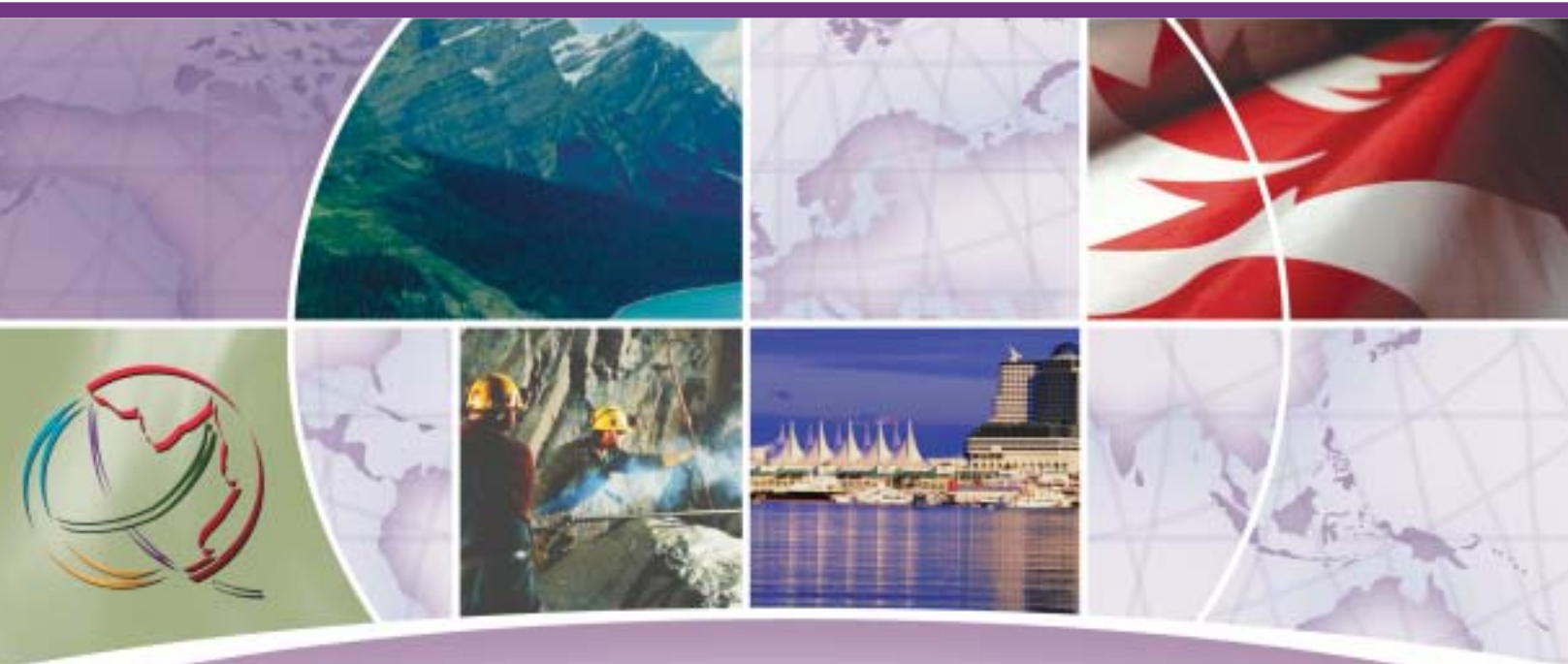




Department of Foreign Affairs
and International Trade

Ministère des Affaires étrangères
et du Commerce international

Canada

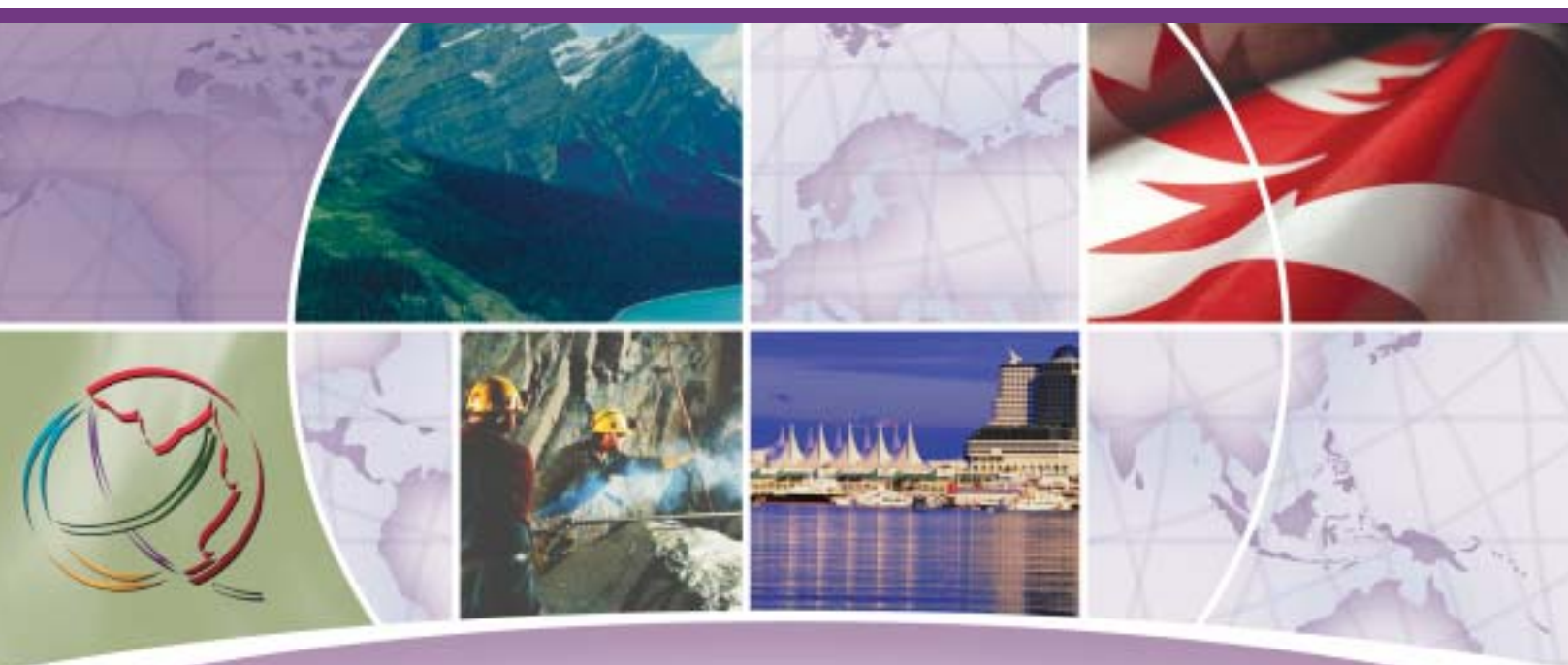


Opening Doors to the World

Canada's International
Market Access Priorities – 2003



Team Canada Inc • Équipe Canada inc



Opening Doors to the World

**Canada's International
Market Access Priorities – 2003**

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Unless otherwise specified, monetary figures in this document are in Canadian dollars.

ABOUT THIS DOCUMENT

Opening Doors to the World: Canada's International Market Access Priorities – 2003 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 2003. It also presents significant market-opening results from 2002 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; neither is it a comprehensive inventory of foreign barriers to trade or investment.

The Department of Foreign Affairs and International Trade (DFAIT) coordinated the preparation of this report with the assistance of its embassies and missions abroad, other federal government departments (especially Agriculture and Agri-Food Canada, Finance Canada, Industry Canada and Natural Resources Canada), provincial governments and, of course, Canadians doing business abroad. Its contents are current up to mid-March 2003.

Opening Doors to the World: Canada's International Market Access Priorities – 2003 updates and expands on topics presented in the 2002 report, released by the Minister for International Trade in April 2002. 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 to strengthen the disciplines governing global trade and investment flows.

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as represented by the Minister for International Trade, 2003

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MESSAGE FROM THE MINISTER FOR INTERNATIONAL TRADE

I am pleased to present the 2003 edition of *Opening Doors to the World: Canada's International Market Access Priorities*. This year's report outlines the federal government's strategy for achieving improved access for goods, services and investment in key foreign markets. It also highlights significant market-opening results achieved by the government in 2002.

Canada is a trading nation whose prosperity is linked to our ability to facilitate commerce with the world. The Government of Canada remains committed to bringing down barriers in key markets through negotiations with trading partners, multilaterally, regionally and bilaterally. The overarching goal is to benefit Canadians and provide new opportunities for Canadian companies in world markets.

Canada's priority trade policy objectives for 2003 are to:

- successfully resolve the softwood lumber dispute with the United States;
- ensure the smooth flow of goods and services to our top market, the United States;
- make progress in the World Trade Organization (WTO) and Free Trade Area of the Americas (FTAA) negotiations; and
- conclude free trade agreement negotiations with Central America and Singapore.

While the cornerstone of our trade policy continues to be the multilateral trading system, our trading relationship with the United States remains paramount, and securing and improving access to this immense market is our number-one trade policy priority. Canadians are aware that this relationship—and our growing economic integration—are increasingly the subject of discussion and analysis. I believe that much can be done to build on existing achievements to further advance Canadian interests and to ensure our continued economic prosperity within a secure North America.



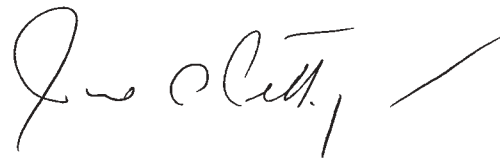
Canada's goals in this regard include:

- increasing our share of the U.S. import market;
- increasing the flows of two-way investment on which trade increasingly depends;
- advancing an agenda of smart regulation, which could include broadening and deepening regulatory cooperation between our countries;
- bringing trade remedy practice more in line with the growing integration of our shared North American economic space; and
- eliminating the border as an impediment to trade, investment and business development and moving the border-related processes from the border.

It is important to note that January 1, 2004, will mark the 10th anniversary of the coming into force of the North American Free Trade Agreement (NAFTA). NAFTA has been a tremendous success. It has fundamentally changed the North American economic space into one of the most efficient, integrated and competitive regions in the world. The increase in our trade and investment flows with the United States and Mexico during this past decade

has coincided with significant economic growth and job creation in Canada. These gains highlight the importance of secure market access for Canada's overall prosperity. While Canadians have already realized many benefits from NAFTA, the Government of Canada will not rest on its laurels. Indeed, NAFTA, with its ongoing working groups and implementation commitments, is in many ways a living document that holds much scope for achieving further market access improvements.

My pledge to Canadians is that the Government of Canada will continue to work to reduce barriers in foreign markets. We will also continue our efforts to promote Canada—including our goods and services as well as our attractiveness as a site for investment—abroad. These efforts, combined with our growing reputation for excellence, will ensure our continued success in producing jobs and growth and thus contribute to the continued prosperity of Canadians.

A handwritten signature in black ink, appearing to read "Jean Chrétien", followed by a long, sweeping horizontal stroke.

Introduction

Canada is a trading country. The export of goods and services accounts for more than 40% of our country's economy activity. International trade is integral to our continued prosperity. There is no doubt that Canada's exposure to international competition has energized our economy, spurred innovation, attracted foreign investment and created hundreds of thousands of jobs for Canadians.

Although Canadians have been successful in selling to the world, our ability to fully exploit opportunities in key markets is often limited by a variety of barriers. To ensure secure and predictable access to the world for Canadian traders and investors, the government will continue its efforts to bring down barriers in key markets. This means strengthening the institutions and the rules that govern international trade and investment, forging relationships with new partners, and ensuring that other countries live up to their commitments.

Opening Doors to the World: Canada's International Market Access Priorities – 2003 presents significant market-opening results achieved over the past year and outlines the Canadian government's priorities for 2003 to further improve access to foreign markets. The government will continue to pursue these goals multilaterally, through the World Trade Organization (WTO); regionally, through the North American Free Trade Agreement (NAFTA), the Free Trade Area of the Americas (FTAA) and the Asia-Pacific Economic Cooperation (APEC) forum; bilaterally, with our key partners and through 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 and Investment Trends

The year 2001 was notable for two major developments on the economic front: the technology bubble burst, triggering a downturn in the North American and global economies; and September 11 changed forever the way goods, services and people would move across national boundaries. It also marked the 10th consecutive year of economic growth, the longest and most stable economic expansion since the 1960s.

1

Introduction



The Canadian real economy expanded by 1.5% in 2001, its lowest level since the early 1990s, with a contraction in the third quarter. The solid growth during a period of global slowdown is attributable to sound economic policies in Canada. The elimination of the deficit and the restoration of fiscal and monetary policy credibility have underpinned this performance. Federal budget surpluses from 1997–1998 to 2001–2002 contributed to the reduction of the public debt: the ratio of federal debt to gross domestic product (GDP) fell from a high of about 71% in 1995–1996 to approximately 49% in 2001–2002.

Fiscal consolidation and debt reduction have provided room for an easing of tax burdens and some modest discretionary spending measures, enabling consumer and government expenditures to make important contributions to growth in real GDP.

Canada's flexible exchange rate regime has played its part too, effectively cushioning the economy from external shocks. The depreciation of the Canadian dollar in recent years has helped to offset the effect

of world commodity price movements and mitigated the impact of the global cyclical decline.

Openness to trade has also underscored the vitality and stability of Canada's economy, despite the global economic downturn. Trade plays an important role in our economy. More specifically, trade has expanded more rapidly than overall growth in GDP; as a result, the share of GDP represented by trade has expanded from less than 26% for both exports and imports in 1989 to 43.1% for exports and to 38.1% for imports in 2001. In terms of percentage of GDP, Canada exports approximately four times as much as the U.S. and Japan, our two largest individual trading partners. In fact, the Canadian economy is more internationally oriented than that of any other member of the G7 group of nations.

In 2001, Canada's exports of goods and services totalled \$471.3 billion, down 2.4% from the peak level recorded in 2000. At the same time, imports of goods and services amounted to \$415.6 billion in 2001, down 2.9% from the previous year. With imports falling faster than exports, Canada's trade surplus rose for the year, and our current account balance improved to \$30 billion, or 2.8% of GDP. On average, Canada trades \$2.4 billion per day with the rest of the world, or about \$100 million per hour—a remarkable tribute to our openness and to our ability to compete.

Canada's principal trading partner is by far and away the United States. The U.S. accounted for roughly 82 % of Canadian exports and some 71% of our imports in 2001 (although, these figures may be overstated due to transshipments). Two-way trade in goods and services with the United States fell some 3% in 2001. Part of this decline is due to the contraction of the U.S. economy that occurred over the first three quarters of the year, and part is attributable to the interruption of bilateral trade flows following the September 11, 2001, terrorist attacks.

Merchandise trade accounts for the lion's share of our trade with the United States. Three broad observations can be made about our bilateral merchandise trade. First, the U.S. share of Canadian merchandise exports has increased substantially since 1988 (the last year before the free trade agreements came into effect), rising some 14.4 percentage points to 87.2% in 2001. Gains came largely at the expense

of the European Union, Japan and countries outside the Organization for Economic Cooperation and Development (OECD), and were fairly evenly distributed across these destinations. Second, Canada has deepened its exports of its three dominant commodities—motor vehicles, mineral fuels and machinery—possibly signalling a trend toward increased specialization in these areas. Finally, although the U.S. Midwest remains the most important destination for Canadian exports, at 41% of total merchandise exports to the U.S., exports to the U.S. West and U.S. South grew faster than the overall pace of Canadian exports to this country, increasing the importance of these regions.

The changing economic situation of 2001 also dampened the investment climate in Canada and abroad. After reaching a record \$98.9 billion in 2000, the flow of net new foreign direct investment (FDI) into Canada plummeted 57% to \$42.5 billion in 2001, as the stock of foreign direct investment holdings in Canada rose to \$320.9 billion, up 6.2% from the previous year. Nonetheless, FDI inflows were still up more than 20% over the 1998–1999 average, proving that Canada remains a highly attractive place in which to invest. The declines of 2001 are largely attributable to the fact that 2000 was an aberration, caused by high-value takeovers by French firms. In 2001, American investors accounted for just under 91% of the net new investment inflows. Canadian net investment outflows dropped off 22.1% in 2001, to \$54.9 billion, as the stock of Canadian direct investment abroad rose to \$389.4 billion.

Canada's net liability to foreign residents—the difference between its external assets and external liabilities—was \$203.4 billion at the end of 2001, little changed from the level of \$202.5 billion in 2000. External assets at the end of 2001 were up 10.4% from a year earlier while external liabilities increased 8.5%. As a result, net liabilities to foreigners fell to 19% of gross domestic product, the lowest level since the mid-1940s.

Focus on the Minerals and Metals Sector

The focus on the Minerals and Metals sector is the third in a series of sectoral focuses. Previous editions looked at the financial services and the biotechnology sectors.

Growing Industry with a Rock-Solid Foundation

Domestically, the Canadian minerals and metals sector is an integral segment of the national economy contributing more than \$37.4 billion or 3.7% of Canada's gross domestic product in 2001¹. It includes mineral extraction and concentrating (stage 1), smelting and refining (stage 2), semi-fabricated mineral production (stage 3) and metals fabricating industries (stage 4)². The industry employs 376,000 Canadians, and domestic exports amount to \$47.4 billion.

In the last 20 years, a combination of diversification and globalization has resulted in a shift of priorities within the Canadian economy. At the same time, the Canadian mining sector's GDP contribution has remained fairly steady at between 3.5% and 4.5%. Not only does this illustrate the continuing importance of the industry in national terms, but it also indicates the flexibility of the industry in adapting to a modern, technology-based world economy. In 2002, there were some 204 metal, non-metal and coal mines, 3,000 stone quarries and sand and gravel pits, and over 50 non-ferrous smelters, refineries and steel mills operating in Canada. In addition, mineral commodities account for 60% of the rail tonnage and for more than half of the marine tonnage handled in Canada.

¹ GDP was converted from 1997 dollars to current dollars using a common factor based on the Chain Price Index.

² All data, unless otherwise stated, are for stages 1 to 4 and include coal.

Canada is a world leader in the production and export of many important minerals and mineral products. Based on 1998 data on the value of minerals produced, Canada is the seventh-largest mineral producer (extraction and concentrating) in the world. Canada is one of the top five producers of 16 minerals, including aluminum, asbestos, cadmium, cobalt, copper, gold, gypsum, lead, molybdenum, nickel, platinum group metals, salt, titanium concentrate and zinc. By 2006, Canada could supply some 15% of the world's gem-quality diamonds, ranking us behind only Botswana and Russia in diamond production. Canada produces more than 60 mineral commodities.

The mining industry also plays a crucial role in Canada's export economy. Roughly 80% of the sector's production is exported, amounting to 12.7% of total domestic exports. Between 1991 and 2001, the value of Canada's mineral and metal exports increased over 45%, even though metal prices have fallen in both real and nominal terms. The United States represents Canada's largest market for minerals and mineral products. Other important export markets include the European Union and Japan.

According to an annual survey undertaken by the Metals Economics Group (MEG), in 2002 Canada was ranked as the most preferred target in the world for mineral exploration, beating out Australia for the first time since 1991. MEG attributes Canada's success in improving its ranking to a renewal of investor interest in exploration that is supported by the federal government's new Investment Tax Credit for Exploration in Canada. Preliminary estimates for 2001 indicate that over \$510 million was spent on exploration and deposit appraisal in Canada. Foreign-controlled firms are responsible for approximately 30% of the total exploration expenditures undertaken in Canada.

Excellent Geology

Canada's intrinsic mineral potential is as great as that of virtually any country on Earth. In terms of land area, Canada ranks second only to Russia. Moreover, the Canadian landmass is underlain by diverse and highly prospective geology. The Canadian Shield, which accounts for 70% of Canada's metallic mineral production, is by far the largest Precambrian shield in the world. The greenstone belts that lie within the

Shield have attracted the attention of prospectors in search of massive deposits of base metal sulphide and lode gold for more than 70 years. The Shield is also the repository of Canada's world-class nickel, uranium and diamond deposits. Atlantic Canada contains a significant portion of the Appalachian–Caledonian–Hercynian mountain belt, which has been the source of much of the mineral wealth of the eastern United States and western Europe. Western Canada contains a major segment of the resource-rich Cordillera that stretches southward from Alaska, through the United States, to Mexico and Central and South America. The Cordillera is richly endowed with porphyry copper, sediment-hosted lead-zinc, volcanogenic massive sulphides, precious metal lodes and placers, and skarn deposits. Finally, the sedimentary basins of the Canadian Prairies and Arctic Islands are best known as Canada's principal source of fossil fuels and potash. However, these basins also have good potential for Valley Type and Sedimentary Exhalative (SEDEX) lead-zinc deposits.

A Global Presence

As a result of globalization and the liberalization of mining codes around the world, Canadian companies are now operating in more than 100 countries and have an interest in more than 2,600 properties abroad. Canadian companies also have an interest in over 200 mines, smelters, refineries, plants under construction, or projects awaiting final approval in almost 60 countries. In addition, over 70% of the world's mining companies are listed on Canadian stock exchanges, no doubt reflecting the industry's wish to be located close to securities brokers and investment bankers, mining analysts and mining legal professionals, who are able to organize and raise new financing. In 2001, Canadian financial institutions were responsible for approximately 34% of all equity raised on major world exchanges for global mineral exploration and development. In the same year, Canadian-based companies accounted for approximately 30% of the world's total large-company exploration expenditures.

The world mining industry consumes approximately \$300 billion worth of goods and services yearly. Canada, with its varied geology and its great mining tradition, has developed a supply sector that supports

the extractive sector in its drive to become more efficient, provide a healthy and safe workplace, and operate in an environmentally sustainable way. More than 2,200 Canadian-based companies sell specialized scientific or technical products for use by mining companies operating in Canada and abroad. Almost three quarters of suppliers are based in Ontario, British Columbia and Quebec, all of which have a large mining sector. However, there are suppliers of mining goods and services located in over 400 urban or remote communities in all provinces and territories.

Canadian-based companies are strong competitors in the world market for airborne geophysical equipment, and Canadian geophysical equipment manufacturers, related software developers and data companies also hold a significant share of the global market. Canadian suppliers provide thousands of different products. They have developed considerable knowledge and expertise in products used in surface mining, underground mining, environmental protection, exploration, feasibility studies, mineral processing and mine automation. Canadian suppliers have followed the mining industry to international markets and currently supply goods and services to more than 100 countries. Exports account for 30% to 50% of Canadian suppliers' revenues.

MARKET ACCESS ISSUES FOR THE SECTOR

Market Access Issues in the European Union

Aluminum and Magnesium: Reduced tariffs on aluminum ingot and other non-ferrous metals remain a priority for Canada. With regard to aluminum, the Canadian industry, with government support, has seen some success in its 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. The European Union has announced that it sees its aluminum tariffs as items for potential negotiation at the World Trade Organization during the Doha Round. Similarly, the current equivalent duty on pure and alloy magnesium of 5.3% could also be considered for reduction.

Bans and Restrictions on Certain Non-ferrous

Metals: The European Commission has adopted directives on waste management for electrical and electronic equipment, including batteries and accumulators, and on end-of-life vehicles. These directives provide for restrictions and an eventual ban on the use of certain substances that Canada exports, including lead, mercury and cadmium. 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.

Recycling, Recovery and Management Directives:

Canada is concerned by the potential creation of a closed market for raw material resources to which access would be 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. Canada will continue to monitor them and will convey its concerns to the European Commission.

Market Access Issues in Asia

Market access priorities in Asia Pacific and Southeast Asia for the minerals and metals sector include the following:

- continue to press for a reduction of largely nuisance duties applied to non-ferrous metals in Japan;
- promote the specific interests of Canadian companies in the market. In particular, Canada will try to ensure that proposed changes to Vietnam's Mineral Law correspond to the needs of the Canadian mining industry; and
- continue to advocate the benefits of a socially and environmentally responsible mining industry worldwide.

Focus on British Columbia

The focus on British Columbia is the fourth in a series of regional focuses. Last year's edition looked at Ontario and Quebec.

Overview

British Columbia has a small, open and resource-based economy, which trades extensively with the rest of Canada and other countries. In the 1990s, the province's economic performance lagged the Canadian average. The natural resource industries were subject to swings in commodity prices and demand changes in key international markets. Reduced demand in key Asian markets was a major factor affecting the performance of the sector, but internal factors such as weak productivity improvements and below-average investment in new capital equipment also played major roles.

Business investment in British Columbia picked up in 2001, growing 5.9% as spending on both residential (11.3%) and non-residential (6.6%) structures made solid gains. Consumer spending also remained robust, increasing 4.6% in 2001. Despite the strong domestic picture, however, the economy faltered in 2001, posting a marginal decline (-0.2%) in real GDP, which was largely due to weakness in the province's main export markets.

Consumer and business spending in the province remained healthy during 2002, boosting the province's economic performance and contributing to employment gains of 77,000 during the year. While domestic demand for goods and services was strong, external factors continued to hinder economic growth. Despite this weakness, the province's growing services sector (which accounts for three quarters of its GDP) has helped insulate the economy from some of the ups and downs in the natural resource industries.

The B.C. government is committed to building a strong and dynamic private sector business climate in the province. Tax cuts and regulatory reform have raised business confidence and reestablished British Columbia's competitive position in North America. The B.C. government is now working in partnership with the business community to build on British Columbia's strengths, add value to resources, diversify its businesses and markets, and expand the province's human capital and infrastructure.

International Trade

Between 1991 and 2001, the total value of British Columbia's international goods exports doubled from \$16 billion to \$32 billion, and exports came to represent almost 25% of provincial GDP. During that decade, there were also important shifts in the commodity composition and geographic pattern of British Columbia's exports. In 1991, 45% of provincial exports were shipped to the United States, 26% to Japan and 15% to Europe. By 2001, the U.S. share had risen sharply to 70%, reflecting strong demand in the U.S. economy and the growing impact of the North American Free Trade Agreement. In contrast, the share of exports destined for Japan and Europe declined to 13% and 7% respectively.

The province's main primary exports (wood products, pulp and paper, metals, energy and fish) accounted for 82% of total exports in 1991, and a still-impressive 72% in 2001. However, over that period the export shares of coal, metallic minerals, lumber, pulp and newsprint declined significantly, while those of value-added wood and paper products, natural gas and electricity increased rapidly.

Beyond the primary sector, exports from high-tech manufacturing industries, such as electronics and advanced machinery, showed impressive growth as did services exports, such as computer and engineering services, international film production, foreign tourism and trade-related services. The province's international services exports were estimated at \$9.3 billion in 2001, an increase of 119% since 1991. In terms of the growing secondary manufacturing, knowledge-based industries, including film, the U.S. market is by far the most important destination for B.C.'s value-added goods, as it accounts for the vast majority of these exports.

The key decision maker on trade and investment is the private sector. However, the B.C. government, through its ministries and agencies, is supporting the efforts of the business community by developing and implementing a variety of strategies designed to open markets, raise awareness and reduce barriers to trade and investment. Sectors identified as priorities include both traditional industries (e.g. natural resource products), which comprise the backbone of the province's exports, as well as emerging knowledge-based and value-added areas (goods and services), which hold good potential for growth in investment and exports.

Employment Growth in Selected B.C. Industries, 1991 to 2001

	1991	2001	% change
Forestry & related manufacturing	89,800	90,600	0.01
Mining & related manufacturing	46,300	39,600	- 14%
Selected value-added manufacturing	33,200	43,700	+ 32%
Computer systems design services	10,100	34,900	+ 245%
Management, scientific & technical services	10,300	21,600	+ 110%
Tourism-related services	93,800	114,300	+ 22%

Market Access Issues

Given the province's dependence on international markets, the B.C. government is a strong advocate of the international trading system, which establishes rules providing predictable and secure market access. The B.C. government is a vigorous supporter of both the WTO and NAFTA and has welcomed the launch of a new round of multilateral trade negotiations in the WTO.

The comprehensive nature of these negotiations offers considerable opportunity to improve international market access in areas of particular importance to the province. For example, expansion of commitments

under the General Agreement on Trade in Services is important, given the rapid growth of a number of service industries in British Columbia.

In recent years, provincial forestry and agricultural industries have been significantly affected by anti-dumping and countervailing duty cases. Most notable are the current anti-dumping and countervailing duties being imposed by the United States against B.C. and other Canadian producers. These duties have been harmful not only to B.C.'s forest industries, but also to the many communities dependent on these industries. The B.C. government is strongly committed to the early resolution of this problem.

BRITISH COLUMBIA SUCCESS STORIES

Fincentric Corp., Richmond

www.fincentric.com

Fincentric Corporation is a leading global provider of enterprise wealth management and core banking software. Fincentric's i-Wealthview wealth management software products include "next generation" core banking, "customer value management," data aggregation, Internet and wireless financial portals and full multi-channel support. Fincentric's products enable financial institutions to quickly deploy solutions for their converging financial service offerings, while supporting capabilities for increasing customer profitability, acquisition and retention. Fincentric has approximately 300 customers worldwide, and has strategic relationships with Microsoft, HP and other international partners. Fincentric is a multiple recipient of the Canada Export Award.

Rescan Environmental Services Ltd., Vancouver

www.rescan.com

Rescan Environmental Services Ltd. is an environmental consulting firm offering a full range of environmental and related services to resource industries, with a particular focus on the mining sector. In November 2002, Rescan was honoured with its third BC Export Award. Rescan was nominated in the Professional and Services Sector category, which recognizes companies and organizations that provide expert advice, technical support or educational

programs to international customers. Company President Clem Pelletier attributes Rescan's success in the export market to the hard work and dedication of his professional staff, and to Rescan's strong long-term relationships with clients around the world. Approximately half of Rescan's business is derived from work performed for international clients.

Power Measurement Ltd., Victoria

www.pwrm.com

Power Measurement is a global provider of enterprise energy management systems. It has more than 250 employees worldwide, representation in over 80 countries and over \$60 million in annual revenue. For nearly 20 years, the company's ION® software and intelligent metering products have helped energy suppliers and consumers reduce energy costs and maximize uptime. Recent applications of the company's energy-management technology include the "Chunnel" rail link in London, England; the Italian National Railway in Rome, Italy; and NASA's Ames Research Center near San Francisco, California.

Cascade Aerospace Inc., Abbotsford

www.cascadeaerospace.com

Cascade Aerospace Inc. provides services for the maintenance, repair, overhaul (MRO) and modification of narrow-body airliners. It currently specializes in Boeing 737 aircraft. In just over two years, Cascade Aerospace has become the largest non-airline provider of MRO services in Canada and increased export sales by 318%.

Serving predominantly U.S.-based airlines and leasing companies, Cascade has a customer roster that includes Aloha Airlines, Southwest Airlines and Continental Airlines, as well as the two largest aircraft leasing companies in the world: GE Capital Aviation Services (GECAS) and International Leasing and Finance Company (ILFC). Cascade Aerospace Inc. is a privately owned Canadian company, whose historical roots are with affiliate-company Conair. Cascade currently employs 530 people in its 250,000-square-foot, purpose-built maintenance facility at the Abbotsford International Airport.

Mainframe Entertainment Inc., Vancouver

www.mainframe.ca

Mainframe Entertainment Inc. is one of the world's most prolific producers of computer animation for television and direct-to-video features and is expanding into long-form computer graphic images (CGI) for feature films, commercials and interactive entertainment. The company is best known as the pioneer of computer-animated television with the groundbreaking "ReBoot" series. Mainframe has produced over 200 half hours of computer animation since its inception in 1993. In addition to its critically acclaimed "Barbie as Rapunzel" direct-to-video feature, the company is currently producing 13 episodes of "Spider-Man" for Sony Pictures Television. Mainframe has worked with such names as ABC, IMAX Corporation, Hasbro Toys Inc., Columbia Tristar, Mattel, Alliance/Atlantis Communications, Cartoon Network, YTV Canada, Fox Family Channel, Fox Kids Network and Harvey Entertainment. The company employs over 200 artists, animators, technicians and production personnel, and has won many prestigious awards for its creative and technical innovations, including an induction into the Smithsonian Institute in 1998.

MARKET ACCESS AND INTERNATIONAL BUSINESS DEVELOPMENT

Both the federal and provincial governments manage programs that encourage business to expand beyond Canada's borders. Within the federal government, 22 departments and agencies have merged their international business development activities under the banner of Team Canada Inc. The members of Team Canada Inc cooperate in providing international business intelligence, market access information and marketing advice to Canadian business through a single window, via the Internet (*www.exportsource.ca*) or via telephone at 1-888-811-1119.

Another network, led by Investment Partnerships Canada, supports companies, trade associations and municipal and regional development agencies looking to attract new investors. Canada offers investors a highly skilled workforce, a productive and dynamic economy, a competitive domestic environment, and close access to the main international markets with

preferred access to the United States. Investments Partnerships Canada can be contacted via the Internet (*www.investincanada.gc.ca*).

The Trade Commissioner Service, with officers in 140 Canadian embassies and consulates throughout the world, is the international antenna for both these networks; it understands the regulations, policy issues and barriers that Canadian business may face in exporting goods and services or making a direct investment in a foreign market. The trade offices are a direct point of contact for Canadian business people in foreign markets. Officers are trained to help companies deal with a foreign environment and to help resolve trade policy issues that negatively influence commercial transactions. This international business development network is one of the main sources of information for Canadian trade policy initiatives that seek to expand access for Canadian firms in international markets.

The International Business Development Branch of the Department of Foreign Affairs and International Trade (DFAIT) is the domestic side of the Trade Commissioner Service. The branch publishes general market information on almost every country in the world, specialized reports on industrial sectors in most foreign markets, and timely sales leads through an International Business Opportunities Centre. Links to this branch and to each of the trade offices abroad are available at the Trade Commissioner Web site (*www.infoexport.gc.ca*). This site is also the gateway to a new subscription service, the Virtual Trade Commissioner, which offers personalized electronic access to the full range of services with a direct link to trade commissioners in the field.

Several members of Team Canada Inc provide direct assistance to Canadian business needing a source of finance, or a way to overcome administrative or credibility constraints—a particular issue for small or new exporters. Export Development Canada (*www.edc.ca*) offers credit and political risk insurance and direct financing. The Canadian Commercial Corporation (*www.ccc.ca*) provides access to difficult markets where government-to-government contracts are useful. And the Business Development Bank (*www.bdc.ca*) has financing packages for small and medium-sized enterprises.

These services together are well placed to inform Canadian companies about their rights under international trade and investment protection rules and can identify policy problems that limit the freedom of Canadian business to expand. The international network assesses how other governments implement the disciplines they have accepted and advises DFAIT's Trade, Economic and Environmental Policy Branch about new issues. Each department brings its particular expertise to the network, providing service to the client and policy advice to the government.

The members of Team Canada Inc are:

- Agriculture and Agri-Food Canada
- Atlantic Canada Opportunities Agency
- Business Development Bank of Canada
- Canada Customs and Revenue Agency
- Canada Economic Development for the Quebec Regions Agency
- Canada Mortgage and Housing Corporation
- Canadian Commercial Corporation
- Canadian Heritage
- Canadian International Development Agency
- Environment Canada
- Export Development Canada
- Fisheries and Oceans Canada
- Foreign Affairs and International Trade
- Indian Affairs and Northern Development
- Industry Canada
- National Farm Products Council
- National Research Council
- Natural Resources Canada
- Public Works and Government Services Canada
- Statistics Canada
- Transport Canada
- Western Economic Diversification

IF YOU ARE DOING BUSINESS ABROAD, WE WANT TO HEAR FROM YOU...

In support of the Canadian government's strong commitment to ensure that all Canadians continue to have input into the country's overall trade agenda, the Department of Foreign Affairs and International Trade has established broad-based consultation mechanisms. Canada's experience has shown that consultations, whether at the domestic or the multilateral level, greatly reinforce public awareness and understanding of the importance of trade.

These mechanisms include:

- Federal/Provincial/Territorial Committee on Trade (C-Trade);
- consultations with municipalities;
- sectoral advisory groups on international trade (SAGITs);
- multi-stakeholder consultation; and
- public opinion research.

Canadians are also encouraged to use the Department's Trade Negotiations and Agreements Web site (www.dfait-maeci.gc.ca/tna-nacl), where up-to-date information on Canada's trade policy agenda is posted and input is sought. The Web site contains an extensive consultation section ("It's Your Turn") that enables Canadians to send in their comments on Canada's trade policy agenda and stay informed of specific consultation initiatives launched by the government.

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:

"Foreign Trade and Investment Barriers Alert"
Department of Foreign Affairs and International Trade
125 Sussex Drive, Ottawa, ON K1A 0G2
Fax: (613) 992-6002
e-mail: Consultations@dfait-maeci.gc.ca

The Department also regularly consults Canadians on 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 and territories, 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. 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

Canada's prosperity is inextricably linked to international trade. Open markets, combined with a stable and transparent trading environment, are at the core of our growth and prosperity. However, trading relationships, like any other intense interaction, sometimes result in disputes. As a medium-sized economy, Canada needs an effective, rules-based multilateral system so that trade disputes can be settled based on commonly agreed-upon rules, rather than by political or economic might. Canada's membership in the World Trade Organization (WTO) helps us manage our trade relations and achieve our objectives for further economic growth.

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 negotiating trade rights and responsibilities, negotiating market access, monitoring the implementation of obligations and commitments under various agreements, reviewing members' trade policies and practices, and settling disputes between members that arise out of differing interpretations of the rules. The WTO is working with other international organizations in coordinating and sharing information on finance, environment and development issues.

Building a Trading System That Benefits All: The New Round of Multilateral Trade Negotiations

In November 2001, 142 trade ministers met at the fourth WTO Ministerial Conference in Doha, Qatar, and launched a new round of multilateral trade negotiations—the Doha Development Agenda. Ministers also welcomed the accessions of China and Chinese Taipei to the WTO. As a result of the launch at Doha, ongoing WTO negotiations on agriculture and services were joined by negotiations on market access for non-agricultural goods, anti-dumping and subsidy/ countervailing duty disciplines, WTO dispute settlement, a multilateral notification and registration system for wines and spirits, and certain aspects of trade and the environment. Substantive discussions

2 *Getting the International Rules Right: The World Trade Organization (WTO)*



in all negotiating areas are well under way. Ministers agreed in Doha to target January 1, 2005, for completion of this round of negotiations.

Also at Doha, focused work programs were initiated in four areas known as the Singapore issues (i.e. investment, competition policy, transparency in government procurement and trade facilitation), with a decision to negotiate to be taken at the fifth Ministerial Conference in 2003. Decisions taken in Doha also included commitments to new work program areas such as trade, debt and finance, trade and technology transfer, electronic commerce, trade and environment, and trade-related aspects of intellectual property rights (TRIPS) and public health.

As mandated by the separate declaration issued in Doha on TRIPS and public health, ministers have been actively involved in addressing the dual objectives of providing poorer countries with access to the medicines they need to respond to grave public health crises (such as HIV/AIDS, malaria and other epidemics), and ensuring that new and better medicines can be created by protecting the intellectual property of those who undertake research and development.

The Doha Development Agenda has a significant development theme aimed at addressing the needs of developing countries. The major challenge in the trade arena is to better integrate developing countries into the global trading system so they can benefit from the opportunities available in the global economy. WTO trade ministers have committed to helping the developing world build capacity to negotiate and implement WTO obligations and take advantage of enhanced opportunities to trade. Canada supports a two-pronged approach to trade and development that includes strengthening the capacity of countries to trade, especially the least-developed countries (LDCs), in parallel with improving their access to the world's markets.

The next major event will be the fifth Ministerial Conference, which will be held in Cancun, Mexico, in September 2003. At that time, ministers will take stock of the negotiations and decide how to move forward.

In many ways, this collective agreement to further liberalize trade sent an important signal of confidence in the WTO system to the global community. The new round of negotiations seeks to benefit all members, with a special emphasis on providing real gains for developing countries that will contribute to poverty reduction, development and long-term social and economic progress worldwide.

Canada's Objectives in the Doha Round

The trade negotiations will create new opportunities for Canadian exporters of goods and services by expanding access to global markets. They will strengthen the rules-based system by clarifying and improving multilateral trade rules. In addition, they are key to advancing Canada's broader foreign policy goals, most notably our sustainable development objectives. It is important to note that these negotiations will not affect Canada's ability to establish regulations in sectors such as health, public education and social services, or to safeguard its right to promote and preserve its cultural diversity.

Canadians have benefited, and will continue to benefit, from trade. To continue to get the best deal possible for Canadian farmers, exporters, manufacturers and consumers, the government will be participating actively in all aspects of the Doha

negotiations. Canada will pay particular attention to the core agenda of reforming world agriculture trade, opening markets for both goods and services in areas of export interest to Canadians, and strengthening the rules, particularly those that limit U.S. capacity to take unfair trade remedy actions. Canada also strongly supports negotiations on clarifications and improvements to the dispute settlement mechanism.

Other Canadian objectives with regard to the Doha Development Agenda include concluding negotiations for a voluntary, facilitative, simple and low-cost registration system for wines and spirits. In the area of trade and environment, Canada seeks to strengthen the mutually supportive relationship between WTO rules and multilateral environmental agreements.

Considering the needs of developing countries and tangibly advancing the cause of development through these negotiations are integral to our objectives in the Doha Round. To that end, the government is actively:

- pursuing initiatives to strengthen technical assistance and capacity building, both at the WTO and bilaterally;
- seeking to address some of the challenges that many developing countries face in implementing some of the trade agreements; and
- addressing the concerns of some developing countries about taking on new commitments.

These negotiations cover areas where there are potential, significant gains for developing countries. These include market access, for both agricultural and industrial goods, and a strengthened rules-based system. Facilitating the integration of developing countries into the global economy requires a coherent approach, including the integration of trade into poverty-reduction and development plans.

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 an increasing number of 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.

Continued consultations with Canadians and improved transparency remain priorities for the government in ensuring an international strategy that reflects Canadians' goals and values. Therefore, an extensive program of consultations and outreach with all stakeholders is being pursued throughout the entire negotiation process. As part of this effort, 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.

Improving Access for Trade in Goods

NON-AGRICULTURAL GOODS

Under the WTO's Doha Development Agenda, the Non-agricultural Market Access Negotiating (NAMAN) Group has been given a broad mandate to work toward agreement "to reduce, or as appropriate, eliminate tariffs...in particular on products of export interest to developing countries." Within this context, Canada's goals include reducing and binding applied tariffs that are not yet bound, reducing high bound rates and re-binding them at lower rates, and expanding the scope of duty-free trade. In addition, we favour eliminating low tariffs and maximizing the use of *ad valorem* rates.

The first year of work in the NAMAN Group focused on the negotiating modalities (i.e. the methods for achieving trade liberalization). Possible modalities include a formula approach, where tariffs are reduced according to a mathematical formula; a sectoral approach, where tariffs for certain sectors are either eliminated or harmonized; and a "request offer" approach, where bilateral negotiations take place on specific tariff items. Canada favours a combination of these approaches as the best way for us to fully achieve our export objectives. In this connection, Canada advocates increased participation in existing sectoral agreements and has also proposed new agreements for environmental goods, forest products, fish and fish products, fertilizers, energy-related

equipment and non-ferrous metals. We are also considering sectoral proposals tabled by other WTO members.

The mandate of the NAMAN Group also includes further efforts to reduce or remove existing non-tariff barriers that unduly restrict trade. In this regard, Canada has stated that governments must retain the right to apply measures in support of legitimate objectives, while regulating in the public interest, in the least trade-restrictive manner possible. It is Canada's view that the NAMAN Group's mandate covers only those non-tariff barriers that are not covered by existing rules and agreements, and the scope of the group's eventual work in this area remains to be seen.

Canada considers the full and effective participation of developing countries in these negotiations as an essential element in the success of the Doha Development Agenda. Experience has shown that tariff liberalization attracts increased trading activity and investment, thus contributing significantly to economic development. That said, special consideration needs to be given to developing countries' needs and priorities. Canada believes developing countries (particularly the least developed) should be given more flexibility in implementing their commitments.

Canada conducted a public consultation with respect to non-agricultural market access in the summer and early fall of 2002. As the negotiations proceed, input from the provinces, industry, non-governmental organizations and the general public will continue to be a valued element in the development of Canada's negotiating positions.

WTO members have set a May 31, 2003, deadline for an agreement on modalities for the negotiations on non-agricultural market access. There will be a review of the overall progress of the negotiating round at the WTO Ministerial in September 2003, with conclusion of the round scheduled for the end of 2004.

AGRICULTURE

Canadian farmers and processors operate in a global marketplace, exporting \$25.8 billion and importing \$20.1 billion worth of agri-food products in 2002 alone. In fact, Canada is now the world's third-largest

exporter of agri-food products, after the United States and the European Community, and the fifth-largest importer. Given Canada's share of global agri-food trade, we have a significant interest in ensuring that the international trade rules governing agriculture are fair. We need to ensure that Canadian producers and processors can obtain access to foreign markets and that they are not disadvantaged by high subsidy levels offered by other countries. For that reason, the current round of WTO agriculture negotiations are very important to Canada's agri-food sector.

The WTO Agreement on Agriculture was an important outcome of the Uruguay Round of multilateral trade negotiations, which ended in 1993. This agreement was a good first step in setting out agricultural trade rules and commitments in the areas of market access, domestic support and export competition. Despite this progress, WTO members recognized that much more work would be needed to advance the trade-reform process, and they committed to start new agriculture negotiations in 2000. As a result, the current WTO agriculture negotiations have been under way since March 2000.

Canada's initial negotiating position for these negotiations was announced in August 1999 by International Trade Minister Pierre Pettigrew and Agriculture and Agri-Food Minister Lyle Vanclief. This position is the result of extensive consultations with the provinces and with Canada's agriculture and agri-food stakeholders. The fundamental objectives of the initial negotiating position are to:

- eliminate all export subsidies as quickly as possible;
- achieve maximum possible reduction or elimination in domestic support that distorts trade or production;
- obtain real and substantial improvements in market access for all agriculture and food products; and
- ensure that decisions about the production and marketing of Canadian products, such as supply management or the Canadian Wheat Board, are domestic policy choices and will continue to be made in Canada.

Between March 2000 and March 2001, WTO members submitted proposals outlining their ideas and objectives for agricultural trade reform. A wide range of WTO members, including both developed

and developing countries, put forward proposals that covered issues such as market access, domestic support, export competition, food security, and special and differential treatment provisions for developing countries. Canada put forward all of its negotiating objectives through proposals and submissions, either on its own or jointly with the Cairns Group. From March 2001 to February 2002, members discussed the issues raised in the proposals in more detail.

The agriculture negotiations have become much more intense since the launch of the broader round of WTO negotiations at Doha in November 2001. The Doha Ministerial Declaration sets out an ambitious negotiating agenda for agriculture. Ministers have called for the agriculture negotiations to achieve fundamental reform through comprehensive negotiations aimed at substantial improvements in market access; reductions, with a view to phasing out, of all forms of export subsidies; and substantial reductions in trade-distorting domestic support. Achieving this ambitious mandate would go a long way toward addressing the fundamental issues underlying a number of the difficulties facing Canadian farmers and processors.

The Doha Declaration sets out important milestones for the agriculture negotiations, including the objective of establishing modalities by March 31, 2003. In December 2002, the chairman of the agriculture negotiations provided an overview paper summarizing the issues discussed in these negotiations and identifying the key areas of divergence that required attention. The paper formed the background for comprehensive discussions by WTO members of possible modalities, which in turn provided the chairman with the material for successive drafts of a modalities text. WTO members are currently engaged in intense negotiations over the latest version, as they seek to secure greater convergence in accordance with the Doha mandate.

Ministers will have an opportunity to review the progress of the agriculture negotiations at the fifth WTO Ministerial Conference in September 2003. At that time, they will provide further direction, if needed, in order to move the negotiations forward. The target for concluding the entire Doha Round of negotiations, including agriculture, is January 1, 2005.

The government continues to consult the full range of Canadians and the provinces regarding the agriculture negotiations through a variety of means, including meetings with industry associations, provincial and industry advisory groups, DFAIT's trade policy Web site and Agriculture and Agri-Food Canada's trade policy Web site.

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 serve legitimate objectives and do not unreasonably 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, as long as these regulations 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 infrastructure necessary for its companies to adopt ISO 14000 environmental management system standards, thus facilitating our exports by helping them meet the requirements of 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 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. It is Canada's position that the precautionary approach should be based on science-based risk assessment and/or risk management, 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 that there is a clear and coherent Canadian understanding regarding the application of the precautionary approach, both at home and internationally, and 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 has been consulting with Canadians on "A Canadian Perspective on the Precautionary Approach/ Principle." The consultation document can be found on DFAIT's 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. To assist the TBT Committee in addressing labelling issues, Canada has developed a framework for informal discussions, which covers issues such as policy instruments for labelling, mandatory versus voluntary measures, harmonization and equivalency, and developing country considerations. The document can be found on the WTO Web site (www.wto.org) under its official document number G/TBT/W/174.

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 regulatory and trade officials (in their areas of jurisdiction), as well as with stakeholders, including industry. This document is also available on the WTO Web site under document number G/TBT/W/167.

Canada is an active participant in the ongoing work of the WTO Committee on Technical Barriers to Trade. We are currently preparing for the Third Triennial Review, to be concluded in 2003. The review will provide Canada with an opportunity to work toward further implementation of the TBT Agreement internationally. In line with the Doha Declaration, Canada's focus going into the third review will be on issues related to developing-country capacity building and trade-related technical assistance, as well as conformity assessment procedures and labelling issues. Recognizing these areas as priorities, the TBT Committee will be hosting two important workshops in 2003: one on trade-related technical assistance, for which funding will be made available to developing countries, and the other on labelling issues. Canada played a leadership role in orchestrating these workshops and is fully engaged in and committed to both events.

The Third Triennial Review will also provide Canada with an opportunity to enhance and strengthen its multilateral discussions on specific issues of importance to Canadian producers, exporters and governments. We will continue to assist further implementation of the various obligations in the TBT Agreement, which will reduce technical barriers to trade among Canada's trading partners and potentially facilitate the flow of Canadian goods to other countries.

SANITARY AND PHYTOSANITARY MEASURES

The WTO Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures (the SPS 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 SPS Agreement has been in force since 1995 and continues to work well. Obviously, Canada is not alone in this view

as it was agreed at Doha that the SPS Agreement would not be reopened during the current round of WTO negotiations.

The SPS 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 is an active participant in SPS 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 has considered, as a priority, the implementation constraints facing developing countries including accessing the special and differential (S&D) treatment provisions of the SPS Agreement. Canada tabled a proposal that would provide members with information concerning the provision of S&D treatment through the transparency obligations of the SPS Agreement, thereby encouraging more extensive use of the S&D provisions. The Committee has also considered issues such as equivalence, transparency and technical assistance. For example, the Committee developed and adopted a format to notify agreements recognizing the judgment of equivalence; the Committee also revised and updated the recommended procedures for implementing the transparency obligations of the SPS agreements; 29 developing countries have submitted responses to the technical assistance questionnaires that the Committee developed and circulated in late 2001. As well, the Committee agreed that the report of the next review of the SPS Agreement would be prepared for the sixth Session of the Ministerial Conference in 2005.

The SPS Committee is increasingly being used by Canada and other WTO members, including developing country members, as a forum for raising bilateral issues. In 2002, WTO members raised more bilateral issues than ever before. Canada raised 13 bilateral issues including the European Union's moratorium on genetically modified organisms (GMOs), China's GMO regulations, Brazil's restrictions on potatoes and other plant products, the Philippines' measures on meat products, Panama's import licences for agricultural products, and Argentina's measures related to Bovine Spongiform Encephalopathy (BSE).

BIOTECHNOLOGY AND GM LABELLING

A number of countries have recently implemented mandatory labelling requirements for food products processed or produced using genetically modified organisms. The use of labelling to indicate health and safety issues 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 toward mandatory method-of-production labelling when other, less trade-restrictive options are available. The use of mandatory labelling to indicate the production method (when this 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 should be noted that the issue of mandatory method-of-production labelling is not limited to foods derived through biotechnology. Mandatory method-of-production labelling could have serious implications for other Canadian industries, including manufacturing, mining, forestry and fisheries.

Canadian industry, producers and consumers are cooperating to provide more information to consumers. Through the Canadian General Standards Board, these groups are developing a voluntary standard that would provide a framework for the voluntary labelling of foods derived through or not derived through biotechnology. Canada has been promoting this approach with our trading partners, such as the European Union, China, Hong Kong (China), Korea and Malaysia, and will continue to do so with other countries as the opportunities arise.

Canada recognizes the importance of working internationally on biotechnology policy development, and we will continue to monitor developments in other countries to learn from their successes and failures. Canada is playing a leading role in setting international standards for genetically modified foods and their labelling through the Codex Alimentarius Commission. Canada chairs and participates in the Codex Committee on Food Labelling, which is developing guidance on the labelling of foods derived through biotechnology, and has chaired an international drafting group to provide further technical input on guidelines for the labelling of these foods.

TRADE REMEDIES

Bilateral Level

The Canadian government continues to monitor trade remedy developments in countries of trade interest to Canadian industry and to assist Canadian exporters involved in trade remedy investigations by other countries. Specifically, the government analyses changes in trade remedy laws and practices of Canada’s key trading partners and makes representations, as appropriate, in specific investigations. In 2002, the government made submissions to U.S. authorities in the safeguard investigation on steel, the anti-dumping investigations on tomatoes, mussels and cold-water shrimps, and the anti-dumping and countervailing investigations into wire rod. The outcome of these cases is found in Chapter 4 (“Opening Doors to the Americas”), in the section dealing with the United States. The government also actively participated in and made representations to Indian authorities in the safeguard investigation involving edible vegetable oil. On January 24, 2003, the Government of India determined that there was no evidence of injury and, consequently, terminated the investigation.

The Canadian government is currently working with affected provinces and with the Canadian Wheat Board to defend against the allegations of wheat subsidies currently under investigation by the U.S. Department of Commerce. This issue is discussed in more detail in the U.S. section of Chapter 4. It is worth noting that Canada made representations and continues to monitor India’s anti-dumping investigation involving vitamin C and China’s safeguard investigation into certain steel products. Other cases that the government is currently monitoring include Australia’s anti-dumping investigation involving grinding liners, Russia’s safeguard investigation into poultry imports, China’s potential sunset review into newsprint, and NAFTA Chapter 19 disputes involving Canadian exports.

Multilateral Level

World Trade Organization

In the current multilateral trade negotiations, Canada is pursuing more specific disciplines and improved transparency and clarity in the use of trade remedy

measures by our trading partners. In this regard, Canada continues to participate in the discussion of issues proposed for negotiations and tabled a general paper on anti-dumping, subsidies and countervailing measures, as well as a more detailed submission on anti-dumping. At the same time, Canada wants to examine key trade remedy provisions with the goal of strengthening and clarifying the rules to achieve greater international convergence and predictability in their application. Canada is encouraged by the discussions regarding the underlying causes of trade remedy measures.

As well as contributing to the work of the WTO Anti-Dumping, Subsidies and Safeguards committees—to ensure that all members administer their trade remedy laws in a WTO-consistent manner—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 Argentina’s definitive anti-dumping measure against poultry imports from Brazil, the European Community’s sugar program, the U.S. Foreign Sales Corporation, and the U.S. sunset review of anti-dumping duties on corrosion-resistant carbon steel flat products from Japan. Canada continued to participate as a co-complainant in the WTO challenge of the U.S. “Byrd Amendment.” For information on the Byrd Amendment, please refer to Chapter 4 (“Opening Doors to the Americas”).

Organization for Economic Cooperation and Development Steel Initiative

On September 2001, a High Level Group on Steel, under the auspices of the OECD, embarked on a process to establish possible multilateral disciplines on government intervention in the steel sector. The chief objective of this work is to establish disciplines on government subsidies and other measures that distort steel markets. Such disciplines, combined with industry action to close inefficient and excess steel capacity, are an attempt to address the factors that distort markets and lead to trade actions.

As a result of this initiative, participants are currently considering an agreement regarding possible disciplines on government intervention in the steel sector. Canada has been and remains highly supportive of the OECD high-level steel process and its objective of concluding a steel subsidies agreement.

Canada has also been working with its partners in NAFTA to enhance prospects for success. To this end, Canada, Mexico and the U.S. have tabled a NAFTA joint statement on their commitment to addressing trade-distorting actions, particularly subsidies, which could be used as a model for a multilateral agreement. In the statement, NAFTA governments declare their commitment to begin work immediately to develop a Statement of Principles on Steel. NAFTA governments will identify remaining measures and practices within the North American steel market that could potentially distort the market, and will detail an action plan for addressing those measures and practices.

Recognizing the importance of maintaining an open steel market within North America, NAFTA governments have also agreed to establish a NAFTA Steel Trade Committee to give effect to the Statement of Principles and to continue cooperation for the successful conclusion of the OECD process and other multilateral efforts.

RULES OF ORIGIN

The WTO Agreement on Rules of Origin established a work program to develop common rules of origin for non-preferential trade. The work program was originally slated for completion in July 1998; however, the deadline for completing the core policy issues identified in the report of the Committee on Rules of Origin to the General Council has been extended to July 2003. Should the core policy issues be resolved by July 2003, the Committee on Rules of Origin is to complete its remaining technical work, including a review of the results for overall coherence, by the end of 2003. The inability of the Committee on Rules of Origin to meet the deadline for completing the work program is due to the technical complexity of developing agreement on rules for all products; the entrenched positions of many members, particularly in the areas of agriculture, textiles and apparel, and industrial products; and the lack of consensus on the implications of the work program (i.e. if and when the harmonized rules should be used).

In the development of common rules of origin for non-preferential trade, 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. Regarding the implications of harmonized rules of origin, Canada's position is that members should use such rules in the application of non-preferential commercial policy instruments only if other WTO agreements require determination of a country of origin.

TRADE FACILITATION

Over the last few years, a number of factors—including growth in trade, new international trade agreements and concrete market access impediments faced by traders worldwide—have combined to present governments with ever-changing demands for fast and predictable release of goods and measures to facilitate the flow of goods across national borders.

WTO rules contain a variety of provisions aimed at enhancing transparency and setting minimum procedural standards (such as GATT Articles V [freedom of transit], VIII [fees and border formalities] and X [publication and administration of trade regulations]). However, trade facilitation as a separate topic was not added to the WTO agenda until 1996, when the Singapore Ministerial directed the WTO Council for Trade in Goods to undertake exploratory and analytical work on simplifying trade procedures and assessing the scope for WTO rules in this area. At the Doha Ministerial Meeting in 2001, ministers agreed to a focused trade facilitation work program and to decide on modalities for trade facilitation negotiations at the 2003 Ministerial.

Canada's overarching goal is to ensure that the 2003 WTO Ministerial in Cancun results in a decision to launch negotiations on trade facilitation. The government's objectives for negotiations are to build on existing WTO obligations (i.e. GATT Articles V, VIII and X) and to negotiate disciplines that would maximize transparency; expedite the release of goods; and reduce, simplify and modernize border-related requirements and formalities. In seeking agreement to negotiate rules on trade facilitation, Canada, with other like-minded WTO members, came forward during 2002 with a range of concrete proposals to clarify and improve existing obligations. These proposals are to be further explored during the

next phase of the trade facilitation work program in the first half of 2003.

Canada recognizes the legitimate concerns of various developing countries regarding their capacity to implement any new obligations. We therefore agree that capacity building should be an integral part 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.

We believe that WTO rules on trade facilitation would result in enhanced transparency, predictability, due process, simplification, rapid release, more efficient use of resources and effective border control and enforcement. We see trade facilitation as a win-win for all countries and a natural complement to market access negotiations on goods. 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. Improved border systems will help to reduce business costs for all traders, an issue of particular interest to small and medium-sized companies.

Improving Access for Trade in Services

ONGOING GATS NEGOTIATIONS

As a significant exporter of services, Canada relies on multilateral, legally enforceable rules on trade in services. These rules improve market access abroad for Canadian services and provide Canadian consumers with a wider choice of quality services at competitive prices.

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

GATS Consultation Process

Domestic consultations are key to enhancing good governance and transparency and to promoting a democratic approach to trade policy development. Canada's trade policy encompasses interests beyond those of the business world, and all citizens can have a say in determining this policy.

Intensive and ongoing consultations on the WTO General Agreement on Trade in Services (GATS) remain an important part of the Canadian government's overall commitment to ensuring that Canada's position on GATS continues to reflect the interests of all Canadians. The government has been seeking, and will continue to seek, the views of Canadians in developing trade policies and positions, using a broad range of consultative mechanisms. These mechanisms include the Standing Committee on Foreign Affairs and International Trade (SCFAIT) process, as well as the sectoral advisory groups on international trade (SAGITs). The government

is also consulting with municipal governments. Equally important, all interested Canadians are invited to provide their comments and views on the issues via the GATS 2000 Web site (services2000.ic.gc.ca).

The government has been working closely with provincial and territorial governments, which have jurisdiction in many areas of services trade, to develop our initial negotiating position. For example, in 2002, the government engaged in a new cycle of cross-sectoral consultations across the country. The consultations covered all services-related bilateral and multilateral negotiations currently under way (GATS, the Free Trade Area of the Americas, Central America Four, Canada-Singapore and the Caribbean Community and Common Market). The government coordinated with the provinces and territories to hear not only from provincial officials but also from local business groups and local non-governmental

organizations regarding the Canadian negotiating position. In addition to opening up a mutually educational dialogue between government officials and stakeholders, the consultations provided a regional dimension and balance to Canadians' input concerning the negotiations.

In the context of the guidelines and procedures reaffirmed at the WTO Ministerial Conference in Doha in November 2001, the government will continue to consult, inform and engage citizens as the negotiations progress, thus ensuring that Canada's position on GATS continues to reflect the interests of all Canadians.

The government welcomes the views of interested Canadians. To provide your comments, please visit the Department of Foreign Affairs and International Trade Web site (www.dfait-maeci.gc.ca/tna-nac) or the Government of Canada Web site for the GATS negotiations (services2000.ic.gc.ca).

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 presented its initial requests to other WTO members as per the agreed deadline. A description of the initial market access requests that Canada made of other countries is available on-line (www.dfait-maeci.gc.ca/tna-nac/service-e.asp and services2000.ic.gc.ca). This information was compiled following detailed consultations with Canadian stakeholders and in close cooperation with the

provinces and territories. In the market access phase of negotiations, WTO member countries have been meeting bilaterally to make initial market access requests of one another in the 12 broad service sectors covered by GATS. These bilateral meetings enable countries to gain a clear idea of the liberalization requests of their trading partners. Requests aim to remove specific trade barriers in countries of export interest.

The initial offers will take into account the basic negotiating parameters that each country has set for itself, as well as the various bilateral requests it has received from other members. For example, in

Canada these basic parameters make clear that health, public education, social services and culture are not negotiable, therefore Canada will not make them part of its offer. The initial offer and all subsequent offers are conditional on the overall level of liberalization achieved at the end of the negotiations.

As part of a government-wide commitment to increasing transparency, the Minister for International Trade announced on June 11, 2002, Canada's approach to the services negotiations at the World Trade Organization, which will ensure that Canadians continue to be among the best-informed citizens in the world on trade negotiations. Specifically, Canada will make public by April 2003 the initial conditional offer that will be presented to WTO trading partners in the context of the GATS negotiations. Canada was the first country to make this commitment.

At the end of the negotiation process (currently set for 2005), the results of the bilateral request-offer negotiations will be made available on a most-favoured nation basis (i.e. made available to all WTO countries). In this way, all member countries benefit from the bilateral negotiations to some extent, regardless of whether they negotiated market access commitments bilaterally. As well, members retain the flexibility to open the sectors that they choose.

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 transparency and clarity of GATS, 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. 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. In addition, in the Doha Ministerial Declaration of November 2001, WTO members reaffirmed their right to regulate and introduce new regulations in order to meet national policy objectives.

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 world-wide telecommunications revenues, have made such commitments.

There is a good basis for further liberalization of the telecommunications services market in negotiations under GATS, as well as in other bilateral and multilateral forums. 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

The Canadian professional services sector, led largely by the engineering, architectural and management consulting professions, has experienced continuous growth in international activities of about 20% per year (\$6 billion in 1999) over the past 10 years. The capabilities and expertise of Canadian professional

services providers are recognized and sought after around the world: Canadian engineering consulting firms rank fourth in total international billings after those in the United States, the United Kingdom and the Netherlands. 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 law). Canadian accountancy firms are increasingly 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 benefited greatly from the commitments that Canada obtained from other countries in GATS. Moreover, the ongoing GATS negotiations provide an excellent vehicle to promote greater market access for our professional services, including legal services, accounting, auditing and bookkeeping, taxation services, architectural services, urban planning and landscape architecture services. Canada has asked its trading partners to improve their commitments for professional services by eliminating trade barriers related to, for example, temporary entry regulations, investment and ownership limitations, and nationality and citizenship requirements. These requests have been made, and are being reinforced, in the current market access phase of the GATS negotiations.

Canada is also seeking to improve market access 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, with 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. Canada is committed to continuing to work within current and other bodies as appropriate to improve the openness of domestic regulatory regimes.

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 expand their export activities, these businesses require the additional certainty that comes from the development of international rules on trade in services. This is particularly the case with respect to the mobility of people. In today's global economy, companies need to move key personnel to foreign markets on a temporary basis to provide services (e.g. management, executive or specialist) to a subsidiary or affiliate, assist with the sale or delivery of products or services, or consult with clients or negotiate contracts. In addition, individual services providers (i.e. professionals) require access to foreign markets to deliver their services.

Canada is party to several regional, bilateral and multilateral trade agreements: NAFTA, the Canada–Chile Free Trade Agreement (CCFTA), 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, NAFTA and the CCFTA facilitate the movement of traders and investors.

Under NAFTA, GATS and the CCFTA, Canada has set aside the labour market test for certain categories of workers. This has been done because the positive impact of facilitating the entry of temporary workers has been assessed as outweighing 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 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 additional commitments on temporary entry and increased transparency of commitments to improve and secure access for Canadian services providers.

INVESTMENT

At Doha, ministers recognized the importance of a framework to secure transparent, stable and predictable conditions for foreign direct investment, and agreed to launch investment negotiations after the next WTO Ministerial conditional upon an agreement on negotiating modalities. Canada believes that for host countries, a framework that enables the cross-border flow of investment would facilitate technology transfer and contribute to economic growth and development. Investors would benefit from the certainty provided by enhanced rules on transparency and non-discrimination. Canada therefore supports the launch of negotiations on a multilateral investment framework at the 2003 WTO Ministerial in Cancun.

COMPETITION POLICY

Canada supports the establishment of a multilateral framework on competition policy, and is actively working toward the launch of negotiations at the Cancun Ministerial. Canada believes that a framework for competition policy will ensure that the gains from trade and investment liberalization are not undermined by the anti-competitive behaviour of private actors. By establishing a coherent set of principles for sound competition policy among all members, a multilateral agreement would ensure a competitive environment and a more transparent and predictable climate to encourage foreign trade and investment. An agreement would also contribute to the important objective of building institutional capacity in developing countries.

TRANSPARENCY IN GOVERNMENT PROCUREMENT

Canada considers that transparency in government procurement is ready to move to negotiations. At Doha, WTO ministers addressed a key concern of developing countries, by establishing that a transparency agreement would not restrict the scope of countries to use domestic preferences in their procurement. Canada's current transparency practices are compatible with the elements under discussion at the WTO. Such an agreement would benefit exporters of goods and services seeking opportunities to sell to governments or to sub-contract to domestic suppliers. As well, an agreement would benefit member countries by increasing the value received for their procurement expenditures, improving the governance infrastructure and reducing the possibility of corruption.

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

Electronic commerce (e-commerce) can foster remarkable new efficiencies in business processes by greatly expanding geographical markets available to small and medium-sized enterprises, thereby providing the benefits of increased integration, competition and product choice to consumers around the globe. The realization of such potential benefits, however, will depend upon affordable access to infrastructure and e-commerce-related services, as well as an on-line environment of trust and security. From an international trade policy perspective, this will require greater clarity with respect to the application of existing international trade rules to electronic transactions.

Since 1998, WTO members have been looking at a variety of trade-related aspects of e-commerce in the context of a Work Program on E-Commerce. In Canada's view, one of the key objectives of the WTO Work Program is to achieve greater clarity with respect to the application of international trade rules to e-commerce. Members benefit from an ongoing dialogue on what measures can be taken to enable the growth of e-commerce, reduce impediments to trade, and realize the potential benefits of e-commerce for all WTO members.

DISPUTE SETTLEMENT

The WTO currently has 145 members. Thus it is not surprising that disputes occasionally arise within the organization over the application of the rules contained in the WTO Agreement (Agreement Establishing the World Trade Organization). What is surprising 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 (DSU). This process includes consultations, reviews 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 DSU 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. WTO members agreed, at the fourth Ministerial Conference in Doha, to negotiate improvements and clarifications to the DSU and to do so before May 2003. Since then, a special session of the dispute settlement body has convened to discuss proposals. Included in the issues Canada would like to see reviewed are the rules relating to implementation and retaliation, which we believe could benefit from greater clarity, and ways to improve the transparency of the dispute settlement process without compromising its fundamental state-to-state nature.

During the past year, Canada made use of the dispute settlement provisions of the WTO to challenge several measures maintained by other members that we consider inconsistent with their international trade obligations. The most significant of these measures are the anti-dumping and countervailing duties that the United States has imposed on Canadian softwood lumber exports.

On September 27, 2002, the WTO panel established to hear Canada's claim pertaining to the U.S. Department of Commerce's preliminary determination of subsidy with respect to certain softwood lumber from Canada ruled in Canada's favour. The WTO agreed with Canada that the United States' finding that Canadian provincial stumpage programs are countervailable subsidies was not made in accordance with WTO rules.

On October 1, 2002, a panel was established to hear Canada's claim that the U.S. Department of Commerce's final determination of subsidy with respect to certain softwood lumber from Canada is inconsistent with the United States' WTO obligations. Hearings were held in February and March 2003. A decision is expected in July 2003.

On December 20, 2002, the Canadian government requested consultations with the United States concerning the U.S. International Trade Commission's final affirmative determination of a threat of injury. Canada believes the United States contravened WTO rules in reaching this determination. A panel could be established in the spring of 2003.

On January 8, 2003, a panel was established to hear Canada's challenge of the U.S. Department of Commerce's final determination of dumping. Canada believes that the Department of Commerce's final determination is inconsistent with the United States' WTO obligations. A decision is expected in the fall of 2003.

Canada also joined a number of countries (i.e. European Community countries, Australia, Brazil, Chile, India, Indonesia, Japan, Korea, Mexico and Thailand) in challenging a U.S. law entitled the Continued Dumping and Subsidy Offset Act of 2000 (Byrd Amendment). A panel was established in September 2001. In its report of September 16, 2002, the panel concluded that the Byrd Amendment is inconsistent with the WTO Anti-Dumping and Subsidies and Countervailing Measures agreements and therefore should be removed. On October 18, 2002, the United States appealed this report. On January 16, 2003, the WTO Appellate Body upheld the panel's finding that the Byrd Amendment is inconsistent with certain provisions of the WTO agreements on anti-dumping and on subsidies and countervailing measures.

In 2002, we saw an end to existing WTO litigation between Canada and Brazil over export financing for regional aircraft. The most recent WTO panel found that Export Development Canada's Corporate and Canada Accounts, as well as the programs of Investissement Québec, are WTO-compliant in principle. That panel found, however, that Canada's financing of a transaction with Air Wisconsin contravened WTO rules on export subsidies, notwithstanding that Canada had matched a subsidized financing offer from Brazil. The panel also found four smaller transactions to be in violation of the export subsidy rules. Brazil subsequently received authorization from the WTO to impose against Canada trade retaliation of up to \$385 million, far less than either the \$5.2 billion Brazil had requested or the \$2.1 billion awarded to Canada as a result of Brazil's violations. Both countries have publicly said that they do not plan to retaliate, preferring instead to negotiate a permanent resolution to this dispute.

Accessions to the World Trade Organization

Canada continues to play an active role in the WTO accession process. In this regard, 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.

As stated earlier, the WTO now has 145 members, with China, Chinese Taipei, Lithuania, Moldova and Armenia among the most recent members. The accession package of the former Yugoslav Republic of Macedonia (FYROM) is pending, subject to national ratification. FYROM will legally become a member 30 days after it has notified the WTO Secretariat of the completion of its ratification procedures. It is hoped that the accession working party for Cambodia, having moved into the final phases of its accession process, will notify Cambodia's terms of accession by the fifth WTO Ministerial Conference in September 2003, which would make Cambodia the first least-developed country (LDC) to join the WTO since 1995.

Over the past year, Canada has been active in accession negotiations with many of the applicants, including Russia, Saudi Arabia, Ukraine and Vietnam. As well, Canada has been working actively with other members to facilitate LDC accessions, recognizing that accession would help LDCs in their development efforts and transition to fully participating members of the world trading system. Membership is also seen to provide greater momentum and support for trade liberalization and the multilateral trading system more generally. Efforts by members have been heightened following the commitment made in Doha to facilitate and accelerate negotiations with acceding LDCs.

Accession negotiations take place on two parallel tracks: multilateral and bilateral. During the multilateral negotiations, a WTO working party, composed of interested WTO members, examines the acceding country's economic and trade regime to identify inconsistencies with WTO obligations and to 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 in the applicants' markets.

Further information on the WTO accession process can be obtained from the WTO Web site (www.wto.org/english/thewto_e/acc_e/acc_e.htm).

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 has increased more than 10-fold over the past two decades, from US\$568 billion in 1982 to US\$6.6 trillion in 2001.

Canada is an active player in this global economy. The stock of Canadian direct investment abroad (CDIA) increased nearly fourfold from \$98.4 billion in 1990 to \$389.4 billion in 2001. Over the same period, the stock of foreign direct investment in Canada more than doubled, from \$130.9 billion to \$320.9 billion. Since 1996, the stock of Canadian direct investment abroad has surpassed the stock of foreign direct investment in Canada.

Canadian Direct Investment Abroad

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 OECD has found that each dollar of outward foreign direct investment is associated with some two dollars of additional exports.

In 2001, 51% (\$198.4 billion) of Canadian direct investment abroad was located in the United States. A further 20% of CDIA (\$76.5 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 2001, that proportion had increased to approximately 23% (\$87.7 billion).

3 *Investment*



With 40% of the total stock of CDIA in 2001, the finance and insurance sector continued to be the largest sector for CDIA. In 2001, significant amounts of CDIA were in the energy and metallic minerals and the machinery and transportation equipment industries, bringing their proportion of the total stock of CDIA to 19% and 5%, respectively. Outward investment in the metals and minerals sector results in higher domestic sales of machinery and equipment, as well as increased sales of engineering, architectural and environmental services. Electronics and communications also emerged as an important sector for outward Canadian investment in recent years, accounting for 13% of the total in 2001.

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 2001, the United States accounted for \$215 billion or 66.9% of foreign direct investment in Canada. The European Union represented \$76.3 billion or 23.8% of total foreign direct investment in this country. Other significant investors included Japan (\$8.3 billion) and Hong Kong (\$4.3 billion). In 2001, the major recipient sectors for foreign direct investment flows into Canada were energy, metallic minerals, machinery and transportation equipment, followed by finance and insurance, food, beverage and tobacco, chemicals and electronics.

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, whose 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 and ensure 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.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, Central and 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, a notice or an application for review must be filed for all acquisitions of existing Canadian businesses or establishments of new Canadian businesses. Reviewable transactions are approved by the minister responsible for the Act, once that minister is satisfied that the investment is likely to be of net benefit to Canada. Direct acquisitions of Canadian businesses with assets of \$5 million or more are reviewable. Indirect acquisitions are also subject to review if the assets of the Canadian business are at least \$50 million or if the assets are between \$5 million and \$50 million and represent more than 50% of all assets being acquired.

Direct acquisitions by WTO members are subject to a higher review threshold, which was \$218 million in 2002. This amount is adjusted annually based on changes in nominal gross domestic product. However, direct and indirect acquisitions by WTO members in designated restricted sectors are subject to the lower review thresholds that apply to non-WTO members, as described above. These restricted sectors are transportation, financial services, culture and uranium.

In the area of financial services, Canada does not maintain foreign ownership restrictions for banks. Acquisitions of Canadian banks are linked to the new size-based ownership regime, which came into force in October 2001. Under the new rules, no single person (Canadian or foreign) may acquire more than 20% of the voting shares or 30% of the non-voting shares in a large bank (i.e. a bank with equity of \$5 billion or more). For medium-sized banks (i.e. banks with equity between \$1 billion and \$5 billion), individual shareholdings are allowed up to 65%, provided that at least 35% of voting shares are listed and traded on a recognized exchange and are widely held. Small banks (i.e. banks with equity of less than \$1 billion) have no ownership restrictions other than a "fit and proper" test.

The Investment Canada Web site provides guidelines on the application of the Act (*investcan.ic.gc.ca*). 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.

BILATERAL INITIATIVES

Bilateral investment treaties are used extensively by trading nations as instruments to protect their foreign investments abroad. More than 2,000 such agreements are in place worldwide. Since 1989, Canada has concluded 22 bilateral foreign investment protection and promotion agreements (FIPAs), bringing into force a framework of legally binding rules to protect Canada's foreign investments in specific countries. Canada's FIPAs provide assurances to Canadian enterprises that rules governing their investment will remain bound by certain standards of fairness and predictability, thereby reducing the risks and costs associated with those investments, mainly in emerging economies. A complete list of Canada's FIPAs can be found at the Department of Foreign Affairs and International Trade's Web site (www.dfait-maeci.gc.ca/tna-naclfipa_list-e.asp).

REGIONAL INITIATIVES

As part of the North American Free Trade Agreement, Canada negotiated a comprehensive investment chapter 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. Investment negotiations with other countries in Latin America and the Caribbean are an integral aspect of the ongoing free trade initiatives with the Central America Four (CA4) and the Free Trade Area of the Americas. We also foresee the inclusion of investment provisions in any possible free trade agreements with the Caribbean Community and Common Market (CARICOM), the Andean Community countries and the Dominican Republic. Investment negotiations are also being conducted in the context of negotiations toward a free trade agreement with Singapore.

WORLD TRADE ORGANIZATION (WTO)

At the November 2001 WTO Ministerial Conference in Doha, ministers agreed to launch investment negotiations after the next WTO Ministerial conditional upon an agreement on negotiating modalities. In 2002, Canada submitted papers to the WTO Working Group on the Relationship between Trade and Investment (WGTI) on six of the seven elements identified for clarification in paragraph 22 of the Doha Declaration (i.e. scope and definitions, non-discrimination, modalities for pre-establishment commitments based on a GATS-type positive list approach, development provisions, exceptions and balance-of-payments safeguards, consultations, and the settlement of disputes between members). A paper on transparency will be submitted in 2003. Canada will continue, through its work in the WGTI, 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, Canada has participated actively in technical assistance and capacity-building activities organized by the WTO, the United Nations Conference on Trade and Development (UNCTAD) and other appropriate organizations, in recognition of the importance ministers placed on such assistance in the Doha mandate.

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.

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. In May 2002, Canada participated in the APEC Workshop on Bilateral and Regional Investment Rules/Agreements. One of the aims of this workshop was to further the process of liberalizing investment regimes in APEC member economies by examining best policy practices in investment protection and exploring the possible expansion of APEC's network of investment agreements. The final report can be viewed at the APEC Web site (www.apecsec.org.sg).

Corporate Social Responsibility (CSR)

The government expects Canadian companies to carry out their operations in a socially and environmentally responsible manner, at home and abroad. To this end, we strongly encourage Canadian companies to adhere to standards of corporate social responsibility such as the OECD Guidelines for Multinational Enterprises (MNEs).

The OECD Guidelines are a government-endorsed framework of voluntary standards and principles for responsible business conduct. They provide recommendations to multinational enterprises on issues such as environmental protection, respect for core labour standards, anti-corruption and respect for human rights. In Canada, the guidelines apply to multinational enterprises operating within our borders and to the overseas operations of Canadian companies.

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 corporations with a common frame of reference for responsible business practices. This is particularly important in countries where governance structures are weak.

In addition to improving corporate reputation and competitive advantage, responsible business practices can help to strengthen the basis of mutual confidence between businesses and the societies in which they operate and improve the foreign investment climate.

Further information is available from 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 CSR Web site (www.dfait-maeci.gc.ca/tma-na/social-e.asp).

North American Free Trade Agreement (NAFTA)

The North American Free Trade Agreement entered into force on January 1, 1994. Designed to foster increased trade and investment among the partners, NAFTA has brought economic growth and rising standards of living for people in all three countries. As the 10th anniversary of NAFTA approaches, it is clear that the agreement has proven its value as a means of stimulating trade, investment and competitiveness.

NAFTA's ambitious tariff-elimination schedule was completed on January 1, 2003, when the final scheduled round of cuts in tariffs applied to Canada–Mexico and U.S.–Mexico trade was implemented. Canada–U.S. trade has been virtually tariff-free since January 1, 1998.

Total trade between Canada, the United States and Mexico has increased substantially since NAFTA was implemented. Canada's total merchandise trade with the United States and Mexico was approximately \$579.8 billion in 2002. Two-way merchandise trade between Canada and Mexico grew 3.4% to reach \$15.1 billion in 2002. Our merchandise trade with the United States reached \$564.6 billion in 2002. In terms of Canada's total merchandise exports, 88.1% goes to our NAFTA partners.

Trade in services among Canada, the U.S. and Mexico has also grown significantly over the first six years of NAFTA (for which data are available). In 2000, Canada's trade in services with the United States and Mexico was approximately \$76 billion, up from \$46 billion in 1994 (an average annual growth of 8.8%). During the same period, the two-way trade in services between Canada and Mexico has grown at an annual rate of 12.9%, to reach over \$1 billion. Our trade in services with the United States reached \$75 billion in 2002, up from \$42.3 billion in 1993. In terms of Canada's total services exports, 61% goes to our NAFTA partners.

Canada's attractiveness to foreign and domestic investors has also improved since NAFTA entered into force in 1994. Total foreign direct investment

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into Canada reached \$321 billion in 2001, more than 67% of which comes from our NAFTA partners. Foreign direct investment into Canada from the United States increased to \$215 billion in 2001, while investment from Mexico reached \$138 million in 2000. Canadian direct investment in the NAFTA countries has also increased, reaching \$198 billion into the United States in 2001 and \$4 billion into Mexico.

The NAFTA Commission, which directs the implementation of NAFTA, consists of Canada's Minister for International Trade, Pierre Pettigrew, the U.S. Trade Representative, Robert Zoellick, and Mexico's new Secretary of the Economy, Fernando Canales Clariond. At the last Commission meeting on May 28, 2002, the trade ministers reaffirmed their determination to complete the full implementation of the agreement according to the established schedule, and directed officials to review the prospects for additional trilateral work that could further stimulate trade. The ministers also directed experts to identify shared priorities concerning the operation of Chapter 11 (Investment) and to continue developing recommendations as appropriate.

Looking Forward

NAFTA incorporated a work program that allows the parties to pursue a number of improvements with a view to keeping the agreement fresh and relevant, and actively seeks to remove existing impediments to trade and investment. Canada's priorities within this context are those activities that can provide important benefits for business (e.g. simplification of rules of origin, temporary entry provisions for business persons, cross-border trade in services). Officials will continue to identify existing impediments to trade and investment and conduct the necessary work to eliminate them through NAFTA.

Settling Disputes Under NAFTA

NAFTA's dispute settlement process provides the necessary mechanisms to resolve the relatively few disputes that arise in such a large trade and economic relationship. When the governments concerned cannot resolve their differences through NAFTA committees and working groups, or through other consultations, NAFTA provides for expeditious and effective dispute settlement procedures. Where rights and obligations under the World Trade Organization (WTO) 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 over the interpretation or application of NAFTA, except for trade remedy matters covered under Chapter 19. Chapter 19 of 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 2001 to November 2002, two Chapter 19 panels reviewing decisions made by Canadian agencies involving U.S. products remained active. These decisions involved dumping and injury cases relating to iodinated radiographic contrast media. During the same period, two panel proceedings involving household appliances (anti-dumping and injury) were completed, with two decisions issued.

As well, six requests for panel review of decisions made by U.S. agencies regarding Canadian products were filed. The decisions involved softwood lumber (anti-dumping), softwood lumber (countervailing duties), softwood lumber (injury), greenhouse tomatoes (anti-dumping), greenhouse tomatoes (amended anti-dumping) and steel wire rod (countervailing duties).

Additionally, 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, five panel decisions were issued involving pure and alloy magnesium reviews, and two proceedings involving greenhouse tomatoes were terminated.

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).

North American Biotechnology Initiative (NABI)

On October 30 to 31, 2002, officials and regulators from Canada, Mexico and the United States held the inaugural meeting of the North American Biotechnology Initiative. Co-led by Agriculture and Agri-Food Canada and the Canadian Food Inspection Agency, the meeting was also attended by representatives from Health Canada, the Department of Foreign Affairs and International Trade, the National Research Council, Environment Canada and the Canadian Grains Commission. The meeting initiated a policy dialogue between the three governments on emerging issues and formalized regular information exchanges on more technical issues. The participants agreed to exchange information on such matters as regulatory regimes, contacts within respective agencies, existing collaborations (both public and private), testing and sampling methodologies, labelling regimes, risk assessment approaches, capacity building and transparency.

Three working groups (Science Issues, Regulatory Issues and Trade and Marketing Issues) have agreed on draft programs of work, and work has begun on program items. Mexico has agreed to host the next meeting of NABI in May 2003.

United States

Overview

Canada and the United States remain each other's largest trading partners, moving about \$1.9 billion worth of goods and services across the border each day. In 2002, Canada exported \$346.5 billion in goods to the United States and imported \$218.2 billion in return. Services exports totalled \$34.4 billion in 2002, with corresponding imports at \$40.5 billion. Fully 87.4% of Canadian merchandise exports are destined for the United States. Since the implementation of the Free Trade Agreement (FTA) in 1989, two-way trade has more than doubled. Between 1992 and 2002, two way trade in goods increased approximately 13% per year.

U.S. direct investment in Canada has increased from approximately \$85 billion in 1991 to \$215 billion in 2001, while Canadian direct investment in the United States has grown from \$63 billion to \$198 billion in the same period.

Canada's trade relationship with the United States is paramount for Canada. Opportunities exist for Canadian business in virtually every sector. To realize these opportunities, the Department of Foreign Affairs and International Trade (DFAIT) introduces small and medium-sized enterprises to the market, with a particular focus on helping women, young entrepreneurs and Aboriginal firms to begin business relationships with the United States. The New Exporters to Border States (NEBS) program has been highly successful in this regard, having helped 14,400 companies make their first foray into the U.S. market. The Canadian government also encourages Canadian exporters that have succeeded in more than one region of the United States to "graduate" to other international markets. For further information, please visit DFAIT's Canada-U.S. Relations Web site (www.can-am.gc.ca).

The government also aims to attract and expand investment from the United States and encourage strategic alliances with U.S. companies. 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.

Within the United States, many individual states have economies that are larger than those of whole 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 2002

- On December 6, 2002, Deputy Prime Minister Manley and Governor Ridge reported on progress made on the 30-point Action Plan of the Smart Border Declaration and announced their commitment to deepening border cooperation in several areas under Phase II. They agreed to bilateral cooperation in the areas of biosecurity, science and research.
- Canada and the United States established the Free and Secure Trade (FAST) Program, and reinstated the NEXUS program for low-risk travellers while expanding it to most major crossings.
- On January 1, 2003, Canada and the United States liberalized the NAFTA rules of origin for seven products making it easier for exporters of these products to meet the rules of origin and benefit from duty-free treatment under NAFTA. (Mexico will implement these changes later in 2003.)
- The proposed Breaux-Thomas amendment, which would have given the Administration discretion in restricting sugar product imports, was dropped from the 2002 U.S. Trade Promotion Authority Bill.
- Canada and the United States have agreed on detailed binational work plans to protect shared critical infrastructure in the energy, telecommunications and transportation sectors.

Canada's Market Access Priorities for 2003

- Balance the priorities of security and law enforcement with the free movement of legitimate goods, services and people across our common border.
- Successfully resolve the softwood lumber dispute with the United States.
- Maintain market access to the United States for Canadian wheat.
- Continue to oppose country-of-origin labelling provisions of the U.S. Farm Bill in a variety of bilateral and multilateral forums in order to advance Canadian trade interests and concerns.
- 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.
- Extend Canada's network of representation in the U.S. for greater strategic engagement on investment and trade issues.
- Continue engagement on the NAFTA Chapter 11 clarification initiative.
- Ensure that proposals by U.S. Customs and the U.S. Food and Drug Administration (FDA) for prior notice of arrival are implemented in a way that achieves security objectives while avoiding unnecessary disruption to trade.

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 Canadian government will pursue.

IMPROVING ACCESS FOR TRADE IN GOODS

Softwood Lumber

Following the expiry of the Canada–U.S. Softwood Lumber Agreement on March 31, 2001, the U.S. Department of Commerce (DOC) initiated

countervailing and anti-dumping investigations of certain softwood lumber products from Canada. On May 22, 2002, following these investigations, the DOC imposed final countervailing and anti-dumping duties averaging 27.22%. The DOC excluded the Atlantic provinces from the countervailing duty investigation. Consequently, all Atlantic producers pay an anti-dumping duty of only 8.43%.

In response to the U.S. trade actions, the Canadian government is taking all actions possible to protect the interests of the Canadian lumber industry, its workers and lumber communities across the country. Working closely with provinces and the lumber industry, the federal government has pursued with the United States a long-term, policy-based resolution of the trade dispute. Should such a resolution be possible and result in the elimination of the countervailing and anti-dumping duties, an interim measure such as a border tax may be required to allow provinces time to implement forest policy changes.

Canada is continuing to pursue its rights under the dispute settlement provisions of the WTO and NAFTA. In total, six challenges of the U.S. trade actions have been initiated before the WTO and under NAFTA.

On November 1, 2002, a WTO panel adopted the final report on the U.S. preliminary subsidy determination. The panel ruled that the U.S. measure is contrary to its WTO obligations. A subsidy consists of a financial contribution that confers a benefit. The WTO panel found that provincial stumpage programs are a “financial contribution” under the Subsidy Agreement. However, the panel also found that the United States cannot use cross-border benchmarks to measure whether this financial contribution provides a “benefit” to lumber producers. The U.S. did not appeal the report of this panel. A subsequent WTO panel has been established on the U.S. final subsidy determination.

The Canadian government has announced various programs to assist Canada's forest industry, as well as the communities and workers affected by the dispute. The measures announced to date amount to over \$356.5 million dollars. They include funds for displaced workers under expanded employment insurance programs, community capacity building,

WORKING TOGETHER TO IMPROVE ACCESS

Smart Border Declaration

On December 12, 2001, Deputy Prime Minister Manley and Governor Ridge signed the Smart Border Declaration and immediately began implementing a 30-point action plan to build a smart border for the 21st century: a border that is secure and efficient, open for business but closed to terrorists.

Prime Minister Chrétien and President Bush met in Detroit, Michigan, on September 9, 2002. At that meeting, they issued a joint statement and a smart border progress report that included announcements on the Free and Secure Trade (FAST) and NEXUS programs and progress on a number of security related items (www.can-am.gc.ca).

The FAST program partners the governments of Canada and the United States with the private sector to ensure a secure supply chain for low-risk goods. FAST will make many cross-border commercial shipments simpler, cheaper and subject to fewer delays while enhancing security. FAST went in to operation in December 2002 at the following crossings: Douglas–Blaine, Windsor–Detroit, Sarnia–Port Huron, Fort Erie–Buffalo, Queenston–Lewiston and Lacolle–Champlain.

The NEXUS program provides dedicated lanes for pre-approved, low-risk travellers. NEXUS is already running at four border crossings, and a joint NEXUS application centre is now open in Detroit. NEXUS has been operating at the Windsor–Detroit and Fort Erie–Buffalo crossings since January 2003, and it will be expanded to all other high-volume crossings between the two countries by the end of 2003. A NEXUS-Air program is also in development and will be piloted in airports during 2003.

Also of note from the September 9, 2002, summit was the direction given to Deputy Prime Minister Manley and Governor Ridge to continue overseeing implementation of the Smart Border Action Plan

and to identify and initiate work in other areas where close cooperation serves our mutual interests. During the coming months, border agencies will continue to work on the action plan. Initial work is also under way on an additional five action items: biosecurity, research and development, maritime security, synchronized smart card technology for truck drivers and interoperable communications.

Looking Ahead

Recent U.S. legislative and/or regulatory activity has resulted in a number of border-related issues that pose concerns for Canada. These issues include the following:

- a 24-hour advance manifest rule: a requirement (introduced by U.S. Customs) that carriers provide selected marine cargo manifest information to Customs at least 24 hours in advance of loading (the U.S. is considering imposing similar requirements on other modes of transportation);
- Provisions requiring the registration of foreign facilities that manufacture, process, pack or hold food for human or animal consumption (which also applies to U.S. domestic facilities), and requiring pre-notification to the FDA of foreign food product shipments before they enter the U.S.
- U.S. entry/exit tracking: a requirement under the U.S. Patriot Act (October 2001) that the Attorney General develop an entry/exit tracking system and a biometric standard—U.S. officials are demonstrating a firm commitment to implementing this measure on the land border by the end of 2004; and
- U.S. restrictions on Canadian transportation companies handling explosives (which may be inconsistent with U.S. obligations under NAFTA): Canada has been actively engaging the U.S. Administration to ensure that it recognizes the costs and challenges of implementing such measures. We are also continuing to monitor other initiatives that may affect legitimate cross-border flows of goods, investment and persons.

competitiveness initiatives, research and development programs, a boreal forest research consortium, and an awareness campaign in the United States.

The Government of Canada will continue to pursue unrestricted access to the U.S. market for Canadian softwood lumber as a top market access priority.

Wheat

On September 13, 2002, several U.S. wheat producer groups filed petitions with U.S. authorities seeking the imposition of anti-dumping and countervailing duties on imports of hard red spring wheat and durum wheat from Canada. Bilateral consultations under Article 13 of the WTO Agreement on Subsidies and Countervailing Measures were held on October 1 in Washington. On October 23, the U.S. Department of Commerce initiated the requested anti-dumping and countervailing duty investigations. The U.S. International Trade Commission reached an affirmative preliminary injury determination with respect to both products on November 19. On March 4, 2003, the Department of Commerce issued its preliminary determinations in the countervail case, find two countervailable subsidies out of a range of programs examined. Provisional duties of 3.94% were announced for imports of Canadian durum and hard red spring wheat. The Canadian government will continue to defend its wheat sector policies for the duration of the investigations.

U.S. Farm Bill

Canada has expressed serious concerns about the Farm Security and Rural Investment Act, otherwise known as the Farm Bill, particularly the increase in trade-distorting domestic support and the mandatory country-of-origin labelling requirements. The domestic support increases run counter to the agreed objective in the WTO agriculture negotiations to substantially reduce trade distorting domestic support. Canada is carefully examining the consistency of the Farm Bill measures with U.S. commitments under the World Trade Organization. We will continue to follow developments and make our concerns known to Congress and the Administration as the legislation is implemented.

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. This support contributes to the worldwide supply-demand imbalance that keeps prices down.

All WTO members are pursuing the objective of substantial reductions in trade-distorting domestic support, further to the WTO Ministerial 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

CANADA'S ADVOCACY IN THE UNITED STATES

In May 2002, the government agreed to contribute \$20 million to intensify advocacy in the U.S. for Canada's trade interests, particularly in the areas of softwood lumber, agriculture and energy. The bulk of the funding is a \$17-million grant to the Forests Products Association of Canada to support the Canadian industry's advocacy and advertising efforts on softwood lumber. The

aim is to make optimal use of all channels of influence to reach carefully selected decision makers, fighting irritants before and when they arise. DFAIT will work closely with other government departments and support enhanced advocacy by provincial and territorial governments, municipalities, parliamentarians, industry, academia and unions. In a similar vein, Agriculture and

Agri-Food Canada is mounting a significant trade advocacy initiative, the predominant component of which will focus efforts on the U.S.

In the February 2003 budget, Finance Minister Manley announced spending of \$11 million over the next two years to bolster Canada's representation and trade promotion activities in the United States.

all forms of export subsidies. Canada and many other WTO members take the view 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.

Country-of-Origin Labelling

The Farm Bill creates new country-of-origin labelling requirements for beef, lamb, pork, fish, perishable agricultural commodities and peanuts sold at U.S. retail outlets. The legislation sets out very restrictive criteria that must be met before covered commodities can be labelled as originating in the U.S. Guidelines for an interim two-year voluntary period came into effect on October 11, 2002. These guidelines are scheduled to become mandatory as of September 30, 2004.

The new U.S. legislation requires U.S. retailers to display country-of-origin information at the final point of sale to consumers for all (imported and domestic) covered commodities. Canada maintains that the law is fundamentally flawed and places onerous costs on industry with no real consumer benefits. Country-of-origin labelling may also result in price distortions that would hurt all sectors of the red meat industry, and compliance costs could reduce the North American industry's competitiveness on world markets by increasing its overall cost structure. The Canadian government, in partnership with provinces, industry and U.S. allies, will continue advocacy efforts in the U.S. in order to build awareness of the disruption that the country-of-origin labelling provision will cause should it become mandatory and to urge that the provision be repealed.

Sugar-Containing Products Monitoring Process

Over the last several years, Canada has intervened with the U.S. Administration and members of Congress to express concerns over U.S. attempts to legislate increased trade restrictions on sugar syrups and sugar-containing products. Of particular concern was the proposed Breaux-Thomas amendment attached to the 2002 U.S. Trade Promotion

Authority Bill. This amendment would have granted 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 final provisions in the 2002 Trade Act did not include language enabling the Administration to halt imports of products deemed to be circumventing U.S. customs law. Instead, the Act directs the Secretary of Agriculture and the Commissioner of Customs to establish a monitoring program to identify existing or likely circumvention of the tariff rate quotas in Chapters 17, 18, 19 and 21 of the Harmonized Tariff System. These chapters cover a wide range of products including cocoa preparations, sugar confectionery, cereal preparations, pastry cooks' products, soups, sauces and ice cream. The Secretary and Commissioner are to report their findings to Congress and the President, including information on developments and trends in trade in the covered products, as well as indications of possible circumvention. The Secretary and Commissioner will also include recommendations for ending such circumvention.

We will watch the implementation of this monitoring system closely, to ensure that Canadian interests are protected.

Rules of Origin

On January 1, 2003, Canada and the United States implemented measures to liberalize the NAFTA rules of origin applicable to seven products, including alcoholic beverages and petroleum/topped crude oil. The changes will become effective in Mexico following ratification by the Mexican Senate later in 2003. These changes, requested by industry associations in Canada, the United States and Mexico, will make it easier for exporters to meet the rules of origin and benefit from duty-free treatment under NAFTA. This will increase the competitiveness of Canadian exporters, in particular the petroleum industry, which exported over \$4 billion worth of petroleum oils to the United States in 2001.

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. Congressional efforts to restructure the sector and implement Administration initiatives remain stalled by concerns 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. Rather, it favours an industry-based, binational self-regulating reliability organization, which would develop reliability standards while preserving the respective authority of Canadian and U.S. regulators. Another issue with the potential to affect trade in electricity is the new reciprocity provisions under development in U.S. regulations; Canada continues to raise concerns about these provisions.

Canada remains concerned over proposals in recent U.S. federal and state legislation to exclude Canadian-origin renewable energy resources and hydroelectric power from U.S. renewable energy programs. 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. Canada continues to monitor developments in U.S. renewable energy standards.

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.

Pipeline Subsidies

Canada is concerned over proposed subsidies for a new pipeline to bring natural gas from Prudhoe Bay, Alaska, to the "lower 48" states. Any floor price or loan guarantees to industry would affect the economics of a pipeline route, distort energy markets and negatively impact Canadian projects in the Mackenzie Delta.

Canada strongly supports natural gas development in Alaska, and we are necessarily partners in that development because any pipeline from Alaska to the

lower 48 states must go through Canada. However, the private sector should ultimately decide on the nature and timing of such a pipeline. As well, in Canada's view the private sector is best suited to decide its route, subject to regulatory and environmental review procedures. The Bush Administration has also adopted a route-neutral position on the Alaska pipeline project.

Hemp Products

On October 9, 2001, the U.S. Drug Enforcement Agency (DEA) published interpretative, proposed and interim rules regarding hemp foods and oil. These rules, which were to be effective immediately, banned hemp food products that use ingredients (hemp seed or oil) containing any THC (tetrahydrocannabinol) and required hemp body-care companies to file for exemptions with the DEA to secure hemp oil imports. In April 2002, a hearing was held at the U.S. Court of Appeal for the Ninth Circuit to determine whether federal law may classify hemp food containing THC under the Controlled Substances Act (CSA). The case is being reviewed by a three-judge panel, and a final decision is expected in early 2003. The Canadian government is monitoring this situation carefully.

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 continued to hold its periodic meetings in 2002, 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. The Consultative Committee on Agriculture also agreed to a renewed work plan to continue to address issues of bilateral interest.

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 7,037 rail cars (about 650,000 tonnes) of U.S. wheat, barley and oats through Canada between January and October 2002, compared with 1.1 million tonnes in all of 2001, almost 700,000 tonnes in 2000 and about 650,000 tonnes in 1999; and
- the joint publication of data on U.S. and Canadian cattle inventories.

The Consultative Committee on Agriculture will continue to serve as a key mechanism to address agricultural trade issues in partnership with the provinces and key stakeholders.

Forest Certification

There is ongoing demand in the U.S. for forest products that are certified as having been manufactured using wood from sustainably managed forests. The Canadian forest industry is responding through increased certification of our forests. As of December 2002, more than 113 million hectares of forest in Canada had been certified under one of the four certification and environmental management systems available in the country. This performance is clear evidence of broad industry commitment to sustainable forest management, meeting customer needs and assuring Canadians that our forests are well managed.

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 products 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. It is also Canada's view that a diversity of certification systems is necessary to reflect the variety of producers' circumstances and to safeguard against the risks associated with monopolies. In this context, Canada will continue to encourage and support the recognition of a diversity of forest certification systems.

Biosecurity Measures

On June 12, 2002, the U.S. Public Health Security and Bioterrorism Preparedness and Response Act of 2002 was signed into law. The Act was designed to improve the ability of the U.S. to prevent, prepare for and respond to bioterrorism and other public health emergencies. In early February 2003, the Food and Drug Administration issued proposed regulations to implement the legislation. Written comments are due by April 4, 2003. The FDA plans to issue final rules by October 12, 2003, after considering the comments it receives, and to implement them on December 12, 2003. Canadian industry has raised concerns about provisions requiring the registration of foreign facilities that manufacture, process, pack or hold food for human or animal consumption (which also applies to U.S. domestic facilities), and requiring pre-notification to the FDA of foreign food product shipments before they enter the U.S. The Canadian government is consulting Canadian industry on comments to submit to the FDA. The government's submission will focus on how the FDA can meet its statutory obligations, while minimizing the potential trade impact on Canada.

Industrial Alcohol

U.S. 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,

the regulations provide an unfair competitive advantage to U.S. producers, and enable U.S. DSPs to acquire privileged information about their Canadian competitors. Canada has informed the Office of the U.S. Trade Representative of our view that the DSP system is inconsistent 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—Pennsylvania

Canadian trucking companies and other entities face state taxation retroactive to 1992. Taxes will be assessed on the basis of business activity questionnaires prepared by the state. During 2002, in response to representations by the Consulate General in Buffalo and the Canadian Trucking Alliance, the state agreed to waive penalties and reduce retroactivity to 1997, or five years, for firms that voluntarily disclose their activity between September 1 and December 31, 2002. Questionnaires will be distributed early in 2003, including to some 700 Canadian firms already targeted to date.

Only income-based taxes are recognized by the Canada Customs and Revenue Agency 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 companies with business in Pennsylvania. Moreover, Canada is also concerned over the retroactive imposition of taxes on a somewhat arbitrary basis, as there is evidence to suggest that the amount of tax claimed differs considerably among firms with roughly similar profiles and business volumes in the state.

Pennsylvania's Gross Receipts Tax was abolished in 1998, and the Capital Stock/Franchise Tax (called a "job killer" by a previous governor) is being phased out, but not until 2008 or 2009. 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. Canada will pursue the matter with the state's governor-elect early in the new year.

Marine Mammal Protection Act (MMPA)

The U.S. Marine Mammal Protection Act of 1972 prevents the import of most marine mammal products into the U.S., including Canadian seal products. The Act provides for a waiver system that allows the import of marine mammal products for specific purposes if the harvesting will not disadvantage the affected species or stock. However, because the U.S. certified Canada under the Pelly Amendment in 1996, U.S. officials cannot consider any MMPA waiver request from Canada.

Sealing is a legitimate use of a renewable resource. The populations are stable and not endangered (there are an estimated 5.2 million harp seals and 460,000 hooded seals in Canada). Canada believes that the MMPA and the certification of Canada under the Pelly Amendment are inconsistent with U.S. international trade obligations. We have communicated our concerns to the U.S. Administration and will continue to address this ban over the long term.

OTHER ISSUES

Customs and Administrative Procedures

Much of the work on customs and administrative procedures has been carried out through the related initiatives of the 30-point action plan of the Smart Border Declaration. Both Canada and the United States recognize that public security and economic security are mutually reinforcing, and we are working together to ensure a secure border that will not negatively affect the flow of legitimate trade and travel.

Canada and the United States have agreed to align, to the maximum extent possible, their customs commercial procedures. Using risk management tools and in partnership with the private sector, the Free and Secure Trade program will expedite the clearance of low-risk cross-border shipments by reducing information requirements and establishing dedicated FAST lanes where possible. The program became operational at the end of 2002.

Beginning in March 2002, Canada and the United States began cooperating on a new program to identify and screen high-risk marine cargo before it arrives in either country. Canadian customs officers are working in Newark and Seattle-Tacoma to target

containers arriving at those ports and ultimately destined for Canada. Likewise, U.S. customs personnel are doing the same work in Vancouver, Montreal and Halifax for containers that will be transhipped to the United States.

The NEXUS program, which expedites clearance for pre-approved, low-risk travellers, has been expanded to border crossings along the British Columbia–Washington border, as well as to all major border crossings in southern Ontario, Michigan and New York (by the end of 2002). The two countries continue to work together to develop common standards for using biometric identifiers such as fingerprints, facial recognition and iris scanning.

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 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 Canadian government 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.

Systemic Trade Remedy Issues

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 has made specific representations regarding clarification of U.S. Department of Commerce practices regarding duty assessments that could have serious adverse consequences for many Canadian exporters in future anti-dumping investigations. Canada has also provided comments on the U.S. import monitoring system for steel. Finally, we have made numerous representations to U.S. authorities on the so-called U.S. Byrd Amendment and have joined with other countries in initiating WTO dispute settlement procedures on the amendment.

Byrd Amendment

On October 28, 2000, President Clinton signed into law the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001. The Continued Dumping and Subsidy Offset Act of 2000 (Byrd Amendment) was part of that Act. The legislation provides that domestic producers who support petitions for anti-dumping and/or countervailing duty investigations may be eligible to participate in the distribution of duties collected as a result of the imposition of anti-dumping and/or countervailing duty orders.

Canada believes that the amendment is a fundamental and misguided change in policy that could have unfortunate consequences for international trade in general and the administration of trade remedy law in particular. It also believes that these payments are not consistent with the WTO agreements governing anti-dumping and subsidies and countervailing measures. Accordingly, Canada, along with a number of other countries (European Commission countries, Australia, Brazil, Chile, India, Indonesia, Japan, Korea, Mexico and Thailand), has challenged the Byrd Amendment before the WTO.

On July 17, an interim panel report concluded that the Byrd Amendment is inconsistent with the WTO Anti-Dumping and Subsidies and Countervailing Measures agreements and therefore should be removed. The final report was circulated to all WTO members on September 16, 2002. On October 18, 2002, it was

appealed, but the WTO Appellate Body upheld the finding in a January 16, 2003, decision. The United States will have a reasonable period of time to comply with those findings.

U.S. Trade Remedy Investigations on Canadian Goods

In 2002, the U.S. initiated anti-dumping and countervailing investigations on two wheat products from Canada, durum wheat and hard red spring wheat. These investigations are ongoing. Also in 2002, U.S. authorities received a petition alleging dumping of cold-water shrimp from Canada. Following representations by the Canadian government to the U.S. Department of Commerce, the petitioners withdrew their complaint, which terminated the case. U.S. authorities also concluded their trade remedy investigations involving imports of tomatoes, mussels, wire rod and steel products into Canada. With respect to the anti-dumping investigation into tomatoes, the U.S. International Trade Commission found that tomato exports to the United States were not injurious to the domestic industry and terminated proceedings. The U.S. Department of Commerce terminated the anti-dumping investigation into mussels from Canada, after the petitioner withdrew the complaint. With regard to the anti-dumping and countervailing investigations into steel wire rod, the U.S. International Trade Commission, in making a final affirmative injury determination, confirmed the application of countervailing and anti-dumping duties on steel wire rod from Canada.

Finally, on March 5, 2002, President Bush announced that the United States would impose tariffs of up to 30% on a number of steel products, restricting offshore access for imports into the U.S. market. However, imports from Canada and Mexico were excluded from any restriction under the provisions of the North American Free Trade Agreement.

It is worth noting that the government continues to participate in the annual administrative reviews conducted by the U.S. Department of Commerce regarding the countervailing duties on Canadian magnesium. In addition, Canada is involved in the New Shipper Review for magnesium producer Magnola. Developments in NAFTA challenges, which have been launched as a result of duties

imposed on Canadian exports of magnesium to the U.S., are also monitored by the government.

Government Procurement

Canada will continue to press the United States to further open its procurement markets to Canadian suppliers. Currently, U.S. government exceptions under NAFTA Chapter 10 and the WTO Agreement on Government Procurement 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 America provisions. In addition, both longstanding 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 Canadian government remains concerned about the extensive and unpredictable use of exceptions under NAFTA Chapter 10 and the WTO Agreement 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 may be closed through the application of the set-aside exception. The definition of a U.S. small business varies by industry, but it is typically an entity with fewer than 500 employees in a manufacturing firm (of up to 1,500 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. U.S. federal departments and agencies are not meeting their target of awarding 23% of contract dollars to small business. This has 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 subcon-

tracting plans impedes Canadian access to the U.S. market. We will continue to press the U.S. Administration on this matter. The U.S. Small Business Administration reports that “based on FY 2000 data, agencies are awarding approximately 38 percent of Federal procurement prime and subcontract dollars to small businesses.” This represents a significant restriction of market access for Canadian business.

Buy America

Buy America provisions are applied extensively to U.S. federal government procurement that is not covered by 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 America provisions.

Buy America Provisions in Federally Funded Sub-Federal Procurement

Buy America 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 America 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. Recent legislation regarding procurement by the Department of Homeland Security broadens the use of simplified acquisition procedures. 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 NAFTA, Canada, the United States and Mexico meet annually to address financial services issues.

The U.S. government response to recent high-profile corporate failures was the Sarbanes–Oxley Act of 2002. It is sweeping legislation designed to promote confidence in U.S. capital markets. The Canadian government has expressed its concerns about certain provisions of Sarbanes–Oxley and is closely following the development of related rules by the U.S. Securities and Exchange Commission.

Telecommunications

Some Canadian services providers have, in the past, 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 concern relates to the "U.S.

build" requirement, which precludes the use of Canadian-built vessels in U.S. domestic marine activities. 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 (which precludes the acquisition and repair of ship hull structures by non-U.S. entities), limit Canadian participation in U.S. shipping activities.

Canada will continue to use every appropriate opportunity to raise the issue of the U.S.-build requirement in international forums dealing with maritime transportation.

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.

In a Federal Register notice dated October 11, 2002, the U.S. Immigration and Naturalization Service announced its proposal to implement final rules applicable to Section 343 of the U.S. Illegal Immigration Reform and Immigrant Responsibility Act of 1996. These final rules 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. Canada has provided comment to the U.S. Immigration and Naturalization Service, indicating its concerns about the pending implementation of final rules on Section 343 and its view that the duplicative certification requirements of Section 343 violate U.S. obligations under NAFTA. 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 on 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 upgrading or modernizing U.S. sub-federal standards measures to better accommodate 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

Mexico, through its strategic trade liberalization policy initiated in the early 1990s, has now established a wide network of agreements that provide preferential access to over 30 countries, including those of North America and the European Union. According to the World Trade Organization, in 2001 Mexico was the 12th-largest exporter of merchandise in the world and the largest exporter in Latin America.

Under the Fox Administration, Mexico is continuing its support for trade liberalization. It is playing a key role in international developments: presiding over the APEC process in 2002, hosting the final leg of the FTAA negotiations in Puebla beginning in the spring of 2003, and hosting the fifth WTO Ministerial Meeting in Cancun in September 2003. Mexico has also entered into major new bilateral free trade negotiations with Japan, where agriculture will be at the centre of discussions. According to Mexican officials, the agreement should be in force by January 2004.

A new feature of the Fox Administration's trade and investment development policy has been a focus on extending the benefits of trade and investment liberalization to sectors that so far seem to have benefited less, in particular small companies located away from the traditional Mexican business centres. This focus has been given new impetus by the lobbying of domestic protectionist forces, which has intensified following the elimination of almost all customs duties between Mexico and its NAFTA partners on January 1, 2003.

Implemented in 1994, NAFTA has spurred Mexican economic and trade development. In 2001, more than 88.5% of Mexico's total merchandise exports went to the U.S. market. Canada-Mexico two-way trade soared from \$5.6 billion in 1994 to \$15.1 billion in 2002; in the same period, Canadian exports to Mexico more than doubled from \$1.1 billion to \$2.4 billion. Canada is Mexico's second-largest export market and trading partner.

In 2001, Mexico was the top destination for foreign direct investment in Latin America with US\$24.7 billion. Mexican investment in Canada remains low at \$138 million in 2000. Canadian investment, however, has more than tripled since 1994, reaching \$4 billion in 2001. More than 50% of Canadian investment is in manufacturing.

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, safety and security, and information and communications technologies.

Market Access Results in 2002

- As scheduled under NAFTA, on January 1, 2003, all customs duties were 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 sugar, dairy, poultry and egg products, which were excluded from the agreement with Canada.
- Minister Pettigrew led a Canadian Trade Mission to Mexico City and Monterrey and met with Mexican government counterparts on various bilateral trade issues.

Canada's Market Access Priorities for 2003

- Continue representations for a complete resumption of Canadian exports of seed potatoes to Mexico and monitor key aspects of Mexican domestic policy that may have an impact on Canadian exports, such as the ongoing development of a Mexican policy on genetically modified organisms and the implementation of Mexico's new agricultural support policy.
- Monitor the development of new Mexican mandatory regulations and their implementation, providing advice to Canadian exporters and lobbying the Mexican government, when necessary, on behalf of Canadian export interests.
- Monitor customs-related developments at the U.S.–Mexico border that may impact on Canadian exporters and provide timely assistance to Canadian companies with regard to exporting across this border. As well, monitor the implementation of the

opening of the U.S.–Mexico border to cross-border trucking services, providing assistance to Canadian services providers and ensuring fairness for Canadian exporters.

- Work with Canadian professional associations to expand members' access to the Mexican market, in particular access for engineers, actuaries and plant pathologists.
- Assist Canadian suppliers with respect to the application of NAFTA Chapter 10 by Mexican government agencies and publicly owned companies, as well as monitor and lobby the Mexican government with respect to any identified systemic problems with Mexican government procurement.
- Continuing engagement on the NAFTA Chapter 11 clarification initiative.

IMPROVING ACCESS FOR TRADE IN GOODS

Seed Potatoes

In December 2000 and January 2001, Mexico imposed bans on imports of New Brunswick and P.E.I. potatoes for alleged phytosanitary reasons. In late 2001, a Canada–Mexico technical working group was formed to make recommendations to resolve the dispute. The technical working group has been unable to reach agreement on recommendations, and the two sides are now referring the matter to a third-party reviewer. In January 2003, Mexico imposed a ban on the import of Alberta potatoes, also for alleged phytosanitary reasons. Canadian officials are raising this issue at the technical level with their Mexican counterparts.

Processed Food Certification

Canada and Mexico agreed at the September 2000 meeting of the WTO Committee on Sanitary and Phytosanitary Measures to hold bilateral discussions on Mexico's certification requirements for processed food. The process was simplified through the use of the manufacturers' certificate; however, the situation has once again become complicated. The processed food certification issue is currently being managed at a technical level between Canada and Mexico.

Dry Beans

Under NAFTA, access for Canadian dry beans in the Mexican market is limited by a tariff rate quota (TRQ). Mexico produces over 1 million tonnes of beans per year and imports some 125,000 additional tonnes, of which the U.S. supplies approximately 90% and Canada supplies 3%. The overall quota will increase slightly each year until 2008, when beans will have open access to Mexico. Beans may also be imported under the emergency quota, which is controlled by the Mexican government and depends on the domestic production of beans. The majority of the emergency quota tends to be allocated to the U.S. Canadian exporters are concerned with the current TRQ and the ratio of U.S. quota to Canadian quota. The ability to fill the quota has been affected both by uncertainty associated with delays in quota allocation and by the resulting short time frame for delivery of product to the market. Canada is pressing for increased transparency and predictability in the Mexican auction system and also seeks to increase access for Canadian beans under the emergency quota.

In late January 2003, Mexico arbitrarily suspended imports of dry beans from both Canada and the United States, contrary to its NAFTA and WTO obligations. Canada has been making high-level representations objecting to the ban, but the issue remains unresolved.

High Fructose Corn Syrup

On January 2, 2002, the Mexican government introduced a point-of-sale tax on soft drinks containing sweeteners other than cane sugar. This tax effectively closed the door to exports to Mexico from Canada's primary high-fructose corn syrup producer, because soft drink manufacturers in Mexico switched to cane sugar as their principal sweetener. On March 4, 2002, President Fox announced a seven-month suspension of the tax to allow the government to put into place its new National Sugar Policy. However, on July 12, 2002, the Mexican Supreme Court ruled that the delay was unconstitutional. The tax was reinstated on July 17, 2002, and subsequently reconfirmed in the 2003 budget. Canada has made several representations to Mexico outlining its concerns regarding the tax and will continue to follow the issue closely and intervene as necessary.

Border Clearance

Many Canadian exporters are reluctant to enter the Mexican market because of Mexico's complex and evolving import regulations for agri-food products. Canada currently employs a border clearance representative to assist with border clearance of agriculture and agri-food products at the Nuevo Laredo–Laredo crossing. This border crossing is the second-busiest border crossing in North America.

Mandatory Technical Regulations

Mexico maintains an elaborate system of mandatory technical regulations known as NOMs. Under the system, standards development is coordinated by the trade and industry ministry, *Economia*. Each year, *Economia* issues a national standardization plan that outlines areas where ministries intend to amend or add technical regulations and standards. Canada will monitor the development of new Mexican mandatory regulations.

Regulation of Biotechnology

Mexico is establishing a legal framework for the regulation of biotechnology and products derived from it. The Mexican government has set up an inter-departmental consultative mechanism (CIBIOGEM) on biosecurity and genetically modified organisms, and several GMO-related regulations and laws are under development. One of these laws is an overall framework law that will incorporate elements from existing regulations and form the basis for other biotech regulations.

Canada is concerned that the new regulations will impose an onerous approvals system for the development and marketing of the products of biotechnology. Canada supports the need for an effective, science-based regulatory framework for the products of biotechnology, and we are committed to working with Mexican officials to ensure the compatibility of Mexico's biosafety regulatory framework with NAFTA and WTO provisions.

IMPROVING ACCESS FOR TRADE IN SERVICES

Professional Services

Under NAFTA Chapter 12 (cross-border trade in services), the engineering professions of the three NAFTA parties signed a mutual recognition agreement (MRA) in 1995 on the licensing and certification of engineers. However, this agreement remains to be implemented. In the absence of consensus among U.S. engineering interests, the Canadian Council of Professional Engineers and the Canadian provincial associations have decided to implement the MRA with Mexico and with the State of Texas. Discussions on the technical details of implementation are expected to be completed in 2003.

Under NAFTA Chapter 16 (temporary entry for business persons), the addition of actuaries and plant pathologists to the list of professions is in the process of being finalized.

Canada will continue to work with other interested Canadian professional associations to expand their access to the Mexican market.

OTHER ISSUES

Government Procurement

The Canadian government will continue to assist Canadian exporters on a case-by-case basis with difficulties related to procurement by Mexican government agencies and public companies. Procurement by Mexican entities listed in NAFTA Chapter 10 is governed by the disciplines of this chapter; however, Mexico negotiated a blanket exemption for US\$1 billion per year of government procurement (which increased to US\$1.2 billion on January 1, 2003).

Mexico also negotiated set-asides from full NAFTA procurement coverage for the state oil (PEMEX) and electricity (CFE) firms for a transitional period. As of January 1, 2003, PEMEX and CFE percentage set-asides have been eliminated; US\$300 million per year applies.

Trade Data Reconciliation

The 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. The *Merchandise Trade Reconciliation Canada–Mexico 2000–2001* report produced by Statistics Canada and the Mexican agency INEGI shows a discrepancy of over \$4 billion between what Statistics Canada reports as exports to Mexico, and what INEGI reports as imports from Canada. The major factor contributing to this gap is transshipment or indirect trade through the United States. The implication is that Canada's actual exports to Mexico may be greater than the reported figures.

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. Launched in 1998 at the second Summit of the Americas in Santiago, the FTAA negotiations hold the potential to create the world's largest free trade area, with more than 830 million people and a combined gross domestic product of about \$19.7 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 coexist with pre-existing agreements such as NAFTA. This means that Canada's trade with the United States and Mexico will continue to be governed by NAFTA. The FTAA would substitute for NAFTA in these relations only if all three parties agreed. Even excluding Canada's NAFTA partners, the region is already a \$3.8-billion export market for Canada, and it is the destination for \$67.4 billion in Canadian direct investment (representing 17.3% of Canada's total direct investment abroad). The negotiations are to conclude by January 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 texts were released following the April 2001 Ministerial Meeting in Buenos Aires, and again at the conclusion of the November 2002 Ministerial Meeting in Quito.

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 broader objectives of the process. Canada continues to play a significant role in the broader summit process, having hosted the third Summit of the Americas in Quebec City in April 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 then transferred to Ecuador on May 1, 2001. Ecuador's chairmanship concluded on November 1, 2002, at the end of the seventh Ministerial Meeting in Quito. At this point, the United States and Brazil became co-chairs of the FTAA process, and they will remain so until the end of the negotiations.

Canada is working closely with the Brazilian and U.S. co-chairs to advance the negotiations. Canada currently chairs the Negotiating Group on Dispute Settlement and is vice-chair of the Negotiating Group on Subsidies, Anti-Dumping and Countervailing

Duties. Logistical support for the negotiations is provided by an Administrative Secretariat. It will be relocated from Panama City, Panama, to Puebla, Mexico, as of March 2003.

FTAA Results in 2002

- Sectoral market access negotiations began on schedule in May 2002.
- 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 Quito on November 1, 2002.
- Re-commitment by ministers to conclude negotiations by January 2005 and implement the agreement by no later than December 2005.
- Agreement on and public release of the second draft negotiating texts of the FTAA Agreement.
- Provision of negotiating instructions and time lines for the negotiating groups for the final phase of negotiations.
- Approval of a conceptual framework for technical cooperation, called the Hemispheric Cooperation Program.
- Recognition, for the first time in the FTAA negotiations, of the external context of the FTAA, specifically labour and the environment.

Canada's Objectives in 2003

- Advance agreement on an integrated draft text of the FTAA Agreement.
- Continue to make progress in the market access negotiations.
- Advance the development of an institutional structure for the FTAA.
- Seek support among our FTAA partners for specific reference to the Organization of American States (OAS) Democratic Charter in 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.
- Continue to ensure transparency in the FTAA process, through regular consultations with the provinces and by enabling public access to information and documents on the Department of Foreign Affairs and International Trade Web site.

Mercosur

Overview

Argentina, Brazil, Paraguay and Uruguay established the Southern Cone Common Market (Mercosur) in 1991 through the Treaty of Asuncion. 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 NAFTA), this customs union was Canada's second-largest export market in South America in 2002. That year, trade decreased with Argentina and Uruguay, as Canadian exports totalled \$824 million compared with \$1.1 billion in 2001. However, increased trade with Brazil and Paraguay offset this decline, and overall trade with Mercosur remained unchanged relative to 2001 at \$3.1 billion. Canada's main exports to Mercosur are paper products, potash, wheat, telecommunications equipment and information technology, aircraft parts, petroleum products, machinery, malt, minerals, plastics, rolling stock and pharmaceuticals. Canadian foreign direct investment is concentrated in the aluminum, oil and gas, mining, power generation, telecommunications equipment and services sectors and has increased significantly in recent years. In 2001, Canadian FDI was estimated at \$11.1 billion for the Mercosur countries and an additional \$5.6 billion for Chile, an associate member.

Brazilian exports to their Mercosur partners have decreased from US\$9 billion in 1997 to US\$6.4 billion in 2001. Imports from other Mercosur countries to Brazil decreased by US\$2.5 billion over the same period. Brazil's total exports were US\$58.2 billion in 2001, of which Mercosur represented only 11%. Mercosur represented 17% of Brazilian imports (US\$55.6 billion in 2001). Year-to-date figures for September 2002 reflect similar trends.

Partially harmonized common external tariffs were implemented in 1995, and already about 90% of all internal trade is duty-free. With the worsening economic situation in Argentina, there has been considerable debate on how the Common External

Tariff should be maintained. The remaining exceptions to the Common External Tariff are to be eliminated by 2006. In 2000, after months of difficult negotiations, Brazil and Argentina concluded the process of reviewing the Brazil–Argentine automotive agreement. The new agreement provides for the establishment of free trade in 2006. Until then, the automotive trade will continue to be administered, following a “flex coefficient” by which Brazil and Argentina are allowed to deviate from the strict exporting balance ratio. The flex coefficient for 2002 is 2.0, which means that one country is allowed to export US\$2 in vehicles from the other country for each US\$1 in vehicles it imports. In 2003, the coefficient will be 2.2, increasing to 2.4 in 2004 and to 2.6 in 2005; there will be free trade in 2006. As trade in automobiles and auto parts comprises at least 30% of intra-Mercosur trade, this is an important agreement. Mercosur and associated countries (Chile and Bolivia) have also recently reached an agreement regulating the free movement of people and labour.

Mercosur is engaged in an expansive external trade agenda that includes negotiating closer ties with the Andean Pact, the European Union (EU), Mexico, South Africa and the United States, on the one hand, and a dialogue with Canada, China, the European Free Trade Association, Israel and Japan, 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 view 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 engaged on free trade talks with South Africa, with significant bilateral trade in automotive parts being a key area of convergence. As well, in July 2002, Mercosur and Mexico concluded

negotiations on the establishment of a framework automotive agreement, which includes progressive tariff liberalization on autos and auto parts and is to be completed by July 2011. Mercosur also intends to launch in the near future negotiations of a free trade agreement with Mexico, which would encompass the already-concluded automotive agreement.

Mercosur is also devoting a lot of effort to concluding a free trade agreement with the Andean Community. However, some pending issues such as treatment of sensitive products, rules of origin and the agricultural sector represent significant challenges to be overcome. Furthermore, Mercosur is envisioning the launching of trade negotiations with CARICOM and the Central American Common Market. In addition to all these sub-regional initiatives, Mercosur is fully engaged in the FTAA negotiations, and so far has displayed significant cohesion during the negotiation process.

The most serious trade dispute between Mercosur members related to trade in chicken between Brazil and Argentina. It was resolved when Argentina revoked regulations providing for anti dumping penalties against imports of Brazilian chicken and Brazil suspended a formal complaint it had launched against Argentina through the WTO's dispute settlement process.

Despite widely publicized internal problems, Mercosur member countries consider Mercosur's political and economic achievements to date to be substantial. In addition, Luís Inácio Lula da Silva, the newly elected President of Brazil, has signalled his commitment to strengthening Mercosur. Nevertheless, various factors point to challenging days ahead. These include the ongoing economic and political difficulties in Argentina; the sharp devaluation of the Brazilian real and Brazil's elevated level of country risk; discontent in Paraguay and Uruguay over the level of Mercosur's Common External Tariff; and the inability of Mercosur member countries to negotiate bilateral free trade agreements among themselves.

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 successfully organized a meeting of the Business Advisory Council in Buenos Aires, Argentina, on April 3, 2001, on the margins of the 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, agriculture (SPS and regulatory measures) connectivity and ways of strengthening customs procedures. Although work exchanges have continued on connectivity, and preparatory work is being done on customs cooperation, the next meeting has not yet been scheduled. With respect to agriculture, work is currently done mainly at the bilateral level.

BRAZIL

Overview

During 2002, Brazil's efforts to strengthen its economy were hampered to a large degree by regional economic problems. The continuing Argentine economic and political crisis, its subsequent and continuing effects on Mercosur and Uruguay, the global economic slowdown, the negative effects of terrorism on the airline market in general, and the uncertainty over Brazilian elections combined to limit growth. As a result, GDP growth in 2002 was only 1.5% and forecast GDP growth this year has been adjusted downward to between 1.5% and 2.0%.

The economy is recovering slowly following a 3.9% year-to-year drop in industrial activity over 2001, due primarily to the energy crisis in that year. International Monetary Fund (IMF) targets for the primary surplus were met in 2001 and should be achievable again in 2002. A new status report should be produced shortly. The IMF is optimistic about its revised targets for 2003 and Brazil's ability to meet them. It is expected that Brazil will continue to be committed to and will meet IMF obligations under the new PT (Workers Party) government. However, the sustainability of Brazil's public debt has come under scrutiny in international markets as a result of the Brazilian real having lost more than 35% of its value against the U.S. dollar since January 2002. (Most of that decline has occurred since May, in anticipation of the election of a left-of-centre government in October.) In addition, lenders began demanding interest rate premiums and shorter debt maturities. In contrast to earlier forecasts of price stability, it is now anticipated that inflation will rise if the currency does not recover and interest rate pressures fail to ease. In response to the currency devaluation, imports dropped sharply and exports began to rise starting in mid-year. As a consequence, a trade surplus in excess of \$10 billion is expected this year. At the same time, however, business activity continues to be dampened by very high interest rates.

Another impact of the political transition that started in October has been delays in investment as the international business community awaits for the new government to signal its policy direction. Should the currency recover and interest rates moderate,

conditions should become more favourable for economic recovery, and concerns about Brazil's debt will likely ease. Although the situation is improving, the signals from the new government during its first six months in office and at its first IMF meeting in February will be critical. Although the real remains weak against the U.S. dollar relative to 2001 levels, and interest rates are still very high, Brazil remains one of the most attractive long-term markets for FDI, with inflows of US\$23 billion in 2001 and an expected US\$18–20 billion this year.

The weaker real, severe competition from Brazil's large and growing manufacturing sector, and active export activity from the European Union, in concert with many import trade barriers, have combined to reduce Canadian export prospects in the medium term. Canadian exports for 2001 declined 13% from the same period in 2000, and this trend is expected to worsen in the near term. Despite reduced expectations for the performance of the Brazilian economy, however, longer-term prospects for Canadian exporters continue to be strong.

Market Access Results in 2002

- Canada and Brazil signed and implemented an agreement covering mutual recognition of their poultry inspection systems, thereby permitting trade between the countries in poultry products to begin in 2002.

Canada's Market Access Priorities for 2003

- Continue representations concerning the levying of duties and charges on imports that are not consistent with Brazil's international trade obligations, such as Brazil's Merchant Marine Renewal Tax, which imposes a 25% tax on the ocean freight of imported goods.
- Continue representations seeking changes to Brazil's newly implemented restrictions on the maximum levels of quarantinable non-regulated pests on seed potatoes which Canada believes are trade restrictive and inconsistent with international principles and practices.
- Continue monitoring how Brazil applies its customs valuation regime on Canadian imports to ensure that its implementation is consistent with Brazil's international trade obligations.

- Monitor closely the implementation of Brazilian Instrucao Normativa (IN) 34, which requires pest assessments for all plant products imported into Brazil, so as to ensure that Canada's historical trade is not disrupted due to plant risk assessments.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

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, or 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.

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.

Mutual Recognition of Poultry Inspection Systems

In 2002, the Canadian Food Inspection Agency and its Brazilian counterpart agreed on the sanitary conditions under which bilateral trade in certain poultry products could begin. The agreement took effect on August 1, 2002. Canadian exporters can now ship chicken meat to Brazil, and Brazilian exporters can ship broiler chicken meat to Canada.

Seed Potatoes

In 2001, Brazil notified the WTO Sanitary and Phytosanitary Committee that it had implemented new restrictions on the maximum levels of quarantinable non-regulated pests on seed potatoes and had established maximum levels for physiological defects. The measure took effect in November 2001.

Brazil's requirement to include quarantinable non-regulated pests among export certification criteria is inconsistent with internationally agreed principles and practices. Canada has objected and will continue to press Brazil not to implement those provisions of concern to Canada.

Plant Products Pest Risk Assessments

In 2002, Brazil published *Instrução Normativa* (IN) number 34, which requires pest risk assessments (PRAs) for all plant products imported into Brazil. The IN took effect on November 27, 2002.

Canada sought, and received, assurances that Canadian historical trade would not be disrupted pending completion of the PRAs. Canada has supplied the necessary technical data for the PRAs and will continue to monitor the situation closely.

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 the largest non-preferential exporter of wheat to Brazil at that time, Canada notified its claim of “principal supplying interest” in order to safeguard its right to compensation from Brazil 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.

Regional Aircraft Dispute

Canada first expressed concerns about PROEX, a Brazilian export finance program, in 1996. Since 1998, the WTO Dispute Settlement Body (DSB) has issued five rulings that PROEX subsidies for regional aircraft violated Brazil’s WTO obligations and had to be modified. In August 2000, following a breakdown in bilateral negotiations, Canada received authorization from the WTO to retaliate against Brazil by imposing countermeasures of up to \$344.2 million per year, or a total of \$2.1 billion. To date no retaliatory measures have been implemented given Canada’s preference for a negotiated, long-term solution to this issue.

In January 2001, Canada announced proposals to provide Canada Account financing to assist Bombardier in securing regional jet sales to Air Wisconsin. The financing terms offered to Air Wisconsin matched terms proposed by Brazil on behalf of the Brazilian regional jet manufacturer, Embraer. Responding to Canada’s matching strategy, Brazil initiated a challenge at the WTO, alleging that Canada Account financing of the Air Wisconsin transaction constituted a prohibited export subsidy. The DSB issued its report in January 2002. Most importantly, the DSB found that Export Development Canada’s Canada and Corporate Account programs, as well as the Investissement Québec program, are compliant, in principle, with Canada’s WTO obligations. However, the financing

of the Air Wisconsin transaction and of four smaller transactions was found to be in contravention of WTO rules. In early 2003, Brazil received authorization from the WTO to retaliate against Canada by imposing countermeasures of up to \$385 million. At the same time, the Brazilian government has stated that it does not intend to use the countermeasures awarded to it, preferring instead to work toward a mutually satisfactory resolution to this dispute.

Canada has pursued negotiations as the most effective means of resolving the dispute and of maintaining a productive bilateral relationship with Brazil. The key element of any final agreement, from Canada’s perspective, remains the establishment of a financing framework for regional aircraft that eliminates government-supported financing from an airline’s purchasing decision. In early 2002, negotiations resumed in earnest, with six meetings that year. Negotiators on both sides agree that while a significant amount of work remains before an agreement is reached, the parties are slowly converging on a common position.

ARGENTINA

Overview

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.

Eduardo Duhalde was appointed President by the Legislative Assembly on January 1, 2002. 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. On January 6, both houses of Congress approved a “public emergency and currency reform law” delegating extraordinary powers to the Duhalde Administration until December 10, 2003. The legislation ended the 10-year “convertibility” regime of the one-on-one peso-dollar peg. The new legislation gave 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. 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 is 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).

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. However, the economic, political and social situation remains very uncertain. The government did not pay a US\$1-billion World Bank debt at maturity in October and November 2002, waiting for an agreement with the IMF. Two federal-provincial agreements (February and November 2002) were signed to comply with IMF demands, but the first one was never totally implemented and the second needs approval by Congress and a series of measures to effectively implement it.

The social situation is also of concern, as 53% of Argentines are now considered poor and 21.5% of the labour force is unemployed.

After nearly a year of negotiations, Argentina and the IMF have reached an accord that will only last through August 31. The deal includes no fresh funds but will allow the rollover of some US\$16.1 billion in debt due to the IMF, Inter-American Development Bank (IDB) and the World Bank during that period. The accord is considered crucial to preserving the country’s growing international reserves and economic stability.

Bilateral Trade

Bilateral trade between Argentina and Canada increased markedly during the 1990s. From \$173 million in 1989, two-way trade grew to \$641 million in 1997 before falling back to \$602 million in 1998. Reflecting the economic recession in Argentina in 1999, trade retracted to \$515 million. In 2002, bilateral trade was \$366 million, down 24% from 2001, which follows a decline of 21% in 2000. Canadian exports shrank to \$43.2 million, a 67% drop, while Canadian imports fell to 322.8 million, down 7.8% from 2001.

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.

Canada’s Market Access Priorities for 2003

- Work with Argentine authorities to gain greater access to the Argentine market for Canadian pork products.
- Increase 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.

- The new banking measures have created additional trade hurdles. Some Canadian companies have reported difficulties in acquiring or transferring funds related to trading activities.

Investment

Argentina is an important investment location for Canada. In 2001, Canadian direct investment in Argentina totalled \$5.6 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.

Government measures to try to alleviate the debt situation, which ended the peso-dollar peg, significantly altered Argentina's economic environment and created a negative climate for private economic activities. GDP forecast for 2002 is -14% (based on pesos). Broken contracts, confiscation of bank deposits, bank sector inability to play its financial intermediary role, and restrictions on stock exchange operations fuelled uncertainty and undermined investor confidence. Lack of judicial security is now one of the main concerns of private economic agents.

Generally, Argentina presents an open market to foreign investors, who are free to enter the country through mergers, acquisitions, greenfield investments or joint ventures. However, in 2002, the central bank did not allow a single dividend payment transfer outside Argentina, and several privatized companies complained about violation of the escalation clause. Several clauses of bilateral investment treaties, in particular those related to free capital movement, were not applied. Thus some 40 foreign investors, including public utility companies that bought state corporations, expressed their intention to initiate international legal proceedings if their cases are not settled. Six cases out of 41 before the International Centre for Settlement of Investment Disputes are related to Argentina.

Chile

Overview

The Canada–Chile Free Trade Agreement has been the cornerstone of bilateral trade relations between Canada and Chile since its entry into force in July 1997. The CCFTA is complemented by separate agreements on labour and environmental cooperation, also in effect since 1997, and by a double taxation treaty that entered into force in 2000.

Over the first five years of the CCFTA, bilateral trade increased and Canadian investment grew sharply. Bilateral trade declined slightly in 2002 to \$948 million. Since implementation of the CCFTA, Canada has been increasing its market share in the Chilean market, gaining at the expense of competitors such as the United States, the EU and Japan. With the notable exception of agriculture and sanitary issues, there have been few bilateral market access irritants.

Canada has become the second-largest investor in Chile, with close to US\$12 billion in authorized investments, a 61% increase since 1997. This is the largest destination for Canadian direct investment abroad in Latin America, and our eighth-largest destination in the world. Canadian investment in Chile is led by the mining sector, with many large investments either in place or being planned for the near future. At the same time, Canadian investment has expanded into a variety of other sectors, such as financial services, energy, forestry, telecommunications, manufacturing and infrastructure. Some of these investments (e.g. large copper and gold mines, a major bank, an electricity transmission network, the world's largest methanol plant, a proposed aluminum smelter) have gained a high profile in Chile.

The CCFTA goal of lowering costs for producers and lowering prices for consumers has been achieved. As of January 1, 2003, virtually all bilateral trade is tariff-free. There is, however, much work to be done, and Canada's priority is to complete the implementation of the CCFTA and, through the CCFTA committees and working groups, discuss possibilities for further liberalization.

Economically, Chile is one of the most stable and open countries in Latin America. It has weathered the regional economic crisis well, with GDP growth of 3% in 2001 and estimated 1.9% in 2002. The instability in the region of the last year has dampened growth prospects but not Chile's stability, given its solid fundamentals. In seeking further free trade agreements, Chile is continuing to open markets for its own products, creating increased prosperity. This should in turn bring greater opportunities for Canadian exporters interested in the Chilean market, as well as new possibilities for Canadian investors in Chile.

Market Access Results in 2002

- Canada and Chile agreed on notes of interpretation of certain provisions of the CCFTA investment chapter. Through these notes, the two parties to the CCFTA commit to make the investor–state dispute settlement process more open and transparent. Canada and Chile also clarified the interpretation of the provision governing the minimum standard of treatment to be accorded to foreign investors.
- The two countries established the bilateral Committee on Sanitary and Phytosanitary Measures and instructed officials to report on progress to ministers at the next meeting of the CCFTA Commission in 2003. This committee will provide a regular forum for consultations and technical cooperation, including discussions on bilateral issues with a view to avoiding disputes.
- In addition to results achieved under the CCFTA, a direct air link between Canada and Chile was established, with flights operating regularly between the two countries.

Canada's Market Access Priorities for 2003

- Pursuant to the memorandum of understanding (MOU) signed in 2001, by the Chilean College of Engineers and the Canadian Council of Professional Engineers, encourage these engineering organizations to continue working together to complete discussions and implement measures in keeping with the MOU.
- Promote efforts by other professional organizations to work toward similar agreements.

- Hold a first meeting of the CCFTA Sanitary and Phytosanitary Committee and begin work on a longer-term structure for managing these sensitive issues.
- Monitor and analyse the agreements signed by Chile with other countries, such as the United States and the European countries, to ensure that Canadian interests are not adversely affected and that ongoing Canada–Chile discussions related to furthering the CCFTA take into account the commitments made in these other agreements.
- Work with Chilean authorities to gain access to the Chilean market for Canadian beef products.
- Press for negotiation of a government procurement agreement to broaden the CCFTA.
- Seek a satisfactory resolution to a customs valuation issue that has affected a Canadian automotive maker.

Andean Community

In August 2002, Canada and the Andean countries (Bolivia, Colombia, Ecuador, Peru and Venezuela) announced that they had agreed to begin exploratory discussions toward a possible free trade agreement. Initial talks were held later that month. In November 2002, the Canadian government launched extensive public consultations with Canadians to seek views on priorities, objectives and concerns and to help define the possible scope of this initiative. Further exploratory discussions with the five countries of the Andean Community will be necessary before Canada will be in a position to commence negotiations.

VENEZUELA

Overview

Venezuela is an important commercial partner and Canada's second-largest trading partner in South America. Bilateral trade in 2002 totalled almost \$1.8 billion, with Canadian exports valued at \$552 million and imports at \$1.2 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 and 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 security products sectors.

The Foreign Investment Protection Agreement between Canada and Venezuela was signed in 1997 and came into force in January 1998. As a member of the Andean Community, Venezuela signed the Canada–Andean Community Trade and Investment Cooperation Arrangement in May 1999.

Canada's Market Access Priorities in 2003

- Continue to lobby for final sign-off on the Double Taxation Agreement so that it can come into force.
- Continue making representations to Venezuela seeking elimination of its discretionary import licensing system for agricultural products.
- Carry on encouraging Venezuela to resolve investment dispute(s) in accordance with the principles of transparency, good faith and due process of law.

Improving Access for Trade in Goods and Services

Venezuela's commitment to an open and rules-based trading system is increasingly in question. During the past few years, Canada has made numerous representations to Venezuelan authorities raising concerns about Venezuela's import licensing systems and practices that restrict agricultural products. Canada's specific concerns have been with respect to meat, seed potatoes, table potatoes, onions and most recently pulses. Some Canadian exporters have complained that according to importers, import licences are either: a) not granted on a timely basis; b) granted but not for the full amount of the request; or c) not

granted at all. No legitimate reasons are provided for denying or delaying the licences. Canada's position is that as long as Venezuela's legitimate SPS concerns have been addressed, any SPS-related licences should be granted on a timely and automatic basis. Canada has on many occasions requested full details (in writing) of Venezuela's import licence administration but has never received this information. On November 26, the U.S. held formal WTO dispute settlement consultations with Venezuela. Canada participated in these consultations.

In August 2002, Canada and the Andean Community countries announced that they would begin preliminary talks toward a possible free trade agreement. An agreement with these countries has the potential to yield broad economic benefits for Canada in the areas of market access for goods and services and investment.

Other Issues

Venezuela's attractiveness as a foreign investment destination has been called into question by its recent political and economic difficulties. Las Cristinas is a major gold mining project in Venezuela that has been the subject of longstanding and complex legal disputes involving, among others, the Venezuelan government and several Canadian companies. A range of litigation is under way in Venezuela in an attempt to resolve the attendant commercial disputes. The Canadian government has underlined to Venezuelan authorities the importance of resolving the disputes in accordance with the principles of transparency, good faith and due process of law.

In February, Venezuela imposed a foreign exchange control regime, which will affect all exporters of goods and services to Venezuela. However, the duration of the regime is unclear and its full operational details were beginning to emerge at the time of publication.

Central America and the Caribbean

Overview

The Central American countries—Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama—are emerging economies with generally good economic growth. Canadian exports to Central America reached \$301 million in 2002. Canadian exports face import barriers in traditional sectors, particularly agricultural products such as pork in Panama. On November 1, 2002, the Canada–Costa Rica Free Trade Agreement and two cooperation agreements on labour and the environment came into force. Free trade negotiations with El Salvador, Guatemala, Honduras and Nicaragua as a group (the Central America Four, or CA4) are currently under way.

The 15-member Caribbean Community (CARICOM) is a welcoming market for Canadians, with few barriers to trade, English as a common language, legal codes and business practices that are similar to those in Canada, and well-established Canadian banks in the region. Canada and CARICOM held preliminary discussions toward a free trade agreement in 2002.

In March 2002, the President of the Dominican Republic (not a member of CARICOM) and the Canadian Prime Minister agreed to consider bilateral free trade negotiations and decided that the two countries would initiate exploratory discussions on enhancing our trade relationship.

The conclusion of free trade agreements with the countries of Central America and the Caribbean will enhance Canada's presence and influence in the region and help realize the potential for further developing the trade relationship between our countries, particularly with regard to small and medium-sized businesses.

Market Access Results in 2002

- Entry into force of the Canada–Costa Rica Free Trade Agreement.
- Progress in FTA negotiations with El Salvador, Guatemala, Honduras and Nicaragua.
- Continued discussions with CARICOM on a framework for FTA negotiations.
- Preliminary discussions with the Dominican Republic on a framework for FTA negotiations.
- Memorandum of understanding on phytosanitary requirements for exports of Canadian seed potatoes and forestry products to the Dominican Republic.
- Removal of restrictive import permit requirements for Canadian pork to Panama.

Canada's Market Access Priorities for 2003

- Conclude FTA negotiations with El Salvador, Guatemala, Honduras and Nicaragua.
- Continue exploratory discussions with CARICOM in preparation for FTA negotiations.
- Continue exploratory discussions with the Dominican Republic in preparation for FTA negotiations.
- Continue to press Panama for the removal of trade barriers, including meat plant approvals, adversely affecting Canadian exports of agri-food products.

COSTA RICA

On November 1, 2002, the Canada–Costa Rica Free Trade Agreement (CCRFTA), as well as the cooperation agreements on labour and the environment, came into effect. The CCRFTA demonstrates that it is possible to take into account differences in the levels of development and size of the free trade partners. In market access, for example, the CCRFTA is asymmetric. Costa Rica will eliminate tariffs immediately on some 67% of its tariff lines, including some key Canadian export interests such as automotive and environment-related goods, newsprint, prefabricated buildings and some construction products. Tariffs on the remaining goods will be eliminated over a period of up to 14 years. Canada will provide immediate duty-free access for some 86% of its tariff lines, with tariffs on the remaining goods being phased out over a period of up to eight years.

One of the main accomplishments of this FTA is the establishment of a precedent-setting framework for competition policy, which could serve as a model for the region. Additionally, the CCRFTA includes a comprehensive chapter on trade facilitation that helps make trade procedures more efficient and reduces formalities and costs for Canadian businesses at the border. The agreement also lays the foundation for future cooperation between the two customs administrations to enable sharing of experience and expertise and to ensure that the agreed-on customs procedures are implemented appropriately and remain effective.

The side agreements on labour and environmental cooperation contribute to the improvement and enforcement of standards in these areas. The Canada–Costa Rica Agreement on Environmental Cooperation also provides for technical cooperation to strengthen environmental management systems and expand the participation of the public in environmental policy making. The Canada–Costa Rica Agreement on Labour Cooperation establishes a work program and a process designed to enable the public to raise concerns about the effective application of labour law in the other country.

EL SALVADOR, GUATEMALA, HONDURAS AND NICARAGUA (CA4)

On November 21, 2001, International Trade Minister Pierre Pettigrew announced the launch of free trade negotiations with El Salvador, Guatemala, Honduras and Nicaragua, following an agreement by leaders at the Canada–Central America Summit in September 2000. After extensive consultations with Canadians, the negotiations are well under way and could conclude by the summer of 2003.

In 2002, Canadian exports to the CA-4 totalled \$188 million, while imports stood at \$372 million (total for all four countries). In the negotiations, Canada is seeking to secure preferential access for Canadian goods and services to the CA-4 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. Canada is also seeking a chapter on investment and financial

services. Parallel cooperation 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 with this country and, through it, with its neighbours in Latin America and the Caribbean.

The construction sector, previously identified as a major source of opportunities for Canadian companies, showed negative results in 2002. Contributing factors were the Panamanian government's decision to postpone indefinitely the construction of a light rail system for Panama City, a project valued at US\$200 million; the postponement of the construction of a new potable water plant, valued at US\$50 million, until the first quarter of 2003; and continuous delays in the construction of a second bridge, with access highways, over the Panama Canal, a project worth some US\$100 million.

Non-tariff import barriers continue to affect Canadian agri-food exports to Panama, though to a lesser extent. The issuance of import permits for pork has been resolved, and these are being released on a timely basis, allowing the import of Canadian pork into the market. However, individual inspection of plants wishing to export to Panama continues to be a matter of concern. Although most exporting plants have passed inspection by Panamanian authorities, Canada needs to continue pressing the Panamanian government for an overall approval of the Canadian system.

CARIBBEAN COMMUNITY (CARICOM)

The 15 members of CARICOM are Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, 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.

Annual two-way merchandise trade between Canada and the CARICOM countries amounted to \$954 million in 2002, with Canadian exports totalling \$473 million and imports \$481 million. (These statistics do not include goods transhipped 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.

At the Canada-CARICOM Summit in Jamaica on January 19, 2001, Prime Minister Chrétien and the heads of government of the Caribbean Community and Common Market countries agreed to initiate discussions toward bilateral free trade. Extensive consultations with Canadians were carried out at the beginning of 2002, and representatives from Canada and CARICOM held a second preliminary meeting in September 2002 to share views on the scope and modalities of negotiations leading to an FTA.

THE DOMINICAN REPUBLIC

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 \$245 million in 2002, but these statistics do not reflect the large portion of bilateral trade transhipped through the United States. Canadian investment is substantial, mainly in telecommunications, mining, banking and tourism.

Following consultations between the Canadian Food Inspection Agency and the Ministry of Agriculture of the Dominican Republic, the phytosanitary conditions under which Canadian seed potatoes and lumber may be imported have now been clarified. Access to the Dominican market will be provided to products from all regions of Canada regardless of the areas of production and ports of loading in Canada. These agreements were formalized with the signing of a memorandum of understanding in December 2002.

In March 2002, the President of the Dominican Republic and Prime Minister Chrétien agreed to consider bilateral free trade negotiations and decided that the two countries would initiate exploratory discussions on enhancing their trade relationship. Extensive public consultations were launched in November 2002 to obtain the views, objectives and priorities of Canadians. To help define the scope of negotiations toward an FTA, officials from both countries have met twice for exploratory discussions.

CUBA

Cuba is Canada's largest export market in the Caribbean and its fifth-largest in Latin America, with \$259 million in exports in 2002. In addition, Canada is one of Cuba's largest trading partners and its second-largest source of foreign investment.

Cuba is an emerging market with significant potential for Canadian exporters and investors. However, it still suffers from inefficiencies caused by central planning, outdated technology and poorly motivated workers. Labour regulations are unique given Cuba's socialist outlook. To hire a Cuban worker, foreigners must pay a Cuban state employment agency in U.S. dollars. This agency in turn pays the Cuban employee a small percentage of the total in Cuban pesos. Further, the attractiveness of opportunities is mitigated by the continuing embargo of Cuba by the United States, including legislation that attempts to impose American laws on companies in other countries. Canada has enacted amendments to the Foreign Extraterritorial Measures Act, which counteract these laws by enabling "clawback" of any losses in U.S. courts that is enforceable against American assets in Canada. The Canadian government is opposed to the extraterritorial application of laws and does not support the U.S. embargo on Cuba.

While Cuba has been suffering under the U.S. embargo for over 40 years, it has purchased over US\$189 million of agricultural commodities from the United States in 2000. These purchases were made in cash as per the U.S. Trade Sanctions Reform and Export Enhancement Act of 2000 (TSRA), which effectively removed agricultural commodities from the U.S. embargo on Cuba providing the purchases were made in cash. These cash terms, offered

only to U.S. exporters, have created an uneven playing field for others in the market while further reducing Cuba's liquidity and its corresponding capacity to import. Cuba's liquidity has also been affected severely by a combination of events including September 11 and its effect on tourism, the low price of its export commodities, the high price of imported oil, and the devastation caused by hurricanes Michelle, Isidore and Lili.

There is concern about economic stability surrounding the inevitable succession of a new leadership and the eventual end of the American embargo. Canadian investors must balance the advantages of early entry into a dynamic market against the risks of abrupt changes in business conditions.

In 2001 and at the start of 2002, Canadian exporters encountered problems with the interpretation of Canada–Cuba sanitary and phytosanitary agreements. Canadian and Cuban authorities worked together to resolve these differences.

At the end of 2001, Cuba amended rules regulating the opening of offices by foreign entities, an amendment that 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.

European Union (EU)

Overview

The European Union is the world's largest single market, having surpassed the United States in population and exports and rivalling it in gross domestic product. Its population was 377 million on January 1, 2001, and its share of the world's aggregate GDP in 2001 was 32.5%, compared with 25.2% for the United States and 2.2% for Canada.

As a group, the 15 EU member states continue to rank as Canada's most important trading partner after the United States and are the largest source and destination of foreign direct investment in Canada after the U.S. Total Canadian merchandise exports to the EU amounted to \$17 billion in 2002, and accounted for 4.3% of Canada's global exports and 34% of Canada's non-U.S. exports. The growth rate in Canadian exports to the EU since 1991 is 3%, compared with 2.9% for the rest of the non-U.S. world. While the United States absorbed 94% of the growth in Canada's global exports from 1991 to 2001, the EU accounted for 44% of growth in non-U.S. exports.

Canadian imports from the EU grew at more than double the rate of Canadian exports to the EU between 1991 and 2002, climbing at about 10% per annum. Imports from the EU reached \$39 billion in 2002. As a result, Canada faces an ever-widening deficit in its balance of trade with the EU, which stood at \$22 billion in 2002.

The stock of Canadian foreign direct investment in the EU has grown substantially during the past decade to the point where, since 1996, it has been approximately equal to EU direct investment in Canada. The aggregate value of Canadian FDI in the EU stood at \$76.5 billion in 2001 and was 19.6% of all Canadian direct investment.

Several major trade and economic developments in the EU have implications for Canada, including the continuing process of advancing economic and monetary union, market distortions in the agriculture sector arising from domestic support and export subsidies, protective tariffs in certain sectors, the fur-

5 Opening Doors to Europe



ther development of harmonizing regulations for the single market, the pending enlargement of the EU, new bilateral free trade agreements, and bans and restrictions on imports imposed by the EU for health, environmental and consumer protection reasons. However, according to a survey of 800 Canadian exporters in early 2002, 52% of active goods exporters and 83% of services exporters consider their trade with the EU to be problem-free.

Canada–EU trade relations are covered by World Trade Organization agreements and bilateral agreements on cooperation in customs, competition policy, science and technology, trapping standards, veterinary inspections and mutual recognition of certification and testing of products for standards purposes.

The euro is the official currency of 12 of the 15 EU member states, with only Denmark, Sweden and the United Kingdom retaining their own currencies. The Swedes will hold a referendum on euro membership on September 14, 2003. Although the economic and monetary union was launched on January 1, 1999, euro notes and coins only began circulation on

January 1, 2002. The change in currency had no negative impact on Canadian economic interests.

Regarding enlargement of the European Union, accession negotiations for the first wave of 10 candidate countries were concluded at the European Council meeting in Copenhagen, held December 12 to 13, 2002. This group consisted of Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. The accession treaty is to be signed at the Athens summit on April 16, 2003. Bulgaria and Romania are also negotiating with the EU, but these two countries are not expected to join until 2007 at the earliest. Turkey has not yet entered into accession negotiations because it does not meet the political, economic and “acquis communautaire” criteria for EU membership.

The EU is also negotiating regional free trade agreements with other parts of the world, including with the Mercosur countries and Chile, and 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 eventually intends to convert these arrangements to free trade agreements. Economic ties with Switzerland, with which it has a free trade agreement, have also been deepened through a series of bilateral agreements. 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 also on a broad range of foreign and domestic policy issues as well. Most recently, at the Canada–EU Summit held in Ottawa on December 19, 2002, leaders called for the development of a “Canada–EU Trade and Investment Enhancement Agreement,” covering, among other

things, new generation issues and outstanding barriers to trade. Leaders also agreed to intensify the regulatory dialogue and to work toward a new bilateral framework in this field.

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 those on regulatory cooperation, services, government procurement, intellectual property, 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 biannual Canada–EU Summit. The report also sets priorities for the coming period. Under ECTI, implementation of a mutual recognition agreement on conformity assessment bodies remains a priority. 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 continued through 2002. The establishment of a dialogue between the respective business communities has been a key ECTI objective. The Canada–Europe Round Table (CERT), established in 1999, brings together firms from a range of sectors that support the development of the Canada–EU economic relationship. Conferences on competition policy and business competitiveness were organized by CERT during the past year.

As stated above, a major survey of Canadian business attitudes toward the transatlantic marketplace was completed in 2002. Carried out by Ipsos-Reid under the aegis of ECTI, the survey of Canadian exporters identified various business priorities for reducing trade barriers including bilateral free trade and increased regulatory cooperation in the broad area of product certification.

The Minister for International Trade and his counterpart, the EU Commissioner for Trade, meet frequently to discuss the bilateral and multilateral trade agenda. Canada–EU trade issues are also addressed by officials through the Joint Cooperation

Committee and the Trade and Investment Sub-Committee as well as in other sectoral working groups.

Market Access Results in 2002

- Completion of a survey on the attitudes of Canadian business toward the European marketplace.
- Adoption of a decision by the European Commission in January 2002 recognizing the Canadian Personal Information Protection and Electronic Documents Act as providing for an adequate level of protection as required by Directive 95/46 for the transfer of personal data from the EU.
- Exchange of questionnaires between the Canadian and European architectural associations.
- Exchange of questionnaires between the Canadian and European engineering associations.
- Removal of regulatory barriers for bovine embryos and lamb-based pet food.
- Renewal of the three-year derogation for the export of seed potatoes from Prince Edward Island and New Brunswick.
- Successful conclusion of GATT Article XXVIII negotiations between Canada and the EU, which will maintain Canada's traditional access to EU markets for high-quality wheat and durum. Annual Canadian wheat exports to the EU have averaged over \$500 million per year during the past five years.

Canada's Market Access Priorities for 2003

- 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 relaxation of the requirement for further processing.
- Secure recognition of Canada's Bovine Spongiform Encephalopathy (BSE)-free status under the EU's risk management system.
- Continue to advance equivalency in commodities covered under the Canada-EC Veterinary Agreement, particularly with respect to pork.
- Seek an extension of the seed potato derogation to all potato-producing areas of Canada.

- Seek EU approval of a paperless certification system for kiln-dried, heat-treated lumber from Canada.
- Continue with the confidence-building phase to enable implementation of the 1998 Canada-EU mutual recognition agreement.
- Develop proposals for the design of a Canada-EU Trade and Investment Enhancement Agreement to be tabled at the Canada-EU Summit in December 2003.
- Intensify our regulatory cooperation with the EU with a view to establishing a new bilateral framework that reduces the regulatory burden faced by our exporters.

A number of barriers to trade exist in the EU that are of concern to Canada, particularly in the agriculture and natural resources 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. Many of the actions proposed in the EU's 2000 White Paper on Food Safety were initiated in 2002, and several updated regulations related to food safety and animal health were implemented. The Canadian government continues to work with industry stakeholders to assess the impact and scientific basis of such legislation. Another development in 2002 was the creation of the European Food Safety Authority. The agency is to provide independent scientific advice—primarily to the European Commission but not exclusively so—and will assess risks related to the food chain.

IMPROVING ACCESS FOR TRADE IN GOODS

Common Agricultural Policy Reform and Implications of European Council Budget Decisions

The European Council meeting of October 24 and 25, 2002, produced agreement on a fiscal framework that limits budget growth of the market-related initiatives and direct payments under the Common Agricultural Policy (CAP). Agricultural funding accounts for more than 40% of the EU's total budget, and a crucial element of the deal was approval of a

Franco–German compromise over spending and CAP reform. Direct payments and commodity support regimes, which account for 90% of the CAP budget, will continue to be funded as agreed under the Berlin Summit (Agenda 2000) until 2006 and will be fixed at that level, plus 1% per annum for inflation, until 2013. EU enlargement will proceed under this framework, which proposes a phase-in of direct aids for agriculture in the 10 new countries beginning at 25% in 2004. Aid will increase by an additional 5% for the next three years and then by an additional 10% per year until payments are equal throughout the enlarged EU.

The effect of the European Council decisions have been interpreted differently by certain member states and the Commission. Some believe that changes to the CAP are unnecessary (France), others say changes are not precluded (U.K.), and the Commission notes the absence of wording related to CAP reform. The Council decisions make it clear that all CAP reforms, including for sectors not currently under review, must be financed from this fixed budget and that the spending limitations are without prejudice either to CAP reform or to the WTO Doha Round of trade negotiations. Canada will continue to follow the discussions on CAP reform, and the recent budget decision related to it, with great interest.

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 in recent years. The EU demonstrated its willingness to resolve outstanding differences by adopting regulatory changes, effective May 17, 2001, to allow access for and marketing of Canadian ice wine in the EU market. As a result, Canada agreed to commence bilateral negotiations in November 2001. Discussions to date have covered all issues of interest to both sides; officials indicate that a mutually beneficial agreement could be signed in 2003, which will provide stability and equity in the trade of wine and spirits between Canada and the EU.

Fish and Seafood

Canadian fish and seafood exports to the EU have declined over the past decade, stabilizing at about the \$300-million level. In 1990, seafood exports to the EU represented about 20% of Canada's global fish and seafood exports; the 2001 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 tariffs on many fish and seafood items of interest to Canada fall within the range of 12% to 23%.

Coldwater shrimp exports face 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 4,000-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. As a result of efforts by the federal and provincial governments, together with industry representatives, EU member state fisheries ministers have since extended the ATRQ to cover the years 2001 to 2003, and have increased the quantity to 5,000 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 Canadian industry's efforts (supported by the government) to encourage like-minded EU producers and users of ingot to urge the European Commission to reduce or suspend the 6% tariff has resulted in some success. The European industry has announced that it is willing to give up this tariff under certain conditions in the current WTO negotiations.

Bans and Restrictions on Certain Non-ferrous Metals

The European Commission has adopted directives on waste management of electrical and electronic equipment, including batteries and accumulators, and on end-of-life vehicles. These directives 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 that use 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.

The directives refer to a “producers’ responsibility network,” but it is not clear who will be responsible for creating the end-of-life collection, 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 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 domestic implementation of these directives, Canada will continue to monitor them and will convey its concerns to the Commission.

Eco-Labeling

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. It 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 program, 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 being 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, which will demonstrate how Canada's certification system and national production standard are equivalent to that of the EU. This application will be submitted once revision of Canada's National Organic Standard is complete and the organic standard is approved by the Standards Council of Canada.

Certification Bodies for Building Products

Under the EU New Approach directive, only European agencies will have the authority to serve as "notified bodies" and carry out tasks pertaining to conformity assessment procedures such as testing and certification of building products. Canadian agencies currently accredited in the present European regime will lose their ability to directly certify Canadian products for use in Europe and will have to pursue subcontracting arrangements. Discussions with the European Commission are ongoing in an effort to resolve this issue.

Sanitary and Phytosanitary Import Regulations

Pinewood Nematode

Since July 1993, the European Union has required that Canadian exports of softwood lumber, except cedar, must be heat-treated in order to ensure the destruction of the pinewood nematode. 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. An EU technical team visited Canada in September 2002 to renew scientific discussions. There was a good exchange of views, and the EU has asked Canada to submit a new technical proposal. Canada is reviewing this option with industry and provincial representatives.

In 2000–2001, Canada developed and sought EU approval of an innovative paperless certification program to streamline paperwork requirements for exports of kiln-dried lumber that has been heat treated (KD-HT) as part of the kiln-drying process. During the September 2002 EU visit, significant progress was made on the KD-HT paperless certification file. Canada is confident of a positive outcome and anticipates shipping KD-HT lumber under this innovative program in early 2003.

Beef Hormones

In 1989, the EU banned the use of growth-promoting hormones in livestock and imposed a ban on the import 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 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. More information is available on the Department of Foreign Affairs and International Trade Web site (www.dfait-maeci.gc.ca/tna-nacl/dispute-e.asp#Hormones).

Canada–EU Veterinary Agreement

On December 17, 1998, Canada and the European Union signed a Veterinary Agreement governing trade in live animal products, fish and fish products. The agreement establishes a mechanism for achieving recognition of equivalent sanitary measures between Canada and the European Union aimed at improving bilateral trade. A Joint Management Committee (JMC) has been established to implement the agreement.

A fourth meeting of the JMC was held in Brussels in December 2002. There is an obvious commitment by regulatory authorities on both sides to work together to realize all potential benefits of this agreement. Progress is particularly important for Canada, given the expected increase of member states from 15 to 25 countries in 2004. Significant progress was made on procedures to determine equivalency, with a specific view to reaching equivalency for Canada's pork meat sector. Canada hopes to carry this momentum forward in order to establish equivalency in other commodity areas, including the fish and seafood sector. Information exchange under the agreement has also been quite successful.

Animals and Animal Products

Despite progress made under the EC–Canada Veterinary Agreement, Canadian exporters in certain sectors continue to be affected by the EU's measures related to Bovine Spongiform Encephalopathy (BSE) or "mad cow disease." Canada, which has never had a native case of BSE, is BSE-free under Office International des Epizooties criteria. Canada's feed ban and surveillance and monitoring system also meet and exceed international standards. As a result, we have strongly protested EU measures that have unfairly targeted exports from Canada and will continue to work to resolve outstanding issues with the EU.

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 and potato spindle tuber viroid. 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. Historically, Italy and Portugal are the only member states that take advantage of the derogation.

In December 2002, the EC approved another three-year derogation for seed potatoes from New Brunswick and Prince Edward Island. Canada has conveyed its strong interest in the issue and has presented information to the EC in order to expand the derogation to all potato-growing regions of Canada. We will continue to work with the EU to meet this objective.

Genetically Modified Canola

A group of member states has been blocking the approval of genetically modified organisms for marketing in the European Union since March 1998. It was hoped that the approval process would restart on October 17, 2002, with the adoption of revised legislation (Directive 2001/18/EC) strengthening the rules of the risk assessment and approvals process, but the de facto moratorium remains in place. Some of the blocking member states have stated that they will not agree to the approval of GMOs until proposed regulations on the labelling and traceability of these products are adopted.

Because of the moratorium, Canada is unable to export canola to the EU. In the early 1990s, Canadian exports of canola to the EU showed consistent growth, peaking at \$425 million in 1994 (with a five-year average of \$185 million from 1993 to 1997). During the four-year period following the moratorium (1998 to 2001), Canadian exports of canola to the EU declined sharply to an annual average of only \$1.5 million.

Canada's position is that GM canolas have gone through rigorous examination in Canada. There are no health, food safety or environmental reasons why GM canolas under commercial cultivation in Canada should not be approved for the EU market. In 2001, some 75% of Canadian canola acreage was seeded with varieties with novel traits. Canada continues to express its concerns to the EU at the highest levels regarding this market access barrier, and continues to review all available options under the WTO.

Genetically Modified Organisms: Labelling and Traceability

In an effort to unblock the approval process and rebuild public confidence in EU safety regimes, the European Commission proposed new compulsory regulations for GM food, feed and the traceability and labelling of GMOs (July 2001). Member states and the European Parliament have stated that strict compulsory regulations will assist in rebuilding EU consumer confidence and would have to be in place as a condition of restarting the GMO approval process.

In November 2002, the EU Agriculture Council reached a political agreement on compulsory labelling requirements for GM food and animal feed that calls for food containing more than 0.9% GM material to be labelled as containing GMOs. The threshold for the adventitious or technically unavoidable presence of GMOs that are unauthorized, but have a favourable risk assessment, has been set at 0.5%. The Council also agreed to extend labelling legislation to include food or ingredients produced from GM crops (e.g. maize oil produced from GM maize and biscuits produced using maize oil from GM maize). In December 2002, the EU Environment Council reached an agreement that will require each point in a distribution chain to maintain documentation on each separate event and/or variety of GMO within each shipment. The intention is to ensure traceability throughout all stages of placing a product on the market, "from the farm to the store shelf." These proposed EU GMO regulations now return to the European Parliament for second reading, with final approval expected by the end of 2003.

Canadian industry remains concerned that the proposed measures will have a serious impact on Canadian commodity and processed food exports to the EU, which are valued at more than \$750 million per year. Canada remains strongly opposed to the proposed EU regulations on compulsory labelling and traceability, because they are aimed at only one particular method of production and are not commensurate with the risks. The Canadian government has made repeated high-level representations to the EU Commission and member states. Canada continues to work closely with the United States and other trading partners on this issue.

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 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 the ongoing liberalization of EU telecommunications regulatory frameworks. As we have noted in previous years, particularly in regard to Germany, there have been problems in effectively implementing some provisions. However, we note that national regulators (including Germany) and the European Commission are addressing such problems. As well, the new European Union regulatory framework for electronic communications networks includes pre-emptive use of regulation where there is significant market power in relevant markets. We will continue to monitor these developments to assess their real impact and their timeliness in making competition effective.

European Free Trade Association (EFTA)

On October 9, 1998, the Canadian government announced the launch of negotiations with the EFTA states (Iceland, Liechtenstein, Norway and Switzerland). Negotiations have been largely completed and agreement was reached on most issues. However, there are a few outstanding issues that have yet to be resolved. As a “first generation” free trade agreement, the deal focuses on the elimination of industrial tariffs, some liberalization for agriculture, and new cooperation in trade facilitation and competition.

Two-way trade with the EFTA countries was valued at \$7.0 billion in 2002, with Canadian exports totalling almost \$1.5 billion and imports of \$5.5 billion. Foreign direct investment from EFTA members into Canada in 2001 totalled over \$10 billion.

Russian Federation

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. This was followed by a noticeable upsurge in 2001 of some 45%, which tapered off in the third quarter due to a drop in oil prices—oil is Russia’s main export. Exports in the first half of 2002 were down 20% but showed signs of increased activity in the second half, with oil and gas equipment, agri-food and building materials as the main sectors.

Imports of goods from Russia to Canada registered a slight improvement in 2000 over 1999, but declined substantially in 2001, due to a large drop in crude oil shipments to Canada. Declining crude oil shipments continued in the first half of 2002 but were offset by increases in fish, uranium and some forms of steel imports.

Canadian exporters that hesitated to enter 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 2002, Prime Minister Chrétien led a Team Canada 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. Existing investors in the mining sector appear to be showing some renewed interest in expanding operations and acquiring new deposits.

In September 2002, Agriculture and Agri-Food Minister Lyle Vanclief led a delegation, including representatives from the Canadian Food Inspection Agency, to Moscow to discuss access to the Russian market for Canadian seafood. Access for continued exports of seafood was secured during the visit, and export certification requirements for Canadian products were confirmed.

President Putin’s emphasis on Russia’s accession to the WTO has provided impetus to the economic reform process. Despite some discussions within Russia as to the speed of the process, a strong commitment still exists as reflected in continuing reforms to improve the economy and business climate. Russia will continue to be a strategic market for the Canadian resource extraction, housing and construction materials, and agri-food sectors. Reforms to the Russian land code and increased investment by Russian conglomerates in the agriculture sector point to increasing opportunities for Canadian exporters in this area. The Canadian government is working to improve access to this important emerging market along two main tracks: through the bilateral Intergovernmental Economic Commission (IEC) and accession negotiations on Russia’s entry into the WTO.

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, with the Canadian delegation led by International Trade Minister Pierre Pettigrew. Sectoral working groups (focusing on oil and gas, agriculture, housing and construction, mining, and the 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, work is proceeding on the establishment of new IEC working groups covering market access, transportation and advanced technologies, with the latter group comprising subgroups for telecommunications, aerospace and information and communications 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 signed a protocol with the State Committee on Construction, Architecture and Housing Policy that 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 suppliers of construction material.

WTO Accession

The Russian Federation applied to join the World Trade Organization in 1993. Canada is a member of the WTO working party charged with examining Russia's application and is also holding bilateral discussions with the Russian Federation to improve market access for Canadian goods and services. The first of 18 formal working party meetings was held in July 1995 and the most recent in March 2003. 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. Russia made good progress in 2002 in bringing its trade and economic policies up to WTO requirements, particularly in 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. Further working party meetings will build on the impetus of extensive and positive bilateral meetings between Russia and various working party members.

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 December 2002. Progress has been made, primarily on industrial tariffs, during bilateral discussions that are continuing. 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, join various zero-for-zero initiatives agreed in the WTO and 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 have been held at regular intervals since. Russia submitted its latest services offer in October 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 modalities in these sectors.

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

Investment

The protection of Canadian investment in Russia remains a priority for Canada. Canada has a significant interest in Russia, particularly in the mining sector. 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, the complexity and uncertainty surrounding domestic legislation, lack of effective recourse through the judicial system to resolve investment disputes, administrative barriers and "over-bureaucratization," and unwelcoming or difficult regional authorities. Of particular interest to Canadian investors in the mining sector is the Draft Subsoil Code currently being studied and likely to be amended by the Russian Duma (parliament); the proposed changes are generating a mixed reaction from potential foreign investors and legal experts, with concerns focusing on licensing procedures, lack of clarity in the respective roles of the regional and federal governments, and the absence of any reference to guaranteeing foreign investor participation in large tenders for mineral deposits.

Over the past year, the Russian government has introduced new legislation in areas such as taxation, customs procedures and judicial reform, as well as improving the laws on enterprise bankruptcy and joint stock companies. These moves are encouraging. As well, business registration, licensing and verification requirements have been streamlined, and a new voluntary corporate governance code was introduced in 2002.

The existing FIPA signed between Canada and the former Soviet Union in 1989 provides more limited protection for Canadian investors than recent NAFTA-style investment agreements. Negotiations

toward an enhanced Canada–Russia FIPA have been suspended pending the completion of Russia's accession to the World Trade Organization.

Ukraine

Overview

Canadian exports to Ukraine increased to \$27 million in 2002, which is in line with data from 1999 and 2000. Canadian exports increased across a wide spectrum of mostly manufactured products, due to growth in the Ukrainian economy. Canada's export market in Ukraine is for unique, value added, highly engineered products, typically in the energy, construction, agriculture and agri-food sectors. Significant land reforms have also spurred investment in Ukraine's agriculture sector, which has resulted in growing Canadian exports of machinery and livestock.

Imports from Ukraine continue to be dominated by a variety of steel products and, as a result, have been subject to some volatility. Counterbalancing this are textile and clothing imports, which have been showing increasing strength over the past three years. In addition, 2001 recorded the first-ever imports of meslin and oats to Canada, reflecting the above-noted land reforms, resulting investment and increased production.

Canada–Ukraine bilateral trade peaked at \$148 million in 2000, with the balance historically in Ukraine's favour due largely to significant steel imports from Ukraine, and then fell to \$81 million in 2001 before rebounding to \$112 million in 2002. Mid-year figures for 2002 show some stabilization at this level but with greater product diversification and less reliance on steel imports.

Canada ranks in the top 15 foreign investors in Ukraine at close to \$80 million, particularly in the energy sector and in glass manufacturing. Canada has a foreign investment protection agreement with Ukraine.

The Canadian government is working to improve access to the Ukrainian market and expand bilateral trade and investment through WTO accession

negotiations and the bilateral Canada–Ukraine Intergovernmental Economic Commission. 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 meeting was held in October 2001 in Ottawa, co-chaired for Canada by International Trade Minister Pierre Pettigrew. A high level of participation by Canadian companies reflected growing interest in this market, although discussions largely focused on clearing various impediments to trade, 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, Sergio Marchi, was chosen by its members to chair the Ukraine working party.

While progress toward WTO accession was slow during the first seven years, the pace picked up following the working party meeting held in July 2000. In the past year, Ukraine has continued to take 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.

Canada–Ukraine bilateral market access negotiations on goods and services concluded in February 2002 with the signature of a bilateral record of agreement. Canada continues to work with other WTO members to bring Ukraine’s WTO accession process to closure. This goal can be achieved only through stable and predictable access to Ukraine’s market; market access commitments secured by Canada and other WTO members need to be supported by lower and simplified import fees and charges, less burdensome customs procedures, and reduction of other non-tariff measures. Canada will continue to monitor closely Ukraine’s efforts to liberalize such measures in the context of its WTO accession process.

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 implement its 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, through developing a Ukrainian Centre patterned after the CTPL to meet the longer-term needs of both the government and the private sector; and
- an internship program for graduate students of international trade.

Asia-Pacific Economic Cooperation (APEC)

Since its inception in 1989, the Asia-Pacific Economic Cooperation forum's agenda has evolved in response to developments in world trade. APEC ministers and leaders have acted as an informal caucus in support of strengthening the multilateral trading system. During the latest APEC Economic Leaders' Meeting held in Los Cabos, Mexico, in October 2002, leaders focused on the war against terrorism and the promotion of shared prosperity as a consequence of globalization. The juxtaposition of the two issues highlighted the interdependence of security and economic prosperity. Leaders re-committed APEC to the war against terrorism and launched the Secure Trade in the APEC Region (STAR) initiative, a program building on the achievements of the G8 Kananaskis Summit and designed to enhance security in the transportation sector.

The Mexican theme of complementing APEC's economic and trade liberalization goals with social and development targets was prominent. Developing countries expanded on the theme by noting the importance of trade- and terrorism-related capacity building in the quest for shared economic prosperity. The Mexican chair's emphasis on shared prosperity, reiterated throughout the year, clearly shaped the discussion of economic issues. Leaders stressed the need to address the challenges of globalization through capacity building, and pointed to APEC's work on micro enterprises, human capacity building and Brunei's connectivity targets. They also expressed the need for substantive progress in trade negotiations and in advancing developing-economy concerns in the WTO Doha Round, and issued a call for additional work on WTO capacity building.

Following up on the "Shanghai Accord"—adopted in 2001 to reinvigorate APEC's trade agenda and help provide momentum for achieving APEC's goal of free and open trade and investment in the region by 2010 for developed economies and 2020 for developing economies—members endorsed the APEC Trade Facilitation Action Plan. The plan aims to cut transaction costs in the region by 5% by 2006,

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and includes a menu of concrete actions and measures that members can implement to reach this goal. A World Bank–APEC study on the economic impact of trade facilitation (which Canada oversaw on behalf of the APEC Committee on Trade and Investment) was also released at the APEC Leaders' Meeting. The study shows that improvements in trade facilitation could increase intra-APEC trade by US\$280 billion. In addition, APEC members agreed on a Statement to Implement APEC Transparency Standards, which is designed to foster greater transparency in laws, procedures and administrative rulings of APEC members.

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

Throughout 2002, Canada was involved in a number of initiatives aimed at building the capacity of developing economies, oversaw the World Bank–APEC

study on Trade Facilitation and organized a capacity-building workshop on trade facilitation with Thailand and Hong Kong, China. As a co-chair of the APEC Group on Capacity Building, which coordinates all of APEC's work in this area, Canada has developed a Web-based directory of all WTO capacity-building projects offered within APEC. Furthermore, the Canadian International Development Agency (CIDA) will soon start to implement its \$9-million APEC economic integration program, which will provide WTO capacity building assistance throughout Southeast Asia.

APEC Results in 2002

- Adoption of a new Statement on Counter-Terrorism and launch of the Secure Trade in the APEC Region initiative, which focused on transportation security.
- Adoption of a Trade Facilitation Action Plan that will cut business transaction costs by 5% over five years.
- Expression of strong support by APEC leaders for more progress in the Doha Round of WTO negotiations.
- Adoption of a Statement to Implement APEC Transparency Standards on administrative transparency, which will improve market access throughout the region.
- Publication of a major report by the World Bank on the economic benefits of trade facilitation in APEC.
- Implementation of a new format for peer review of APEC individual action plans (IAPs), which will involve outside expertise and greater business participation.
- Implementation of a wide range of capacity-building projects on trade policy.
- Organization of an APEC "Dialogue on Globalization and Shared Prosperity."
- Organization of a high-level meeting on micro-enterprises, which led to the creation of a small and medium-sized enterprise (SME) subgroup specifically focused on issues relevant to micro-enterprises.
- Implementation of the E-APEC Strategy, through the organization of a wide range of workshops, seminars and training programs on issues related to bridging the "digital divide."
- Approval by leaders of a new Life Sciences Forum, which will provide an opportunity for the pharmaceutical industry to interact with governments in the APEC region.
- Adoption by ministers of revised guidelines on non-member participation, which will make it easier for APEC forums to interact with outside organizations.
- Creation of a Gender Focal Point Network to ensure that APEC forums implement the Framework for the Integration of Women in APEC Activities.
- Adoption by leaders of the Shanghai Accord, which will accelerate movement toward achieving the Bogor Goals.

Thailand, which will host APEC in 2003, is expected to emphasize APEC's work on economic and technical cooperation, with a focus on human resources development and the development of adequate social safety nets throughout the region. During 2003, one of Canada's major objectives will be to implement the APEC Leaders' Statement on Counter-Terrorism and the STAR initiative. Canada will also continue to implement the Trade Facilitation Action Plan, consistent with the direction provided by the Shanghai Accord, and aiming to expand opportunities for Canadian businesses in the region. In addition, Canada will play a major role in APEC's WTO capacity building initiative and will continue to support APEC's work on "new economy" issues. Canada will also promote public engagement in APEC, including dialogues with non-governmental organizations, in order to build popular support for the economic reforms needed to sustain regional growth and prosperity. Finally, Canada's IAP is up for review in 2003 along with those of Australia and Thailand.

Biotechnology Initiatives Within APEC

Within APEC, Canada is active in two biotechnology initiatives. Under the Agricultural Technical Cooperation Working Group, Canada shepherds the Research, Development and Extension of Agricultural Biotechnology (RDEAB) Subgroup. This group provides a unique forum for member economies to identify and address common issues in agricultural biotechnology. The RDEAB Subgroup is mandated to carry out agricultural biotechnology work in four areas:

- science-based assessment of the products of biotechnology;
- technical cooperation;
- public transparency and information exchange within member economies; and
- capacity building.

To date, the RDEAB Subgroup has held biotechnology workshops in Australia, Canada, Malaysia, Thailand and the United States. The next workshop is scheduled to take place in China in 2003.

In addition to the work undertaken by the RDEAB Subgroup, Canada is participating in the APEC high-level policy dialogue on biotechnology. This initiative has been undertaken to encourage senior-level policy dialogue on broader biotechnology issues facing member economies. The first meeting was held in Mexico City in February 2002. A subsequent meeting took place in Chiang Rai, Thailand, in February 2003.

Japan

Overview

Japan is Canada's second-largest national trading partner (after the United States), with 2.1% of total exports, and is the third-largest source of foreign direct investment in Canada. Canada is a leading supplier to Japan of a number of products of key export interest, 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 an increasingly important source of sophisticated, value-added, technology-driven products and services imported by Japan. Canadian exports of aircraft, software, and resource and environmental products and services are in increasing demand. 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. While Japanese foreign direct investment is shifting from the traditional North American and European destinations to Asia, in particular China, Canada

is maintaining its share vis-à-vis the United States (though this investment tends to be concentrated in particular sectors such as automotive and agri-food).

In 2002, Canada's total merchandise trade with Japan was \$23.7 billion. After declining steadily since the late 1990s, in 2002 Canadian exports to Japan remained steady at \$8.3 billion. Imports from Japan increased 5.3% in 2002 to \$15.4 billion. In 2002, Canada exported \$1.8 billion in services and imported \$2.0 billion. 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 Japanese government. The analysis points to new opportunities in information and communications technologies, value-added food products, transportation equipment, building products and prefabricated buildings, medical devices and pharmaceuticals, new energy products such as fuel cells, power generation and environmental services. In addition, DFAIT and Industry Canada commissioned a study on opportunities in the services sector that identified where shifts in the Japanese economy have created significant potential. Produced by the Japan Market Resource Network in August 2002, this study found that the most potential for Canadian business lies in services related to information technology (IT), the environment, accounting, architecture and health care; however, barriers such as domestic opposition to foreign competition, excessive regulation and opposition to deregulation of certain sectors pose serious challenges for Canadian companies aiming to enter the Japanese market. We will use these findings to supplement our efforts in established trade sectors (such as automotive, aerospace, forest products, minerals, agriculture and fisheries, and consumer products) with new initiatives aimed at supporting these emerging priority industries.

Japanese awareness of Canada as a sophisticated business partner will also be raised through Canadian efforts to attract Japanese FDI. DFAIT is working closely with Investment Partnerships Canada, other federal government departments, and provincial and municipal authorities to maintain and attract Japanese investment into Canada. Toyota's decision in 2000 to produce its Lexus RX 300 luxury sport-utility vehicle in Canada, starting in 2003, is a testament to increasing Japanese recognition of Canada as a good place to do business. The Toyota plant in Cambridge will be the first to manufacture the Lexus RX 300 outside Japan.

In support of efforts to “rebrand” Canada in Japan as a technologically sophisticated society and to encourage 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. Despite a worldwide slowdown in the information and communications technologies (ICT) sectors, Canadian companies continue to take advantage of opportunities in the huge Japanese ICT market. During the past two years, many Canadian ICT companies have entered the market directly or indirectly through partners, agents and distributors, and the share of manufactured goods and value-added services exports to Japan continues to increase.

Collaboration with the Japan External Trade Organization (JETRO) is ongoing and productive. For example, JETRO and Industry Canada are working on a formal agreement to link their respective databases for the benefit of the Japanese and Canadian business communities. The partnership will focus upon increased levels of data sharing, technical cooperation and improved electronic access for Japanese and Canadian firms to information on each other's markets.

Examples of Government-Supported Market Development Activities in 2002

Following the success of the IT trade missions that visited Canada in 2000 and 2001, JETRO sent an unprecedented third IT trade mission to Canada in October and November 2002. This one-week tour of Canada, with stops in Montreal, Toronto and

Vancouver, brought 15 Japanese companies into contact with dozens of interested Canadian companies in each of the cities visited. Two journalists from Japanese business publications also accompanied the mission to report on the Canadian IT sector and the opportunities it affords Japanese firms.

In October 2002, the Canadian Embassy hosted a fuel cell seminar attended by representatives from the Canadian private sector, government, academia and industry associations. The seminar introduced the potential of the Japanese market to Canadian participants and helped position Canada as a leader in this emerging field with Japanese industry and government decision makers. It also established and further secured links between the two nations at the industry and government levels. Attendance and media exposure far exceeded expectations, with over 650 Japanese companies participating.

In June 2002, the Canadian Embassy organized a week-long biotech mission to Canada—visiting Toronto, Montreal and Vancouver—for a delegation of 49 representatives from 30 Japanese biotechnology companies. The goal of the mission was to expose a broad cross-section of the Japanese life-sciences sector to Canadian biotechnology and to seek out ways for Japan and Canada to share biotechnology expertise through investment and commercial partnerships.

In March 2002, the Canadian Embassy worked with the Consulate General in Osaka to organize an event called the “Multimedia Showcase.” Seven participating Canadian companies had an opportunity to introduce their products and technology to a selected Japanese business audience, including potential partners, agents and distributors. The event helped to give greater profile to the leading position of Canadian companies in this segment of the ICT industry. The subsequent ICT related mission to Japan, in February 2003, focused on ICT security.

The aerospace sector has also been active. In February 2002, a large Japanese delegation visited Canada, led by the Japanese Ministry of Economy, Trade and Industry and the Society of Japanese Aerospace Companies. The delegation, which included over two dozen leading Japanese aerospace manufacturers, participated in a symposium in Montreal before visiting sites in Montreal, Toronto and Winnipeg. The Japanese, impressed by the quality and quantity of

Canadian aerospace firms, expressed strong interest in exploring further collaboration with the Canadian industry. As a result, a delegation of Canadian companies visited Japan in February 2003, led by the Aerospace Industries Association of Canada and Industry Canada.

As an ongoing service, the Canadian Embassy continues to manage 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.

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 in undertaking 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 codes and related product standards, environment, tourism, air services, oilseeds and transportation. 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 such as biotechnology, building codes, competition policy and customs administration. In particular, we will continue discussions between health authorities on the observation of inspections and the possibility of mutual recognition

of good manufacturing practices in the pharmaceutical industry. Negotiations for an agreement between Canada and Japan regarding cooperation on anti-competitive activities were announced in June 2002 and began soon thereafter. This agreement seeks to coordinate enforcement activities between the Canadian and Japanese authorities responsible for regulating competition.

Regulatory reform has been a Japanese government priority for a number of years. Canada (along with Australia, New Zealand, the U.S., the EU and domestic organizations such as Keidanren) has made regular annual submissions to the Japanese regulatory reform authorities, whose latest incarnation is the Regulatory Reform Council (formerly the Regulatory Reform Committee). Canada's submission in 2002 to the Regulatory Reform Council followed along the lines of the 2001 submission, which was expanded to include not only areas of particular concern to Canada, such as telecommunications 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 of the Japanese economy and for the ability of Japan to attract foreign, including Canadian, investment. In December 2001, the Regulatory Reform Council, which reports directly to the Prime Minister's office, released its Three-Year Program for Promoting Regulatory Reform, following up with a revised report in the first quarter of 2002. Submissions from foreign governments, including the Canadian government, are an integral part of this process. The Japanese government has also announced a Program for the Promotion of Special Zones for Structural Reform.

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 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." At the most recent CJBC meeting in Sendai in May 2002, the CJBC called upon the two governments to expedite the negotiation of a social security agreement that would encourage two-way investment, as well as reduce the disadvantages that an agreement currently being negotiated with the United States would create for Canada in the context of an integrated North American market.

Market Access Results in 2002

- Japan and Canada have agreed to negotiate a new framework for the bilateral trade policy relationship on housing and building products, formal approval of which is expected at the Canada–Japan Housing Committee meeting in 2003. Japan replaced Section 38 of the Building Standards Law (BSL) with a system allowing for recognition of foreign evaluation bodies and foreign approval bodies, and continued to move toward increased adoption of international (ISO) standards for building products.
- Health Canada and the Ministry of Health and Welfare of Japan have agreed to implement an Information Exchange Project (IEP) on a Good Manufacturing Practices (GMP) Compliance Program for drug products; the IEP is intended to serve as a first step in regulatory collaboration on a GMP for drug products, leading to the mutual recognition of each other's drug GMP compliance certificates.
- Negotiations for an agreement between Canada and Japan regarding cooperation on anti-competitive activities were announced in June 2002 and began soon thereafter. This agreement seeks to coordinate enforcement activities between Canadian and Japanese authorities responsible for regulating competition.
- Canada, in collaboration with embassies from other countries, has worked with the Ministry of Health, Labour and Welfare to facilitate the approval of food additives in regular use internationally and to assist in bringing Japanese legislation into line with international practice.
- Japan has accepted official export certification that Canada is free of Bovine Spongiform Encephalopathy (BSE).

Canada's Market Access Priorities for 2003

- Continue to press for a reduction of duties applied to vegetable oils (particularly canola), processed foods, red meats, fish, forest products (spruce-pine-fir lumber, softwood plywood, laminated veneer lumber, oriented strand board and laminated beams), non-ferrous metals and leather footwear.
- Continue to press for the elimination of specific technical and regulatory barriers in Japan in order to facilitate Canadian exports in such priority sectors as food, building products and services, including regulations and standards that vary from international norms (e.g. practices regarding the use of foreign clinical data when approving pharmaceutical products and medical devices, Japan Industrial Standards for plastic resins, and levels of formaldehyde in infants' clothing).
- 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 press for enhanced capacity and access to a number of new slots at Narita Airport and code-sharing rights for services beyond Japan.
- Given the rapid advancement of fuel cells and related industries, press for laws regarding hydrogen usage, as well as for a review of the deleterious substances law (i.e. as it affects the production, storage and distribution of methanol and related substances).

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 2002, 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 food sanitation and plant health. While most market access concessions and tariff reductions will be discussed in the context of the current overall WTO negotiations, other issues are being addressed at the bilateral level.

Safeguard Measure on Chilled and Frozen Pork

Canada remains concerned about the Japanese snapback safeguard measure on pork in the form of an increase of approximately 25% in the minimum import price. Since it was first triggered in 1995, the snapback safeguard has been a significant issue for the Canadian pork sector. As currently administered, this measure creates considerable market fluctuations for Canadian suppliers and Japanese importers. Canada is seeking a resolution that addresses the concerns of both exporters and importers by eliminating the negative market impacts of the snapback safeguard. This is a priority in the WTO agriculture negotiations.

Safeguards on Beef

During the Uruguay Round of WTO negotiations, Japan's trading partners agreed to a specific safeguard mechanism for beef that would protect domestic producers from sudden import surges. The occurrence of BSE in Japan in September 2001 resulted in unusually low consumption of beef and a decline in both domestic and imported beef sales. Since then, the market has recovered, domestic production is now above pre-BSE levels and live animal prices are above the government recommended price band. In contrast, import volumes, while they have grown, are still below pre BSE levels. Although the growth in beef imports is merely a return toward the former level of imports, not a surge, it may nevertheless trigger the application of the safeguard. The outcomes will be higher prices for importers and a slower recovery of Japan's beef market, neither of which are advantageous for Japanese producers and consumers.

Canada recognizes Japan's right to use safeguard mechanisms negotiated during the Uruguay Round. However, it has pointed out to Japan that, under certain circumstances, the automatic application of safeguards does not serve its intended purpose. As Japan's legislative process allows for discretion in the implementation of the safeguard, extraordinary market circumstances should be considered before automatically implementing this mechanism. Canada will continue to work with key exporting countries to ensure that Japanese officials do not automatically apply this safeguard mechanism.

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. The AVEs of specific rates on canola generally approach or exceed 20%. These high tariffs give Japan's domestic oil-crushing industry (and producers of other related products, such as margarine), a significant advantage over the Canadian oil-crushing industry when competing for a limited supply of oilseeds. Canada will seek the maximum negotiable reduction in these high tariffs in the WTO agriculture negotiations.

Greenhouse Peppers

The B.C. greenhouse vegetable industry wants to export greenhouse peppers to Japan. However, Japan wants further assurances that tobacco blue mould does not occur in B.C. The Canadian Food Inspection Agency and the industry are working on a proposal to satisfy Japanese concerns or requirements.

Building Products and Housing

The building products industry in Japan is subject to a complex web of laws and regulations that set out necessary product standards and uses that Canadian exporters must address. There is ample opportunity to make it difficult for imports from Canada to compete in the Japanese market by providing preferential treatment to Japanese suppliers. While some progress was made during the recent amending of the Building Standards Law (BSL) and Japan Agricultural Standards (JAS) Law, there remain major issues that severely restrict Canadian market access. Of particular importance are the many aspects of the Building Standards Law relating to fire, which are unique to Japan, arbitrary and prescriptive, and which limit wood construction by rendering wood frame buildings less economical. Japanese regulations are criticized for being difficult to understand, unnecessarily complex and costly, developed without public participation and slow to change. Given new and

existing international building technologies and materials, Japan will be urged to revise the Building Standards Law as it relates to test methods, criteria and related restrictions, and to adopt international codes, standards and practices.

Canada has in place a number of formal and informal connections with the Japanese government. Both joint work between Canadian and Japanese scientists (e.g. the Canada–Japan Research and Development Workshop) and formal bilateral meetings provide the opportunity to press for change. In 2003, Canada will host the Canada–Japan Housing Committee, which will provide the opportunity to demonstrate Canadian technologies and products, as well as the more open and public Canadian building code and standards system. Technical matters will be pressed at trilateral Canada–U.S.–Japan talks (Building Experts Committee, Japan Agricultural Standards Technical Committee), to be held in 2003 in Japan.

Value-Added Building Products

Under the revised Japanese building code, a new system of testing and approval bodies has been established that has proven very difficult for Canadian manufacturers to use. Currently, only Japanese testing and approval bodies are authorized under the new system. In many cases, the process to be used by a Canadian manufacturer is not clear. In 2002, an initiative to analyse this system and possibly develop a roadmap was launched, and this work will continue into 2003.

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-fir (SPF) lumber imports, worth over \$400 million per year to Canada, are subject to duties ranging from 4.8% to 6.0%, whereas other species imported for the same purpose enter duty free. The 6.0% tariff on softwood plywood is also considered to severely limit Canadian exports and unfairly favour the domestic Japanese industry. Reducing SPF and softwood plywood tariffs are a high priority for Canada and will be pursued in the WTO multilateral trade negotiations.

Three- and Four-Storey Wood Frame Construction

A major new market opportunity in Japan is urban construction of three- and four-storey mixed use buildings. Although three-storey wood frame construction is now allowed in quasi-fire protection (QFP) zones, it is restricted to a maximum of only 1,500 square metres, and requires uneconomic 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 3,000 square metres for non-QFP zones, and Japanese fire-wall specifications (which could allow larger structures) are unfair and not based on science. Four-storey wood frame construction is increasingly being used in North America, but faces a difficult and unclear regulatory regime in Japan. A performance-based system is being implemented by Japan, but in comparison to steel (which is produced in Japan), wood frame construction from Canada is very unfairly treated. Canada will use bilateral and multilateral forums to press for a more science-based approach to open this market to Canadian industry.

Performance Requirements for Lumber for Traditional Housing

Canada is working to ensure that performance criteria being developed for traditional zairai housing in Japan are not based solely on the use of Japanese-grown tsugi lumber (which is one of the weaker species), but recognize the characteristics of other species (e.g. hemlock, which is stronger). Otherwise innovation and efficiencies are lost. The process for implementing new products and technologies after formal approval is obtained is unnecessarily difficult and needs streamlining.

Agricultural Standards for Building Products—Standards Review Process

Under the revised 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 concerning building products. In 2002, the MoAFF undertook the review of standards for plywood and structural glue-laminated timber. Issues arose, particularly around the formaldehyde testing of plywood and the exclusion of jack pine

from the glulam standard, which were pursued at the Canada–U.S.–Japan Japan Agricultural Standards Technical Committee (JASTC) meeting in 2002. In 2003, the review of the standards critical to Canada that apply to dimension lumber is to occur, and Canada at the request of Japan tabled its issues at the JASTC meeting. Some Japanese agricultural standards address issues that are not relevant to the core purpose of the standard—such as linking the wood treating standard to the a-grading standard, and including moisture content adjustment factors under the plywood standard. Canada will press for relaxation of the five-year review cycle to provide for the introduction of new technology and the resolution of outstanding issues. JAS143, in particular, is not scheduled to be reviewed until 2005 and yet some very important issues are still outstanding. Canada will work to ensure that Canadian stakeholders have access to the MoAFF process and full membership on the review committees, and will continue to press for fairer treatment of Canadian products.

Japan Agricultural Standards for Building Products—Inspection and Approval System

In June 2000, Japan implemented a revised JAS law allowing a foreign organization to obtain Foreign Registered Certification Organization (FRCO) status provided that the foreign country was deemed to have an equivalent conformity assessment system. Canada was recognized as having an equivalent system, and by March 2002 three organizations were recognized as FRCOs (CANPLY, CMSA, NFPA/COFI) and all interested Canadian mills had been transferred to this new process. Canada will continue to work with Canadian organizations to monitor this system and press for elimination of unnecessary inspection, paperwork and expense. For example, the JAS law currently requires monthly inspections and monthly reports from mills. This frequency of inspections and of reporting is, in Canada's view, unnecessary and redundant.

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 under-developed 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.

Environmental Services

In addition to the normal challenges faced by services providers, companies in the environment sector face other barriers particular to their field. The differences in standards and definitions of various services offered are particularly burdensome. Furthermore, the administrative qualification (bid) procedures for government-related projects are quite different from Canada's, creating more challenges for Canadian companies. It is also difficult for Canadian companies to gain access to environmental projects funded by overseas development assistance. Canada will continue to monitor the situation.

Telecommunications Services

The Japanese telecommunications services market has become significantly accessible 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 General Agreement on Trade in Services commitments for basic telecommunications services, and it is encouraged by Japan's move to reduce the interconnection rates for foreign carriers to NTT's local and long-distance networks.

Canada urges Japan to continue to lower the interconnection rates by adopting a long-run incremental cost system—a pro-competitive methodology for interconnection fees. Several concerns, however, have been flagged by Canadian companies. These concerns centre on 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 long-distance services 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. These

concerns could be addressed by ensuring fair access (including rights of way) to land and facilities owned or controlled by utilities and by facilitating construction and expansion of infrastructure over public land and facilities. 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 longstanding and productive bilateral air relationship, Canadian officials have tried over the past two years to obtain for Canada enhanced capacity, access to some of the new slots available at Narita Airport on the second runway (which opened in the spring of 2002) and code-sharing rights for services beyond Japan. Air Canada and All Nippon Airways have been working very closely to develop their commercial plans, especially for code-sharing beyond Japan—which Japanese negotiators have declined to permit. It is nevertheless clear that the intensified commercial cooperation will benefit both airlines.

Canada remains concerned that, following a number of discussions between our respective air transport negotiators, as well as through diplomatic channels, Japanese officials have refused to grant Canada any new capacity or slots at Narita. These exclusions will compromise Canada's opportunity to expand air services to Tokyo for years to come. Canada will continue to press Japan to reconsider its position on these issues, which would result in enhanced services for the travelling public and commercial benefits for the airlines of both countries.

Financial Services

Japan has made significant progress in deregulating the financial services sector in recent years. The financial services landscape has changed significantly since the financial "Big Bang" reforms were launched in 1995. With the entry of many foreign financial services providers, even though they still do not hold major market shares, Japan's financial sector is well on the path to a major transformation. Clearly, this has led to more competition, more consumer choice and a more resilient financial system. But Japan can do more to foster a dynamic and efficient financial sector.

Genuine and transparent regulatory reform will best be achieved with a regulatory system that focuses on macro-level financial supervision. Despite improvements, Japan's financial supervisors still apply a micro-level regulatory and supervisory approach, for example, on product approval. The cultural shift away from the "administrative guidance approach" has not been completed. Applying an *ex post* supervisory approach that promotes efficiency and competition, rather than the current a priori regulatory and supervisory approach, would enhance the efficiency of Japan's financial system without harming its safety or soundness.

Canada continues to have a general concern that, to a large extent, services provided by most government financial institutions in Japan can be efficiently provided by private sector institutions. The involvement of government enterprises in the financial sector, some of which (such as the Postal Savings system or *yucho* and the Postal Life Insurance system or *kampo*) have very sizable market shares, distorts competition significantly. Public institutions should be made to compete in a manner that does not discriminate against the private sector. Canada supports the efforts of Prime Minister Koizumi's government to streamline and privatize government financial institutions. The package of economic and financial reforms released on October 30, 2002, however, puts a significant emphasis on providing fiscal loan and loan guarantee programs through existing government financial institutions. Canada hopes that this does not indicate a reduced effort to reform government financial institutions. As much as possible, Japan should seek to use private institutions to promote increased financing and corporate rehabilitation. Foreign financial institutions and companies can play a useful role in achieving the Japanese government's reform efforts.

A final general issue is the weak state of Japan's financial system. Further deregulation is being held up due to concerns about the fragility of the financial system, especially the major banks. Canada is encouraging Japan to continue to promote an aggressive and early resolution of the banking system's problems, including disposing of non-performing loans and restoring bank capital.

Banking and Securities

Most major industrialized countries have moved to a financial conglomerate regulatory structure that allows for greater synergies between banking, securities 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. 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 has been a significant concern to Canadian financial institutions operating in Japan. It imposes considerable additional costs and does not allow for optimal efficiencies for clients. In some cases, it may actually increase risk. During 2002, some Canadian financial institutions in Japan dealt with this ongoing concern by significantly scaling back or moving to close down their bank branches. Canada continues to request that the Financial Services Agency (FSA) offer a more flexible regime that is sensitive to smaller institutions’ need to contain costs. A longer-term goal, which fits with the FSA’s current efforts to define a medium-term vision for the financial sector, should be to break down the walls between the lines of business noted above.

Life Insurance

The Postal Life Insurance system or *kampo* holds about 40% of life insurance assets in Japan. Canada strongly welcomes the passage of legislation to establish the Postal Service Public Corporation, effective April 2003. However, this legislation does not alter the fact that *kampo* is not subject to the same kind of regulatory oversight, or operating costs, as private sector life insurers. *Kampo* is not subject to the Insurance Business Law, the Law on Sales of Financial Products or the Commercial Code. Furthermore, it is not supervised by the Financial Services Agency. Finally, because its products are fully guaranteed by the government, *kampo* is not required to contribute to the Policyholders Protection Corporation.

Canada is requesting that *kampo* be made to operate on the same basis as private life insurers, both foreign and domestic. As a first step toward rolling back *kampo*’s 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 is requesting that any new financial services 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. Canada is also requesting that any proposed report or legislation relating to the financial service activities of *yucho* be subject to full public notice, comment and consideration before policy decisions are taken by the government.

The life insurance industry has expressed a concern that the preferential treatment accorded by the Japanese government to *kampo* is a violation of the General Agreement on Trade in Services. Canada will study this issue carefully.

With the purported goal of ensuring consumer transparency, the FSA applies a micro-level analysis to product and rate approvals. This supervisory approach hinders competition because it is time consuming and stifles innovation. Canada notes the progress achieved since the establishment of the FSA but requests that greater efforts be made to move from a system of prior product approval to a system of notification combined with clear standards of disclosure.

Legal Services

In the face of globalization, increased merger and acquisition activity, and domestic regulatory reform in Japan, there is an acute need for legal services with expertise in cross-jurisdictional issues to assure due diligence. These services could be provided through the cooperation of Japanese (*bengoshi*) and foreign lawyers (*gaiben*); however, due to the restrictive structure of the “specified joint-enterprise” system, 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. Exceptions are made under the 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. Japanese lawyers 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 foreign direct investment in Canada, with a stock of \$8.4 billion. A recent study reported that over 540 Japanese affiliated companies have established in Canada, accounting for more than 35,000 jobs. Although Japan's relationship with Canada through its FDI greatly enhances the ability of Canadian industry to compete in the global marketplace, Canada accounts for a relatively minor portion of Japanese FDI worldwide.

Since 1999, Japanese Ministry of Finance figures have shown an increase in the number and value of Japanese investments in China (and a move away from North America and Europe). This trend is tied to the Japanese belief that their economic interests lie in further integration with China and Asia.

In Canada, investment has traditionally been in the resource industries and heavy manufacturing, but trends indicate a shift to high-technology elements of the manufacturing industries, plus IT and biotechnology. The lion's share of Japanese FDI is in the automotive industries. This investment trend has maintained its impetus over the past years, reflecting the strong showing of Japanese autos in the North American marketplace. Efforts to encourage investment to focus on high-end research and development are part of the strategy to direct the FDI into areas with maximum benefit for Canada over the long run.

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 made by Japanese subsidiaries in North America, which are assuming the responsibility that once belonged to Japanese head offices. Canadian senior officials regularly visit the North American headquarters of Japanese companies, in addition to headquarters in Japan, to promote further investments in Canada.

Canadian FDI in Japan is lagging behind that of other OECD countries, although there have been some notable investments in the past few 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 investments in certain restricted sectors. However, longstanding 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. Japan has, however, made some progress in implementing its deregulation program, with measures intended to improve the overall investment climate. Measures include revising the Commercial Code with respect to corporate capital structure and corporate governance, increasing funding to the Japan Fair Trade Commission to improve enforcement of anti-competition laws, implementing special structural reform zones, introducing increased competition into the telecommunications sector and introducing revised regulations related to e-commerce and intellectual property.

China

Overview

The People's Republic of China (not including the Hong Kong Special Administrative Region) is Canada's fourth-largest export market. In 2002, Canada's total exports of goods to China were \$4.0 billion, a decrease of 5.1% over 2001. The total value of imports of goods in 2002 was \$16 billion, an increase of 26% over 2001.

In recent years, and as a result of its accession to the World Trade Organization, China has 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. China now has the world's largest consumer market, with 1.3 billion persons, who have an ever-increasing discretionary income and a taste for international goods and services. These facts, coupled with China's growing international prominence, mean changes to the economic landscape in Asia and, quite likely, the world, will soon follow.

Canada's approach to its relationship with China takes into 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 into global and regional political and economic institutions.

Despite the opportunities that China presents, a number of significant problems and practices impede broad Canadian access to all segments of the Chinese market. Additionally, some elements of the former planned economy remain, so in certain types of economic activity, or in projects whose scale exceeds a threshold size, central and/or local governments continue 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 process is facilitated through regular bilateral discussions, the most prominent being the Joint Economic and Trade Committee. These country-to-country meetings give Canada the opportunity to register its concerns regarding access to the Chinese market and communicate its views on economic development and the importance of transparency and rules-based market economics. The 18th Joint Economic and Trade Committee meeting will be held in Canada in 2003.

China formally acceded to the WTO 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 continue to 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.

As well, as a member of the WTO with a significant portion of world trade, China will be an increasingly important participant in the Doha Round negotiations. Canada will continue to engage China in this regard.

Market Access Results in 2002

- Chinese authorities approved an additional 18 Canadian meat plants for exporting to China, bringing the total to 41, which includes virtually all interested exporters. These new approvals are expected to boost exports of meat to China.
- Four quarantine protocols were signed covering in vitro fertilization, bovine semen, cattle and regular bovine embryo exports. The in vitro protocol provides new access, while the other three support existing access for these products.
- The federal government, in partnership with the Canadian wood products industry, has continued to work closely with the Chinese Ministry of Construction to address amendments to specific codes that cover wood frame construction. The new Inspection Code was approved in August 2002, while the new Design Code should be approved early 2003. According to the Canada Wood Bureau, in 2003 the new building codes will contribute to a two- or threefold increase in Canadian softwood lumber exports to China.
- In December 2001, the Chinese Ministry of Finance implemented Canada's request to reduce the value-added tax for feed-grade peas from 17% to 13%. Effective January 1, 2003, the Ministry of Finance will apply this reduction to the entire "dried peas" tariff line, which includes both food and feed peas. This constitutes a net benefit of \$1.2 million to Canadian pea exporters based on existing volume of \$27.1 million. Over the past

four years, Canada has exported 270,000 tons of dried peas to China, valued at \$62.5 million and making China our fifth-largest customer.

Canada's Market Access Priorities for 2003

- Continue to address market access problems that arise and seek improved access for Canadian agricultural products.
- Continue to address the problems arising from the new regulations that China has put in place in the banking, insurance and fund management sectors.
- Continue to address industry's concerns about burdensome Chinese requirements to re-certify under the new system of certification and accreditation.
- Continue discussions toward reinitiating negotiation of a bilateral foreign investment protection agreement.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

China's Accession to the WTO

Since its entry into the WTO, China has been working energetically to implement its accession commitments. Tangible progress is being made on several fronts. China is reforming its systems for the management of international economic activities according to WTO rules. A solid domestic legal foundation for the fulfilment of its WTO commitments is being laid. The range of commodities subject to quota and other licensing restrictions is being narrowed, and tariffs are being reduced on over 5,000 tariff lines, ensuring that China will attain an overall average tariff level of 12% by 2005, in keeping with commitments made. There is a discernable trend away from macro-economic control and adjustment through administrative measures toward market signals and mechanisms, which will accelerate the establishment of a market economy in China. Profound changes are being made to the structure of China's economy, the relationship between government and industry, government structures and procedures, and legal and regulatory frameworks. However, these changes will take time.

Canada and other parties will continue to ensure that China adheres to WTO rules aiming to ensure transparency and consultation with trading partners in the implementation of new policies and procedures.

A Transitional Review Mechanism (TRM) was established as part of China's accession. This review will take place every year for the first eight years following China's accession, and then again in the 10th year. It will give WTO members the opportunity to review progress being made by China in implementing its commitments in a manner consistent with WTO rules. Canada will participate actively in this process.

Implementation of China's WTO Commitments—Highlights

On January 1, 2002, China made a broad range of tariff reductions, including on key Canadian exports or potential exports. Examples include tariff reductions for frozen beef (from 39% to 25%), malt (from 26% to 10%), lightweight coated paper (from 15% to 9%), mobile communications base stations (from 9% to 0%), and small and mid-sized autos (from 70% to 44%).

China also made hundreds of regulatory and legislative revisions and issued numerous new regulations as part of meeting WTO requirements. In some cases, these regulations provided new opportunities for Canadians. For example, regulations were issued that, for the first time, allowed for foreign investment in the mutual fund management business; other regulations were issued that, for the first time, allowed for foreign majority ownership of engineering consulting companies. In other cases, revised regulations improved the business environment, such as in the area of intellectual property protection, or provided greater transparency about licensing procedures and criteria, such as in banking.

For more information on the terms of China's accession to the WTO, please visit the Department of Foreign Affairs and International Trade Web site (www.dfait-maeci.gc.ca/tna-nac/WTO-CC-e.asp).

Regulations on Imports of Genetically Modified Organisms (GMOs)

China's Ministry of Agriculture (MOA) promulgated the country's new Safety Regulation of Agricultural Genetically Modified Organisms in May 2001. Since then, the Ministry of Health (MOH) and the State Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) have each issued separate and supplementary regulations. These new regulations cover the labelling, research, production, marketing, movement and import/export of agricultural GMOs. Canada made several representations to China with respect to the lack of transparency of the regulations and their potential to disrupt trade between the two countries.

China introduced interim measures in March 2002 to allow trade to continue while field testing and approval of foreign-approved agricultural GMOs were completed. The interim measures, which were initially in effect until December 20, 2002, were later extended with some modifications to September 20, 2003. Further, the Ministry of Health has since indicated that it will coordinate with the Ministry of Agriculture with respect to timing and to minimize duplication. AQSIQ has as yet not confirmed its timetable for implementing its measures.

While a process for importing GMO products into China is currently in place, it is cumbersome and remains a cause for concern. Canada will continue to carefully monitor the GMO file and make representations as necessary to ensure that trade in Canadian GMO products is not impeded.

Standards and Technical Regulations

Since joining the WTO, China has been moving ahead with implementation of its WTO commitments with respect to standards and technical regulations. These include establishing contact points for enquiries about regulations, improving transparency by notifying the WTO of new regulations being put into place, and ensuring that standards, technical regulations and conformity assessment procedures are the same for imported and domestic products. China has created a new agency, the Certification and Accreditation Administration of the PRC (CNCA), to certify both imported and domestic products, and has established a single certification

mark (the CCC mark) to replace previous marks applied separately to foreign and domestic products. However, there have been some problems with this transition: suppliers have expressed concern about burdensome Chinese requirements to re-certify under the new system, including often-costly inspection visits to the manufacturer. Canada will continue to address these concerns to ensure that, in accordance with the WTO Agreement on Technical Barriers to Trade, technical regulations and other measures taken by China are the least trade-restrictive possible.

Administration of Tariff Rate Quotas (TRQs)

The establishment of tariff rate quotas for wheat and canola oil was a significant gain from China's WTO accession negotiations and will represent significant export opportunities.

China's State Development Planning Commission (SDPC) is responsible for the administration of agricultural TRQs. Its "Interim Rules and Regulations for Agricultural Imports Tariff Rate Quotas" establish the parameters for allocating TRQs on certain agricultural products. The TRQ on wheat and wheat products will rise to over 9.6 million tonnes by 2004, with the over-quota tariff rate falling to 65% in that year (the in-quota rate will be a constant 1%). The TRQ for canola oil was established at 878,900 tonnes in 2002 and will rise to 1.2 million tonnes by 2005. The over quota tariff rate will fall to a single tariff of 9% in 2006, at which time the TRQ on canola oil will be eliminated. Due to uncertainty over new GMO regulations (see section on China's GMO rules), large domestic wheat harvests and delays in TRQ allocation, Chinese imports of wheat and canola oil were extremely low in 2002 relative to the size of the TRQ.

"State trading entities" (STEs) have monopoly import status for a number of commodities in China, including goods that are also covered by TRQs. These privileges are being reduced or eliminated according to the schedule negotiated for each product. For wheat, China has committed to allocate 10% of the TRQ volume to direct, private sector imports. For canola oil, only a minority of the TRQ is reserved for the six STE canola oil importers, the rest being available for direct imports. By 2006, the STE reserve will have been completely phased out.

China has committed to administer TRQs in a transparent, predictable and uniform manner using clearly defined time frames and administrative procedures. However, Canada has a number of concerns with China's TRQ administration, mainly relating to the lack of transparency in the allocation procedures and the subdivision of TRQ volumes into two categories, one for domestic consumption and the other for processing for re-export. This subdivision of the quota is inconsistent with China's commitment to allow a certain, scheduled quantity of access to the Chinese market. The ability of the Chinese government to change the relative sizes of the two import categories is problematic, since it undermines the fundamental principle of predictability—the objective of a WTO-consistent TRQ system. Canada continues to share its concerns with China over TRQ administration both bilaterally and in the WTO.

Financial Services

China has put in place new regulations in the banking, insurance and fund management sectors, which have provided increased transparency and helped to facilitate foreign investment and competition. However, there are problems with these regulations, which we are seeking to address. The banking regulations contain very high (and inflexible) minimum capital requirements and other provisions that limit the ability of Canadian banks to expand their branch networks and finance lending operations. The insurance regulations remain insufficiently clear and contain high minimum capital requirements. Moreover, complex, multi-stage approval procedures remain for licensing in all financial subsectors.

Canadian-Style Wood Frame Construction

Although only about 10% of urban Chinese own their homes, the Chinese government is now encouraging its people to buy housing. Estimates of the Chinese housing construction market range from 9 million to 18 million units per year. Although it has come under consideration only in the last few years, the Canadian system of wood frame construction is gaining recognition within the developing villa and townhouse niche in China. China's wood frame housing construction market could increase to 50,000 units annually by 2012, from a total of 500 2×4-style homes in 2002. This offers a huge

potential opportunity to Canadian producers of dimension lumber, oriented strand board and/or plywood, as well as suppliers of related goods and services to China.

China is finishing the revision of its building codes. The new Timber Structure Inspection Code (GBJ 206) was approved in August 2002, and the new Timber Structure Design Code (GBJ 5) should be ready for 2003. The previous building codes did not recognize the Canadian system of wood frame construction or reference Canadian products, grading rules or design properties. The Canadian 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 codes provides Canada with a unique opportunity to influence the future design of Chinese housing. Estimates have been made that, with the new building codes, exports of Canadian softwood lumber to China might triple in 2003. Canadian softwood exports to China increased an average of 72% on year to 190,000 cubic metres in 2001.

In 2002, the Canadian government committed up to \$35 million to expand Canada's wood products markets in countries such as China, which present huge opportunities for the wood products industry. Under this initiative, the federal government, the provincial governments and the industry will work together to increase exports of Canadian wood products and brand Canada as a trusted, reliable and preferred supplier of quality wood products. The initiative 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.

Border Trade

Special measures on border trade have been adopted by China. These measures provide that commodities imported in small volumes by approved enterprises via designated land border ports of entry are subject to import duty and value-added tax at half the usual rates. There are concerns that these preferential measures are being applied to commercial shipments of commodities, such as pulp, to the disadvantage of Canadian exporters. We are seeking clarifications on

the scope and implementation of these measures, and we will continue discussions with Chinese authorities to ensure that China addresses this matter in a way that is consistent with WTO rules.

Newsprint

Anti-dumping duties of between 59% and 79% have been in effect in China on Canadian newsprint since a preliminary determination on July 10, 1998. The duties will expire on July 10, 2003. China may issue a public notice before the expiration of the duties, calling on interested parties to submit their views regarding the renewal of anti-dumping duties.

INVESTMENT

In 2002, China was the largest recipient of FDI in the developing world. Canadian direct investment in China has shown a consistent increase in recent years, rising from \$419 million in 1997 to \$960 million in 2001 (while Canada received \$203 million in direct Chinese investment during 2001). The average size of new investments is steadily increasing, and the profile of the average investment is shifting from small family enterprises to the more sophisticated operations of multinational companies. Canada continues to consider China a priority for the negotiation of a foreign investment protection and promotion agreement, and discussions toward restarting negotiations are ongoing.

Hong Kong

Overview

The Hong Kong Special Administrative Region maintains considerable autonomy in economic, trade, cultural and political affairs and will continue to do so until 2047. Hong Kong has its own fiscal system and does not remit revenue to the central government, nor does the central government levy tax. The Hong Kong dollar, pegged to the U.S. dollar, continues to circulate as legal tender, and Hong Kong remains a free port and a separate customs territory.

This distinct economy is a member of APEC and the WTO under the name “Hong Kong, People’s Republic of China.”

Hong Kong remains an aggressively free-market economy, with virtually no barriers to entry or 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 2002 and also imported goods worth almost \$1 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 small and medium-sized enterprises.

Investment

In 2001, Hong Kong was the eighth-largest investor in Canada with \$4.3 billion (stocks) in investments. Canada has invested \$4.8 billion in Hong Kong. There was a significant concentration of Canadian investments in the financial services sector. In general, Canadian investors face few difficulties in the Hong Kong market, which features excellent infrastructure, low taxes and high value-added direct investment.

Republic of Korea

Overview

In 2002, Canada’s goods exports to the Republic of Korea totalled almost \$2 billion, and imports were \$4.9 billion. Korea is Canada’s third-largest market for goods exports in the Asia-Pacific region (after Japan and China), and the eighth-largest worldwide.

While considerable liberalization occurred after Korea's 1997 financial crisis, 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 import 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, aims to increase cooperation in such areas as trade, investment, industrial cooperation and technology transfer. One subcommittee of the SPWG specifically addresses market access issues, while a second was created to further cooperation between the private sectors of both countries, initially focusing on manufacturing technology, new materials, biotechnology, environment, energy and telecommunications.

In 2002, Canada initiated a comprehensive strategy aimed at resolving outstanding sanitary and phytosanitary issues through discussions among technical officials.

Market Access Results in 2002

- In July 2002, Korea permitted establishments registered with the Korean Ministry of Agriculture and Forestry to freeze chilled imported beef and pork under certain conditions.
- In November 2002, Korean authorities approved a Canadian certificate for dry and canned pet food.

Canada's Market Access Priorities for 2003

- Continue annual monitoring of applied tariffs that are subject to possible adjustment to ensure that market access for Canadian products is not reduced.
- Continue to press for tariff parity between competing products such as canola oil and soybean oil and feed peas and other feed ingredients.
- Press for changes to soybean tendering procedures.
- Press for agreement on a health certificate for poultry.
- Press for agreement on phytosanitary protocols for softwood lumber, tomatoes and seed potatoes.

- Press for the necessary approvals for the sale of seal meat for human consumption in Korea.

IMPROVING ACCESS FOR TRADE IN GOODS

Canola Oil

Canada continues to seek tariff parity between canola oil and other competing products such as soybean oil, as well as the elimination of tariff escalation (i.e. low tariffs on raw materials and higher tariffs on processed goods). Korea applies a tariff of 10% on crude canola oil and 30% on refined. Canola oil is the only imported edible oil that is subject to this treatment. In comparison, Korea applies a 6% tariff on crude and refined soybean oil.

Tariffs on Feed Peas

Korea does not differentiate between dried peas for human consumption and feed peas. Korea's applied tariff for dried peas is 28%. The tariffs for most of the competing feed products such as barley, wheat and lupins is 5%. The tariff prevents the import of feed peas, which is detrimental to Canadian exporters and 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 a level equivalent to that for other competing feeds.

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.

Softwood Lumber

Korea requires all Canadian softwood lumber exports to be kiln dried and heat treated in order to eliminate plant pests. Canada is pressing Korea to accept an alternative means of reducing plant health risks that is more economically sound.

Tomatoes

British Columbia exporters would like to export tomatoes. However, Korea prohibits Canadian tomatoes based on the presence of tobacco blue mould (TBM) in Canada. British Columbia is free of TBM and, in addition, tomatoes are not carriers of TBM. Canada is proposing mitigating measures to eliminate any phytosanitary risk based on biological data supplied earlier to Korea.

Seed Potatoes

Korea prohibits imports of Canadian seed potatoes due to concerns about a variety of phytosanitary diseases. Canada has proposed risk mitigating measures, and discussions between technical officials are continuing.

Seal Meat

Korea does not list seal meat for human consumption in its Food Code. Canada has made numerous representations to Korean authorities to have seal meat approved for human consumption. As a result of continuing pressure, in 2002 Korea indicated that it would seek agreement from the Korean National Assembly to include seal meat in the Food Code.

Poultry

Canada continues to object to Korean animal health import requirements for poultry.

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.

Government Procurement

On September 1, 2001, a Canada–Korea Telecommunications Equipment Procurement Agreement was implemented. This agreement provided Canadian suppliers with non-discriminatory access to procurements by Korea Telecom (KT), Korea's state-owned telecommunications services provider. In 2002, the Korean government sold all its interest in KT and petitioned Canada to remove all references to KT from the agreement. Canada is reviewing this request.

Chinese Taipei (Taiwan)

Overview

In 2002, Canadian goods exports to Chinese Taipei totalled \$1.1 million. Chinese Taipei ranked fifth among Canada's export markets in the Asia-Pacific region, accounting for 5.6% of our total exports to the region. Canada's goods imports from Chinese Taipei in 2002 totalled \$4.2 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 that affect agricultural and agri-food imports.

WTO Accession

Chinese Taipei officially joined the WTO on 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 into line with the WTO framework. A key outcome will be the disappearance of preferential market access previously accorded to U.S. suppliers in a number of product areas, as Chinese Taipei is now bound by the WTO principle of non-discrimination.

Chinese Taipei has begun implementing market access terms 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 Information Technology Agreement (ITA), agreeing to full tariff elimination on IT 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 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 has 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. It has also given assurances 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.

Market Access Results in 2002

- Access was achieved for greenhouse peppers from B.C. after Chinese Taipei declared the province to be pest-free (or equivalent thereof) for tobacco blue mould.

Canada's Market Access Priorities for 2003

- 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 on greenhouse tomatoes.
- Continue to press for a prescriptive building code for softwood lumber.
- Continue to press for recognition by Chinese Taipei of the equivalency of Canadian and U.S. quality control regimes for medical devices.
- Continue to press for advance notification of any changes in Chinese Taipei's regulations affecting trade in agricultural products.

IMPROVING ACCESS FOR TRADE IN GOODS

Greenhouse Tomatoes

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 tomatoes from British Columbia. Chinese Taipei insists on restricting imports of tomatoes, unless they can be certified as originating from an area free from potato late blight type A-2, a disease to which tomatoes are susceptible and which is found around the world. Canada maintains that simply certifying that the fruit is free from A-2 late blight should be sufficient. However, following an October 2002 visit to B.C. by a Taiwanese plant health specialist, plant health specialists from both countries agreed that a greenhouse could be considered an "area" of production and declared free from A-2 late blight. Canada is requesting that Chinese Taipei accept this recommendation.

Consultations on Regulatory Changes in Agriculture

Canada has expressed concerns to the Board of Foreign Trade about the lack of prior consultation on changes to regulations affecting the import of food products. For example, in 2002, a change in the application of import regulations on live seafood (e.g. lobster) was implemented without prior notification to foreign trade offices or importers. This change disrupted the import of highly perishable live lobsters from Canada.

Softwood Lumber

Chinese Taipei is a major 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 island's wood building code is insufficiently prescriptive to assure adequate quality. The Canadian wood products industry is currently working with the Chinese Taipei government on the revision of its wood building code. Revisions have been proposed, but the timing for implementation has yet to be set.

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 averaged 6.5% between 1993 and 2000.

The process of economic reforms 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 (e.g. 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, pension and labour regimes, among others, is being contemplated.

Total Canada-India merchandise trade for 2002 reached almost \$2 billion, with a balance of \$690 million in India's favour.

FDI is allowed in all areas, except for a limited number of sensitive sectors (e.g. atomic energy, railways). FDI ceilings and approval processes have been progressively relaxed, so that a large majority of sectors are now open to 100% foreign equity, via the automatic approval route. Ceilings on FDI remain in a diminishing number of sectors, such as insurance (26%), defence (26%) and banking (49%), 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.

Indian investment in Canada remains underreported for a variety of technical reasons. The opening of several software development centres in Canada by major India-based IT firms points to the attractiveness of Canada as an investment destination and has attracted additional Indian investment. The growing Canada-India bilateral trade and investment ties have been facilitated by a number of business associations, most notably the Confederation of Indian Industry, the Federation of Indian Chambers of Commerce and Industry, the Canada-India Business Chamber and the Indo-Canadian Chamber of Commerce.

India constitutes a potentially significant market for almost any type of good, service or technology. An expanding middle class, estimated at up to 300 million, is interested in new products from around the world, and 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, as well as banking, insurance and educational services.

Canada's Market Access Priorities for 2003

- 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.
- Monitor the increasing number of trade remedy actions being taken by India against Canadian imports (e.g. anti-dumping action on specialty steel and vitamin C, safeguard case against edible oil).
- Seek tariff parity between canola oil and soybean oil, as well as prevent the application of safeguard duties on canola oil.
- Continue to seek approval of Canada's export certificate for pork.

- Continue to assist India in reforming its telecommunications policies and regulations.

IMPROVING ACCESS FOR TRADE IN GOODS

Agricultural and Manufactured Goods

In 2001, Canada's agri-food exports to India totalled \$200.5 million, the majority of which were pulses (peas, chickpeas and lentils). Canadian exporters are seeking improved access to the Indian market for some agricultural products but have concerns regarding India's import requirements and tariff levels.

India maintains a negative list of imports, which encompasses prohibited, restricted and canalized items. Prohibited items include wild animals and birds; tallow, fat or oils of animal origin; ivory; beef and beef products; and rennet. Restricted items include firearms, certain medicines and drugs, and poppy seeds. Import permits are required for some agricultural products such as seeds for sowing and livestock products. Canalized items are channelled through a designated product specific state trading enterprise. For example, the Food Corporation of India is the canalizing agency responsible for imports of most cereals. Canada will continue to encourage the Indian government to bring its import regime into full compliance with WTO norms.

Bovine Semen

In 1997, India banned the import of bovine semen from Canada. Following representations from Canadian officials, India announced in 2001 that it would lift the ban. However, imports have not resumed as no import permits have been issued by the Indian government. Canada will continue to press India for a final resolution of the issue.

Canola Oil

India applies a tariff of 45% on soybean oil and 85% on canola oil. Canada is seeking improved market access for canola oil to increase its competitiveness vis-à-vis soybean oil. Canada is also seeking to prevent the application of safeguard duties on canola oil in the context of India's ongoing safeguard investigation on all edible vegetable oils.

Pork

India does not accept Canada's export certificate for pork, because the Canadian certificate does not cover some diseases that India requires to be reported. Canada views India's requirements as overly stringent since Canada currently exports pork to over 100 countries.

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. Annual FDI inflows into India have increased dramatically from less than US\$100 million in 1991 to more than US\$2.3 billion in 2001. Canadian direct investment in India is still modest, but the flow increased to \$18 million in 2001 from \$2.4 million in 1991.

Australia

Overview

Australian imports from Canada totalled \$1.1 billion in 2002, while Canadian imports from Australia amounted to \$1.7 billion, for a two-way total of \$2.8 billion. In 2001, Canadian direct investment in Australia amounted to \$3.4 billion and foreign direct investment in Canada from Australia was \$1.6 billion. Canadian sales successes in Australia continue to be oriented toward fully manufactured goods, including aircraft and automobile parts. Pork and lumber are also among the major Canadian exports to Australia.

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, although a substantial amount benefits from duty-free rates.

Some important non-tariff measures have an impact on market access. 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 2003

- Continue to press for removal of the Australian ban on imports of pork products.
- Continue to work with Australia to ensure that softwood lumber regulations do not restrict Canadian lumber exports.

IMPROVING ACCESS FOR TRADE IN GOODS

Pork

For several years, Australia has maintained requirements preventing the import of unprocessed pork products from Canada and other countries due to alleged animal health concerns. The measure requires that imported pork must either be cooked in the exporting country or in a transitional facility in Australia. These measures raise the cost of Canadian pork and exclude Canadian exporters from direct access to Australia's retail market. Australia justifies the measures on the basis of the presence of porcine respiratory and reproductive syndrome (PRRS). Canada has long sought the removal of these restrictions, which are based, in Canada's view, on unsubstantiated health and safety claims.

In May 1998, Australian authorities proposed a generic Import Risk Analysis (IRA) on imported pork and sought public comment. In January 2001, Biosecurity Australia published an issues paper upon which Canada provided comments, including on the PRRS issue. It is anticipated that the draft IRA will be circulated for comment in 2003.

Softwood Lumber

In June 1999, Australia undertook an import risk assessment to assess the quarantine risk associated with imports of coniferous sawn lumber and log

imports from Canada, New Zealand and the United States. This will determine future import conditions on timber imported from these countries. It is anticipated that Australia, in its final assessment, is likely to recommend the implementation of phytosanitary treatments for products prior to export. This is likely to involve kiln drying, heat treatment and/or application of insecticides. Canadian scientists have been closely involved with Australian authorities at all stages of the IRA to ensure that the treatment of lumber does not become a serious threat to a trade that has been ongoing for more than a century. Annual Canadian coniferous lumber exports to Australia have averaged \$87 million over the past decade.

New Zealand

Overview

In 2002, Canada exported \$208 million in goods to New Zealand and imported \$555 million in return. In 2002, Canada's leading exports to New Zealand were fertilizer, 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. Total Canadian foreign direct investment in New Zealand was \$1.5 billion in 1999.

Canada's Market Access Priorities for 2003

- 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 import of unprocessed pork products from Canada and other countries due to alleged animal health concerns—porcine respiratory and reproductive syndrome.

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 for several years upon unprocessed pork from Canada. According to New Zealand import data, in the year ending October 2002, Canadian exports declined 21% over the previous year.

Canada's position is that the measures are scientifically unjustified. We have been pursuing the issue at the technical level. In February 2002, the Canadian Food Inspection Agency agreed to conduct more scientific research on PRRS. This is expected to be completed later this year.

Canada made high-level representations objecting to New Zealand's requirements on the grounds that these are more trade-restrictive than necessary and not based on science. Canada is working with New Zealand technical authorities to find the earliest possible, mutually acceptable solution.

Trout

In December 1998, New Zealand imposed a "temporary" ban on the import of trout. Since then, the ban has been extended several times. In October 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's position is that New Zealand has provided no scientific information to justify the ban on conservation or any other grounds, and that it is inconsistent with New Zealand's international trade obligations. Canada would like New Zealand to remove the ban.

Salmon

In 1995, New Zealand approved the import 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 that discourage imports from Canada, including a requirement that imported salmon 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 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 already presents few barriers to Canadian exports, the most notable exceptions being alcohol and tobacco. The same open policy also extends to immigration as the Singapore government actively encourages foreign talent to live and work in the city state. Singapore is therefore a popular Southeast Asian destination for Canadian businesses and individuals.

Singapore continues to offer significant opportunities for Canadian exports of goods, services and technology. In 2002, Canadian exports of goods to Singapore were \$513 million, and imports from Singapore were \$988 million, while trade in services between the two countries for the year 2000 was \$829 million. Already the region's premier transportation hub, Singapore is investing heavily to position itself as a Southeast Asian hub for information and communications technology, financial services, life sciences and cultural industries. To support the development of these knowledge-based industries, Singapore in 2001 converted the Intellectual Property Office of Singapore into a statutory board under the Ministry of Law.

In 2002, Canada and Singapore commenced negotiations toward a bilateral free trade agreement. The Canada-Singapore Free Trade Agreement, when complete, will improve the ability of Canadian firms to export to and invest in Singapore in those areas still subject to protection.

Market Access Results in 2002

- Completed three full rounds of negotiations toward a bilateral free trade agreement.

Canada's Market Access Priorities for 2003

- Continue negotiations toward a Canada–Singapore Free Trade Agreement in order to remove remaining barriers to trade in goods and improve overall access for Canadian investment and services in sectors such as financial and professional services.
- Continue to monitor the development of intellectual property legislation and enforcement efforts in Singapore for patents, trademarks and copyrights.
- Continue to encourage discussions on 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.

Investment

While inward FDI to Canada from Singapore remained stable at \$132 million in 2001, Canadian direct investment in Singapore jumped sharply to \$4.52 billion from \$3.0 billion and \$3.2 billion in 1999 and 2000 respectively. While most of the Canadian direct investment in Singapore is in the form of regional offices in services sectors such as banking and insurance, Canadian firms in the environmental technology, aircraft maintenance, manufacturing and retail sectors also have a presence.

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 Agency for Science, Technology and Research and the Singapore Economic Development Board. Most of these funds are geared toward attracting foreign corporations and expertise to Singapore to help develop strategic growth areas, such as life sciences and ICT.

INDONESIA

Overview

In 2002, the Indonesian economy grew an estimated 3.6%, driven primarily by government spending and domestic private consumption. However, there is growing concern that the boom in consumption that is driving GDP growth is falling off. In addition, a continuing dearth of investment, particularly after the bombing in Bali, could affect economic growth in 2003.

Indonesia remains Canada's largest export market in Southeast Asia. Commodities are still the top export to Indonesia, making up 65% of total exports. However, electronics and prepared foods are two areas in which Canadian firms are making inroads. As long as the consumption boom continues, there will be opportunities for Canadian-made consumer goods.

On the fiscal and monetary policy fronts, Indonesia is performing well. In recognition of this fact, several international rating agencies upgraded Indonesia's sovereign ratings in August and September 2002. Inflation in the Consumer Price Index fell from 11.5% in 2001 to 11.9% in 2002. Indonesia's fiscal year 2002 budget implementation remained on track throughout 2002, with the full year deficit equivalent to 2.6% of GDP. In August 2002, the government unveiled a conservative US\$40.7 billion draft budget for fiscal year 2003 that forecasts a deficit equivalent to 1.3% of the 2002 GDP, though post-Bali revisions have moved that to between 1.6% and 2.0%. Major announced increases in fuel and electricity prices (which significantly reduce the fuel subsidy, still a large part of the national expenditure budget) will assist in keeping that deficit to a minimum.

Market Access Results in 2002

- The tariff for processed Canola oil was confirmed at zero after the Customs Service attempted to impose a 10% tariff that would have made competition with other competing edible oils more difficult.
- Canadian Food Inspection Agency certification for fish products was accepted, enabling improved access to Indonesian markets.

- The “check price” on which tariffs are assessed for Canadian apples was reduced to match that for competing U.S.-source products.
- Equal certification measures were obtained for Canadian meat bonemeal that allow access on par with Australia, New Zealand and the United States, the only other approved source countries.

Canada’s Market Access Priorities for 2003

- Ensure that Indonesia does not impose increased tariffs on soybeans and other agricultural products.
- Continue to ensure that Indonesia’s check price system does not disadvantage Canadian exporters.
- Monitor Indonesia’s intention with respect to implementing a product labelling system and provide timely advice to Canadian exporters.
- Press for reform of Indonesia’s corporate bankruptcy laws to require ministerial approval for bankruptcy declarations against all financial institutions.
- Lobby the Indonesian government to establish clear interconnect regulations in the telecommunications industry. The lack of transparent regulation has slowed growth, impeding Canadian telecom exporters’ access to the market.

Investment

With a population of over 220 million people, Indonesia offers a large and growing domestic market and a large workforce, diverse and abundant natural resources, reasonably modern telecommunications and other infrastructure, and a strategic location along some of the world’s major trade routes. If Indonesia continues to move toward implementing a sound policy framework and continues a strong commitment to reform, it should be able to take advantage of its fundamental economic strengths to restore investor confidence.

Unfortunately, investor confidence has remained depressed compared with levels in the 1990s, for a number of reasons. One reason may be excesses of capacity in certain sectors due to overly optimistic growth projections in the past. Another reason is that many existing domestic investors are prevented, by their ongoing debt-restructuring activities, from being able to consider much new investment. A third reason may be the general global downturn in FDI

activities following recent stock market retrenchments and concerns about recessions in many countries. In addition to these factors, existing and potential investors cite concerns that include political uncertainty, unclear decentralization, uneven implementation of economic reforms, an unreliable judicial system, security issues and the treatment of existing investors.

Events in 2002, including the highly suspect (and ultimately overturned) bankruptcy declaration of a solvent Canadian-based insurance firm, continued to erode investor confidence in Indonesia. Furthermore, the foreign investment community has yet to see the government take strong actions to improve the investment climate and legal regime. One such action that is eagerly anticipated is reform of the corporate bankruptcy legislation. Such reform should offer the same level of protection for insurance companies as that currently given to banks, which require approval from the Minister of Finance to be declared bankrupt.

While total recorded Canadian direct investment exceeds \$2.2 billion, the flow of any new large scale Canadian direct investment has dried up due to continued uncertainties about the future political and economic climate in Indonesia. A number of Canadian resource companies had 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 representations on behalf of specific companies.

New small and medium-sized Canadian investments, which are more immune to political uncertainties, have continued, but at a slower pace than in the late 1990s. Within these new investments, there has also been a shift from manufacturing for the domestic market to manufacturing for export markets as a result of lower production costs.

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, but the reform is extremely slow. Businesses

also continue to face time-consuming procedures in obtaining approvals for licences and permits required to implement their investment plans, though the process has improved somewhat. A limited number of sectors are closed to foreign direct investment, including freshwater fishing, forestry, public transportation, broadcasting, film making, telecommunications, onshore drilling services 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. Because both the regional and central governments seek to control the process of investment approvals, some confusion exists. Overall, however, most companies report that regional autonomy has not significantly complicated the course of doing business in Indonesia. Most of Canada's non-resource-based investments are located on the island of Java, where the largest domestic markets exist and where regional autonomy has not been as pressing an issue as it has been for the other islands.

The Canadian government has long supported investment in Indonesia by placing advisors inside the Investment Coordinating Board and other locations under the auspices of the Canada-Indonesia Business Development Office (CIBDO). Several tens of millions of dollars of new investments are currently under consideration by Canadian firms, with CIBDO's assistance, largely in the manufacturing and domestic services sectors. Canadian investment is expected to increase further once broader stability returns to the country and obstacles to investment security are removed.

THAILAND

Overview

Following an economic contraction of over 9% in 1998 during the Asian crisis, the Thai economy is now largely back on track. In June 2000, Thailand officially graduated from its International Monetary Fund program and began to make its IMF loan repayments in November of that year. In 2002, Thailand registered GDP growth of 4.9%, spurred on by domestic private consumption and government spending. Although Thailand still faces challenges,

notably related to the precarious situation of its financial sector, its prospects remain very positive, particularly with additional reform legislation.

Thailand is Canada's second-largest trading partner in Southeast Asia. While trade between Canada and Thailand diminished during the economic crisis, in the past few years Canadian exports have recovered strongly and the prospects for continued growth are good. In fact, Canadian exports to Thailand grew 73% between 1999 and 2002. In 2002, Canadian exports to Thailand reached \$522 million. Moreover, buoyed by the devaluation of the Thai baht, Thai exports to Canada reached a record high of \$1.8 billion last year. Canadian investment in Thailand also continues to grow and reached \$1 billion in 2001.

Market Access Results in 2002

- Import tariffs on fibre-optic cable have been waived.
- Import tariffs on parts for producing colour televisions have been waived.
- The Thai government is reviewing tariffs on raw materials used in the production of electronic appliances and electronics.
- Tariff reductions for the textile and chemical industries are being finalized.
- The Thai government released tax incentives for foreign investors establishing their regional operating headquarters in Thailand.

Canada's Market Access Priorities for 2003

- Seek a reduction in the tariff on feed peas to a level comparable to that for other feed ingredients.
- Seek to address the 49% limit on foreign equity investment in joint ventures.

VIETNAM

Overview

Canada's exports to Vietnam in 2002 totalled \$69 million (up 18% from 2001). These numbers are quite modest considering that Vietnam's overall imports are approximately US\$17.5 billion. 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).

Economic reform has become a top priority. To this end, Vietnam is making an effort to play a greater role in the international trading system. It is aggressively pursuing membership in the WTO and has set 2005 as a target date for accession. Vietnam tabled its initial market access offers on goods and services in January 2002, and accession negotiations are expected to intensify. 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. Canada supports Vietnam's efforts to accede, including through the provision of accession-related technical assistance. Canada is also co-sponsoring the APEC Economic Integration Program, which aims to help six Southeast Asian developing economies (including Vietnam) strengthen their trade facilitation and negotiating capacities.

Vietnam recognizes that attracting foreign investment is key to expanding economic opportunities and is trying to reform its legal and judicial systems to create a more welcoming environment for FDI. 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, progress by the government has been slow.

Market Access Results in 2002

- A memorandum of understanding, signed by the Canadian Food Inspection Agency and Vietnam's Department of Animal Health, that included health certification agreements for a variety of livestock and livestock products. Recently, Vietnam recognized Canada's BSE free status.
- The government continues to implement key reforms, including in the financial sector and with respect to private sector development. Canadian businesses will benefit from improved commercial conditions, although Vietnam will remain far less developed than the regional average.
- The continued commitment of the Vietnamese government to WTO accession by 2005.

Canada's Market Access Priorities for 2003

- Identify and secure improved treatment for Canada's goods and services in bilateral negotiations with Vietnam. Support multilateral efforts at the WTO for Vietnam to develop a consistent, transparent and effective trade policy regime.
- Continue to play a positive role, through bilateral programs and in forums such as APEC, in developing a capacity-building program for trade and economic policy.
- Solidify access for Canada's agriculture and agri-food products through continued negotiation of bilateral, sanitary- and phytosanitary-related arrangements when appropriate.
- Ensure that Canada's right to most-favoured-nation treatment on goods is protected vis-à-vis Vietnam's other trading partners.
- Advocate the specific interests of Canadian companies in the market. In particular, try to ensure that proposed changes to Vietnam's Mineral Law correspond to the needs of the Canadian mining industry.

MALAYSIA

Overview

Malaysia is Canada's largest trading partner in Southeast Asia. In 2002, Canada exported goods totalling \$477 million to Malaysia, and imported goods valued at \$2 billion. While we have a significant trade deficit in goods with Malaysia, trade in services is far more balanced. In 2000, two way trade in services totalled \$249 million, with Canada registering a \$37 million surplus. Overall trade is expected to continue to grow in 2003, as the Malaysian economy continues to recover, and the government initiates another expansionary budget.

Malaysia, like many members of the Association of South-East Asian Nations (ASEAN), has recently expressed increased interest in bilateral and regional trade agreements, although it continues to protect its automotive industry. Malaysia has a relatively open, market-oriented economy, and Canadian exporters have not reported any major market access barriers. Export Development Canada has identified, however,

that “politics” does play a role in the economy. The transparency of the decision-making process for projects involving the government requires that Canadian exporters appoint strong local representatives. The Malaysian government allows 100% foreign equity in investments in most sectors. However, a notable exception is the oil and gas sector, where joint ventures with Petronas are the norm.

Market Access Results in 2002

- Malaysia’s decision to keep the ringgit pegged to the U.S. dollar for the time being gives Canadian products a price advantage in the Malaysian market.
- Malaysia’s high-profile campaign against piracy of software and movies gathered momentum in 2002 with many well-publicized raids on offenders. Nevertheless, Malaysia remains one of Asia’s three main hubs for pirated software and movies.

Canada’s Market Access Priorities for 2003

- Monitor intellectual property legislation and enforcement.
- Pursue further trade liberalization for goods and services in the context of WTO negotiations, especially in the banking sector, which holds potential for Canadian companies.
- Continue to press for further progress in corporate governance and judicial reform, the lack of which acts as a non-tariff barrier to Canadian trade and investment.
- Monitor Malaysia’s decision to extend tariff protection for its automobile industry until 2005. The Malaysian approach limits joint-venture and market opportunities for Canadian parts manufacturers.

PHILIPPINES

Overview

The Philippine economy demonstrated remarkable resilience to external developments in 2002. It was competitive with all other Southeast Asian countries in 2002 with GDP growth of 4.6%. Inflation is down and the peso is stable. The positive performance is due to increased political stability and to President Macapagal-Arroyo’s sound and determined

approach to the country’s economic policy. The government’s policy stresses fiscal responsibility, free enterprise, a modernized agricultural sector, a social bias toward the disadvantaged and a raising of the moral standards of government and society. Also contributing to positive performance in 2002 was the stabilizing effect of remittances from the estimated eight million overseas Filipino workers. Although there are still concerns over reforms, transparency and the 2002 deficit, the country’s economic situation today is markedly better than under the Estrada Administration. The Philippine government is committed to eliminating the budget deficit by 2006, but it is now clear that targets for this year will not be met due to poorer-than-expected revenue collection.

Market Access Results in 2002

- The Philippines suspended Administrative Order 25 (AO-25), which would have imposed onerous requirements for third-party independent inspections in the country of origin of all meat exported to the Philippines. However, elements of AO-25 were re-introduced in a different manner (see Memorandum Order 7 below).
- Canadian advocacy of socially and environmentally responsible mining prompted the World Bank’s private sector lending arm, the International Finance Corporation, to commit to holding a national policy dialogue on responsible mining in 2003. This should in turn contribute to a friendlier and more predictable investment climate.
- Canada pressed for due process on a number of specific investment projects.

Canada’s Market Access Priorities for 2003

- Press for the withdrawal of Memorandum Order 7, which will impose duplicative and unnecessary certification requirements for all Canadian meat, milk and their products exported to the Philippines.
- Continue to advocate the benefits of a socially and environmentally responsible mining industry.
- Monitor and assess the investment climate for transparency and due process.

Improving Access for Trade in Goods and Services

Memorandum Order 7—Meat, Milk and Their Products

In July 2002, the Philippines approved Memorandum Order 7, which requires each plant wishing to export meat, milk or their products to the Philippines to submit to a verification, by an independent inspector chosen by the Philippine government, of its compliance with Philippine HACCP (Hazard Analysis and Critical Control Points) standards. The verification inspection must be re-done every three months for each plant at the exporter's expense. The inspection requirements for imports of milk and its products have been delayed to January 1, 2004. The auditing requirements for meat and its products were to have come into effect on January 1, 2003, but have since been delayed to April 1, 2003.

Canada continues to object strongly. The new requirements are unnecessarily onerous. Canada is pressing Philippine authorities to accept Canadian Food Inspection Agency attestation that Canadian plants are HACCP-compliant.

Investment

In 1998, Canadian direct investment in the Philippines was \$370 million. The largest Canadian investors in the Philippines are Sun Life 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 on mineral production sharing agreements, where permitting can be slow and unpredictable, and where the national government's administrative and implementation capacity in the regions is limited.

Government decision making on build-operate-transfer (BOT) and private sector participation projects has also proven less than fully predictable, with (in particular) the law and regulations on unsolicited BOTs subject to differing interpretations.

CAMBODIA

Overview

Cambodia has a relatively open, market-oriented economy. Government reforms are ongoing, and Canadian exporters have not faced major market access barriers. Cambodia's period of economic growth continued in 2002, with gains in the garment and tourism sectors. Local partners are key to doing business successfully in Cambodia, since informal barriers to trade do exist. In 2002, Canadian exports to Cambodia totalled \$1.6 million, and imports from Cambodia reached \$20.8 million.

Cambodia's accession to the WTO is progressing well. Cambodia and WTO members hope to complete the accession negotiations in 2003, making Cambodia the first least-developed country to join the WTO since its creation in 1995. Canada supports Cambodia's efforts to accede, including through the provision of accession-related technical assistance. Canada is also co-sponsoring the APEC Economic Integration Program, which aims to help six Southeast Asian developing economies (including Cambodia) strengthen their trade facilitation and negotiation capacities. In addition, the Cambodian government has developed a Pro-Poor Trade Policy Strategy, as one of three pilot countries under the integrated framework, which consists of the six core agencies (IMF, U.S. International Trade Commission, UN Conference on Trade and Development, UN Development Programme, World Bank and the WTO).

Market Access Results in 2002

- Canadian environmental and consulting services companies established offices in Cambodia.
- A Canadian company invested in a waste management operator, while others are pursuing projects funded by international financial institutions (IFIs).
- A Canadian power company expanded a US\$4-million investment project in Cambodia.

Canada's Market Access Priorities for 2003

- Advocate the interests of Canadian companies in the market, particularly in the ICT and environmental sectors.
- Advocate the interests of Canadian companies with respect to IFI-funded projects.
- Continue to press for progress in corporate governance and judicial reform, which act as non-tariff barriers to Canadian trade and investment.



7 *Opening Doors to Other Key Markets*

Middle East

ISRAEL

The year 2003 marks the sixth anniversary of the implementation of the Canada–Israel Free Trade Agreement (CIFTA). The most significant factors in the increase in trade between Canada and Israel continue to be the absence of tariffs on virtually all industrial products and the reduction of tariffs on many agricultural and agri-food products. Bilateral trade has more than doubled since CIFTA came into effect. Trade in goods and services reached almost \$1 billion in 2002. Machinery, newsprint and high-technology products comprise the bulk of Canadian exports. Canadian companies are also strong services exporters, particularly in sectors such as transportation infrastructure. In addition, Canadian firms continue to make strong gains in priority sectors such as aerospace, information and communications

technologies, transportation, agriculture and agri-food, and wood and paper products.

As provided for under CIFTA, Canada and Israel continue to engage in discussions to further liberalize bilateral trade in agricultural and agri-food products. As a result of consultations with Canadian producers and exporters, Canada continues to press for improved access to the Israeli market for prepared and frozen foods, canola oil, fresh and frozen fruit and vegetables, pulse crops and pet food. Such access will help maintain Canadian exporters' competitive position vis-à-vis exports from other countries, and will also help secure long-term opportunities for Canadian agri-food products. Canada and Israel agreed at the outset of the current round of bilateral negotiations to exclude the supply-managed sectors of dairy, eggs and poultry. Canada is also seeking improved access for pharmaceutical products.

On July 8, 2002, amendments to CIFTA were implemented that allowed most goods originating from either Canada or Israel to undergo minor processing in the United States without losing their originating status, thus maintaining preferential customs duties under CIFTA.

Two-way flows of direct investment were estimated at nearly \$1.3 billion for the years 1999 to 2001. There is bilateral investment activity in a wide range of sectors including information and communications technologies, construction and life sciences. There are no particular barriers faced by Canadian investors in Israel.

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 to improve 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 into and out of the West Bank and Gaza Strip.

Arabian Peninsula

Double taxation agreements (DTAs) were finalized with Kuwait and the United Arab Emirates over the course of 2002. The main objective of DTAs is to facilitate investment between two countries by preventing or giving relief for double taxation, whereby tax is charged by both countries on the same income or profit. With these agreements in place, consideration is being given to a DTA with Oman.

Saudi Arabia continues to work toward accession to the WTO. 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 and the Agreement on Technical Barriers to Trade. Canada will also continue to seek access for goods and services of key export interest.

Yemen requested accession to the WTO in 2000, but has not yet submitted its memorandum on its foreign trade regime.

The Maghreb

The Maghreb region represents a growing market for Canadian goods and services, with Canadian exports reaching \$1.1 billion in 2000. Canadian goods exports increased 26.4% from \$625 million in 2001 to \$790 million in 2002. 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. Algeria, Morocco and Tunisia have all signed association agreements with the European Union.

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 the fourth meeting of the working party was held in November 2002. Canada's 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 International Monetary Fund, 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. Morocco and the United States agreed to the negotiation of a free trade agreement in 2002.

LIBYA

Libya deposited its application for accession to the WTO in December 2001. A working party has yet to be established. The Canadian Embassy in Libya officially opened in 2002, and has since made significant progress in expanding access to the Libyan market for Canadian companies. Canada's exports to Libya increased 120% between 2001 and 2002, rising from \$20.5 million to \$45.1 million.

TUNISIA

Tunisia is actively pursuing a trade liberalization policy. Tunisia joined the WTO in 1995 and was the first Maghreb country to sign an association agreement with the European Union. This agreement foresees the progressive elimination of Tunisian tariffs and the eventual creation of a free trade area with the European Union in 2008. 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.

Canadian exports to Tunisia increased substantially in 2002, a year in which Canada hosted a Canada–Tunisia Bilateral Commission to further advance economic cooperation and market access.

Sub-Saharan Africa

African gross domestic product is currently growing faster than the GDP of any other developing in region of the world. Canada exported \$606 million in goods to sub-Saharan Africa in 2002, down from \$700 million in 2001. The addition of services exports would bring total exports to over \$1 billion. Goods imports from sub-Saharan Africa increased by 10% to \$1.2 billion, with crude oil accounting for over a third of this figure. On January 1, 2003, Canada opened its markets to African imports by eliminating tariffs and quotas on most imports from 48 least-developed countries, of which 34 are located in Africa.

SOUTH AFRICA

South Africa is Canada's largest trading partner in sub-Saharan Africa. The trading relationship is diverse and well developed, with exports from Canada ranging from mining machinery through grains to communications equipment.

South Africa continues to pursue an open trading regime. In addition to its international activities in multilateral organizations such as the Cairns Group, it continues to open its domestic market. Since the end of apartheid, tariffs have been simplified and reduced and non-tariff barriers have been scaled back. Competition is being encouraged by reducing the concentration of business ownership, a legacy of apartheid, and through privatization and deregulation. South Africa actively encourages foreign investment in order to accelerate development and increase employment. To encourage greater inclusiveness, the government actively promotes economic empowerment in both the public and private sectors.

Canada's Market Access Priorities for 2003

- Continue to press 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) for large procurement contracts, which have in the recent past created transparency problems.
- Continue to monitor Canada's competitiveness in light of the free trade agreements that South Africa has with the European Union, Mercosur and the Southern African Development Community.
- Monitor South African policies and programs, such as the new natural resources legislation and the economic empowerment program, to ensure that the interests of Canadian investors are protected.

EAST, WEST AND SOUTHERN AFRICA (EXCLUDING SOUTH AFRICA)

Canadian exports to the rest of sub-Saharan Africa are concentrated in a few commodities. Exports to the region from the European Union and the United States suggest that Canadian suppliers are not winning the share of African business that might be expected. A priority for 2003 will be identifying new opportunities to export to Africa and exploring reasons for the apparent reduced access of Canadian exporters to African markets. The November 2002 trade and investment mission to South Africa, Nigeria and Senegal, led by International Trade Minister Pierre Pettigrew, was an important first step in this direction.

8 Glossary of Terms

ACCESSION: The process of becoming a contracting party to a multilateral agreement. Negotiations with established contracting parties of the WTO, for example, determine the concessions (trade liberalization) or other specific obligations a non-member country must undertake before it is entitled to full WTO membership benefits. (*Accession*)

APPLIED TARIFF: The rate of duty actually in effect at the border. (*Tarif appliqué*)

ANTI-DUMPING: 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. Comprises 21 countries around the Pacific Rim that seek further Asia-Pacific economic cooperation. Members are Australia, Brunei, Canada, Chile, China, Hong Kong (China), Indonesia, Japan, Korea (Republic of), Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Chinese Taipei (Taiwan), Thailand, United States, Vietnam. (*APEC : Coopération économique Asie-Pacifique*)

BINDING: A nation’s commitment to maintain a particular tariff level or other legal restriction, i.e. a commitment not to increase a tariff above a specified level. (*Consolidation*)

CA-4 (Central America Four): El Salvador, Guatemala, Honduras and Nicaragua. Currently in free trade negotiations as a group with Canada. (*Groupe des quatre de l’Amérique Centrale*)

CAIRNS GROUP: A coalition of 18 agricultural exporting countries (Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, Uruguay) 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 : Accord de libre-échange Canada-Chili*)

CIFTA: Canada–Israel Free Trade Agreement. Implemented January 1, 1997. (*ALECI : Accord de libre-échange Canada-Israël*)

COUNTERVAILING DUTIES: 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 obliges 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. (*Évaluation en douane*)

DISPUTE SETTLEMENT: Those institutional provisions in a trade agreement that provide the means for settling differences of view between the parties. (*Règlement des différends*)

DOHA DEVELOPMENT ROUND: A new round of World Trade Organization negotiations, launched at the Ministerial Meeting in Doha, Qatar, in November 2001. (*Programme de Doha pour le développement*)

EFTA: European Free Trade Association. When founded via the Stockholm Convention in May 1960, EFTA had seven members. Since its founding, the composition has changed as new members joined and others acceded to the EU. Currently, there are four members: Iceland, Liechtenstein, Norway and Switzerland. (*AELE : Association européenne de libre-échange*)

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. (*IED : Investissement étranger direct*)

FTA: Free Trade Agreement. Often refers to the Canada–U.S. Free Trade Agreement that entered into force on January 1, 1989. (*ALE : Accord de libre-échange*)

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. (*ZLEA : Zone de libre-échange des Amériques*)

GATS: 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. (*AGCS : Accord général sur le commerce des 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. (*GATT : Accord général sur les tarifs douaniers et le commerce*)

GDP: Gross Domestic Product. The total value of goods and services produced by a country. (*PIB : Produit intérieur brut*)

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. (*Cadre intégré*)

INTELLECTUAL PROPERTY: A collective term used to refer to new ideas, inventions, designs, writings, films, etc., and protected by copyright, patents, trademarks, etc. (*Propriété intellectuelle*)

ITA: Information Technology Agreement. A WTO-based agreement with over 50 members that provides for duty-free trade in information technology and telecommunications products. (*ATI : Accord sur la technologie de l'information*)

LIBERALIZATION: Reductions in tariffs and the removal of other measures that restrict world trade, unilaterally, bilaterally or multilaterally. (*Libéralisation*)

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. (*NPF : Traitement de la nation la plus favorisée*)

NAFTA: North American Free Trade Agreement, involving Canada, the United States and Mexico. Implemented January 1, 1994. (*ALENA : Accord de libre-échange nord-américain*)

NON-TARIFF BARRIERS (MEASURES): Government measures or policies other than tariffs that restrict or distort international trade. Examples include import quotas, discriminatory government procurement practices, and 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. (*Barrières non tarifaires – mesures*)

OECD: Organization for Economic Cooperation and Development. Paris-based organization of industrialized countries responsible for the study of and cooperation on a broad range of economic, trade, scientific and educational issues. (*OCDE : Organisation de coopération et de développement économique*)

QUOTA: Explicit limit on the physical amounts of particular products that 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 that specifies only the total limit and thus tends to benefit more efficient suppliers. (*Contingent*)

RULES OF ORIGIN: Laws, regulations and administrative procedures that 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. (*Déclaration sur la frontière intelligente*)

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 (e.g. low interest export credits guaranteed by a government agency). (*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 kilograms). Tariffs give price advantage to similar locally produced goods and raise revenues for 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*)

URUGUAY ROUND: Multilateral trade negotiations launched in the context of the GATT at Punta del Este, Uruguay, in September 1986, and concluded in Geneva in December 1993. Signed by ministers in Marrakesh, Morocco, in April 1994. (*Cycle d’Uruguay*)

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 wherein all the participating countries eliminate the same barriers on the same products; however, it most frequently refers to tariff elimination. A zero-for-zero agreement could include elimination of non-tariff barriers as well. (*Accords zéro-zéro*)

9 *List of Acronyms*

ABT	Agreement on Basic Telecommunications	CIDA	Canadian International Development Agency
AGP	Agreement on Government Procurement	CIFTA	Canada–Israel Free Trade Agreement
APEC	Asia-Pacific Economic Cooperation forum	DFAIT	Department of Foreign Affairs and International Trade
ASEAN	Association of South-East Asian Nations	DSB	Dispute Settlement Body
BSE	Bovine Spongiform Encephalopathy	DSP	distilled spirits plant
BSL	(Japan’s) Building Standards Law	EC	European Commission
CA-4	Central American Four: El Salvador, Guatemala, Honduras and Nicaragua	ECTI	EU–Canada Trade Initiative
CAP	Common Agricultural Policy	EDC	Export Development Canada
CARICOM	Caribbean Community	EFTA	European Free Trade Association
CCFTA	Canada–Chile Free Trade Agreement	EU	European Union
CDIA	Canadian direct investment abroad	FDA	(U.S.) Food and Drug Administration
CET	common external tariff	FDI	foreign direct investment
CERT	Canada–Europe Round Table	FHWA	(U.S.) Federal Highway Administration
CFE	Comisión Federal de Electricidad (Mexico’s state electricity firm)	FIPA	foreign investment protection (and promotion) agreement
		FSA	(Japan’s) Financial Services Agency
		FTA	Free Trade Agreement
		FTAA	Free Trade Area of the Americas
		GATS	General Agreement on Trade in Services
		GATT	General Agreement on Tariffs and Trade
		GDP	gross domestic product
		GM	genetically modified
		GMO	genetically modified organism
		G7 / 8	Group of seven leading industrialized nations plus Russian Federation
		IAP	individual action plan
		ICT	information and communications technologies
		IEC	Intergovernmental Economic Commission
		IMF	International Monetary Fund

ISO	International Organization for Standardization	PEMEX	Petróleos Mexicanos (Mexico's state oil firm)
IT	information technology	SAGIT	sectoral advisory group on international trade
ITA	Information Technology Agreement (1997)	SCFAIT	Standing Committee on Foreign Affairs and International Trade
ITC	(U.S.) International Trade Commission	SMEs	small and medium-sized enterprises
JAS	Japan Agricultural Standards	SPS	sanitary and phytosanitary
JETRO	Japan External Trade Organization	SPWG	(Canada–Korea) Special Partnership Working Group
LDC	least-developed country	TBT	technical barriers to trade
MoAFF	(Japan's) Ministry of Agriculture, Forestry and Fisheries	TEA-21	(U.S.) Transportation Equity Act for the 21st Century
Mercosur	Southern Cone Common Market (Argentina, Brazil, Paraguay and Uruguay)	TICA	Trade and Investment Cooperation Arrangement
MFN	most-favoured nation	TRIMs	Agreement on Trade-Related Investment Measures
MMPA	(U.S.) Marine Mammal Protection Act	TRIPs	trade-related aspects of intellectual property rights
MOU	memorandum of understanding	TRQ	tariff rate quota
MRA	mutual recognition agreement	UN	United Nations
NAFTA	North American Free Trade Agreement	WTO	World Trade Organization
NEBS	New Exporters to Border States		
NGO	non-governmental organization		
NTT	Nippon Telegraph and Telephone		
OECD	Organization for Economic Cooperation and Development		

