



*Opening Doors
to the World:*

Canada's International
Market Access Priorities
2000



ABOUT THIS DOCUMENT

O*pening Doors to the World: Canada's International Market Access Priorities – 2000* 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 2000. It also presents significant market access results from 1999 that will benefit Canadian business. Subjects range from Canada's broad negotiating objectives at the World Trade Organization, to the details of specific bilateral trade irritants. It is not intended as an exhaustive catalogue of Government activities to improve access to foreign markets, nor as a comprehensive inventory of foreign barriers to trade or investment.

The Department of Foreign Affairs and International Trade (DFAIT), and its Embassies and missions abroad, coordinated the preparation of this report, with the assistance of other federal government departments (especially Agriculture and Agri-Food Canada, Finance Canada and Industry Canada), as well as provincial governments, and, of course, Canadians doing business abroad. Its contents are current up to the end of February 2000.

Opening Doors to the World: Canada's International Market Access Priorities – 2000 updates and expands on topics presented in the 1999 report, which was released by the Minister for International Trade in March 1999.

This publication and additional export information are available on-line at www.dfait-maeci.gc.ca or www.exportsource.gc.ca

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

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MESSAGE FROM THE MINISTER FOR INTERNATIONAL TRADE



I am pleased to present the year 2000 edition of *Opening Doors to the World: Canada's International Market Access Priorities* and to report on the continuing success that Canada is enjoying in the international marketplace. Last year's edition noted that Canadian exports of goods and services had reached a record level in 1998 for the seventh year in a row. I am delighted to report that the trend has continued in 1999, with the new record at \$410 billion, an increase of 11.3 percent over last year. It is important for the Canadian economy and for generating jobs in Canada that we continue to build on this success in the years ahead.

Trade is important to every Canadian. From the self-employed entrepreneur to the factory worker, from small business owner to corporate executive and from child to pensioner, we as Canadians all have a stake in ensuring that products and services flow smoothly over international borders. Most importantly, we rely on clear and predictable rules to govern this trade.

The greatest tool that Canada has to make such rules, and to open new markets for our goods and services, is the World Trade Organization (WTO). I was pleased to have led Canada's delegation to the Ministerial Meeting in Seattle last December, although I regret that we were not able to launch new broad-based negotiations at that time. The fact remains, however, that the WTO is one of the world's most important economic institutions. The WTO enjoys the support of governments around the world and is responsible for the progressive expansion of the global economy. It is an organization that continues to grow and to attract new members, including lesser-developed countries. The burgeoning membership of the WTO is testimony to the universal importance to all countries of a multilateral rules-based system.

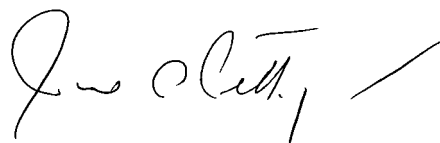
I believe that a new broad-based round of WTO negotiations is inevitable and is in Canada's best interest. While mandated negotiations on agriculture and services will progress in the coming months, we will continue to work to build a broad consensus toward a successful launch of negotiations on the full range of issues important to Canadian exporters. And we must ensure that Canadian trade, development and foreign policy goals continue to foster an international economic environment hospitable to sustainable growth in both developed and developing countries.

We must also recognize that many people have serious, and often legitimate, concerns about the relationship of international trade agreements to other areas of importance, such as the environment, culture, and labour and human rights. But, the WTO cannot be relied upon to solve all of these problems. It is vitally important that the key international organizations, the International Monetary Fund, the UN Conference on Trade and Development, the International Labour Organization, the UN Environment Program and others work as a true system, not as a patchwork of uncoordinated entities.

In the meantime, the Canadian government is continuing its efforts to secure and improve market access for Canadian exports through a variety of means outlined in this report. We will continue to pursue our objectives through a balanced set of multilateral, regional and bilateral initiatives. Multilaterally, we will focus on the recently launched negotiations on agriculture and services and will continue to work to bring additional countries, such as China, into the WTO. Regionally, the Free Trade Area of the Americas initiative holds great promise for trade liberalization throughout the Western Hemisphere. Bilaterally, negotiations for a free trade agreement (FTA) with the European Free Trade Association countries are at an advanced stage and we hope to conclude an agreement with them in the coming months. We are also open to exploring further FTAs with countries where it is in Canada's interest to do so. As an example, in January, Prime Minister Chrétien and the President of Costa Rica agreed that we would begin exploratory talks regarding possible free trade negotiations to provide Canadian firms with a competitive advantage in the fast-growing Costa Rican economy.

Finally, we will pay priority attention to our largest trading partner, the United States, in order to ensure the continued growth of our exports.

In closing, I want to stress that the Government of Canada is committed to maintaining an ongoing dialogue with Canadians on trade issues. In addition to providing information on issues of importance to Canadians, this report is intended to provoke the thoughts and opinions of readers. As such, I encourage you to pass on your views on the global trade environment. To facilitate your feedback, we have developed mechanisms to complement this report, including our Trade Negotiations and Agreements website, which provides the most up-to-date information on Canada's Trade Policy Agenda. I invite you to register your views via the Trade Negotiations and Agreements website. Together we will work to advance Canadian interests and ensure prosperity for all Canadians.



The Honourable Pierre S. Pettigrew



1. Introduction

<http://www.dfait-maeci.gc.ca/tna-nac>

Canada is a trading country, and trade is vital to our continued prosperity. International trade accounts for one in every three jobs in Canada. Five years ago, exports of goods and services accounted for only 30 percent of our gross domestic product (GDP). That figure is now 43 percent, higher than any other G-7/G-8 nation. Foreign direct investment (FDI) in our country has experienced similar growth, rising 54 percent since 1993. The vast majority of the more than 1.9 million jobs created since 1993 have come from the growth in exports. There can be no doubt that Canada's exposure to international competition has energized our economy, spurred innovation 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.

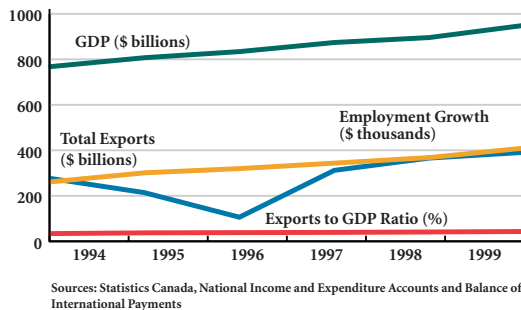
Opening Doors to the World: Canada's International Market Access Priorities — 2000 presents significant market-opening results over the past year and outlines the Government's priorities for 2000 to further improve access to foreign markets. The Government will pursue these goals multilaterally, through the World Trade Organization (WTO) and the Organization for Economic Cooperation and Development (OECD); regionally, in such fora as the Free Trade Area of the Americas (FTAA) and the Asia-Pacific Economic Cooperation (APEC); and bilaterally, with key partners, principally the United States, the European Union (EU), Japan and through the negotiation of a free trade agreement with the European Free Trade Association (EFTA) countries. In all cases, the Government's objective will be to ensure that Canada's traders and investors benefit fully from international trade agreements, because participation in world markets is Canada's path to prosperity.

Dynamic Performance of Canadian Exports of Goods and Services

Canadian exports of goods and services reached \$409.8 billion, or 43.2 percent¹ of GDP, in 1999. This continued the dynamic performance of the past half decade, which saw trade grow by 9.1 percent on average. This trade performance was accompanied by solid growth and outstanding job creation, especially in the most recent period (see Figure 1).

Figure 1

Canadian GDP, Exports and Employment Growth, 1994-1999



Although much of the attention in discussions about trade is focussed on exports, the increased flow of imports actually facilitates export production. Producers benefit from lower prices from foreign suppliers and a greater variety of goods and services than are available in the domestic market. Not only are a wider variety and improved quality of goods directly beneficial to consumers, they also may enhance the efficiency of production to the extent that the variety and/or quality of intermediate goods contribute to productivity. In Canada, 1999 imports of goods and services totalled \$385.2 billion, an increase of \$26.2 billion, or 7.4 percent over 1998.

A number of developments contributed to an outstanding 1999 Canadian trade and investment performance. Investment Partnerships Canada continues to work to increase Canada's share of global direct investment by promoting strategic investments

¹ Trade figures appearing throughout this document are preliminary figures released by Statistics Canada, February 18, 2000. Unless otherwise specified, all values are in Canadian dollars.

in key economic sectors in Canada. Internationally, the economic picture remained mixed, but a clear improving trend is visible. The U.S. economy continued to maintain above-potential growth; the EU economies showed signs of firming growth; and the East Asian economy continued to rebound with surprising swiftness from the 1997-1998 downturn. The rally of world oil prices was also significant, and has led to the rise in the value of trade in the energy sector.

Canada believes that trade is vital in helping the global economy stabilize from the crisis of 1997-1998. As such, we have continued to participate actively in discussions to strengthen global rules and continue to pursue policies that will further liberalize global markets. We reported our objectives to the Standing Committee on Foreign Affairs and International Trade (SCFAIT) in November 1999 and are committed to continue to consult actively with Canadians in regard to ongoing trade policy development.

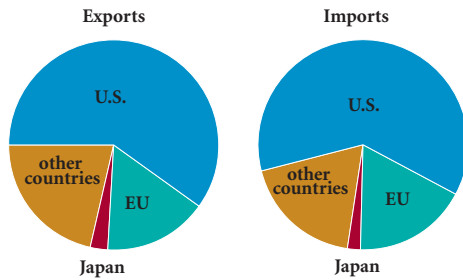
More and more, Canadians are recognizing the benefits of trade. They support Canada's role in international trade as long as it benefits Canadians as a whole, reflects our heritage of democracy and openness, and advances our quest for a just society. Economies that trade are more competitive, more dynamic, feature stronger productivity growth and witness rapid assimilation of technology.

Services Trade Continues to Grow

Canada's two-way trade in services was valued at \$104.9 billion in 1999, an increase of \$6.2 billion over 1998. The increasing share of trade in services relative to GDP indicates its growing importance to the overall economy. Exports of services as a share of Canadian GDP was up from 4.3 percent in 1994 to 5.2 percent in 1999, while the share of services imports to GDP was up from 5.8 percent in 1994 to 5.9 percent in 1999.

While the United States is Canada's single largest trading partner for services, its share of Canada's services trade is less than its share of merchandise trade. Between 1994 and 1999, the importance of the United States as a supplier of services to Canada has increased slightly from 60.6 percent to 61.5 percent. The EU, on the other hand, has maintained a stronger market share in services than it has in goods. Figure 2 presents the share of our partners in total exports and imports of services in 1999.

Figure 2
Canada's Services Trade by Partner, 1998



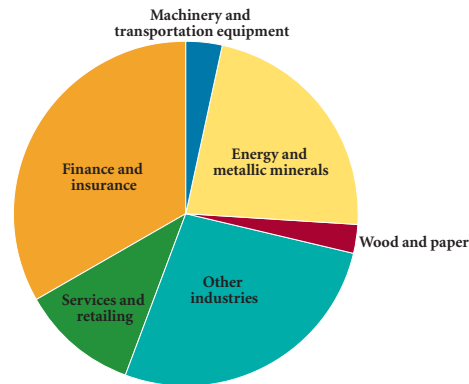
While Canada's trade in services has grown steadily, it has lagged behind the growth of trade in merchandise, which has been especially strong over the past ten years. Accordingly, the services component of Canada's total exports has declined slightly from 12.9 percent in 1993 to 12 percent in 1999. Similarly, the share of Canadian imports of services to total imports was down from 19.1 percent in 1993 to 12.5 percent in 1999.

**Importance of Investment:
Inward and Outward**

Two-way direct investment helps strengthen Canada's link with our trading partners. Inflows of foreign capital into the economy are instrumental in propagating new production and management technologies. Canadian investment abroad is also important as a way to spread the use of Canadian technologies, support Canadian exports of goods and services and establish the reputation of Canadian firms abroad.

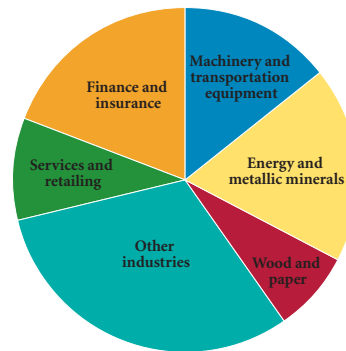
The stock of foreign direct investment (FDI) in Canada reached \$217 billion in 1998, a gain of \$20.4 billion from 1997. Meanwhile, Canadian direct investment abroad (CDIA) rose to \$240 billion in 1998, a 17 percent increase over the previous year.

Figure 3
Foreign Direct Investment in Canada
by Industry, 1998



Most FDI in Canada was directed on the finance and insurance industry, followed by energy and metallic mineral industries (see Figure 3). Although at a much larger share, the finance and insurance industry accounted for 33 percent of CDIA in 1998 (see Figure 4). A significant share was also invested in mineral industries.

Figure 4
Canadian Direct Investment Abroad
by Industry, 1998



FOCUS ON ATLANTIC CANADA

For a closer look at the significance of the opening of markets to Canada, one need only look at the experience of the Atlantic provinces over the past few years. The early 1990s were difficult economic times throughout Canada, particularly so in the Atlantic provinces. The post-recession, latter-half of the decade saw a return to solid growth and business opportunity. According to Statistics Canada, the economy of Atlantic Canada grew by 10 percent in the 1990s, while employment increased by 80,000.

While we might wish to point to one or two explanations for the rebound, such as the general resurgence of markets and investment across North America, a variety of other factors have contributed to this turnaround. These include the upgrading of workforce skills, growth of the information technology (IT) sector, development of offshore petroleum fields and investment in infrastructure. Such factors, combined with the opening of new markets under the NAFTA and the WTO have created new manufacturing and service opportunities throughout the region.

■ The focus on Atlantic Canada is intended to be the first in a series of regional focuses. It is our intention to highlight the performance of other regions of Canada in future reports.

The Atlantic Economy is Changing

When thinking of the economy of the Atlantic provinces, Canadians west of Quebec City have traditionally tended to envisage hundreds of thousands of Atlantic Canadians earning their livelihoods from the sea, farms, mines or forests. The new reality is that innovative Easterners, who may have come from those traditional backgrounds, and other investors are embarking upon new endeavours in areas that would not be considered as traditional Atlantic Canada economic activities. For instance, many new opportunities have come in high-skill and knowledge-based fields, such as aerospace/defence industry production, telecommunications, distance education, geomatics research, marine biotechnology, Internet-based and multimedia services, music and sound recording.

It is also not generally appreciated that Eastern Canadians have been successful at diversifying traditional industries. The shortage of groundfish has resulted in more emphasis on product quality, high-value shellfish and aquaculture, all of which have contributed to the remarkable continuing strength in fisheries' exports. The positive impact of offshore energy field exploration and development goes beyond the petroleum exports themselves to affect manufacturing and services capabilities in the region. Another traditional sector, forestry, has seen export growth and diversification in high-value building components and pre-fab housing, as well as in fine papers and other consumer paper products.

In the early 1990s, Prince Edward Island had no aerospace industry. Since the closure of the former Canadian Forces Base Summerside in 1989, its airport and other assets have been used to build the nucleus of such an industry. By mid-1999, approximately 340 Islanders were employed in full-time, year-round, high-skill, well-paying jobs making aircraft interior components, engine turbines and other precision-machined products. Some firms also have secured long-term repair, overhaul and maintenance contracts for products made by other aerospace companies. This industry's sales now account for roughly one-fifth of PEI's exports, and these firms, together with Nova Scotia's aerospace companies, are developing a solid cluster in the region. In fact, the aerospace industry has grown so rapidly that the demand for skilled labour in PEI has begun to surpass the supply. In response, the Aerospace and Industrial Technology Centre in Slemmon Park, PEI was officially opened in May 1999 to provide specialized training in order to create a larger pool of skilled workers who can assist in the industry's growth. Since the opening of the Centre, two firms have announced new investment that is expected to result in the creation of approximately 200 new high-skill jobs in PEI over the next four years.

New Brunswick business and government leaders decided in the early '90s to position that province as the premier North American location for knowledge- and technology-based companies. They developed a world-class telecommunications system and together with the federal government provided computer and technology education for kindergarten through college levels. They also fostered an increased awareness and facility for the everyday use of technology by average

citizens by incorporating it into the delivery of most provincial government services. There is ample proof that the results are extremely attractive to a number of North American and global companies that have set up new operations in New Brunswick specifically to take advantage of the excellent infrastructure, availability of a highly-skilled workforce and access to international markets.

The Atlantic provinces, and in particular New Brunswick, have done well in attracting call centres as part of an ever-increasing service economy. As of mid-1999, there were approximately 70 call centres in New Brunswick employing over 7,500 people. Nova Scotia has 20 call centres employing more than 5,000, with Convergys being one of the largest in the country. From these centres, well-paid Maritimers are providing important commercial and consumer services, mostly in the United States. For example, if someone in Boston needs to book a hotel room and rent a car in Philadelphia, odds are that the call will be taken and the arrangements made through an Atlantic call centre. If someone needs to track the delivery of a courier package, they'll probably be talking to someone in New Brunswick.

Atlantic Canada also sees the potential in electronic commerce, and institutions such as Dalhousie University are committing resources and facilities to the IT field. Dalhousie is educating approximately 700 students in computer sciences and, in conjunction with Cisco Systems, is offering a Master's program in internetworking. As part of a new computer science building, Dalhousie has established a Global Information Networking Institute to spearhead e-commerce and pursue partnerships with companies such as IBM. These are all examples of Atlantic Canadians taking advantage of new developments in technology and e-commerce to export their services in the global marketplace.

Another area of the services economy worth noting is film production. Worth \$150 million in Nova Scotia alone during 1999, the success of this activity confirms the desirability of location and advanced infrastructure of this region. In May 2000, Halifax will host a world conference of independent film makers and public broadcasters.

Growth in Nova Scotia's economy is being assisted by the presence of one of the world's foremost research and development (R&D) environments, with major

research concentrations in health, agriculture and marine biosciences. Within the Halifax Regional Municipality resides the second-largest concentration of marine expertise in the world. Half of the marine technology firms in Canada are located here. In this field alone there are 500 doctoral-level professionals bringing expertise to public-private partnerships in a wide range of marine/biotech specialities. By 1999, 95 companies employing some 750 professionals were working in life sciences, with growth estimated to occur at twice the national rate. Exports of this industry's goods and services (such as health products, herbal medicines, pharmaceuticals, diagnostic test kits and telemedicine services) increased by an astounding 72 percent in 1998. In keeping with this activity, Halifax will host two major events: Softworld 2000 and Biofusion 2001.

The Newfoundland and Labrador manufacturing industry's wide range of capabilities include food production, printing and publishing, wood and non-metallic mineral production. In 1998, manufacturing shipments from the province reached a record level of \$1.76 billion. Largely dominated by seafood products, pulp and paper and petroleum products, new sectoral growth is also being experienced in advanced technology (satellite communications, medical technologies and environmental technologies) and the traditional footwear and wood products sectors. A revitalized seafood industry has emerged due to its ability to increase its commercial focus on higher-value species like crab and shrimp. The value of seafood production increased from \$683 million in 1998 to \$950 million in 1999. Newfoundland's offshore petroleum sector has experienced rapid growth in exploration and development since first production of oil from the massive Hibernia field in 1997, and is expected to produce 40 percent of Canada's light crude by 2004.

The high-tech needs of the petroleum sector are one of the primary drivers in Newfoundland's shift to a knowledge-based economy and its emergence as a world leader in ocean technologies. The province has experienced gradual but steady growth in advanced technologies, ranging between 6 percent and 10 percent annually over the last five years. This growth potential is a catalyst for an increased export profile in e-commerce, telemedicine, distance education, multimedia, software development, geomatics and marine technology. Newfoundland and Labrador's

expertise in the marine sector positions the province to attract investment in other knowledge-based fields, such as clinical trials management, regulatory assistance, business information and statistics.

Small Businesses — Huge Impact

As with the rest of Canada, export growth comes from both large and small enterprises. Atlantic Canada has its share of large-scale producers, such as Michelin, McCain, Irving, Clearwater, Fisheries Products International and Oxford Frozen Foods, which make a major contribution to the region's export growth. However, the "new economy" has also created opportunities for small- and medium-sized companies. Thanks to the cumulative effect of these enterprises, thousands of Easterners earn their pay-cheques making and exporting anything from chocolates to batteries and software to water test-kits. Although often located in rural communities, many have "gone global", finding niches in culture and giftware, information technology, foods and health care products.

A Team Effort

Just as the federal government has been very successful in organizing and carrying out a series of "Team Canada" trade missions, the Atlantic provinces have complemented this initiative with "Team Atlantic".

In April 1999, "Team Atlantic" enabled 39 East coast companies to participate in a trade mission to New England. The overwhelming majority of the participants found the trip extremely valuable. The mission generated immediate sales of \$2.2 million and created 19 full-time jobs and 10 seasonal jobs, with potential for more. For Royalty Hardwoods Ltd. of Montague, PEI, a specialty manufacturer producing maple, birch, pine, spruce, hemlock and tamarack products such as flooring, mouldings and furniture components, the mission resulted in its first-ever export sales. INNOVA Multimedia Ltd. of Newfoundland had been attempting to penetrate the export market for some time; the Team Atlantic mission provided a huge boost to that effort by enabling them to make contact with companies and organizations that might be interested in distributing their educational software. Fundy Fibreglass of Digby, Nova Scotia completed an initial \$170,000 sale to one New England company. Even more exciting is the fact that, because of the technology shift resulting in the application of Fundy's fibreglass components to the U.S. production line, the

client has retooled, increased productivity and reduced product costs, allowing them to confidently increase production and sales by 250 percent for calendar 2000. This will represent approximately US\$400,000 in sales to one U.S. customer.

The Future

In many areas, economic growth in Atlantic Canada is outpacing both national and international growth in the same sectors. Without question, the success of companies already investing in Atlantic Canada and using the region as their export base for goods and services will convince additional companies of the benefits and rewards to be gained by doing business there.

Small- & Medium-sized Atlantic Canada Businesses Going Global

- Unexus University, based in Fredericton's Knowledge Park, is the world's first private, Internet-based, degree-granting university. It has offices in Boston, Ottawa, Halifax and Calgary and existing partners in Kuala Lumpur. Additional partners are being sought in Taiwan, Hong Kong and China.
- BioScan Environmental Products Inc. of Truro, Nova Scotia, developed and produces a home water-test kit for coliform bacteria, including *E. coli*. The company has millions of potential customers in North America alone. BioScan plans to develop test kits for water hardness, chlorine, iron, manganese, lead, nitrates, phosphates and pH.
- Ganong Brothers Limited, founded 1873, employs 200 from rural New Brunswick. Ganong chocolates and confectionery products are sold in over 14 countries. In August 1999, Ganong announced the expansion of its fruit snack line, creating up to 26 new jobs.
- Alliance-Saint-Laurent Group of Edmundston, New Brunswick, announced in November 1999 the addition of 34 new jobs to increase its share of the growing U.S. market for corrugated cardboard caskets used mostly in cremation.
- Cisco Systems trains some 600 people a year at its Halifax facility in IT for global markets.

- Composites Atlantic in Lunenburg, Nova Scotia, owned by Aerospatiale Group, applies its advanced composite materials technology to aircraft and now manufactures some 77 parts for Boeing.
- Cochran Entertainment of Halifax produces the award-winning “Theodore Tugboat” TV series for broadcast in some 70 countries.
- With a workforce of 130, Terra Nova Shoes Ltd. of Harbour Grace, Newfoundland, manufactures and exports footwear. The company attributed a 20-percent increase in sales to positive market penetration in Europe during 1998.
- Canadian Centre for Marine Communications of St. John’s, Newfoundland, is assisting in a comprehensive marine survey of Ireland’s territorial waters.
- Media Touch Technologies of Newfoundland distributes its educational software on CD-ROM in the United Kingdom and in North America through an agreement with Pitsco, a large North American distributor of educational supplies.
- Newfoundland and Labrador’s International Communications and Navigation Ltd. (ICAN), an advanced ship navigation company, has developed Electronic Charting Systems and Differential Global Positioning Systems with sales primarily in South America and Europe.
- Seacom Consulting Ltd., located in Newfoundland and Labrador, provides emergency preparedness, environmental software development and training primarily for oil and gas and marine industries. The company has sales contracts in Mexico, Cuba, Venezuela, Peru, Argentina, Ecuador, Chile and Spain.
- AIF Protein, Newfoundland, is the only commercial producer of anti-freeze proteins used in hypothermic and cryogenic preservation of cells, tissues and organs, and in extending the shelf-life of frozen foods. The company has sales in the United States, United Kingdom, New Zealand and Chile.
- Terra Nova Biotechnology of Newfoundland and Labrador produces monoclonal antibody diagnostic kits used in support of bone marrow matching and diagnosis and prognosis of

rheumatoid arthritis. The company’s products are sold in Germany and Saudi Arabia.

- St. John’s-based ZeddComm has co-developed hardware for NASA’s space program.
- Guigne Technologies Ltd. of Newfoundland is building a material processing facility which uses acoustic energy called Space-DRUMS for installation in the International Space Station in September of 2000.
- Newfoundland’s Cottle’s Island Lumber recently contracted to sell 850 pre-fabricated houses to a land developer in Chile.
- Atlantic Turbines International (ATI), located in Summerside, PEI, employs 150 people at its facility to repair and overhaul fixed-wing aircraft engines. ATI has customers across North America and in Europe, South America and Australia. In November 1999, ATI announced it would expand its operations and add 120 new jobs over four years.
- Seaman’s Beverages has been crafting premium soft drinks in PEI since 1939. More than 100 employees produce over one million cases of product annually for shipment throughout Central and Eastern Canada and Maine.
- Atlantic Canada Builders Inc. (ACBI) of Newfoundland and Labrador has contracts to build wood-frame houses in Japan.

MARKET ACCESS AND INTERNATIONAL BUSINESS DEVELOPMENT

As an integral part of its jobs and growth agenda, the federal government, in partnership with other levels of government and the private sector, has put in place programs and services for trade and investment promotion to ensure that Canadian companies can take full advantage of international opportunities. At the core of this partnership is Team Canada Inc, a “virtual” trade network of 22 federal departments and agencies whose international business development programs and services are accessible to Canadian businesses through a single window, either via the website (<http://export-source.gc.ca/>) or by telephoning 1-888-811-1119.

Federal Government Members of Team Canada Inc.

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

The Government's concerted efforts to enhance access to foreign markets go hand-in-hand with the export and investment marketing activities presented in Team Canada Inc's three-year Business Plan. For instance, The Department of Foreign Affairs and International Trade (DFAIT) has established new Global Opportunities (GO) teams of trade commissioners, who have been dispatched to 13 markets. These teams are to identify rapidly and pursue new business as a result of liberalization (e.g. Mexico and Chile); to exploit opportunities that flow from Team Canada and other trade missions (e.g. South Korea and Brazil); and, to assess sectoral possibilities (e.g. oil/gas and mining in Russia). In addition, the positioning of additional trade commissioners in priority emerging markets helps Canadian suppliers and investors get the most out

of market access openings. In 1999, four new investment counsellor positions were announced (in Berlin, Los Angeles, Dallas and Chicago) to enhance our ability to attract new foreign direct investment.

Go-Team Assignments

Bangkok	Palestine Territories
Beijing	Sao Paulo
Buenos Aires	Santiago (2)
Manila	Seoul
Mexico	Tel Aviv
Moscow/Almaty	

The Government has a number of trade- and investment-promotion programs in place, notable among which are the Team Canada trade missions. In 1999, over 260 businesses, eight provincial premiers, all three territorial leaders, as well as academic and other institutions participated in the Team Canada mission to Osaka and Tokyo.

Team Canada Trade Missions

1994 — China
1996 — India, Pakistan, Indonesia and Malaysia
1997 — South Korea, the Philippines and Thailand
1998 — Mexico, Brazil, Argentina and Chile
1999 — Japan

In 1997, the Trade Commissioner Service (TCS) embarked on a renewal project called the Performance Measurement Initiative, which centres on creating a more results-driven, client-focussed organization. A key component of this project was to consult with a large cross-section of business and institutional clients and conduct a survey of those who use the TCS in export markets. We wanted to examine the overall performance of the TCS from the perspective of clients, quantify results achieved by clients with TCS support and find out what improvements are required to respond better to client needs. Among the findings,

we were told that companies wanted us to focus on six core services: market prospects; key contacts search; visit information; face-to-face briefing; local company information; and troubleshooting. More information on these and other services can be found at: <http://www.infoexport.gc.ca/help-e.asp#1>. The department welcomes feedback from companies using the TCS. Please phone: 1-888-306-9991.

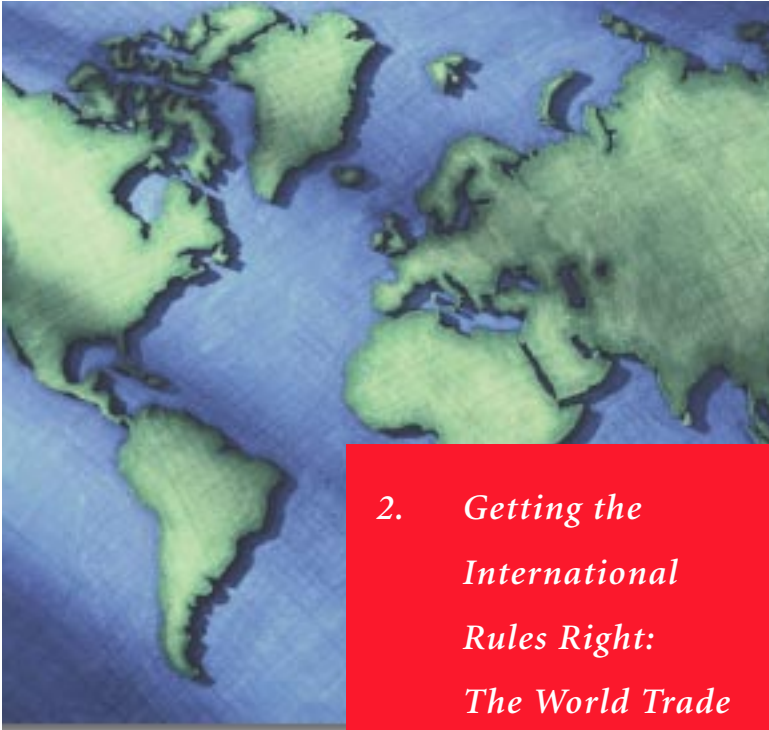
WE'D LIKE TO HEAR FROM CANADIANS DOING BUSINESS ABROAD

DFAIT consults industry on market access issues through a variety of means, including the private-sector Team Canada Inc. Advisory Board, which provides advice on both market development and trade policy. This body engages the business community directly and complements the various sectoral advisory groups on international trade (SAGITs). In view of the Government's strong commitment to ensure that all Canadians continue to have input into Canada's overall trade agenda, DFAIT has increasingly adopted a multistakeholder approach in several of its consultation activities, in which business and not-for-profit sectors participate.

In 1999, DFAIT launched the Trade Negotiations and Agreements website (<http://www.dfait-maeci.gc.ca/tna-nac>) to provide Canadians with accurate, clear and up-to-date information on Canada's trade policy agenda. The website also features a Consultations with Canadians section, which seeks opinions of Canadians on all related issues. 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 DFAIT with specific information on tariff or non-tariff barriers and other business irritants. Business people frequently alert Canadian trade commissioners and other DFAIT staff (such as agri-food or investment specialists based in markets around the world) to situations requiring local advocacy or troubleshooting. Often, these problems are reported to DFAIT headquarters for particular consideration from a strategic market access perspective. 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, Ontario K1A 0G2
 Fax: (613) 992-6002
 e-mail: eat@dfait-maeci.gc.ca

Business people are also encouraged to remain in touch with DFAIT on market access and other issues through its websites at www.dfait-maeci.gc.ca or www.exportsource.gc.ca. These sites contain additional information on many of the issues covered in this document.



2. *Getting the International Rules Right: The World Trade Organization*

<http://www.dfait-maeci.gc.ca/tna-nac>

Canada benefits greatly from the open rules-based trading system that has been developed over the past 50 years. As a medium-sized economy, our current and future prosperity depends on open markets, a stable trading environment and a means to settle trade disputes based on right, rather than political and economic might. The WTO, which oversees the administration and functioning of multilateral trade agreements and helps to maintain the rules governing world trade, remains the cornerstone of Canadian trade policy and the foundation for Canada's relations with its trading partners.

Canada is active in the various bodies of the WTO and in several multilateral fora that influence and guide the international trade policy agenda. We participate actively in the meetings of the G-7/G-8 major powers; the Quadrilateral (United States, European Union, Japan, Canada) Trade Ministers; the OECD; the FTAA; APEC; and United Nations (UN) economic institutions and agencies. Our participation in these bodies and in informal trade ministerial meetings helps us to reach consensus on trade issues of importance to Canada. Canada continues to lead efforts in these fora to improve coherence among international trade, financial, economic and social policies to further strengthen markets and promote economic growth and sustainable development. As well, to promote public understanding and support for the WTO and its activities, and for the pursuit of trade liberalization as a whole, Canada continues to support greater transparency, both in ongoing WTO activities and in the conduct of future multilateral trade negotiations.

Preparations for the Third WTO Ministerial Conference in Seattle and for FTAA negotiations were prominent in the Government's trade agenda in 1999. In preparing for these, the Government initiated an extensive outreach and consultation program. Consultations were undertaken with the provinces, the business sector, other interest groups and the public. The Government also created a website (<http://www.dfait-maeci.gc.ca/tna-nac>) providing information on trade policy issues and inviting public comments on negotiating priorities and objectives. The Parliamentary Standing Committees on Agriculture and Agri-food (SCAAF) and on Foreign Affairs and International Trade (SCFAIT) conducted public hearings across the country on Canada's future trade agenda. The results of the SCAAF consultations were recorded in its

March 1999 Summary Report. The Standing Committee on Agriculture and Forestry also concluded its own consultations and made its report in August 1999. SCFAIT's report contained some 45 recommendations, to which the Government responded in a report tabled in Parliament on November 15, 1999. This response outlined the trade policy objectives and priorities that will guide the Government as it seeks expanded and more certain access to global markets for Canadian goods and services. Canada's position will continue to be refined as the Government continues its active program of public consultations.

Although most WTO Members expected the launch of broad-based trade negotiations at the Third WTO Ministerial Conference, agreement was not reached in Seattle. This delay highlighted the need to rekindle support for further trade and investment liberalization and multilateral rule-making, with the objective being the eventual expansion of the WTO negotiating agenda. Another consequence of this delay has been a renewed interest, in some countries, in regional and bilateral trade liberalization initiatives. While developments in this area will be watched closely, progress is expected to be modest. We also may see a rise in trade disputes between Members due to the lapsing of the provisions of certain agreements and because Seattle did not launch the negotiations that were expected to resolve some existing differences between Members. We will be working closely with our trading partners to discourage any rise in disputes among members and to develop support and momentum for expanded negotiations.

The key elements in rebuilding this support will be achieving progress on the ongoing work of the WTO (including the implementation of existing agreements in an effective and somewhat flexible manner, and continued efforts to facilitate trade); addressing the concerns of developing countries through improved market access for least developed countries (LDCs) and expanded capacity building (including trade-related technical assistance and a re-invigorated Integrated Framework); and improvements to the WTO itself, in the form of improved transparency and agreement on revisions to the Dispute Settlement Understanding (DSU). Of particular importance will be achieving real progress on establishing the modalities for the Uruguay Round-mandated negotiations on agriculture and services, which are now underway.

Minister for International Trade Pierre Pettigrew is seeking the support of Canada's trading partners for his medium-term objective of strengthening the world trading system and global markets — using trade liberalization and rule-making as a means to assist sustainable development and alleviate poverty. These efforts would be pursued in the context of improving governance, economic and social infrastructure and domestic policy coherence, as well as in the context of improved international policy and institutional coherence among economic, development and social organizations. One of the important elements of this work will be improving the management and decision-making structure of the WTO.

IMPROVING ACCESS FOR TRADE IN GOODS

Information Technology Agreement

The WTO Information Technology Agreement (ITA), signed in December 1996 at the Singapore WTO Ministerial Conference, required participants to eliminate customs duties and other duties and charges on a wide range of IT products by 2000. Canada and 47 other countries — which together produce over 93 percent of world trade in this sector — have joined the ITA, mandating further efforts to expand the product coverage, a process known as "ITA II". In November 1998, the Chair of the ITA Committee proposed a new product list based on Members' proposals. The list covers a wide range of products, including: machinery and equipment for manufacturing printed circuit boards; some consumer electronics; selected radar and navigational aid equipment; and certain inputs for IT manufacturing. Canada has actively supported this initiative and will continue to support efforts to reach a consensus on expanding the product coverage.

The ITA also provides for the examination of non-tariff measures. The committee continues to work on standards and conformity assessment procedures, and Canada continues to promote the examination of import licensing policies and procedures.

Tariff Liberalization of Pharmaceutical Products

In 1999, Canada and the other members of the WTO Agreement to Eliminate Duties on Specified Pharmaceutical Products implemented the third tranche of tariff cuts associated with this agreement. This phase included 639 additional products, including inputs.

Agriculture

Global annual trade for agricultural products is in the order of US\$500 billion. Canada strives to ensure that market access and other commitments negotiated during the Uruguay Round are fully implemented through our participation in the notification and consultation process of the WTO's Committee on Agriculture. This process will continue throughout 2000. Canada's long-term objective is to strengthen the rules-based multilateral trading system for agriculture and thereby increase the market orientation in agricultural trade. Common rules that apply to all countries are important to enhance Canada's access to world markets, not only for bulk agricultural commodities, but also for the consumer-oriented and intermediate products that now contribute, respectively, 39 percent and 26 percent of our agri-food exports.

Although the Third WTO Ministerial Conference in Seattle did not launch a broad-based round of multilateral trade negotiations, the existing Uruguay Round Agreement on Agriculture provided a mandate (so-called "Built-in Agenda") for WTO members to commence agricultural negotiations, which began in January 2000. In these negotiations, Canada continues to pursue the objectives in the initial negotiating position announced on August 19, 1999 by Minister Pettigrew and Agriculture and Agri-Food Minister Lyle Vanclief. The key features of this position are as follows:

- the elimination of all export subsidies as quickly as possible;
- maximum possible reductions in trade-distorting domestic supports and an overall cap on all forms of domestic support;
- substantial improvements in market access for all agriculture and value-added agri-food products through tariff reductions and harmonization, tariff quota expansion and the elimination of in-quota tariffs;

- maintenance of Canada's ability to continue orderly domestic marketing (e.g. Canadian Wheat Board, supply management);
- securing new disciplines on export taxes and export restrictions; and
- support the establishment of a WTO working party on biotechnology to determine the adequacy of existing rules and to secure improvements in SPS disciplines.

Canada's initial position was developed through an extensive consultation process with the provinces, the agri-food industry and civil society. As events unfold in Geneva, the Government looks forward to continuing this dialogue with Canadians.

Technical Barriers to Trade

Canada's objective is to ensure that standards-related measures, which are generally put in place to protect health and safety, the consumer or the environment, are science-based and do not unjustifiably discriminate against Canadian products. Such measures include mandatory technical regulations, voluntary standards and conformity-assessment procedures that determine whether a product meets the requirements of a particular regulation or standard.

Throughout the country chapters of this document, we will describe specific measures by individual countries that affect Canadian exports. We will also outline what the Canadian government is doing to address such measures.

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 standards-related measures (i.e. to regulate), as long as these do not restrict international trade more than is necessary. TBT-related disagreements are subject to WTO dispute settlement provisions.

Canada promotes wide acceptance of and adherence to the TBT Agreement and Code of Good Practice (which applies to voluntary standards), as demonstrated by the Standards Council of Canada's acceptance of the code. Canada also participates

in the activities of the International Organization for Standardization (ISO). Canada was among the first countries to develop the necessary infrastructure for Canadian industries to adopt ISO 14000 environmental system standards, thus facilitating our exports by meeting the requirements of our foreign customers.

The issue of precaution (sometimes cited as the precautionary approach or the precautionary principle) to regulation is becoming an increasingly important issue in a large number of areas of interest to Canada, such as health and safety and the protection of the environment and fisheries. The concept of precaution can take different forms both domestically and internationally, based on the specific context, and for this reason, it has been open to misunderstanding and misuse. It has already been invoked in an attempt to justify trade-distorting measures, such as the beef hormones dispute with the EU, and in ways that undermine a science-based approach to regulation. Canada will work to ensure that there is a clear and coherent Canadian position on the definition and operation of the precautionary approach both at home and internationally. The precautionary approach should be based on agreed principles, including science-based risk assessment, and should not be susceptible to abuse or arbitrary decision-making.

Under the TBT Agreement, Canada will continue to facilitate access to markets by pressing for the removal of unnecessary regulatory-based trade barriers, thus lowering costs to producers and exporters. We will also work to improve transparency, promote regulatory reform, align or harmonize standards internationally and with trading partners and negotiate mutual recognition agreements (MRAs) on conformity assessment. Canada is an active participant in the ongoing work program of the WTO Committee on Technical Barriers to Trade and is preparing for the second TBT triennial review in 2000, which will provide Canada with an opportunity to work toward further implementation of the agreement internationally.

Sanitary and Phytosanitary Measures

The WTO Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures is designed to prevent the misuse of SPS measures as disguised restrictions on trade, while safeguarding a country's right to take measures needed to protect the health of human, animal or plant life (including forestry).

The SPS Agreement has been in force since 1995 and is working reasonably well in making the trading system more transparent, in identifying the misuse of SPS measures, and in promoting the use of science-based risk assessments when establishing new measures. The agreement has also provided a basis for resolving SPS-related trade disputes both formally and informally. Through participation in the WTO SPS Committee, the body responsible for the operation and implementation of the agreement, WTO Members have been able to raise and resolve concerns about measures being applied by other WTO Members. The agreement has also had some success in promoting the development and use of international standards.

One of the most significant benefits of the agreement has been increased transparency in international trade. Through the notification procedures in the agreement, Members are now more aware of measures that are being proposed by other Members and have the opportunity to comment at an early stage on the impact that the proposed measure could have on trade.

The SPS Committee was mandated to review the operation and implementation of the agreement three years after it came into force. It could then propose amendments to the text to the Council on Goods based on experience gained from implementation. The review began in March 1998, and a final report was agreed to at the March 1999 meeting of the committee. Although several problems were identified and discussed during the review, none were considered serious enough to warrant an amendment to the text.

Canada continued to be active in 1999 in using the WTO dispute settlement procedures to challenge unjustified SPS measures taken by our trading partners, most notably with respect to the EU's ban on Canadian beef meat produced from animals treated with growth-promoting hormones and Australia's ban on imports of Canadian fresh, chilled and frozen salmon.

Biotechnology (WTO)

As one of the global leaders in biotechnology research and development, Canada considers biotechnology as an issue of particular significance. Biotechnology, especially agricultural biotechnology and its products, is becoming a contentious issue in global trade, with possible implications for government, industry and consumers. It has engendered discussion in many international fora, such as Codex Alimentarius, Biosafety Protocol, the OECD, the FAO and the

World Health Organization (WHO). Within these circles, the issue has re-focused attention on safety and management of risk, but there is a corresponding trade dimension that must be addressed by the WTO.

In the WTO, Canada has submitted a formal proposal for the establishment of a working party on biotechnology. Canada is of the view that there is a need to engage in a broad, horizontal, fact-finding, time-limited, collective exercise aimed at establishing how WTO provisions apply to biotechnology. We would seek to determine whether the existing rules constitute a sufficient and effective framework and whether further elaborations and/or clarifications may be required. Canada will continue to pursue the establishment of a WTO working party on biotechnology as part of the regular work of the WTO Council.

Trade Remedies

Canada continues to regard the pursuit of improved disciplines, transparency and clarity in the use of trade-remedy measures by its trading partners as a priority. This is the basis of Canada's support for new multilateral negotiations in the area of anti-dumping and subsidies/countervail. The importance of this objective is evident as new and non-traditional users of trade remedies continue to initiate investigations. For instance, over the past two years, anti-dumping investigations by Indonesia and India on imports of Canadian newsprint were concluded without the application of additional duties, while an investigation by China on the same product resulted in the application of duties. Canada will continue to monitor and assist Canadian exporters involved in investigations of Canadian exports, analyse changes in the trade remedy laws and practices of Canada's most important trading partners and make representations as appropriate in specific investigations. Regarding the latter, the Canadian government was particularly active with respect to a U.S. countervail investigation on live cattle from Canada, two U.S. safeguard investigations involving steel products, the Chinese newsprint case and several U.S. reviews of anti-dumping and countervailing duty orders in place on imports from Canada.

Canada continues to contribute to the work of the WTO Committees on Subsidies, Anti-Dumping Practices, and Safeguards to ensure that all Members administer their trade remedy laws in a WTO-consistent

manner. Canada continues to work in the context of the WTO Agreement on Subsidies and Countervailing Measures as well as the Committee on Agriculture to ensure appropriate implementation and possible expansion of the subsidy disciplines negotiated in the Uruguay Round.

Rules of Origin

The WTO Agreement on Rules of Origin established a work program to develop common rules of origin for several purposes involving non-preferential trade. Canada's objective is to achieve common rules that will provide greater transparency and certainty for traders; to prevent countries from using origin rules to impair market access; and to have rules that are technically proficient, reflecting the global nature of production and sourcing of goods and materials.

Although the work program was originally slated for completion in July 1998, it has been extended due to the technical complexity of agreeing on rules for all products. In June 1999, the results of the examination conducted to date by the Technical Committee on Rules of Origin was turned over to the WTO Committee on Rules of Origin for its review and eventual completion. Negotiations will continue throughout 2000, although a completion date has yet to be determined.

Trade Facilitation

In 1996, Trade Ministers directed the Council on Trade in Goods to undertake exploratory and analytical work, drawing on the work of other relevant international organizations, on the simplification of trade procedures in order to assess the scope for WTO rules in this area. In pursuing the work, WTO Members compiled a comprehensive inventory of the work accomplished or being undertaken on trade facilitation in other international organizations, including non-governmental organizations (NGOs).

In 1998, a WTO trade symposium was held to help identify the main areas where traders face obstacles when moving goods across borders. Private-sector traders at the symposium made it clear that the WTO should play a key role in this area, both in terms of ensuring the full implementation of existing obligations that facilitate trade (e.g. the Customs Valuation and Rules of Origin agreements) and expanding and developing rules aimed at simplifying and harmonizing border-related procedures. The

objectives are to create greater efficiencies and cost-savings for both the trading public and governments and to promote investment.

Canada strongly supports this initiative and, during the exploratory and analytical discussions held during 1998-1999, made some specific and practical suggestions around which WTO trade-facilitation provisions might be developed. The Canadian suggestions have reflected the view that the WTO should work to add value and fill gaps in existing initiatives in other international organizations and should build on existing WTO provisions related to trade facilitation. The Canadian objective is to facilitate trade in a practical manner that is meaningful to traders, i.e. to build on existing WTO obligations to maximize transparency, expedite the release of goods and reduce, simplify, modernize and harmonize border-related requirements, procedures and formalities. Canada strongly supports the inclusion of trade facilitation in the next round of WTO negotiations.

IMPROVING ACCESS FOR TRADE IN SERVICES

World trade in services in 1998 represented 19.5 percent of the total world trade. Services production is a core economic activity in virtually all countries and has grown significantly in recent years. In 1996, the services share in total value added to GDP ranged from almost 40 percent in LDCs, to more than 70 percent in highly developed countries such as Canada.

Closer to home, the Canadian services sector is extremely dynamic. In fact, it exhibited stronger growth than the rest of the economy over the 1990s. In 1999, for example, services represented two-thirds of total GDP, and our exports of services grew by 7.1 percent to \$49.2 billion. In 1998, 10.6 million Canadians were employed in services-sector jobs, accounting for 74 percent of total employment. Over the past two decades, most of the new jobs created in Canada have been in the services sector. Out of the 4.5 million net gain in jobs since 1976, 4.2 million were in services-producing industries. The services sector is leading the transformation of the Canadian economy into a knowledge-based economy.

Canada is the 12th-largest exporter of services in the world. Given the importance of services exports to our economy, Canada has much to gain from negotiating further liberalization and expansion of international markets for services. The United States is our most important trading partner for services, as it is for goods. Our services exports are, however, less dependent on the U.S. market than is the case for our goods exports, and our fastest-growing export markets are elsewhere. Commercial services exports to Brazil, for example, grew by an average of 82 percent between 1992 and 1997; to Chile by 65 percent; and to China by 28 percent. The growing importance of these markets reinforces the benefits of a multilateral approach to liberalization of trade in services.

One of the ways in which this liberalisation can be undertaken is via the upcoming negotiations of the WTO's General Agreement on Trade in Services (GATS). The GATS, which has been in effect since the WTO entered into force in 1995, represents the first multilateral, legally enforceable framework of rules governing this huge area of trade.

Under the GATS, this year WTO Members began further negotiations on trade in services, which are aimed at achieving progressively higher levels of liberalization. In preparation for the negotiations, WTO Members, and Canada in particular, have embarked on an exercise of consultation with the private sector and with stakeholders representing a wide range of interests, with a view to identifying negotiating interests and objectives.

As negotiations progress, the Government will continue to consult extensively with provincial governments, Canadian industry and other stakeholders to ensure that Canada's negotiation positions reflect the interests of all Canadians. As a significant exporter of services, Canada will pursue multilateral, legally-enforceable rules that will allow increased access to foreign markets for Canadian services firms. Issues for consideration include sectors of export interest to Canadian industry; markets of 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; and providing Canadians with access to quality services at a

competitive price. In addition, Canada will work collectively with other WTO members to improve the agreement's transparency and clarity in order to make it more user-friendly.

In the negotiations, Canada will push for greater market access for services suppliers in sectors of expansionary interest (professional, business, financial, telecommunications, computer, environmental and transportation services). At the same time, however, there are certain domestic services sectors in which our interest in undertaking further liberalization may be limited. The Canadian government intends to continue to uphold its clearly defined and long-established objectives to safeguard Canada's freedom of action in key services sectors, including health, education and culture.

Financial Services

Financial services are involved in every domestic or international trade operation. For that reason, Canadian financial institutions (FIs) play a central role in supporting the activities of Canadian exporters of goods and services. Moreover, beyond their intermediary role, Canadian FIs are themselves exporters of services. In 1999, their exports totalled over \$5 billion.

Key market access priorities are the United States, Mexico, Asia (notably China) and Latin America. In that respect, the completion of China's accession to the WTO will provide Canadian financial institutions with new opportunities. In addition, in the context of the current GATS negotiations, Canada is looking to build on the results of the GATS Agreement on Financial Services, which was concluded in 1997 and entered into force on March 1, 1999.

Basic Telecommunications Services

The GATS Agreement on Basic Telecommunications (ABT) was concluded in February 1997, with the participation of countries accounting for over 90 percent of worldwide telecommunication revenues, and came into effect on February 5, 1998. It consists of the participants' specific commitments regarding market access, national treatment and the application of pro-competitive regulatory principles. To date, Canada has implemented all of its commitments on or ahead of schedule, and the last Canadian

telecommunications monopoly, the Telesat monopoly on fixed satellites, ended on schedule on March 1, 2000. The ABT does not cover broadcasting services. The commitments made by participating countries will be implemented over the next decade. Canada will closely monitor implementation of the agreement by its trading partners to ensure Canadian industry can take advantage of access to new markets.

Professional Services

In recent years, Canadian professional services providers (which include engineers, accountants, architects and foreign legal consultants) have increasingly exported their expertise abroad. As an illustration, Canadian engineering consulting firms ranked fourth in total international billings after 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 benefited greatly from the commitments that Canada obtained from other countries in the GATS. The upcoming GATS negotiations will be an excellent vehicle to promote greater market access for our professional services; this could be achieved through securing improved commitments from our WTO partners and through strengthening the existing GATS disciplines on domestic regulations (i.e. qualification requirements and procedures, technical standards and licensing requirements) to ensure that they are based on objective and transparent criteria. In this regard, the WTO established a Working Party of Domestic Regulations in April 1999, with a mandate to develop general disciplines for professional services (and, potentially, other services), building on the work done since 1995 by the Working Party on Professional Services.

Another tool to enhance the potential for Canadian exports of professional services is the facilitation of MRA negotiations between Canadian and foreign professional bodies. As an example, 1999 marked the successful conclusion of an important MRA between the Canadian Council of Professional Engineers and the equivalent organization from France. The Government will continue to promote and support the negotiation of such agreements.

ISSUES THAT AFFECT ACCESS FOR TRADE IN GOODS AND SERVICES

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 a number of fora. 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 to ensure effective implementation of existing disciplines.

Canada, along with 25 other countries, is party to the WTO Agreement on Government Procurement (AGP), which provides the basis for guaranteed access for Canadian suppliers to the markets of the United States, the European Union, Japan and other key markets. The North American Free Trade Agreement (NAFTA) provides further access for Canadian exporters to U.S. and Mexican government procurement.

Canada continues to pursue greater and more secure market access through the AGP. The review of the AGP, with its mandate to expand coverage, eliminate discriminatory provisions and simplify the agreement remains a priority. Work is continuing with input from provinces and other stakeholders to establish Canada's priorities for further market opening. In 1999, Canada and other APEC countries finalized non-binding procurement principles. We continue to work with our EU and EFTA counterparts to make progress in removing barriers to

selling to governments worldwide and are taking an active role in the FTAA government-procurement negotiations.

Electronic Commerce

The use of e-commerce may be one of the most important factors in the expansion of trade flows in the 21st Century. Both the WTO and the FTAA have been conducting work programs to examine the trade-related aspects of e-commerce. The WTO work program has provided some useful clarification of the manner in which the WTO agreements apply to e-commerce transactions. However, additional work remains in this regard. The FTAA Joint Government-Private Sector Committee of Experts on Electronic Commerce has brought together government and private-sector representatives of countries at many different levels of development with respect to e-commerce. As work progresses within these and other fora, such as the World Intellectual Property Organization (WIPO), the Government will consult with Canadians on the development of a trade policy to facilitate global e-commerce. Canada is particularly interested in identifying and resolving issues requiring action at the governmental and international levels.

Dispute Settlement

The WTO dispute settlement mechanism serves Canada's overall trade interests by contributing to clear trading rules for all Members and by assuring global market access for Canadian goods and services. The Dispute Settlement Understanding (DSU) is an agreement among WTO Members that sets out how disputes are to be resolved. It is rightly viewed as a cornerstone of the WTO because it sets out a fair, effective and credible dispute settlement system that is accessible to all Members. The DSU contains more detailed procedures and timetables than the previous procedure under the General Agreement on Tariffs and Trade (GATT). Another important difference from the GATT procedure is that the country losing a dispute cannot block the adoption of the decision. The Dispute Settlement Body (DSB), which comprises the General Council with a different chairperson, is responsible for administering the DSU.

With rules for the automatic establishment of panels and for the adoption of panel reports, and with the creation of an independent Appellate Body, the DSU reinforces the rule of law and thereby strengthens the rules-based multilateral trading system. Members' confidence in the system continues to grow, as evidenced by the number of cases brought forward (over 180 to date) and by the proportion of these being settled at the consultation stage (about one in four).

Canada will continue to use the WTO dispute settlement mechanism wherever necessary to ensure that our exporters do not face barriers inconsistent with WTO agreements. Canada has been one of the most active users of the WTO dispute settlement system. Since 1995, we have been a complainant in six cases under the DSU and have joined other Members' consultations or intervened in panel proceedings in over 30 other cases.

Recently, Canada has used the WTO dispute settlement mechanism to advance Canadian interests in the fishing, mining and aerospace sectors. On November 6, 1998, the DSB adopted panel and Appellate Body reports confirming that Australia's ban on the importation of fresh, chilled or frozen salmon from Canada was inconsistent with Australia's WTO obligations. Specifically, the reports found that the ban, in place since 1975, was not based on a risk assessment and that Australia had adopted arbitrary or unjustifiable distinctions in its levels of sanitary protection resulting in discrimination or a disguised restriction on international trade. Canada challenged the new fish import policies announced by Australia on July 19, 1999, on the grounds that they were too trade-restrictive and did not comply with Australia's WTO obligations. On January 31, 2000, a WTO panel confirmed this position, and Canada is now awaiting an arbitration decision over the amount of retaliation it can take against Australia. Canada is also challenging France's prohibition of the manufacture, processing, sale and importation of asbestos and asbestos-containing products.

Canada and the United States challenged an EU ban on the importation of beef produced with growth-promoting hormones. A WTO dispute settlement panel and the Appellate Body both found that the EU ban violated the Agreement on the Application of Sanitary and Phytosanitary Measures as it was not

based on a risk assessment. The EU failed to comply with the rulings by the May 13, 1999 deadline, and as a result, Canada imposed retaliatory tariffs on certain imports from the EU in the amount of \$11.3 million annually.

Canada challenged the Brazilian export subsidy PROEX under the WTO Subsidies and Countervailing Measures Agreement. PROEX, under its "interest equalization" component, provides for the payment of subsidies to reduce financing costs for Brazilian exports. Canada's complaint related to the application of PROEX in the aircraft sector. Brazil, in return, challenged a number of Canadian programs that support various Canadian industries, including the aerospace industry. On August 20, 1999, the DSB adopted panel and Appellate Body reports for both complaints. With respect to Canada's challenge on export subsidies granted under PROEX, the DSB found that Brazil's measures were inconsistent with its obligations under the Subsidies and Countervailing Agreement. The reports also found that some of Canada's measures were inconsistent with certain provisions of the same agreement; however Brazil's claim that assistance from the Export Development Corporation (EDC) to the Canadian regional aircraft industry constituted export subsidies was rejected. On December 9, 1999, the DSB established two panels to examine the WTO consistency of the measures adopted by Brazil and Canada to implement the rulings of the DSB. At press time, the decisions of these panels were expected in mid-March or early April.

Two complaints against Canada, one by the United States and the other by New Zealand, were recently decided by the same panel. The U.S. complaint dealt with subsidies allegedly granted by Canada on dairy products and with Canada's administration of the tariff rate quota on milk. New Zealand complained about an alleged dairy export subsidy regime. The DSB found that the measures complained against were inconsistent with some of Canada's WTO obligations. However, the Appellate Body did uphold the conditions Canada attached in its schedule to its tariff rate quota. Canada is taking steps to implement the DSB recommendations by December 31, 2000.

A WTO panel examining complaints by Japan and the EU has found that Canada's measures taken in the implementation of the Auto Pact are inconsistent with its WTO obligations. The Government has

appealed aspects of the panel's report on the basis that the panel made legal errors and took an overly broad view of key WTO obligations. The WTO Appellate Body is expected to provide its report by May 2000.

A panel has also been established to examine a EU complaint about an alleged lack of protection of inventions by Canada in the area of pharmaceuticals.

Canada actively follows the development of trade disputes involving other WTO Members and joins in whenever our trade interest or system interest in the WTO warrant our intervention. Canada reserves third-party rights to present arguments to panels and the Appellate Body, such as in a complaint against the United States concerning measures affecting the importation of fresh, chilled and frozen lamb from New Zealand. Canada's interest in this dispute is to ensure the WTO-consistency of NAFTA Article 802 dealing with exclusion from safeguard actions. In 1999, Canada participated as a third party in WTO panels on the U.S. Foreign Sales Corporation and Section 301 of the U.S. Trade Act (1974).

With a view to further strengthening this cornerstone of the multilateral trading system, Canada was actively engaged in a review of the DSU and proposed refinements in the following areas: enhancing transparency in the system; improving mechanisms for implementing DSB recommendations and rulings; reducing scope for unilateral action by any Member; and ensuring the dispute settlement system is accessible to all Members. The review process resulted in a package of proposed amendments to the DSU, which was presented to ministers at the Third WTO Ministerial Conference in Seattle. Although the conference was suspended, it is hoped that the package of amendments will soon be adopted by WTO Members.

Accessions to the World Trade Organization

In 1999, accession negotiations were concluded between WTO Members and three countries — Latvia, Estonia and Jordan — bringing the WTO membership to 136. Georgia is expected to join soon, while approximately 30 additional countries and customs territories are in various stages of the

accession process, including Algeria, China, Chinese Taipei, Croatia, Lithuania, Russia, Saudi Arabia, Ukraine and Vietnam. China has been brought closer to WTO membership with the conclusion in November 1999 of bilateral market access agreements with the United States and Canada, although much work remains to be done at the multilateral level (e.g. on the application of agricultural trade rules).

As in previous years, Canada will continue to take an active role in accession negotiations. Canada supports the expansion of WTO membership for two reasons:

- to secure more open, non-discriminatory and predictable access for Canadian exports of goods and services to these markets; and
- to achieve transparent, rules-based trade regimes in additional markets, thus contributing more broadly to economic stability, peace and prosperity.

The negotiations take place on two parallel tracks: multilateral and bilateral. For each accession, a WTO working party of interested Members examines the applicant's trade regime and identifies the reforms required to achieve conformity with WTO rules. By participating in working party deliberations, Canada satisfies itself that the accession will bring about more predictable, less discretionary trading conditions in the applicant's market.

In bilateral market access negotiations, Canada aims to achieve better access in targeted goods and services sectors. Canada focuses on the reduction or elimination of tariffs and non-tariff barriers, and on obtaining commitments in the four modes of services trade: cross-border supply of services; consumption abroad; commercial presence; and the movement of persons. Accession negotiations offer a unique opportunity to resolve Canadian market access problems in the applicants' markets.



3. *Investment*

<http://www.dfait-maeci.gc.ca/tna-nac>

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 foreign direct investment (FDI) has increased more than six-fold over the past two decades, from US\$524 billion in 1980 to US\$3.5 trillion in 1997.

Canada is an active player in this global economy. Canadian direct investment abroad (CDIA) has more than tripled from \$74 billion in 1987 to \$240 billion in 1998. Over the same period, foreign direct investment in Canada has doubled, from \$106 billion in 1987 to \$217 billion. Since 1996, the stock of CDIA has surpassed the stock of FDI in Canada.

Canadian Direct Investment Abroad

Outward investment by Canadian firms generates domestic economic activity and stimulates exports of Canadian goods and services. Through foreign investment, firms seek a host country that affords the greatest opportunity for competitiveness and economic success. Studies indicate that between 30 percent and 40 percent of international trade for manufactured goods is undertaken between parent firms and their foreign subsidiaries (intra-firm trade). Low levels of import penetration into foreign markets are often linked to low levels of investment by reason of investment rules favouring domestic investors.

The extensive international business activity of Canadian firms reflects the realities of an increasingly integrated world market and the need for Canadian business to participate in that integration if they are to remain competitive. 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.

In 1998, 53 percent (\$126 billion) of CDIA was located in the United States. A further 19 percent of CDIA (\$46 billion) was based in the European Union. Other major Canadian investment locations include Barbados (\$14.3 billion), Bahamas (\$6.1 billion), Bermuda (\$4.7 billion), Chile (\$4.2 billion), Japan (\$3.2 billion) and Hong Kong (\$2.9 billion). Similar to global trends, developing countries are becoming increasingly important destinations for CDIA. In 1988, 14 percent of Canada's outward investment went to developing countries. By 1998, that percentage had increased to approximately 24 percent (\$58 billion).

The finance and insurance sector accounted for approximately 33 percent of CDIA in 1998; the energy and metallic minerals areas accounted for 23 percent; services and retailing for 11 percent; and the remainder was widely diversified in other industrial sectors. Outward investment by Canadian firms generates domestic economic activity and stimulates exports of Canadian goods and services. For example, outward investment in the metals and minerals sector results in domestic sales of machinery and equipment, as well as of engineering, architectural and environmental services.

Foreign Direct Investment in Canada

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

In 1998, the United States accounted for \$147 billion or 68 percent of FDI in Canada (down from a high of 75 percent in 1985). The European Union represented \$45 billion or 19 percent of FDI in Canada. Other significant investors included Japan (\$8.1 billion), Hong Kong (\$3.4 billion), Caribbean countries (\$2.8 billion) and Bermuda (\$1.7 billion). FDI in Canada was well-diversified across industrial sectors. Major recipient sectors included finance (19 percent), energy and metals (18 percent), machinery and transportation equipment (14 percent), services and retailing (10 percent) and wood and paper (8 percent). The remaining 31 percent was widely diversified across other sectors.

CANADA'S INTERNATIONAL INVESTMENT AGENDA

Investment rules play an important role in protecting and facilitating the foreign investment activities of Canadian firms. Formally agreed international rules, through integrated trade agreements or investment treaties, can be particularly important for smaller economies like Canada, which do not have the same leverage as larger players such as the United States and the European Union. Investment rules such as those within the NAFTA and Foreign Investment

Protection Agreements (FIPAs) inform Canadian investors about the rules of the game in foreign markets through basic commitments to transparency and predictability, thus promoting clear procedures, fewer delays and greater consistency in legal and policy regimes. Rules offer a greater measure of security for investors through assurances that national policies will not be unduly changed or applied in a discriminatory manner. Rules also provide a measure of enhanced market access and a basis for future liberalization initiatives.

Recent work undertaken by the business community indicates that Canadian firms continue to encounter investment barriers abroad. These barriers relate to investment prohibitions, restrictions on the scope of business activity, performance requirements and restrictions on the movement of business people. Difficulties tend to be most frequently raised with respect to Africa, South America, China and Russia.

Investment agreements do not restrict a country's ability to regulate in the public interest. Foreign investors in Canada (and Canadian investors in foreign markets) must abide by the domestic laws of the host country and obey the same rules as nationals. Foreign investors are in no way exempt from the domestic laws of the country playing host to their investment, including, for example, domestic competition laws or regulations relating to health, labour or the environment. Similarly, foreign investors in Canada are required to obey the same Canadian laws that Canada's own domestic investors must obey.

Canada has a relatively open investment regime which compares well internationally. Larger foreign investment transactions, and those in certain sensitive sectors such as culture, are reviewed by Industry Canada to ensure that they are of net benefit. Remaining investment restrictions in Canada lie largely in the services sector, for example, financial services, telecommunications and transportation. 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

Canada has negotiated 26 FIPAs since the beginning of the program in 1989, and is currently pursuing negotiations with several important commercial partners, including China, Russia, Brazil, India and Colombia. FIPAs are bilateral, reciprocal agreements designed to protect and promote Canada's foreign investments abroad, particularly in developing economies, through a framework of legally-binding rights and obligations. Canadian companies tend to have greater concerns about investment in developing countries where barriers tend to be more prevalent and less transparent and remedies are not readily available.

Canada's FIPAs serve to provide assurances to investors that the rules governing investment will remain bound by certain standards of fairness and predictability. FIPAs can help Canadian enterprises gain an optimum level of investment, lower their political risks and reduce many of the costs associated with making investments in emerging economies. Bilateral investment treaties such as FIPAs are used extensively worldwide; there are currently more than 1,600 such agreements.

Regional Initiatives

As part of the NAFTA, Canada negotiated a comprehensive investment agreement with the United States and Mexico. The NAFTA investment chapter was the basis for the investment provisions in the Canada-Chile Free Trade Agreement (CCFTA) and most of Canada's FIPAs. Since September 1998, Canada has been working with its trade and investment partners in this hemisphere to develop a fair and transparent legal framework to promote investment in the Americas in the context of the FTAA initiative.

Canada is also involved in regional investment discussions with Pacific Rim countries through APEC. Through a program of voluntary individual action plans guided by non-binding investment principles (NBIPs), APEC economies work to liberalize their investment regimes by removing restrictions on market access and strengthening their legislation to protect foreign investment.

The World Trade Organization

At the 1996 WTO Singapore Ministerial Conference, ministers established an educative work program on investment with a mandate to investigate the relationship between trade and investment. The WTO Working Group on Trade and Investment has provided a forum for balanced discussion between developed and developing countries on international investment and the possibility of developing rules in the WTO framework. It investigated existing investment rules in the WTO and in regional and bilateral agreements to identify whether these rules should be augmented or adjusted. WTO Members have reached the general conclusion that international investment has a positive impact on growth and development.

In the lead-up to the WTO Ministerial Conference in Seattle, a number of countries, led by the EU, had proposed that investment be included in the agenda for a new round of WTO negotiations. These proposals suggested a modest framework for negotiations and clearly differentiated from the previous initiative for an OECD Multilateral Agreement on Investment. Discussions at the Seattle conference were suspended, and next steps are still under consideration.

Over the past year, the Government has undertaken extensive consultations with a broad cross-section of domestic stakeholders to inform them of the proposed WTO investment agenda and to seek their views. Over 1,100 representatives from the provinces, business, academia, as well as human rights, environment and labour organizations were invited to participate in roundtables, which were held in 11 cities across Canada. A report on the results of the discussions has been placed on DFAIT website (www.dfait-maeci.gc.ca/tna-nac). The Government is committed to continuing the process of dialogue and feedback with stakeholders.

The WTO also incorporates a number of investment-related rules in its existing agreements. The Agreement on Trade Related Investment Measures (TRIMs) prohibits a number of performance requirements, such as trade-balancing requirements, domestic sourcing and export restrictions applicable to goods industries. The GATS provides for the "right of establishment", which accords service providers the right to enter

another market by establishing a commercial presence in sectors in which countries have made commitments. The GATS also includes commitments by countries to accord non-discriminatory treatment to specified service industries where WTO Members have undertaken commitments. The GATS does not include investment protection provisions (i.e. the right to compensation in case of an expropriation) or investor-state dispute settlement. Certain investment-related obligations, notably the right of commercial presence for service suppliers, will be addressed in the context of negotiations mandated under the GATS.

Irrespective of the course of action that is chosen on investment, the Government is committed to safeguarding Canada's right to regulate and promote fundamental Canadian values in strategic sectors such as health, education, culture and environmental protection.

Investor Responsibility/Codes of Conduct

It is recognized that businesses have a responsibility to conduct their operations as good corporate citizens. Canada is party to the OECD Guidelines for Multinational Enterprises, a set of voluntary standards of conduct recommended by Member governments regarding the operations of these enterprises in OECD markets. The guidelines are currently subject to a review within the OECD Committee on International Investment and Multinational Enterprises (CIME), which is expected to be completed by June 2000. A number of Canadian companies have also signed onto the International Code of Ethics for Canadian Business, which outlines principles on community participation and environmental protection, business conduct and employees' health and safety.



4. *Opening Doors to The Americas*

<http://www.dfait-maeci.gc.ca/tna-nac>

THE NAFTA

The North American Free Trade Agreement entered into force for Canada, the United States and Mexico on January 1, 1994. Designed to foster increased trade and investment among the partners, the NAFTA contains an ambitious schedule for tariff elimination and reduction of non-tariff barriers, as well as comprehensive provisions on the conduct of business in the free trade area. These include disciplines on the regulation of investment, services, intellectual property, competition and the temporary entry of business persons.

The NAFTA did not affect the phase-out of tariffs under the Canada-U.S. Free Trade Agreement (FTA), which was completed on January 1, 1998. As of that date, virtually all tariffs on Canada-U.S. trade in originating goods were eliminated. Some tariffs remain in place for certain products in Canada's supply-managed sectors (e.g. dairy and poultry), as well as sugar, dairy, peanuts and cotton in the United States. The NAFTA provides for virtually all tariffs to be eliminated on trade in originating goods between Canada and Mexico by January 1, 2003. The second round of "accelerated" tariff reductions, covering some US\$1 billion in NAFTA trade, was implemented in August 1998. Mexican tariffs were eliminated on certain Canadian yarns, textile fabrics, chemical products, caulking compounds, certain watches and other specified products.

Total trade and investment between Canada, Mexico and the United States has increased substantially since the NAFTA was implemented. Canada's total merchandise trade with the United States and Mexico was approximately \$570 billion in 1999. Two-way merchandise trade between Canada and Mexico grew by 21.6 percent, reaching \$11 billion in 1999. Our merchandise trade with the United States is up 11.1 percent over the same period, reaching \$559 billion in 1999. In terms of Canada's total merchandise exports, 86 percent go to our NAFTA partners.

Under the NAFTA, Canadian producers are better able to realize their full potential by operating in a larger, more integrated and efficient North American economy. Canadian manufacturers are able to use the least-expensive, highest-quality intermediate goods from across North America in the production of final

goods for export. Consumers benefit from this heightened competition and integrated marketplace with better prices, greater choice of products and higher-quality goods and services.

Improved access to NAFTA markets, and the existence of clear rules on trade and investment, have increased Canada's attractiveness to foreign and domestic investors. Total FDI into Canada reached \$217 billion in 1998, 68 percent of which comes from our NAFTA partners. FDI into Canada from the United States increased for a fifth straight year to \$147 billion in 1998, while investment from Mexico reached \$464 million in 1998, over three times that of 1993. Canadian direct investment in the NAFTA countries has also increased, reaching \$126 billion into the United States in 1998, almost twice that of 1993, and \$2.2 billion into Mexico, four times the 1993 level.

Institutionally, the implementation of the NAFTA is directed by the NAFTA Commission, composed of the trade ministers from each country. The Commission oversees the work of more than 30 trilateral committees, working groups and other subsidiary bodies established to further facilitate trade and investment and ensure effective implementation and administration of the NAFTA's rules. The NAFTA working groups and committees also provide a transparent mechanism for discussion of issues and possible avoidance of disputes through early dialogue on contentious points.

At the most recent Commission meeting in April 1999, ministers completed an operational review to examine the structure, mandates and future priorities of the NAFTA work program, which was launched in 1998. The review succeeded in reinvigorating the ongoing institutional implementation of the NAFTA and embedded a management structure to better oversee cooperative efforts under the NAFTA regime. The Commission meeting also provided an opportunity to evaluate the impact of the NAFTA over its first five years and provide direction on the way forward.

Ministers from the three NAFTA Parties also agreed at the Commission meeting to engage in outreach and promotional activities in an effort to better communicate the benefits of the NAFTA. As part of this effort, DFAIT launched a revamped NAFTA website (<http://www.dfait-maeci.gc.ca/nafta-alena/>) and published a document that reviews the impact of the NAFTA on Canada, entitled *The NAFTA at Five Years: A Partnership at Work*.

Settling Disputes under NAFTA

The vast majority of our trade and investment with the United States and Mexico now takes place within the context of the clear and well-established rules of the NAFTA. Nonetheless, disputes are bound to emerge in such a large trading area. In such cases, the NAFTA provides a vehicle for the governments concerned to resolve their differences through NAFTA committees and working groups, or through other consultations. If no mutually acceptable solution can be found, the NAFTA provides for expeditious and effective dispute settlement procedures. Where WTO rights and obligations are at issue, NAFTA Parties also maintain the option of recourse to WTO dispute settlement procedures as an alternative to the NAFTA procedures.

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

From November 1998 to November 1999, no new requests were made under Chapter 19 for review of decisions of Canadian agencies in anti-dumping or countervailing duty cases. Two requests were made by Canadian producers for review of decisions of U.S. agencies (flat corrosion-resistant carbon steel and cut-to-length carbon-steel plate). Six other cases involving either Canadian goods or agencies remain active: four involving a Canadian agency's determination (hot-rolled carbon steel plate from Mexico; and baby food, cold-reduced flat-rolled carbon steel sheet, and copper pipe fittings from the United States); and two involving a U.S. agency's decision (flat corrosion-resistant carbon steel and brass sheet and strip). Two anti-dumping cases were also completed during the period, one involving the review of a Mexican agency's determination on rolled-steel plate from Canada, requested in 1996, and the other involving the review of a U.S. agency's determination on flat corrosion-resistant carbon steel from Canada, requested in 1997.

There are also several active Chapter 20 disputes between Mexico and the United States in which Canada is a third party. These disputes involve cross-border trucking and bus services and access for Mexican sugar to the U.S. market. The panel for Mexico's dispute with the United States on cross-border trucking and bus services began its work in early 2000.

In March 1999, under the investor-state dispute settlement provisions of Chapter 11, arbitration was started against Canada by Pope & Talbot Inc. (U.S.) concerning the implementation of the Canada-U.S. Softwood Lumber Agreement. Arbitration continued in the dispute brought by S.D. Myers Inc. (U.S.) in October 1998 concerning Canada's imposition of a 1995 prohibition on the export of PCB wastes to the United States. Sun Belt Water Inc. (U.S.) has not started arbitration against Canada, but has been in a position to do so since March 1999. As part of the ongoing review by the Parties of the operation of NAFTA, Canada is continuing to work with the United States and Mexico to seek clarification of the concept of expropriation contained in Chapter 11 and to enhance the transparency of the investor-state dispute settlement provisions.

Looking Forward

The NAFTA is not a static agreement. It has created a living framework for managing current and future priorities in the North American marketplace. Looking to the future of the agreement, some of Canada's priorities are to:

- ensure the continued smooth implementation of the NAFTA;
- clarify the NAFTA Parties' understanding of the provisions of the investment chapter of the NAFTA and increase procedural transparency (Chapter 11 <http://www.dfait-maeci.gc.ca/nafta-alena/chap11-e.asp>);
- explore areas that were either not fully addressed by the agreement, or where further progress might be possible;
- evaluate the impact of rapid technological change on North American markets and have new ways of doing business (such as e-commerce) reflected in the rules of the NAFTA;
- seek greater openness and transparency in NAFTA institutions; and

- explore opportunities for greater cooperation in the development and interaction of our trade, labour and environment policies.

UNITED STATES

Overview

Canada and the United States are each other's largest trading partners, moving about \$1.5 billion worth of goods and services across the border each day. In 1999, Canada exported \$310 billion in goods to the United States and imported \$249 billion in return. Services exports totalled \$29.6 billion during the same period, with corresponding imports at \$34.3 billion. Canada's merchandise exports to the United States alone support over 2 million Canadian jobs and generate 32.6 percent of Canada's GDP. Fully 85.9 percent of Canadian merchandise exports are destined for the United States. Since the implementation of the FTA in 1989, two-way trade has more than doubled. Between 1992 and 1999, two-way trade in goods increased by approximately 13 percent per year. This contrasts with an average annual increase of approximately 6.4 percent over the same period for Canada's trade in goods with the rest of the world.

The FTA, and subsequently the NAFTA, have had other positive spin-offs. For example, U.S. direct investment in Canada has increased from approximately \$85 billion in 1991 to \$147 billion in 1998, while Canadian direct investment in the United States has grown from \$63 billion to \$126 billion in the same period.

Canada's trade and investment relationship with the United States is quantitatively and qualitatively different from that with any other country. Excellent opportunities exist for Canadian goods and services exporters in virtually every sector. To exploit these opportunities, DFAIT's activities concentrate on introducing small- and medium-sized enterprises (SMEs) to the market, with particular focus on assisting women, young entrepreneurs and aboriginal firms to begin exporting to the United States. The New Exporters to Border States (NEBS) program has been highly successful in this regard, having helped more than 12,000 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 our website at <http://www.dfait-maeci.gc.ca/geo/usa/nebs-e.asp>.

The Canadian government also aims to attract and expand investment from the United States and to encourage strategic alliances with U.S. companies. The Government’s plan is to promote investment through the use of a more integrated, sector-focussed approach that builds on the cooperation between DFAIT and its Team Canada partners.

In promoting Canada’s market access and business-development interests in the United States, it is important to consider each individual region of the United States in its own right. Most U.S. regions and many individual states have economies that are larger than many countries. There are also different cultural and economic influences at play in different areas of the United States. 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 1999

- The Consultative Committee on Agriculture began operation in 1999 to bring concerns and differences forward for resolution before they become serious bilateral irritants. The committee also involves provinces and states on a more systematic basis.
- The movement of feeder cattle into Canada was facilitated by expanding animal health approvals for cattle from states that meet certain animal health criteria.
- Regulations have been implemented that require a Canadian export permit for access to its tariff rate quota for Canada on sugar-containing products.
- Michigan amended its Single Business Tax (SBT) legislation, significantly reducing its impact on access for Canadian companies. The SBT, currently 2.2 percent, will be phased out at 0.1 percent per year over a 23-year period.

- An agreement-in-principle was reached on the main elements required to resolve problems resulting from changes to the U.S. International Trade in Arms Regulations (ITARs).
- As a result of reviews of 15 long-standing anti-dumping and countervailing duty orders, seven were revoked.
- Anti-dumping and countervailing duty cases against live cattle concluded in the fall of 1999 with neither resulting in permanent additional duties on Canadian cattle. In the anti-dumping case, the International Trade Commission (ITC) found no injury or threat of injury in its final determination; and in the countervailing duty case, the Department of Commerce found that subsidies were below *de minimis* levels and so were not countervailable.
- An anti-dumping investigation of imports of stainless steel wire did not result in the application of additional duties to imports from Canada.
- Two safeguard investigations involving imports of carbon-steel wire rod and carbon-steel line pipe concluded that imports from Canada were not injuring U.S. industry.

Canada’s Market Access Priorities for 2000

- promote and further defend access to the U.S. market by exercising rights under existing trade agreements;
- press for full U.S. implementation of the WTO and the GATT panel decisions on Section 301, Foreign Sales Corporation, and beer and seek a panel decision on Section 337;
- continue Canadian advocacy efforts to inform U.S. opinion makers of the adverse impact of legislation affecting the free and easy movement of people and goods across the border, such as Section 110;
- reinforce such advocacy by developing and supporting strategic alliances with U.S. customers and their representatives affected by such measures;
- work closely with the United States to enhance cooperation and streamline border processing through initiatives such as the Shared Border Accord and Preclearance, including an expansion of the voluntary compliance outreach program;

- continue to monitor closely and respond to key measures that may distort trade and investment decisions in the North American market;
- continue to press against U.S. Customs' unilateral reclassification action which prejudices Canadian products such as drilled studs, notched studs and rougher-headed lumber;
- continue to oppose the extraterritorial application of U.S. laws;
- continue to advance Canadian market access objectives in other areas, such as services and government procurement; and promote Canada as an investment destination; and
- pursue amendments to the Marine Mammal Protection Act in order to harmonize it with international principles, such as those contained in the Convention on International Trade in Endangered Species (CITES).

The remainder of this chapter 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.

EXERCISING CANADA'S RIGHTS UNDER TRADE AGREEMENTS

Sugar and Sugar-containing Products

In 1997, Canada and the United States exchanged Letters of Understanding whereby Canada received country-specific allocations allowing certain quantities of Canadian sugar-containing products (SCPs) and refined sugar to be imported duty-free each year into the United States. Canada is also able to compete with other countries for the non-allocated portions of these tariff rate quotas (TRQs). To ensure predictable access to the SCP TRQ for Canadian exporters, as part of the joint Canada-U.S. Action Plan on Agricultural Trade, as of February 4, 2000, the United States requires an export permit, issued by the Canadian government as a condition of entry when the exporter or importer is claiming preferential tariff treatment. Canada will continue to ensure that our access to the U.S. sugar market is not eroded and that the TRQ for SCPs is administered effectively and fairly.

Total TRQ for SCPs	64,709 tonnes
Amount allocated to Canada	59,250 tonnes
Non-allocated portion	5,459 tonnes
Total TRQ for refined sugar	22,000 tonnes
Amount allocated to Canada	10,300 tonnes
Non-allocated portion	7,090 tonnes

Softwood Lumber Agreement

The United States has unilaterally reclassified three products (drilled studs, rougher-headed lumber and notched studs) to bring them under the Canada-U.S. Softwood Lumber Agreement. Canada is challenging these reclassifications and has requested arbitration. The Softwood Lumber Agreement will expire March 31, 2001, and the federal government has begun consulting with stakeholders to assess the next steps.

Canada and the United States resolved a dispute over changes to stumpage fees in British Columbia, with an exchange of letters on August 26, 1999.

More detailed information and the latest developments regarding the Softwood Lumber Agreement can be found at <http://www.dfait-maeci.gc.ca/~eicb/softwood/lumber-e.htm>

Sanctions

Canada continues to support the use of economic, and preferably multilateral, sanctions as an appropriate instrument of foreign policy for promoting acceptable standards of behaviour on the part of offending regimes. At the same time, the Canadian government believes that the use of those sanctions must conform with established international practice and remains concerned over the continued application of unilateral economic sanctions with extraterritorial effect by the United States. Such measures harm the legitimate right of Canadians to trade and invest freely, provided that they do so in accordance with Canadian law, the law of the country in which they are operating and international trade practice. At the federal level, the most notable examples are the Cuban Liberty and Democratic Solidarity Act (LIBERTAD) (also known as the Helms-Burton Act) of 1996 and the Iran and Libya Sanctions Act (ILSA) of 1996. A number of states and municipalities have also conditioned business relations with them on the embargo of certain foreign governments. But private sector opposition

to unilateral economic sanctions remains strong. The Massachusetts sanctions law against Burma has been held unconstitutional by a Federal District Court; and there is the possibility that the Supreme Court, which has agreed to hear this case on appeal, may rule all such sub-federal sanctions unconstitutional.

Alcoholic Beverages

A 1992 GATT panel on U.S. federal and state measures relating to imported beer, wine and cider found that certain provisions of the federal excise tax and many state measures discriminated against imports. The panel recommended that the U.S. federal and state governments bring their inconsistent measures into conformity with their obligations.

According to Canadian industry and government research, few of those measures have been brought into conformity; in addition, new trade-distorting measures affecting Canadian exports of alcoholic beverages to the United States have been implemented at the state level since the GATT panel reported. Canada is therefore pursuing this issue further with the United States, to press for implementation of the GATT panel. This requires removal of the discriminatory elements of the federal excise tax on beer, wine and cider; it also requires reasonable measures by the Administration to ensure that the states observe the U.S. trade agreement obligations by removing discrimination from measures such as excise taxes and distribution practices.

RESISTING U.S. MEASURES THAT CONSTRAIN ACCESS

Marine Mammal Protection Act

The Marine Mammal Protection Act (MMPA) prohibits trade in marine mammal products regardless of species' conservation status, and therefore appears to be inconsistent with U.S. international trade obligations. For example, under the CITES, neither ringed nor harp seals are considered threatened or endangered in any way, and therefore no monitoring or trade restrictions are justified on the movement of products from either species. However, under the MMPA, both species are restricted, so that no imported product made from animals of these species is allowed into the United States. The MMPA would also appear to be in violation of the national treatment provisions of both the WTO and the NAFTA by allowing domestic produc-

tion in Alaska and commercial sales in the United States of products that it otherwise bans. Canada has communicated its concerns to the U.S. Administration and intends to take advantage of the MMPA re-authorization process in the Congress to reiterate its position. This process is expected to begin in March 2000.

Durum Wheat

Canadian durum wheat exports to the United States reached record levels in the 1998-1999 crop year — higher than in 1993-1994 when unilateral restrictions were imposed. Wheat producers in the United States and some members of Congress voiced concerns about imports from Canada and alleged unfair practices by the Canadian Wheat Board. These allegations have been found to be without substance, despite several investigations by U.S. agencies; indeed, Canadian wheat is purchased in the United States by customers who value its quality and consistency. These exports are an important part of a mutually beneficial, highly integrated North American agriculture and agri-food market. For example, Canadian durum wheat is imported by U.S. pasta producers who in turn export pasta to Canada. For a decade, the value of Canadian durum wheat exports to the United States has been comparable to U.S. pasta exports to Canada.

The United States was the destination for 12.37 percent of Canadian exports of all wheat by value in 1999. Canada will not restrict grain exports. Both sides are committed to a regular grain exchange of information on bilateral and international grains trade to help dispel misperceptions about the impact of Canadian exports on the U.S. market, and to deal with other issues such as trade practices in third-country markets. In addition, Canada continues to encourage increased consultation and cooperation among industry groups on both sides of the border.

Country of Origin Labelling Initiatives

Congress has proposed introducing new country of origin labelling (COL) requirements for beef, lamb and pork, with potential consequences for Canadian exports. Canada and the United States agree that COL requirements on agricultural and food products should be consistent with obligations under the NAFTA and the WTO. Canada will continue to oppose legislative amendments that would require mandatory COL requirements for meat.

A study by the U.S. Department of Agriculture on COL of imported meat, released January 13, 2000, states that COL is certain to impose costs and is uncertain to produce benefits.

Hold and Test

Shipments of Canadian agri-food products are occasionally subject to long delays before they can be released for sale in the United States due to the U.S. Food and Drug Administration's hold and test policy. The U.S. FDA regularly holds agri-food shipments imported into the United States, pending the results of laboratory testing for compliance with U.S. food laws and regulations. Delays resulting from the FDA's testing procedures are trade-disruptive and costly for Canadian exporters. Canadian officials met with U.S. counterparts on January 31, 2000 to reach a solution. As a result of that meeting, Canadian and U.S. officials agreed to undertake a cooperative program to further enhance food safety in a manner which recognizes the two countries' shared food safety policies and capacities, as well as their increasingly integrated market for agriculture and food.

Exports of Hemp Products

Production of industrial hemp is not permitted in the United States; however, imports of hemp products have been allowed. The U.S. market for hemp products is estimated at \$50 million, which has been primarily supplied by the EU. It is estimated that 80 percent to 90 percent of Canadian processed hemp is exported to the United States.

After some initial border problems with Canadian hemp product in 1999, the United States issued guidelines in December 1999 that would have prevented future border problems. The new guidelines required all shipments of hemp seed to be sterilized and all hemp products to contain less than 0.3 percent THC. This was not considered a problem for Canadian exporters, as Canadian regulations require domestically produced hemp to meet the same requirements. On January 5, 2000, the United States rescinded these guidelines and issued new instructions that require the seizure of hemp or hemp products containing any amount of THC. This policy was enacted without warning or consultation with the Canadian government. Canada is continuing to monitor the situation and is working with the companies affected to resolve the issue.

International Trade in Arms Regulations

Since World War II, there has been a secure North American perimeter and an integrated North American defence industrial base. Defence goods and technology normally have flowed licence-free between Canada and the United States in exchange for common, stringent controls under both Canadian and U.S. law over exports from North America. In the spring of 1999, the United States amended its International Trade in Arms Regulations (ITAR) regulations, effectively removing these special licence-free benefits. As a result, Canadian defence suppliers face lengthy and more complex requirements in obtaining access to U.S.-controlled goods and technologies and in selling to the U.S. market. Minister of Foreign Affairs Axworthy and Secretary of State Albright agreed on April 27, 1999 to ensure that our joint objectives will be reached in a mutually satisfactory way and that the ITARs will be implemented in such a way as to mitigate the effects on the North American defence and aerospace industry. On October 8, following a meeting of Prime Minister Chrétien and President Clinton, an agreement-in-principle was reached on the main elements required to resolve problems resulting from these changes. Canada is continuing the discussions with a view to finalizing an agreement that will restore licence-free access.

MONITORING DEVELOPMENTS AFFECTING CANADIAN INTERESTS

The Record of Understanding

On December 4, 1998, Canada and the United States signed a Record of Understanding (ROU) and Action Plan on bilateral agricultural trade. A Consultative Committee on Agriculture was announced April 20, 1999 to improve dialogue on agriculture issues of mutual concern and to involve provinces and states in a systematic process to address trade concerns. Its first meeting was held in Ottawa on September 24, 1999.

Other positive aspects of the ROU include: the in-transit grain rail program, which moved 6,998 rail cars of U.S. wheat, barley and oats through Canada in 1999; the harmonization of pesticide regulations; the joint publication of data concerning U.S.-Canada cattle inventory; and the expansion of the Northwest Cattle project.

Under the action plan, both sides have agreed to remove a range of measures that restrict access for livestock, equine semen, horticultural products and nursery stock. The agreement also addresses industry concerns related to veterinary drugs and pest control products. Canadian and U.S. agencies responsible for these issues have agreed on work plans to increase information exchange and the harmonization of their regulatory systems.

Agricultural Export Subsidies/Credits

Canada remains concerned about the possibility of increased use by the United States of export subsidies in third-country markets. Elimination of such subsidies is a priority for Canada in the new round of WTO agriculture negotiations. As well, Canada supports the view that agricultural export credits must be brought under effective international discipline, with a view to ending government subsidization of such credits.

Michigan Single Business Tax

On June 1, 1999, Michigan Governor Engler introduced amendments to the Single Business Act (SBT Act), including a phase-out of the SBT tax rate over a 23-year period by 0.1 percent per year (currently at 2.2 percent). The legislative package included potentially harmful amendments to the way Canadian and other foreign corporations would be taxed on a prospective basis. Amendments to the Michigan SBT Act were enacted in mid-1999, following an intense advocacy campaign by Canadian industry, provincial and federal governments. The amended SBT Act provides for a mechanism to tax foreign companies for tax years beginning on or after January 1, 2000. For Canadian firms, there will be no retroactive application of the tax unless they had permanent establishments in the United States and were obliged to pay federal taxes in the United States under the Canada-U.S. Tax Treaty. Companies that paid the tax in the past but did not have permanent establishment in the United States may be eligible for refunds.

Canadian firms must be aware of their tax liability in Michigan. For Canadian firms, guidance on the tax can be taken from four Revenue Administration Bulletins (RABs) from the Michigan Treasury: on nexus (February 1999); on retroactivity (November 1999);

on the tax base (January 2000); and on the transportation sector (February/March 2000). For more information, please visit the following websites: <http://www.treasury.state.mi.us/lawrules/rabs/rabindex.htm> and <http://www.dfait-maeci.gc.ca/geo/usa>

Section 110

Section 110 of the 1996 U.S. Immigration Act directs the Immigration and Naturalization Service to create a system to document the entry and exit of all foreigners. If implemented, the provision would create intolerable delays at already congested Canadian border crossings. In October 1998, implementation of Section 110 was delayed to March 30, 2001, providing that it does not significantly disrupt trade, tourism or other legitimate cross-border traffic. Canada and its allies continue to seek a permanent legislative solution to this problem to avoid gridlock at the border.

Fast Track

“Fast track” is a mandate to the U.S. Administration by which Congress sets out negotiating objectives and undertakes to approve or disapprove, without amendment, trade-liberalization agreements thereby negotiated. The Administration is currently without such a mandate, and it is unlikely to be obtained during the election year 2000. In these circumstances, at some point during the new WTO agricultural and services negotiations and the FTAA negotiations, countries are likely to become reluctant to continue negotiating with the United States for fear that concessions achieved at the bargaining table could be withdrawn by Congress. It will be important for the next Administration to obtain “fast track” in 2001.

Legislative Interference

In 1999, a Vermont Senator proposed an amendment to a federal bankruptcy bill that would have annulled Hydro-Quebec’s \$4-billion, 30-year contract with Vermont utilities. The Canadian Ambassador, along with key U.S. allies, countered the move as a dangerous precedent of legislative interference with transnational contracts. Congressional sources have indicated that the amendment will not become law. Canada will continue to watch for any restrictions on electricity exports and on Hydro-Quebec’s ability to do business in the United States.

OTHER ISSUES

Customs and Administrative Procedures

Following the signing of the Shared Border Accord in 1995 and the subsequent visit of the Prime Minister to Washington, DC in 1997, Canada and the United States have pursued several initiatives to strengthen cooperation at the border. To realize the benefits of free trade, Canada and the United States are working to facilitate trade and tourism, while protecting our respective citizens against the threats associated with illicit activities such as illegal immigration, drugs and terrorists. Under the Shared Border Accord, the two countries have established new mechanisms for managing the transboundary movement of goods and people, including reducing the number of stops for carriers moving goods-in-transit through either country; promoting the use of joint or shared border facilities; and introducing new technologies to detect drugs and to enable remote inspection of travellers. Canada and the United States remain committed to making our shared border a model of cooperation and efficiency, as illustrated by the signing of the Canada–United States Partnership (CUSP) during President Clinton’s October 1999 visit to Ottawa.

Intellectual Property

Under Section 337 of the U.S. Tariff Act of 1930, imported products that are alleged to infringe upon U.S. intellectual property (IP) rights can be barred from entering the United States by the ITC. Section 337 provisions contain more direct remedies against alleged infringers than those available in U.S. domestic courts, and the administrative procedures in the ITC can be more onerous. U.S.-based alleged infringers face proceedings only in the courts, whereas importers may face proceedings both in the courts and the ITC.

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-TRIPs obligations, but Section 337 complaints are still being brought against Canadian companies, which thereby face additional procedural burdens in defending against allegations of IP infringements. The Canadian government remains concerned and will continue to monitor closely specific cases, 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. At the time this report went to print, Canada had joined WTO consultations between the EU and the United States, which may or may not eventually lead to a dispute settlement panel.

Trade Remedies

Canadian officials continue to monitor developments in the United States pertaining to trade policy to ensure that any new rules, and the implementation of existing ones, conform with U.S. international trade obligations. Canada will continue to make known its opposition to legislation such as the 1999 Steel Quota Bill, which would have capped steel imports at their pre-1998 level and made changes to U.S. trade legislation. In the regulatory field, Canada submitted comments on proposals by the U.S. Department of Commerce regarding the conduct of anti-dumping and countervailing duty investigations. Most of those submissions were made in response to proposed regulations regarding the conduct of sunset reviews of the 15 anti-dumping and countervailing duty orders in place on Canadian products. Of these orders, seven have been rescinded (steel jacks, racing plates, elemental sulphur, red raspberries, potash, sugar and syrup, live swine). Of the remaining eight orders, two have been maintained (iron construction castings, steel rails) and six are still under review (brass sheet/strip, colour picture tubes, oil country tubular goods, magnesium, steel plate, corrosion-resistant steel). Finally, Canadian officials assisted Canadian producers of steel, magnesium, brass, sulphur, cattle, live swine and wheat gluten by offering advice and making representations on specific aspects of trade remedy investigations conducted by the United States.

Trade Remedy Investigations

In 1999, anti-dumping and countervailing duty investigations were conducted on imports of three separate products from Canada: stainless steel plate (dumping), stainless-steel wire (dumping) and live cattle (dumping and countervail). Of these, only the investigation regarding stainless steel plate from Canada resulted in the application of additional duties. With respect to live cattle, a review of the anti-dumping injury finding was sought by the U.S. party in late 1999. The Canadian party requested that this review be conducted by a NAFTA panel.

In addition, two safeguard investigations involving imports of carbon-steel wire rod and carbon-steel line pipe resulted in findings that, further to the provisions of the NAFTA, imports from Canada were not injuring U.S. industry.

Over the same period, Canada initiated two anti-dumping duty investigations against products from the United States: contrast media; and refrigerators, dryers and dishwashers. Both investigations are still in progress.

Electricity

The United States is taking action at the federal and state levels to deregulate the electricity sector, with a view toward increasing competition, creating market efficiencies and lowering costs to consumers. This restructuring may create both opportunities and risks for Canadian electricity suppliers in the U.S. market. Prospects for increased trade may be influenced by new markets and market structures, innovation in services and expanding energy demand. On the other hand, as a result of earlier deregulation efforts, the United States requires that Canadian suppliers seeking access to U.S. wholesale markets offer reciprocal access to their own transmission lines. Current restructuring legislation focuses on opening access to the retail sector, possibly also on a reciprocal basis. Other provisions would exclude Canadian-origin products from part of the U.S. market by requiring U.S. suppliers to purchase non-hydroelectric U.S.-origin renewable energy. The legislation also addresses continent-wide systems reliability standards and the establishment of transmission organizations (common carriers), two issues that could impact Canadian sovereignty and jurisdiction. Separate legislative initiatives have been proposed that specifically target Canadian electricity suppliers.

Canada, in consultation with provincial government officials and the industry, will continue to consult with U.S. officials and monitor developments in the U.S. electricity sector to assess the conformity of these proposals with U.S. international trade obligations, as well as other commercial and economic implications. In addition, an active advocacy plan is being developed to promote and defend Canadian trade interests in Congress and with the Administration.

Mutual Recognition Agreement on Fish Inspection Systems

In 1999, Canadian Food Inspection Agency (CFIA) and U.S. FDA officials continued discussions on a fish inspection MRA. Such an agreement would facilitate bilateral trade in fish and fish products. Canada's objective is to complete these discussions in 2000.

IMPROVING ACCESS FOR TRADE IN SERVICES

Financial Services

The abrogation of a key financial legislation (the Glass-Steagall Act) in 1999 has opened the U.S. insurance markets to Canadian banks. With respect to the cross-border provision of services, Canada wishes to see a more level playing field in the securities sector. As required under the NAFTA, Canada, Mexico and the United States revisited this issue in early 1999. It was agreed that Canada and the United States would pursue discussions on the regulation of cross-border securities trade bilaterally.

Telecommunications

In late 1999, the Federal Communications Commission (FCC) announced streamlined procedures to facilitate market entry for foreign service providers of fixed satellite services. This may provide Canadian service suppliers with a faster and more transparent licencing process; however, a licence may still be denied if there are national security, law enforcement and foreign policy or trade concerns raised by the Executive Branch.

In light of the lengthy delays that some Canadian companies have experienced in gaining access to the U.S. market, Canada will continue to monitor carefully U.S. implementation of its WTO commitments with respect to telecommunications services to ensure that Canadian service providers are subject to timely and transparent licencing 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. Under these laws, the carriage of cargo or passengers between points in the United States is restricted to U.S.-flagged vessels that are built, owned and crewed by U.S. citizens. Similar restrictions apply to dredging, salvage and other commercial marine activities in U.S. waters. Canada's particular concerns relate to the U.S.-build requirement, which precludes the use of Canadian-built vessels in U.S. domestic marine activities. In international shipping, there are limitations on foreign ownership of vessels eligible for documentation in the United States. In addition, several subsidies and other support measures are available to operators of U.S. vessels; for example, cargo preference laws restrict the carriage of military cargo and limit the carriage of government non-military cargo, aid cargo and certain agricultural commodities to U.S. vessels. These restrictions (coupled with defence-related prohibitions of the Byrnes/Tollefson Amendment) limit Canadian participation in U.S. shipping activities.

Canada will continue to use every appropriate opportunity to encourage the liberalization of the provisions of the Jones Act that adversely affect Canadian interests. Although there have been renewed calls for reform, the cabotage and cargo preference restrictions continue to enjoy significant support in the United States, limiting the prospect for any major change in the short term.

Temporary Entry

Section 343 of the U.S. Illegal Immigration Reform and Immigrant Responsibility Act would require any alien seeking U.S. employment as a health-care worker to present a certificate from a U.S. credential-issuing organization verifying the person's professional competency and proficiency in English. An interim rule is currently in place that affects only those health-care workers seeking admission to the U.S. on a permanent basis to perform services in the fields of nursing and occupational therapy. An indefinite waiver of inadmissibility for health-care workers seeking temporary entry remains in effect pending final implementation of the regulations. This waiver is a temporary solution, and Canada continues to press its view to the U.S. Administration and Congress that the duplicative

certification requirements of Section 343, as it applies to those seeking temporary entry, would violate U.S. NAFTA obligations. Our ultimate goal is to see the U.S. Administration maintain a permanent waiver of inadmissibility for those health-care workers seeking temporary admission to the United States.

Government Procurement

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

Small Business Set-asides

The Canadian government remains concerned about the extensive and unpredictable use of exceptions to the NAFTA and the WTO AGP for small business set-asides. Canadian suppliers face the ever-present possibility that government markets that they have successfully developed and supplied competitively will subsequently be closed through the application of the set-aside exception. The definition of a U.S. small business varies by industry, but is typically 500 employees in a manufacturing firm (up to 1,500 employees in certain sectors) or annual revenues of up to US\$17 million for a services firm. Furthermore, U.S. federal departments routinely meet or exceed their goal to award 23 percent of their contract dollars to U.S. small business. In turn, the U.S. government requires that bids from contractors and major subcontractors include plans to subcontract work to U.S. small business. Canada is also concerned that the use of such subcontracting plans impedes Canadian access to the U.S. market. We will continue to press the Administration on this matter.

Buy American

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

Department of Defence Procurement

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

Buy American Provisions in Federally-Funded Sub-Federal Procurement

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

Almost all large transportation contracts in the United States are federally funded but 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 Transit Administration and Federal Highway Administration (FHWA) grant TEA-21 funds to state and local governments and transportation authorities for transportation projects on the condition that U.S. material and equipment is used. Projects funded by the Federal Transit Administration require all steel and manufactured products to be 100 percent U.S. content and 100 percent U.S. manufactured. Rolling stock (trains, buses, ferries, trolley cars, etc.) components must be 60 percent U.S. content, with final assembly occurring in the United States. Projects funded by the FHWA require all iron and steel products and their coatings to be 100 percent U.S. manufactured.

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 be of 60 percent 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 level. In addition, many U.S. federal government Buy American provisions are included in state and local procurement when federal funding is provided. Canada remains concerned that access for Canadian suppliers is constrained and unpredictable as a result of these preferences.

Legislative and Regulatory Changes

Although the United States has largely completed implementing changes made to its acquisition procedures arising from legislation passed in 1994 and 1995, regulations in civilian and defence procurement, which can effect 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 the new procedures, which appear to limit Canadian participation. These include subcontracting requirements and simplified acquisition procedures for all procurement under \$100,000 and for commercial items to a value of US\$5 million. Canada is also concerned about the propensity for U.S. legislators to incorporate restrictive procurement provisions into unrelated 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.

STANDARDS-RELATED MEASURES

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

The four NAFTA sectoral subcommittees — automotive, land transportation, telecommunications and textile labelling — also provide excellent fora for bilateral 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 fora.

Canada is keeping a watch on the increasing trend in protectionist activity in the United States. Canada is seeking more complete implementation by the United States of its NAFTA and WTO sub-federal commitments, with a view to the upgrading or modernization of U.S. sub-federal standards measures, complementing the volume and variety of our trade in manufactured goods. Canada is also working to enhance bilateral dialogue at the provincial and state level in order to increase cooperative activities in the area of standards and regulations development in the areas of pressure vessels, building products and the harmonization of regulated standards for electrical safety.

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

Canada-Mexico relations have expanded significantly over the past decade, particularly since the coming into force of the NAFTA. Mexico is now Canada's most important trading partner in Latin America. By 1999, Canada had become Mexico's fourth-largest trading partner and ranked fourth among foreign direct investors into Mexico.

Since NAFTA implementation in 1994 to the end of 1999, two-way merchandise trade has doubled, reaching over \$13 billion. The growth rate since 1994 has been over 100 percent, both for exports and for imports. Nonetheless, Canada's historical trade deficit with Mexico has persisted, and by the end of 1999 was approaching \$5 billion. (These data are based on respective import figures for Canada and Mexico published by Statistics Canada and the Mexican statistical agency, INEGI. Using these figures provides a more accurate picture of the volume of bilateral trade than does relying solely on each country's import/export data, which does not take into account a large portion of goods trans-shipped through the United States. The statistical agencies of Canada, the United States and Mexico are working to reconcile the data).

The majority of Canadian exports to Mexico are diverse manufactured products. Major export categories include automotive products, computers and parts, machinery and telecommunications equipment, as well as oil seeds, cereals and dairy products. Major Canadian imports from Mexico include automotive products, machinery, furniture, oil, optical products, fruits and vegetables.

Canadian business activity in Mexico has continued to grow as industrial sectors develop and the overall market evolves. Canadian companies are major foreign direct investors, ranking below the United States and the Netherlands, but are virtually even with Germany. Manufacturing, financial services and mining account for over 90 percent of Canadian investment. In trade, DFAIT officials have sustained a concentrated market-development program targeting identified priority sectors (industrial machinery, information technology, agriculture/agri-food, automotive, oil and gas, electrical power and transportation equipment and services), as well as emerging sectors (environmental, cultural and educational products and services).

The Mexican economy underwent a significant transformation during the 1990s, including considerable market liberalization and structural reform. By the end of the decade, Mexico had demonstrated a greater ability to withstand successive external shocks and domestic challenges. This, in turn, strengthened Mexico's credibility and investor confidence, allowing Mexico to differentiate itself increasingly from other emerging markets. This was reinforced by the Government's insistence on maintaining sound

monetary and economic policies, particularly toward the end of President Zedillo's six-year term in office, a period traditionally plagued by economic crises. In addition to prudent domestic policies, Mexico restructured debt and otherwise took steps to avoid capital flight and a balance-of-payments crisis. With a Central Bank strategy geared toward "sustained stabilization" and a government focus on productivity, efficiency and competitiveness, the economy performed better in 1999 than most private analysts had expected. For 2000, official targets include GDP growth of 4.5 percent and inflation at 10 percent. Certainly Mexico benefited from its membership in the NAFTA and a strong U.S. economy, as well as its remarkably strong export sector. By the end of 1999, Mexico's exports were approaching those of the rest of Latin America combined. For 2000, a further increase of 11 percent is forecast. Imports have been growing steadily as well, finishing up more than 11 percent in 1999 over the previous year, with a similar increase forecast for 2000.

Market Access Results in 1999

- Canada and Mexico signed a satellite services agreement to facilitate the provision of services via commercial satellites licensed by the two countries.
- Canada and Mexico signed a Memorandum of Understanding (MOU) on the acceptance of test data to ensure that telecommunications and IT products meet all necessary safety standards.
- New opportunities for air services between the two countries were created as a result of an agreement on code-sharing that has been effectively implemented.
- A MOU on Cooperation in Food Safety and Inspection and Animal and Plant Health was signed in September 1999 to identify and resolve issues related to bilateral trade in agriculture and food products.
- The Fruit and Vegetable Dispute Resolution Corporation was incorporated in November 1999. This voluntary, industry-based, tri-national dispute settlement mechanism focuses on private commercial disputes involving trade in fruits and vegetables within and among the NAFTA countries.

Canada's Market Access Priorities for 2000

- continue to press Mexico to honour its NAFTA trucking obligations;
- make further progress on the harmonization and simplification of customs procedures and pursue facilitation of cross-border movement of goods (agri-food, textiles, etc.);
- continue discussions to ensure smooth operation and improvements on the agreement on seed potatoes;
- continue discussions for a smooth implementation of market access commitments for dry beans and for greater access on frozen french fries and mozzarella cheese;
- complete negotiations on fixed and mobile satellite services protocols to the 1999 Canada-Mexico Agreement on Satellite Services;
- continue to monitor closely Mexico's implementation of its WTO commitments under the WTO Agreement on Basic Telecommunications;
- continue ongoing initiatives to reconcile trade data; and
- continue to urge Mexico to finalize its list of services excluded from the NAFTA government procurement chapter and to resolve issues related to implementation of the chapter.

Canadian access to the Mexican market continues to improve and consolidate under the terms of the NAFTA. Prior to the NAFTA, more than 80 percent of Mexican exports to Canada entered duty-free, while most Canadian exports to Mexico faced Most Favoured Nation (MFN) tariff rates of between 10 percent and 20 percent. Also, Canadian firms have been able to expand sales in sectors that were previously highly restricted, such as the automotive, financial services and energy sectors. The elimination of Mexican import licensing requirements and the phasing out of almost all tariffs is helping to provide barrier-free access to a market of over 90 million people. Canada will continue to address bilateral trade irritants in the various NAFTA working groups and committees to ensure access for Canadian exporters, service providers and investors.

IMPROVING ACCESS FOR TRADE IN GOODS

Accelerated Tariff Elimination

Most tariffs between Canada and Mexico are already free, and virtually all remaining tariffs will be eliminated by 2003. The NAFTA provides for the accelerated elimination of tariffs where countries agree. In this industry-driven process, tariffs are eliminated based on the support of the relevant sectors in both countries. Two rounds of accelerated tariff elimination, covering approximately \$25 million in Canada-Mexico bilateral trade, have resulted in the removal of tariffs on a number of consumer products and manufacturing inputs. Canada will continue to review requests for accelerated tariff elimination in response to private-sector interests to improve Canadian access to the Mexican market.

AGRICULTURAL PRODUCTS

Seed Potatoes

In October 1998, the CFIA and Mexican officials concluded an agreement that enables Canadian seed potato exports to Mexico and provides for eventual sales of Mexican minitubers to Canada. The agreement also has provisions for the development of access for Mexican table potatoes to Canada. The agreement has functioned well since its implementation.

Dry Beans

Access for dry beans in the Mexican market is limited by TRQs. Preferential TRQs are provided for Canada and the United States under the NAFTA, while a MFN TRQ is also provided under the WTO to all Members. On several occasions, including in 1999, Mexico has delayed the process by which certificates that enable importers of beans to access the lower in-quota rates of duty are issued. The matter of the delays was formally raised during the NAFTA Committee on Agricultural Trade meeting in March 1999, and discussions are ongoing to ensure the smooth implementation of Mexico's market access commitments.

Frozen French Fries

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

Apples

According to Mexican law, the importation of apples is subject to importer registration. However, the Mexican Ministry of Finance (Hacienda) has refused to issue the necessary permits for the importation of fresh Canadian apples. While no "official" reason has been given, it appears that the refusal to issue the permit is connected to the fact that Canadian apples are priced lower than a reference price that is supposed to apply only to U.S. apples. Due to the perishable nature of the goods, Canada is intent on reaching a quick resolution. Discussions with Mexico are ongoing in an effort to clarify the application of this system and to ensure the issuance of permits and Mexico's compliance with existing market access obligations for apples.

MOU—Cooperation in Food Safety and Inspection and Animal and Plant Health

On September 29, 1999, Agriculture and Agri-Food Minister Vanclief and his Mexican counterpart Secretary Arroyo Marroquin signed an MOU — which was further signed by Health Minister Allan Rock — with the objective of identifying and resolving issues related to food safety and inspection and animal and plant health issues as they pertain to bilateral trade in agriculture and food products. The MOU will further the cooperation between regulatory officials in order to facilitate the trade of safe agriculture and food products through the use of science-based requirements.

The Fruit and Vegetable Dispute Resolution Corporation

The (NAFTA) Fruit and Vegetable Dispute Resolution Corporation (DRC) was incorporated in November 1999 and began operations on February 1, 2000 as a result of the work of the NAFTA Advisory Committee on Private Commercial Disputes regarding agricultural goods. It was created to provide a voluntary, industry-driven, tri-national private commercial dispute resolution mechanism for trade in fruits and vegetables. A Canadian, Stephen Whitney, was chosen as the first President and CEO of the corporation, which has its head office in Ottawa. The DRC holds significant potential to facilitate increased trade flows and improve the trading environment among the NAFTA countries in the fresh fruit and vegetable sector. More information can be obtained from the DRC website: <http://www.fvdrc.com/>

IMPROVING ACCESS FOR TRADE IN SERVICES

Trucking

Mexico's NAFTA commitments on trucking services and investment were to have come into effect in December 1995. However, Mexico has delayed implementation in response to the fact that the United States did not liberalize its trucking measures because of various concerns, including Mexican truck safety standards. Although this is primarily a Mexico-U.S. dispute, an indirect result is that at least one Canadian trucking company has been prevented from operating in Mexico. The Canadian government continues to press Mexico to fulfill its NAFTA trucking obligations to Canada. Canada is participating as an interested third party in the NAFTA Chapter 20 panel in the Mexico-United States dispute.

More generally, substantial progress has been made in harmonizing technical standards for motor carriers under NAFTA Chapter 9. Canadian transport officials will continue this work with their U.S. and Mexican counterparts in anticipation of the eventual opening of the U.S.-Mexico border to trucking services.

Telecommunications

A number of Canadian telecommunications companies are doing business in Mexico. With the conclusion of the ABT, access for the supply of services to Mexico has increased, offering more opportunities to Canadian businesses. Canada will closely monitor

Mexico's implementation of its WTO commitments. In addition, Canada will continue to press Mexico to put in place terminal attachment standards that conform to the NAFTA requirements, and to implement conformity-assessment procedures that would allow the acceptance of Canadian test data, as required under Articles 908 and 1304 of the NAFTA. Mexico has made encouraging commitments on both these fronts within the NAFTA Telecommunications Standards Subcommittee.

On April 9, 1999, Canada and Mexico signed an agreement on the provision of satellite services intended to facilitate the provision of services to, from and within Canada and Mexico via commercial satellites licensed by both countries. The agreement is to enter into force once the appropriate implementation measures are concluded in Canada and Mexico. The agreement provides for the negotiation of protocols to the agreement on the provision of both mobile satellite and fixed satellite services. The implementation of the underlying agreement and the negotiation of protocols on fixed and mobile satellite services will remain a priority for Canada in the year ahead.

Both countries have facilitated rapid growth in this industry by sharing innovative technologies and by collaborating in the development of telecommunications policy and regulations. Cooperation in this dynamic and increasingly important area will continue.

Financial Services

Canada is following legislative developments relating to a financial reform package that could have a significant impact on foreign investors' access to the Mexican financial market. Two areas in which Canada is seeking further change relate to access to the Mexican securities sector and the cross-border provision of insurance services.

In the securities sector, while Mexico has no current plans to allow limited-scope securities firms, this may be considered in the medium term. Canada will continue to encourage Mexico to establish new categories of securities firms and, in the context of a new Mexican pension regime, to open its pension-fund market to foreign securities firms. On the insurance side, Canada continues to work towards facilitating the provision of seamless insurance transactions for motor carriers involved in cross-border trade between Canada, the United States and Mexico.

GOVERNMENT PROCUREMENT

The implementation of the NAFTA has brought improvements to the transparency and openness of the Mexican procurement process. There are, nonetheless, outstanding Mexican implementation issues, in addition to ongoing access concerns, which the Canadian government is addressing.

PEMEX and CFE Set-asides

Mexico negotiated set-asides from full NAFTA procurement coverage for the state oil (PEMEX) and electricity (CFE) firms for a transitional period (1994-2002). Canada will continue to monitor Mexico's application of these set-asides.

Bid Notification Periods

Chapter 10 obligates the NAFTA parties to publish procurement tenders in a transparent way, so that qualified suppliers from the NAFTA countries have sufficient time to submit bids. A study commissioned by the Canadian government in 1997, and further work this year, have raised concerns about Mexico's compliance with the notification obligations. Canada continues to press Mexico for a response to our concerns.

Investment

Canadian direct investment in Mexico has increased from \$245 million in 1990 to \$2.2 billion in 1998. This can be attributed in large measure to the NAFTA, which through its Chapter 11 investment provisions has provided enhanced security for Canadian investors.

Other than limitations or exclusions in certain clearly defined sectors (of particular importance to Canada is investment in upstream oil and gas activities), Mexico does not restrict foreign investment in its economy. In addition, the Mexican government's ambitious privatization and infrastructure upgrading program has created new opportunities for Canadian businesses in sectors such as electrical generation, transportation (airports, railways and ports) and natural gas transportation (pipelines) and distribution.

In September 1998, Mexico published an update to the Foreign Investment Regulations to simplify administrative procedures and provide greater juridical security, certainty and transparency.

FREE TRADE AREA OF THE AMERICAS

The Free Trade Area of the Americas (FTAA) negotiations represent an historic opportunity to unite the countries of this hemisphere in a comprehensive free trade area that will promote regional prosperity and generate enhanced commercial opportunities for all of our economies.

The decision to create an FTAA was made by leaders of the 34 democratic countries of the hemisphere when they met in Miami for the first Summit of the Americas in December 1994. In their Declaration of Principles, leaders resolved to conclude the FTAA negotiations no later than 2005 and to make concrete progress toward achieving that goal by the end of the century. With the conclusion of Canada's chairmanship of the negotiations at the November 3-4, 1999 Ministerial Conference in Toronto, concrete progress has indeed been realized and the groundwork has been laid for the next phase of the negotiations.

In 1999, FTAA results were as follows:

- The Administrative Secretariat for the negotiations was established in Miami under the directorship of a Canadian.
- Progress was achieved on the work programs for the nine FTAA negotiating groups and three other bodies addressing the cross-cutting issues of e-commerce, civil society engagement and the participation of smaller economies.
- In Toronto, at a meeting of the 34 hemispheric trade ministers on November 3-4, 1999, ministers: reviewed the progress of the negotiations; adopted a substantive package of business-facilitation measures; agreed on a statement directed at the Seattle WTO Ministerial Conference on the elimination of agricultural export subsidies; instructed negotiators to develop a draft text of the FTAA Agreement by April 2001; and agreed on a renewed mandate for the FTAA Civil Society Committee.

A copy of the ministerial declaration can be found at http://www.sice.oas.org/ftaa/toronto/minis/minis_e.asp

In 2000, Canada will seek to:

- move the FTAA forward in all areas, with a focus on producing the draft text of the FTAA Agreement for the next ministerial meeting, to be held in Argentina in April 2001;
- ensure implementation by all countries of the customs facilitation measures agreed to by ministers in Toronto and encourage next steps toward agreement on a new package of measures; and
- pursue a collective process of consultation with civil society in the Americas.

The FTAA negotiations were officially launched by Prime Minister Chrétien and other hemispheric leaders in April 1998, based on the objectives, principles, structures, venues and other decisions set forth in the Joint Declaration issued by trade ministers in San José, Costa Rica, in March 1998. Key objectives and principles guiding the negotiations are that the FTAA will maximize market openness through a balanced and comprehensive agreement; that it will be consistent with the rules and disciplines of the WTO; and that countries are to accept the agreement as a single undertaking. Acceptance of the agreement as a single undertaking means that countries cannot “pick and choose” among the various chapters or provisions of the agreement but must accept it on an “all-or-nothing” basis.

Also at the San José meeting, trade ministers recognized the leadership role that the Canadian government played in launching the FTAA negotiations by selecting Canada to chair the negotiations until November 1999. In this capacity, Canada has chaired the Trade Negotiations Committee (TNC) of Chief Negotiators for the first 18-month period and hosted the Fifth Trade Ministers’ Meeting in Toronto on November 3-4, 1999.

Under Canada’s chairmanship, considerable progress has been achieved in several areas of the FTAA process, including the institutional infrastructure for the negotiations: work programs were developed for the nine negotiating groups, as well as for the bodies addressing the broader issues of e-commerce, smaller economies and civil society participation; the Administrative Secretariat was established in Miami; funding and support for the process were secured from the FTAA Tripartite Committee, which consists of the Organization of American States (OAS), the United Nations Economic Commission for Latin

America and the Caribbean, and the Inter-American Development Bank; and draft rules and procedures for negotiations were developed.

The highlight of Canada’s chairmanship was the ministerial meeting held in Toronto in November. Given the absence of U.S. fast-track negotiating authority, progress on business facilitation was an important element in achieving the concrete progress by 2000 mandated by hemispheric leaders and trade ministers. As part of an on-going process of business facilitation, ministers agreed in November to adopt eight measures to streamline and simplify customs procedures and ten measures to enhance the transparency of government rules and regulations affecting trade and investment. These measures will, once implemented, reduce red tape and other transaction costs of doing business in the hemisphere and, through websites, inventories, guides and other instruments, make information relevant to the conduct of business in the hemisphere more accessible to stakeholders. These measures can be accessed through the official FTAA home page at http://www.ftaa-alca.org/alca_e.asp

In Toronto, ministers also agreed on a strong collective message to send to trade ministers gathering less than a month later in Seattle for the WTO Ministerial Conference. The most significant element of this message from a Canadian standpoint was the agreement to work together in the WTO toward the elimination of agricultural export subsidies and the development of disciplines on other trade distorting practices, as well as toward the earliest compliance with all existing agricultural commitments under the Uruguay Round. Having such an unequivocal statement from the 34 FTAA participating countries puts added pressure on countries that subsidize agricultural exports and strengthens Canada’s position on this issue at the WTO.

Ministers also took stock of the progress made during the first 18 months of the negotiations and issued clear directions for the next stage. Specifically, ministers directed the negotiating groups to produce the draft text of their respective chapters of an FTAA agreement in time for the next ministerial meeting in Argentina, expected in April 2001. The TNC has, in turn, been tasked with assembling the text from the negotiating groups and with working on the architecture of the agreement and on its general and institutional sections.

Finally, ministers received the FTAA Civil Society Committee's report in Toronto and agreed to give the committee a renewed mandate for the next 18 months to obtain ongoing input from civil society through written submissions. A report on the full range of views presented is to be provided to ministers in Argentina. While Canada will continue to champion a more ambitious mandate for the committee — including direct interaction with civil society and perhaps exchanges on domestic consultative procedures — the renewed mandate will allow the committee to continue to function and will allow further incremental progress to be made towards developing common ground in this sensitive area.

At the Toronto Ministerial Conference, ministers also agreed on a new roster of the countries that will serve as the chairs and vice-chairs for the next 18 months. The new roster is set out as an appendix to the ministerial declaration at http://www.sice.oas.org/ftaa/toronto/minis/minis_e.asp

In sum, our main objectives as Chair of the first phase of the FTAA negotiations have been met. The institutional framework needed to facilitate the progress of the negotiations has been established, substantive results were achieved in the form of a package of business facilitation measures to be implemented on January 1, 2000, and a clear sense of purpose and direction has been injected into the negotiations, with the negotiating groups tasked to develop draft texts by the next ministerial meeting in 2001. Although many challenges and much hard work lie ahead, Canada is confident that the stage has been successfully set for the next steps in the negotiations to achieve a hemispheric trade agreement by 2005.

MERCOSUR

Overview

Argentina, Brazil, Paraguay and Uruguay formed the Southern Cone Common Market (Mercosur) in 1991 under the Treaty of Asunción to provide the following by 2006: free circulation of capital, labour, goods and services; a common external tariff (CET); and harmonized macroeconomic and sectoral policies.

With 240 million people (compared to 380 million in the NAFTA) this customs union is Canada's largest export market in Latin America. In 1999, two-way merchandise trade between Mercosur and Canada was valued at \$2.82 billion, a decrease of 14.3 percent from 1998. All of the reduction came on the export side, with Canadian shipments to Mercosur dropping one-third in value to \$1.07 billion. Imports from Mercosur increased a nominal 3.1 percent in 1999. Canada's main exports to Mercosur are paper products, potash, wheat, telecommunications equipment, aircraft parts, petroleum products, machinery, malt, minerals, plastics, rolling stock and pharmaceuticals. Investments are concentrated in the aluminium, oil and gas, mining, power, telecommunications and spirits sectors.

Partially harmonized CETs were implemented in 1995, and already about 90 percent of all internal trade is duty-free. The exceptions to the CET, such as hundreds of individual tariff lines for each country, are to be eliminated by 2006. Important areas such as sugar remain exempted. The Adjustment Regime, which set transitional rules for Mercosur trade, has expired (in December 1999 for Paraguay and Uruguay and in December 1998 for Brazil and Argentina). On services, the Mercosur trade ministers approved a framework in mid-December 1997, and detailed negotiations are ongoing. There has been no progress on the free movement of labour component in the Mercosur agreement.

Since its inception, Mercosur has negotiated and entered into free trade agreements with Chile and Bolivia. Mercosur has also reached a framework agreement with the EU and is looking at 2005 for full implementation.

Trade and Investment Cooperation Arrangement (TICA)

Signed in June 1998, the Canada-Mercosur Trade and Investment Cooperation Arrangement (TICA) 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 conference in Toronto in November 1999. At that meeting, the Consultative Group agreed 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 will be inaugurated at the next Consultative Group meeting, scheduled for early summer 2000 in Uruguay. This council will provide the mechanism for business representatives to input directly into the Canada-Mercosur trade and investment relationship.

Canada will continue to encourage Mercosur member countries to adhere to the ITA. Mercosur represents a major export market for Canadian manufacturers of IT and communications equipment.

ARGENTINA

Consistent economic policy since 1991 has brought Argentina a level of economic stability unprecedented in recent history. The enormously successful Convertibility Plan of 1991, which pegged the peso to the U.S. dollar, has resulted in high local and foreign investor confidence and broad public support. Because of its heavy reliance on Brazil’s economy, and that nation’s recent currency crisis, Argentina has experienced a recent downturn in its industrial production. However, prospects for Canadian exporters remain promising over the medium- and long-term, especially in the investment sector, where Argentina is one of the leading emerging markets for foreign investment opportunities.

Pork

On September 30, 1997, CFIA officials and their Argentine counterparts reached agreement on a pilot project allowing for the export of fresh, chilled and frozen pork to Argentina and Argentine exports of fresh, chilled and frozen beef to Canada. Technical requirements had previously prevented trade in these products. In 1999, both sides agreed to extend the terms of the pilot project indefinitely, pending further technical discussions towards a longer-term arrangement. These discussions will continue in 2000. As a result of the pilot project, Canadian pork exports to Argentina in 1998 were valued at \$3.6 million.

Investment

Argentina is an important investment location for Canada. In 1998, Canadian direct investment in Argentina totalled \$2.2 billion, up from \$1.9 billion in 1997. The main focus of this investment has been the oil and gas, mining and energy, agro-industry, banking and telecommunications sectors. Forestry may soon offer potential for further Canadian investment. Investors are free to enter Argentina through mergers, acquisitions, greenfield investments or joint ventures. While foreign firms may also participate in publicly financed R&D programs on a national treatment basis, Argentina reserves the right to maintain exceptions to national treatment for real estate in border areas, air transportation, shipbuilding, nuclear energy, uranium mining and fishing. Technical discussions on upgrading the existing FIPA between Canada and Argentina were last held in January 1998. Canada has been pressing to improve the existing agreement to provide additional stability and transparency to an already positive bilateral investment relationship. The Fiscal Convertibility Law, adopted by the Argentine Congress in October 1999, is another measure that the Government has introduced to encourage foreign investment in Argentina.

BRAZIL

In January 1999, the Brazilian government allowed the exchange rate for the real to float on global currency markets. This move, part of an effort to adjust federal fiscal and monetary policies, led to increased volatility in the real’s exchange rate to the U.S. and Canadian dollars. Canadian exports to Brazil decreased by 35 percent in 1999 due in large part to the currency shift. The value of the real is stabilizing, however, and as internal prices adjust to its new value and the Brazilian economy begins to expand, Canadian exporters should again see export amounts rise to previous levels. The medium- and long-term prospects for Canadian exporters continue to be strong.

PROEX

PROEX, a Brazilian export subsidy, reduces financing costs for Brazilian exports under its “interest equalization” component. Canada has been particularly concerned about its application in the aircraft sector, where it may have cost Canadian firms up to \$1.5 billion in lost annual sales. In 1998, after unsuccessfully attempting to resolve the matter bilaterally, Canada sought a WTO dispute settlement panel to examine the matter. The panel ruled that PROEX was a prohibited export subsidy as applied to regional aircraft (confirmed on appeal) and instructed Brazil to remove the subsidy by November 1999. As a result of concerns that Brazil did not comply fully with the panel ruling, Canada has requested a compliance panel to formally assess Brazilian implementation.

In a related WTO panel, it was determined that Technology Partnerships Canada and EDC’s Canada Account were also prohibited export subsidies, as applied to regional aircraft. Although Canada acted to bring these programs fully into compliance with its WTO obligations, Brazil has challenged Canada’s implementation of the panel ruling. Canada is confident that a panel will confirm its compliance. The WTO is examining the two challenges under separate panels. At press time, the decisions of both panels were expected in mid-March or early April. For the latest update, visit <http://www.dfait-maeci.gc.ca/tna-nac/dispute-e.asp>.

Both sides are also working bilaterally to arrive at a mutually satisfactory settlement that should include significant changes to the PROEX subsidy regime applied to regional aircraft. It is clear, however, that if agreement is not reached and this dispute proceeds to the retaliation stage, the cost to Canada-Brazil trade and investment relations would be very high.

Customs Valuation

On February 13, 1998, Brazil published Decree #2.498/98, implementing the Customs Valuation Agreement of the WTO. 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, information on freight

costs, costs relative to loading and unloading of the merchandise and costs relative to freight insurance. In addition, Brazilian authorities may request further documentation from the importer to confirm the declared price of the merchandise. Canada will closely monitor how Brazil applies its customs valuation regime on Canadian exports to insure that it is applied in ways that are consistent with Brazil’s international trade obligations.

Meat Certificate Validation Requirements

Canadian exporters remain concerned over the fact that the Brazilian consulates must validate inspection certificates for meat products prior to export (so-called consularization requirement). This creates additional delays and costs for Canadians in advance of shipping. Canada does not impose such a requirement on imports from Brazil or any other country. Canada believes that this requirement is contrary to common international practice and that it constitutes an unnecessary barrier to trade, so has made numerous representations requesting its removal. Brazilian authorities informed our Embassy in early 1999 that a change in legislation that will remove this requirement was expected in the coming months. Although Brazilian senior government officials have given repeated assurances since then, the requirement remains. Given the commitments of Brazilian government officials, Canada will continue to press the Brazilian government to confirm officially that the validation requirement for Canada has been removed.

Mutual Recognition of Poultry Inspection Systems

Canadian exporters have expressed an interest in exporting processed food containing chicken to Brazil. Brazil currently does not allow the importation of most Canadian poultry meat on the grounds that Brazil has not yet reviewed and recognized Canada’s meat inspection system for poultry or approved Canadian establishments (Brazil does currently accept ratite meat and duck meat from Canada). CFIA officials and their Brazilian counterparts are now working on a mutual review of the poultry meat inspection systems. At the first meeting of technical officials in August 1998, Brazil and Canada agreed upon the approach for the review. Bilateral discussions have been ongoing since then. Both countries have completed their information-gathering exercise

(Canada in September 1999 and Brazil in December 1999). The next step is for the two sides to review the information, exchange reports and reach agreement on the applicable trade conditions for poultry meat. Completion of the process would allow exports of Canadian poultry (i.e. chicken and turkey) into Brazil and Brazilian poultry into Canada. CFlA officials are working toward finalizing an agreement in 2000.

Memorandum of Understanding on Agricultural Cooperation

The Canada-Brazil MOU on Agricultural Cooperation was signed in January 1998. Agriculture ministers agreed in September 1998 that the two countries should bring the MOU into full implementation through the promotion of trade expansion in 12 major agri-food commodity areas. The Canada-Brazil Working Group on Agricultural Cooperation facilitates the exchange of information and bilateral consultation and seeks to contribute to the expansion of agricultural relations between the two countries. Both countries have exchanged lists of their import requirements and trade statistics for the products they consider priorities, and will endeavour to eliminate, where possible, potential barriers or other restrictions to enhanced bilateral trade.

Exchanges between industry associations, as specified in the agreement, have also taken place, such as meetings between the Brazilian Chicken Producers and Exporters Association (ABEF) and the Further Poultry Processors Association of Canada (FPPAC). Brazil's former Agriculture Minister, Francisco Turra, took a mission of senior Brazilian government officials and Brazilian agri-business representatives on a cross-Canada tour in June of 1999. Canadian Agriculture and Agri-Food Minister Vanclief reciprocated with a visit to meet Brazil's newly-appointed Agriculture Minister, Marcus Vinicius Pratini de Moraes, in August of 1999. The two ministers have also met frequently in international fora to advance bilateral trade interests and to discuss strategies to be adopted by the Cairns Group of countries. There was also the meeting of the Joint Agriculture Committee (JAC) of the Canada-Brazil Joint Economic and Trade Council (JETC) in early 1999, during which many of the aforementioned issues were discussed.

Commodity Areas Covered by MOU on Agricultural Cooperation

- Poultry and poultry-containing products
- Beef products
- Pork products
- Sugar
- Malt
- Grains
- Potatoes
- Live animals, embryos and semen
- Pulse crops
- Oilseeds and products
- Fruit and vegetables
- Fish and sea products

Brazilian Tariff on Wheat

In 1996, Brazil notified WTO Members that it had withdrawn, from its WTO schedule, a market access concession of 750,000 tonnes of duty free importation of wheat and would apply a duty, currently set at 13 percent, to importations of wheat. As Canada is a major supplier of wheat to Brazil, we exercised our right to request compensation for the non-implementation to this concession and the raised tariff. Since then, Canada and Brazil have held a series of consultations, but have not yet agreed on a settlement.

Telecommunications Services

Brazil is in the process of implementing its GATS commitments with respect to telecommunications services. As a result, several prominent Canadian telecommunications services companies are active in Brazil, as well as a number of Canadian manufacturers. Brazil has launched a consultation process and is expected to announce the rules for licensing satellite telecommunications providers during 2000. The Government will observe this process with great interest and will continue to monitor Brazilian implementation of its commitments under the GATS.

Investment

In 1998, Canadian FDI in Brazil was approximately \$2.8 billion. Due to the significant levels and long history of Canadian investment in Brazil, it is regarded as one of Canada's highest-priority countries for concluding a FIPA. Negotiations were initiated in June 1998 and are ongoing.

CHILE

Overview

The Canada-Chile Free Trade Agreement (CCFTA) and its two parallel agreements on environmental and labour cooperation are now nearly three years old. On July 5, 1997, under the CCFTA, tariffs were eliminated on the majority of products that make up Canada-Chile bilateral trade. For products on which tariffs are being gradually eliminated, the fourth round of cuts was made on January 1, 2000. As a result of a November 4, 1999 agreement, Canada and Chile have accelerated the elimination of tariffs on a selection of products. Tariffs on most other industrial and resource-based goods will be phased out by 2003.

The implementation of the CCFTA has precipitated a new era of bilateral cooperation with Chile. The total value of two-way trade in goods reached \$768 million in 1999. Canada's exports of goods totalled \$347 million and imports reached \$421 million in 1999. Canada has become the second-largest foreign investor in Chile, with current and planned investments approaching \$11 billion. In the past two years, over 70 percent of Canadian investment has been in the mining sector, resulting in spin-offs for Canadian companies in other manufacturing and services sectors. Significant Canadian investments were also directed to the energy and IT sectors. While it is yet too early to assess the impact of the CCFTA on the bilateral trade and on investment, clearly the short term trends have been very encouraging.

The entry into force on January 1, 2000 of the Convention on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (DTA), the first of Chile's new generation of tax treaties, meets one of the key commitments contained in the CCFTA.

This convention will facilitate the growth in trade and investment between Canada and Chile by establishing a more stable taxation framework for individuals and companies doing business in each other's country.

Eight committees and working groups are in place to carry out any outstanding implementation elements of the CCFTA and to resolve problems before they escalate into formal disputes. For example, through the Committee on Trade in Goods and Rules of Origin, Canada and Chile agreed to accelerate the elimination of tariffs on turkey poult and hatching eggs, feed peas, fresh or chilled tomatoes, peaches, plums, sloes, certain colour pigments, certain articles of plastic and a number of textile products. Progress has also been made in fulfilling CCFTA obligations in such areas as agreeing to model rules of procedure for settlement of disputes, the publication of documentation on temporary-entry procedures and establishing mutually compatible procedures for recognition of test reports in the telecommunications sector. Chile has also demonstrated its willingness to facilitate trade by agreeing to lower its visa-processing fees from US\$650 to US\$100.

In 1998, the Chilean government announced that it will reduce its uniform MFN tariff by 1 percentage point per year until the tariff reaches 6 percent on January 2003. Under this schedule, the non-preferential MFN rate for all goods entering Chile is 9 percent in 2000. In two cases, bread mixes and cereal preparations, these MFN reductions will trigger guaranteed minimum margins of preference for Canadian goods in the years 2001, 2002 and 2003. In these two cases, Canada will seek to ensure that Chile honours its CCFTA obligations by adjusting downwards the special rate for Canada.

In September 1998, the Chilean Central Bank announced what it described as a temporary elimination of the encaje, a mechanism requiring foreign investors to keep up to 40 percent of their investment on deposit at the Central Bank. To date, this measure has not been re-instated. For the time being, Canadian companies will find their investment in Chile to be less costly.

Market Access Results in 1999

- On January 1, 2000, the Convention on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (DTA) came into effect.
- On January 1, 2000, an agreement to accelerate the elimination of tariffs on a selection of products came into effect.
- In May 1999, two MOUs between the CFIA and Chilean Agriculture and Livestock Service on cooperation and the exportation of Canadian pork to Chile were signed.
- Chile lowered its visa processing fee from US\$650 to US\$100.
- Chile continued to suspend the encaje.

Canada's Market Access Priorities for 2000

- encourage Canadian and Chilean professional services providers, particularly engineers, to continue work on developing mutually acceptable standards and criteria for licensing and certification of professionals;
- implement the WTO panel ruling regarding a liquor tax; and
- complete the roster of panelists for dispute settlement purposes.

Safeguards

In October 1999, Chile announced safeguard measures on imported products covered by its price band system (i.e. wheat, wheat flour, edible vegetable oils and sugar). Of these products, Canada has an export interest in wheat. Representations are being made to Chilean authorities to have the CCFTA Chapter F-02 exclusion applied to Canadian imports.

Taxes on Alcoholic Beverages

The European Union, United States, Canada and Peru participated in WTO dispute settlement proceedings, contending that Chile maintains a tax regime that discriminates against imported alcoholic beverages. A WTO panel ruled that the different taxation system on imports afforded protection to Chile's domestic production, and the WTO asked Chile to bring its

taxes into conformity with its trade obligations. Chile appealed the ruling, but the panel's findings were upheld by the December 13, 1999 ruling of the Appellate Body. Chile was given 15 months to bring its taxation regime into conformity with the rulings.

Gold Coins

The Chilean Internal Revenue Service (IRS) applies a 50 percent luxury tax and 18 percent VAT to imported gold coins produced by the Royal Canadian Mint, while similar gold coins produced by the Chilean Mint are not taxed. Canada has made representations to the Chilean government seeking an end to the discrimination. In order to resolve the problem, either the IRS will have to change its interpretation of the relevant law or the Chilean Central Bank will need to amend the law. Canada is currently assessing options in consultation with the Royal Canadian Mint, including recourse to formal dispute resolution under either the CCFTA or the WTO.

COSTA RICA

Over the past few years, on several occasions, Costa Rica has expressed interest in pursuing an ambitious FTA with Canada. In July, 1999, the Costa Rican Vice-Minister for International Trade submitted a written proposal to DFAIT proposing such negotiations, with the Canada-Chile Free Trade Agreement to be used as the textual basis for the discussions. Costa Rica's Trade Minister reiterated his country's interest in pursuing a bilateral FTA with Canada during a meeting with Minister Pettigrew held on the margins of the FTAA Ministerial in Toronto in November 1999. During the visit of Costa Rican President Rodriguez to Ottawa January 31-February 2, 2000, it was agreed that both sides would consult domestically and explore the possible scope of negotiations prior to making recommendations about launching such an initiative.



5. *Opening Doors to Europe*

<http://www.dfait-maeci.gc.ca/tna-nac>

EUROPEAN UNION

Overview

The European Union is the world's largest single market, having surpassed the United States in both GDP and population. As a group, the EU Member States continue to rank as Canada's second-most important trading and investment partner after the United States. Two-way trade in goods and services amounted to \$64.6 billion in 1999. Canada's merchandise exports to the EU amounted to \$18.2 billion, while imports totalled \$17.8 billion. Canadian services exports to the EU amounted to \$8.1 billion in 1999, and services imports reached \$9.8 billion. The EU is also the second-largest source and destination of FDI for Canada. In 1998, cumulative FDI from the EU amounted to \$45 billion, while Canadian FDI in the EU grew to \$46.3 billion.

Several major developments in the EU have implications for Canada, including economic and monetary union (EMU), negotiations on enlargement and new regional trade agreements. The EU will continue to grapple with the question of institutional reforms, which the accession of new members makes necessary if the EU is to function effectively in future.

The EMU is now in the final stage with the adoption of the new currency, the euro, by 11 of the 15 EU Member States on January 1, 1999. Euro notes and coins will begin circulating in 2002. Together with the private sector, the federal government is helping to ensure that Canadian business is prepared for the changes that the euro may bring to trade and investment.

Regarding enlargement of the EU, negotiations have been launched on the entry of Poland, Hungary, the Czech Republic, Slovenia, Estonia and Cyprus. At the December 1999 EU Summit in Helsinki, a decision was made to begin negotiations with Latvia, Lithuania, the Slovak Republic, Malta, Bulgaria and Romania. Turkey is also declared a candidate for membership, although negotiations with it will begin only after certain political criteria for membership in the EU have been met. The first accession of new Member States is not expected to take place before 2004. The EU is also negotiating regional free trade agreements. To date, agreements with Mexico (November 1999)

and South Africa (October 1999) have been reached. While the EU and the Mercosur countries have explored the possibility of free trade, negotiations are not expected to begin any time soon. Canada will assess the impact of these new arrangements on our existing trade relationships with these countries and on the competitiveness of Canadian suppliers and firms in an expanded EU.

Canada-EU trade relations are managed under the WTO agreements, as well as the bilateral 1976 Framework Agreement for Commercial and Economic Cooperation, which established a structure of consultative committees. The 1996 Joint Political Declaration on Canada-EU Relations and the Canada-EU Action Plan set goals for broadening Canada-EU relations not only in the trade and economic areas, but on a broad range of foreign and domestic policy issues as well. On the economic front, both sides undertook to cooperate in multilateral economic fora (e.g. the WTO). As set out in the Action Plan, Canada and the EU concluded bilateral agreements in the areas of customs cooperation, veterinary equivalency, competition law and mutual recognition of conformity assessment of regulated products. The Action Plan also establishes goals for enhanced cooperation in the IT field, including e-commerce, as well as in the science and technology area more generally.

The EU-Canada Trade Initiative (ECTI), launched in December 1998, sets a limited number of objectives for market access and economic cooperation. A bilateral cultural agreement of benefit to Canada's cultural industries is under consideration. Fostering business-to-business contacts, including among SMEs, is an important ECTI objective. Already the Canada-Europe Round Table (CERT) has been established, which brings together firms from a range of sectors who support the development of the Canada-EU economic relationship.

Market Access Results in 1999

- In April 1999, the EU dehydrated alfalfa industry imposed a voluntary ban on sales of dehydrated alfalfa to Japan, thus reducing the market disruption that had been occurring in Japan as a result of low-priced, subsidized EU alfalfa.
- In April 1999, the EU opened a single year 4,000-tonne TRQ for cooked and peeled shrimp.
- In November 1999, fisheries ministers from Member States agreed to renew the TRQ for cooked and peeled shrimp for a further three years and increase the quantity to 5,000 tonnes per year.
- In June 1999, Canadian and EU authorities signed an agreement permitting information exchange and cooperation in the area of competition policy and law.
- In September 1999, the EU reduced the gap between the export subsidy levels granted for barley and for malt.
- In September 1999, the EU Standing Plant Health Committee agreed to a multi-year derogation which will allow for the importation of Canadian seed potatoes until March 31, 2002.
- In November and December 1999, explanatory discussions were held on the possible scope of a wine and spirits agreement, which would provide improved market access for Canadian exporters in these areas.
- In December 1999, Canada and the EU announced a Joint Statement on Electronic Commerce in the Information Society, which recognized the potential global benefits of e-commerce and declared the objective of constructing an enabling global environment that maximizes social potential for citizens.

Canada's Market Access Priorities for 2000

- seek the elimination of export subsidies and the reduction of production-distorting domestic support through multilateral negotiations;
- continue discussions toward agreements that would improve market access for Canadian wine and spirits;
- complete the implementation of the 1998 Canada-EU MRA by finalizing the designation of conformity assessment bodies;
- encourage professional associations in Canada and the EU to work toward agreements concerning the mutual recognition of qualifications;

- work with private-sector organizations in Canada and the EU that represent SMEs to explore the possibilities of enhancing contacts among such firms;
- pursue discussions with the European Commission concerning the establishment of a bilateral legal instrument that would permit the joint funding of co-production projects in the audio-visual field;
- seek the broadest possible participation by Canada in the development phase of Galileo, Europe's global navigation satellite system; and
- continue cooperation with the EU in the field of e-commerce.

A number of barriers to trade exist in the EU that are of concern to Canada, particularly in the agriculture and natural resource sectors. In the wake of past food-safety scandals in the EU, 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.

New multilateral trade negotiations will offer the best opportunity to improve Canada's market access on a wide range of industrial and agricultural goods. Bilateral liberalization efforts under ECTI will also make a contribution.

IMPROVING ACCESS FOR TRADE IN GOODS

Common Agricultural Policy and Subsidies on Agricultural Products

In March 1999, the EU heads of state approved Agenda 2000 EU Common Agriculture Policy (CAP) reform. The approved policy was disappointing in that it resulted in only modest reductions to agriculture price supports and allowed direct production-linked subsidies to remain. As a result, the CAP will continue to restrict access to the EU market for most Canadian agricultural products and distort third country markets. Canada will pursue the reduction of market-distorting domestic support and the elimination of all export subsidies through multilateral negotiations on agriculture, which have commenced this year.

A particular example of this problem is the effect on prices received by Canadian oat producers. The EU's subsidization of large volumes of oats has disrupted the North American market in the form of huge low-price sales of EU oats to the United States. Canada has encouraged the EU to restrain the use of export subsidies on oats and to eventually eliminate them. Until an "across the board" solution can be achieved via WTO negotiations, Canada is pursuing this issue with both the United States and the EU to limit exports of subsidized oats into North American markets.

Cereals Import Regime

Canada maintains that the EU's grain-import regime is inconsistent with the its WTO commitments, which set out that no duty is to be applied when the import price exceeds the EU intervention price plus 55 percent. Rather than determining the duties payable on cereals on a "transaction value" basis, the EU devised a system of reference prices based on U.S. commodity market quotations. These U.S. quotations do not account for the premium price that Canada traditionally receives in the EU market.

Wine and Spirits

Assured access for Canadian wines to the EU is dependant on the conclusion of a bilateral agreement. The EU requires that exports of wine from countries supplying more than 1,000 hectolitres per year be subject to certification of conformity with EU oenological (wine-making) practices. It also seeks an end to the use by foreign wineries of European-origin wine names. At present, there is no access for Canadian ice wine to the European market on the grounds that it does not meet European oenological requirements. Canadian wine exports to the EU amounted to just over \$1 million in 1998, while wine imports from the EU that year totalled over \$450 million.

Canada and the EU have been engaged in renewed efforts to reach agreements on wine and spirits over the past year. The key Canadian objective in the wine negotiations is to secure access for exports of quality Canadian wines, including ice wine, to the European market. Canada supports a limited agenda for these discussions, including wine access, oenological practices and the protection of geographical indications. Objectives on the spirits side include the recognition and protection by the EU of the term "Canadian whisky".

Fish

Canadian exporters of fish, shrimp and seafood products continue to be disadvantaged by high EU tariffs. The EU groundfish tariffs on many items of interest to Canada fall within the range of 12 percent to 23 percent. Coldwater shrimp exports are faced with tariff rates of 12 percent to 20 percent, depending on the product form. Primarily because of these barriers, Canadian fish and seafood exports to the European Union have declined since the beginning of the decade, stabilizing around the \$300 million level. 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 TRQ for cooked and peeled shrimp, under which the product was subject to a reduced duty of 6 percent if imported for further processing in the EU. While of great value to Canadian shrimp processors, the TRQ was created primarily to supply the needs of the European food processing industry. Recognizing this domestic importance, EU Member State fisheries ministers decided in December 1999 to extend the TRQ for a further three years and to increase the quantity to 5,000 tonnes per year. Canada will actively pursue continued renewal and improvement of the TRQ until unrestricted duty-free access for this product can be obtained via WTO negotiations.

Aluminium

Reduced tariffs on aluminium ingot and other non-ferrous metals remain a priority for Canada. With regard to aluminium, for example, the Government will support the Canadian industry's efforts to encourage like-minded producers and users of ingot in the EU to urge the European Commission to suspend the 6-percent tariff.

TECHNICAL BARRIERS

A key element of the EU single-market program is the elimination of technical barriers to internal trade. This will be accomplished through mutual recognition of voluntary national standards, testing and certification of conformity, as well as through the legislation of EU-wide directives on essential technical requirements.

The directives cover a wide range of goods, including construction products, toys, machinery, electrical goods, telecommunications terminal equipment and medical devices. Compliance with EU technical directives, Member-State legislation and/or voluntary standards (where applicable) are prerequisites for access to EU markets for a growing range of goods.

The 1998 Canada-EU MRA on testing and certification of conformity with the signatories' respective technical requirements covers telecommunications equipment and electromagnetic compatibility, recreational boats, medical devices, pharmaceutical goods manufacturing practices and electrical safety. The MRA will help to reduce the costs of compliance by allowing Canadian exporters to have their products tested and certified by a designated Canadian agency. The MRA does not harmonize regulations between Canada and the European Union. The confidence-building phase for this agreement is now under way.

Canada is concerned that measures intended to protect the environment or the health and safety of consumers could, in fact, constitute unwarranted technical barriers to trade if they lack a firm scientific basis. Canadian exports in the agricultural and natural resources sectors are particularly vulnerable to such measures. Canada has raised concerns at the highest levels of the EU when faced with trade impediments of this kind and is prepared to pursue its rights under the TBT agreement. At the same time, Canada recognizes the complex challenge of protecting the public at large from health and environmental threats and is open to discussing common approaches with the EU.

Genetically Modified Canola

The EU has yet to approve all of the types of genetically modified (GM) canola Canada currently has in production, and thus Canada is unable to export canola to the EU. Canadian canola exports to the EU peaked in 1994 at \$425 million. Canada's position is that there are no health, food safety or environmental reasons that the GM canola should not be approved for the EU market.

The EU Commission has taken a scientific approach on a case-by-case basis regarding GMO approvals. The Commission has released two favourable scientific reports, which state that two GM canola varieties already under cultivation in Canada do not pose

health or environmental risks. Although the Commission's approach to the GMO issue is science-based, this is not necessarily the case for all Member States, who can collectively determine approvals on the basis of a qualified majority vote. A blocking minority of Member States has developed, which virtually ensures the continuation of a *de facto* EU moratorium on further GMO approvals until such time as the revised EU GMO regulation 90/220 is approved (as late as 2002).

Canada's largest export markets for canola (Japan, the United States and Mexico) have accepted the varieties under cultivation in Canada. In 1999, some 60 percent of Canadian canola acreage was grown with canola with novel traits. Canada continues to express its concerns at the highest levels of the EU regarding this market access barrier for GM canola varieties currently cultivated in Canada.

Chrysotile Asbestos

In the European Union, ten Member States (Austria, Belgium, Finland, France, Germany, Italy, Luxembourg, Netherlands, Sweden and the United Kingdom) have severely restricted or banned the use of chrysotile asbestos. In the summer of 1999, the European Commission implemented an amended directive on asbestos calling for a total ban among its Member States by January 2005. Canada's exports to the EU of asbestos and asbestos products amounted to some \$44 million as recently as 1995.

The Canadian government, in partnership with the Government of Quebec, the asbestos industry, labour unions and the affected communities, seeks to maintain market access for chrysotile asbestos products to the EU.

Canada considers that the bans imposed by many EU Member States and the Commission cannot be justified by scientific risk assessments and are not proportional to the risks presented by chrysotile asbestos in specified applications. In Canada's view, the scientific evidence favours a controlled-use approach to chrysotile asbestos. In consequence, the federal government has pursued every opportunity to persuade the EU and individual Member States to maintain responsible-use policies instead of imposing bans.

At Canada's request, a WTO dispute settlement panel was established to resolve an ongoing dispute with France over market access for chrysotile asbestos. The panel's final report is expected to be released in the first half of 2000.

Bans and Restrictions on Certain Non-Ferrous Metals

The European Commission has proposed a number of directives (on batteries and accumulators; waste management of electrical and electronic equipment; and end-of-life vehicles) that provide, among other things, for restrictions and an eventual ban on the use of certain substances, including lead, mercury and cadmium, of which Canada is an exporter. These substance bans, if implemented in their proposed form, would have adverse trade implications for Canada with respect to both the non-ferrous metals in question and the manufactured products making use of them. Canada questions whether such product bans are proportionate to any attendant risks and whether these measures are more trade restrictive than necessary to achieve the proposals' objectives.

Canada supports the use of recycling to achieve broad health, safety and environmental objectives. However, Canada is concerned that the draft directives do not make it clear who is responsible for the creation of the end-of-life collection, the take-back and dismantling schemes, or the recycling, reuse and recovery programs that the draft directives set out. Moreover, Canada is concerned about the retroactive application of the directives. The draft directives also appear to contain export restrictions which may be inconsistent with international trade rules. To date, the European Commission has not outlined to third parties the scientific grounds that it believes justifies the proscriptive measures contained in the draft directives.

Concerns over the proposed directives have been raised by Canada, together with the United States, Japan and Australia, in recent meetings of the WTO Technical Barriers to Trade Committee. Canada has also raised its concerns directly with the European Commission and has requested information about the scientific considerations taken into account in drafting the proposed directives. Canada has called on the European Commission to conduct formal risk assessments and explore appropriate risk management options with a view to achieving its stated objectives.

Eco-Labeling

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

Canada will closely follow EU developments in this field to ensure that the EU adheres to the TBT Agreement’s Code of Good Practice in its eco-labelling programs, particularly those with respect to transparency and ensuring fair access of foreign producers to eco-labelling programs.

Forest Certification

Over the past few years, a number of national and private voluntary forest certification schemes have emerged in response to public demands that forest products originate from sustainably managed forests. Voluntary certification is among many potentially useful tools that can be used to promote sustainable management practices in the forest industry. However, the possibility that Canadian forest products exported to certain European markets may be compelled to be certified based on criteria over which Canada has minimal or no control is an issue of concern for Canadian industry. While Canada supports certification as a marketplace activity insofar as it promotes sustainable forest management, it is concerned about the spread and acceptance of schemes that are developed without industry or government input or consultation, which are being pushed onto consumers through pressure tactics of third parties. Depending on structure and criteria, some certification systems could effectively serve as non-tariff barriers against Canadian forest product exports and may be of dubious environmental benefit.

Canada considers that forest-certification systems should be developed in a manner consistent with a balanced standards process, remain voluntary, be market-based and not have the effect of creating

unnecessary obstacles to trade. As there are several approaches to forest-management certification, Canada supports the concept of equivalency between different national and regional forest certification systems that have been developed through an open, transparent and verifiable process. Canada supports greater efforts to achieve international agreement on certification systems that will promote sustainable forest management without creating discriminatory *de facto* technical barriers to trade.

Certification of Organic Food Products

Canada has experienced some market access problems as a result of proposed EU regulations that specify certification requirements for organically-produced foods. While the EU-wide rules are not yet in force, certain Member States are applying their own standards or interpretations of the EU rules. In April 1999, a National Standard for Organic Agriculture was ratified by the Standards Council of Canada, which outlines principles of organic agricultural production and management practices for crops and livestock. Canada is of the view that this new national standard meets the EU requirements on organic production of agricultural products and foodstuffs. A national certification and accreditation system is also being developed to complement the standard. Canada will seek recognition from the EU that our national standard and our national certification approach meet EU requirements.

SANITARY AND PHYTOSANITARY IMPORT REGULATIONS

Pinewood Nematode

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

Over the years, Canada has proposed alternative measures to control PWN, while allowing trade in untreated lumber. However, the EU has not accepted Canadian proposals for less trade-restrictive measures. At Canada's request, WTO consultations were held on July 15, 1998, but the issue remains unresolved. Government officials will work with industry and provincial representatives to assess next steps.

Beef Hormones

In 1989, the EU banned the use of growth-promoting hormones in livestock and imposed a ban on the importation of beef produced with growth-promoting 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 SPS 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 EU was given until May 1999 to implement the reports, but it failed to do so.

In August 1999, because the EU was in breach of its WTO obligations, and given the absence of an acceptable offer of compensation, Canada imposed retaliatory tariffs on a list of imports from the EU, including beef, cucumbers, gherkins and pork. These measures will remain in effect until such time as the EU offers a satisfactory compensation package or until the ban is removed. Canada's objective remains open access to the EU market for Canadian beef.

Canada-EU Veterinary Agreement

On December 17, 1998, Canada and the EU 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 EU aimed at improving bilateral trade. A Joint Management Committee (JMC) has been established

to implement the agreement. A first meeting of the JMC was held in September 1999. The committee agreed to establish equivalent standards in appropriate areas, to build clear lines of communication in order to ensure early notification on food-safety issues and to bring labelling and food contaminants under the agreement. To ensure that each side meets the standards agreed under the auspices of the agreement, Canada and the EU will develop audit principles. Working groups were formed to advance each of these issues.

Seed Potatoes

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

Traditionally, an annual derogation had been granted based on requirements that Canada conduct stringent laboratory testing and certification of disease-free zones in Prince Edward Island and New Brunswick for all exports to the European Union.

In September 1999, the EU Standing Plant Health Committee approved a three-year derogation for Canadian seed potatoes. Under this multi-year derogation, the shipping window will be increased in years two and three, from December 1 to March 31. Canada is now awaiting publication of the decision in EU legislation and subsequent adoption by Italy, Portugal and Greece into their national legislation.

Specified Risk Materials (SRM) Ban

In July 1997, the EU proposed a ban on the use of specified risk materials (SRMs) as a bovine spongiform encephalopathy (BSE)-related measure. The ban was originally intended to cover products of animal origin intended for food, feed and fertilizer, as well as cosmetics, pharmaceuticals and industrial products, and would have applied to the manufacture of tallow and its derivatives.

In November 1998, the Commission released a draft of its new SRM proposal that categorizes countries on the basis of BSE risk. Canada has submitted information to the EU to substantiate our claim to be free of BSE.

In December 1998, the EU Council of Agriculture Ministers postponed for a third time the original SRM ban, to January 1, 2000. In December 1999, the EU Commission announced a fourth postponement to March 31, 2000 to allow for a new proposal to be adopted. The new proposal is expected to class countries using the International Office of Epizootics (OIE) Code on BSE. Depending on BSE status, countries would be required to apply different measures with regard to the removal of SRMs. The new proposal would not apply to industrial, cosmetic or pharmaceutical products or to medical devices.

OTHER ISSUES

Government Procurement

The EU has only recently obtained compliance from Member States to implement the legislative changes required to give effect to the WTO AGP. Full compliance with the procurement procedures has not been demonstrated. Canadian suppliers still do not have access to EU markets in a number of sectors, including telecommunications equipment and services, transportation equipment and electric utilities. Particular barriers that serve to restrict access include standards, certification, qualification and local-content requirements. Canada is addressing these issues with the EU in the WTO Government Procurement Working Group to further reduce or eliminate tariff and non-tariff barriers.

Telecommunications

While the liberalization of the European market for telecommunications services progresses smoothly, Canadian companies have identified some problems. Over the last year, the Government has been monitoring German regulations regarding interconnection with the common carrier's network to ensure that costs and conditions remain in keeping with the spirit of the Reference Paper on Regulatory Principles. It is hoped that the EU's proposed licensing harmonization measures may help to solve the problems of cost. The EU has also identified several continuing barriers to new competitors in Germany, regarding the timeliness and transparency of the liberalization process.

EUROPEAN FREE TRADE ASSOCIATION

In 1997, the Prime Minister indicated that Canada would like to see a free trade agreement between Canada and the European Free Trade Association (EFTA). The EFTA comprises Iceland, Norway, Switzerland and Liechtenstein. Two-way merchandise trade was valued at \$5.1 billion in 1999 (Canadian exports: \$1.2 billion; imports \$3.9 billion). FDI from EFTA Members into Canada in 1998 totalled \$5.2 billion, concentrated in finance, insurance, chemicals, fish processing and onshore and offshore oil and gas development.

The Government launched negotiations with the EFTA countries in late 1998 following extensive consultations to gauge Canadians' interest and sensitivity toward such an initiative. The negotiations are supported by a broad cross-section of Canadians (business, the provinces and NGOs). The Government has consulted closely with stakeholders throughout the negotiations.

The Canada-EFTA FTA negotiations are at an advanced stage and are expected to be completed later this year. The eventual agreement is expected to focus primarily on tariff elimination and trade facilitation. It will not include new obligations in areas such as services, investment or intellectual property. The agreement will introduce a new concept in cooperation on competition policy and will launch cooperative work in the area of trade facilitation. It will be Canada's first transatlantic free trade agreement.

The initiative to conclude a free trade agreement with the EFTA countries is a clear example of Canada's firm commitment to trade and investment liberalization on all fronts. We believe that all trade and investment relationships will flourish through the negotiation of bilateral, regional and multilateral free trade agreements. Canada and the EFTA countries already have strong bilateral connections and a history of shared values and activities. The Canada-EFTA FTA will facilitate new areas of opportunity and cooperation bilaterally and will open channels for like-minded interaction in a wide range of multilateral fora. Also, the agreement stands to contain a competition chapter that will be progressive in terms of regional trade agreements.

A MRA with Iceland, Liechtenstein and Norway is expected to be signed in the first half of 2000. This will be a complement to the Canada-EU MRA and Canada-Switzerland MRA and will complete the coverage of all of the Western European nations subject to the Directives of the European Commission. All MRAs are virtually identical, with the exception of the MRA with Switzerland, which lacks the recreational craft sector.

RUSSIAN FEDERATION

Overview

The financial crisis in 1998 resulted in a drastic decline in Canada's merchandise exports to the Russian Federation — from \$379 million in 1997 to \$288 million in 1998 and \$166 million in 1999. Imports of goods from Russia to Canada declined 17 percent in 1999 to \$607 million. Most Canadian exporters have scaled back their activities in Russia, adopting a “wait and see” attitude. In 1999, the value of Canadian direct investment in Russia was estimated at some \$1.25 billion, principally in the mining and oil and gas sectors, and to a lesser extent, in food services and high technology.

The Russian economy is showing signs of recovery, although structural reform remains slow. Russia will continue to be a key strategic market for Canadian resource extraction, agri-food and the housing/construction materials sectors. The Canadian government is working to improve access to this important emerging market along three main tracks: through the bilateral Intergovernmental Economic Commission (IEC); accession negotiations on Russia's entry into the WTO; and negotiation of a new FIPA.

Bilateral

The Canada-Russia IEC was established in 1995 with a mandate to identify and resolve trade and investment irritants and obstacles that Canadian and Russian companies face in each other's markets. Sectoral working groups (focussing on oil and gas, agriculture, housing and construction, mining, the Arctic and the North and industry development in advanced technologies) work to enhance opportunities and market access for Canadian traders and

investors. Also under consideration are proposals to organize ad-hoc IEC events for the forestry sector, and to promote closer economic relations between Western Canada and the Russian Far East.

Canadian exporters face a multitude of product testing and certification standards before their products can enter the Russian Federation. Different products frequently require multiple certificates of conformity (e.g. fire, health, occupational safety), each issued by different, and sometimes competing, Russian regulatory authorities. Published information on these regulatory requirements is often difficult to obtain. Inconsistent application of customs procedures and lack of transparency on changes in duties, rules, export tariffs and licences also pose difficulties for Canadian exporters and investors.

Through the IEC and other bilateral initiatives, including technical cooperation, Canada is promoting reforms to the Russian tax code; dispute settlement and contract enforcement procedures; and policy frameworks for resource development. We have also pressed for the removal of numerous administrative barriers to trade and investment and for uniformity in the application and enforcement of laws and regulations.

WTO Accession

The Russian Federation applied to join the WTO in 1993. Canada is a member of the WTO working party charged with examining Russia's application and is holding bilateral discussions with the Russian Federation to advance the accession.

Canada has underlined its support for Russia's eventual membership in the WTO on commercially viable terms generally applicable to newly acceding Members. Russia's membership in the WTO will give Canadian traders and investors enhanced and more predictable access to this important market. It will also help to consolidate the economic transition process in the Russian Federation and will strengthen the multilateral trading system. Although much has been achieved in recent years, Russia has a great deal of work to do to bring its trade and economic system up to WTO standards. 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.

The Russian Federation presented its initial tariff offer in February 1998. In June 1998, Canada initiated bilateral discussions in Moscow, and there have been some further bilateral discussions since then. Canada is seeking tariff concessions on products of current and future export interest to this market, such as oil and gas equipment, agricultural and agri-food products, vehicles and telecommunications equipment. Canada will, among other things, look to Russia to bind all of its tariffs at or below currently applied rates, to join various zero-for-zero initiatives agreed in the WTO and to provide non-discriminatory access, for example, in the oilseeds sector.

The Russian Federation presented an initial services offer in October, 1999. In subsequent negotiations, Canada will ask Russia to make 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 will also be looking for the removal of restrictions and discriminatory measures for the cross-border, consumption-abroad and commercial-presence modes in these sectors.

Investment

The protection of Canadian investment in Russia remains a priority for Canada. Canada has a significant interest in Russia, particularly in the mining and oil and gas sectors. Natural resource development and other forms of infrastructure, services and industrial development are key areas of potential interest for Canadian investors.

While the encouragement of foreign investment is a stated priority of the Russian government, there have been difficulties creating a stable, attractive investment climate. Current concerns for investors in the Russian Federation include: crime and corruption; taxation levels; the complexity and uncertainty concerning domestic legislation; and a lack of effective recourse through the judicial system in order to resolve investment disputes.

The existing FIPA signed between Canada and the USSR in 1989 provides limited protection for Canadian investors compared to more recent NAFTA-style investment agreements. Negotiations were initiated in January 1998 and are continuing in 2000 with the aim of developing a new and enhanced FIPA to improve conditions for increased Canadian investment.



6. *Opening Doors to Asia Pacific*

<http://www.dfait-maeci.gc.ca/tna-nac>

ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

APEC's trade agenda has evolved since its inception in response to developments in world trade. APEC ministers and leaders will continue to act as an informal caucus in support of strengthening the multilateral trading system. In the declaration that came out of the APEC Economic Leaders' Meeting (AELM) held in Auckland, New Zealand, in September 1999, leaders called for a new round of WTO negotiations that would include comprehensive market access negotiations, as well as the abolition of agricultural export subsidies and unjustifiable export prohibitions and restrictions. Leaders also underlined the fact that no APEC member has retreated into protectionism as a response to the financial crisis, which is the best demonstration of how deeply their commitment to open economies is entrenched. At Auckland, the ministers recognized the extraordinary potential of e-commerce and declared that the primary role of the public sector is to ensure a favourable regulatory environment for e-commerce, paying particular attention to the needs of consumers and small business.

While rule-making and liberalization in future WTO negotiations will be the key means by which APEC member economies will progress towards the goal of free and open trade and investment by 2010/2020, APEC leaders have not ruled out the pursuit of WTO-consistent bilateral or regional free trade agreements as an additional way to reach this goal.

APEC will focus on strengthening its work in the area of trade facilitation. Individual elements of APEC's trade facilitation work program may not grab headlines; however, a 1997 APEC study concluded that current commitments by member economies to facilitate intra-APEC trade will have a greater impact on reducing costs and increasing GDP than their current commitments to liberalize trade. A recent 1999 study concluded that APEC trade-facilitation measures committed to date would expand the region's GDP by US\$46 billion, whereas liberalization commitments would contribute to GDP expansion by US\$29 billion.

The areas of trade facilitation on which APEC is actively working include standards and conformance and customs procedures. This ongoing work in trade facilitation will continue to make regional trade easier and less costly. It will improve the stability and predictability of the business environment and generate new opportunities for networking and partnerships.

In 1999, APEC:

- Developed an agreement on APEC principles to enhance competition policy and regulatory reform.
- Established a MRA on conformity assessment of electrical and electronic equipment.
- Completed an APEC directory on professional services.
- Developed an APEC website on Y2K for information exchange and preparedness tool kits.
- Completed a study on the development of an APEC food system.
- Published a study on e-commerce adoption by SMEs in APEC Member economies.
- Supported eight specific steps to take the region closer to an open market in air services.
- Published *International Commercial Disputes: a Guide to Arbitration and Dispute Resolution in APEC Member Economies, 1999*.
- Published *Competition Law for Developing Countries*.
- Updated the hardcopy and internet versions of the APEC Guidebook on Investment Regimes.

In 2000, Canada will be looking to develop a comprehensive initiative to strengthen trade facilitation in APEC, consistent with the direction provided by APEC leaders at Auckland, with a view to expanding opportunities for Canadian business in the region. In addition, Canada will continue to strengthen APEC's policy dialogue and capacity-building in the area of social policy and structural adjustment. Canada plans to continue to promote meaningful public engagement in APEC, including through dialogue with civil society organizations, in order to build popular support for the economic reforms needed to sustain regional growth and prosperity.

All APEC documents are available on the Internet at www.apecsec.org.sg

JAPAN

Overview

Japan is Canada's third-largest trading partner (after the United States and the European Union), with 2.55 percent of total exports, and is the fourth-largest foreign direct investor in Canada. Canada is a leading supplier to Japan of a number of key products, such as coal, uranium, canola seed, lumber and prefabricated housing. Canada is also becoming an increasingly important source of a range of sophisticated, high-tech products imported by Japan. Japan is a major source of portfolio investment in Canada, and recent indications are that Canadian direct investment in Japan will increase in response to deregulation and market opportunities in the Japanese economy.

In 1999, Canada's total merchandise trade with Japan increased 3.3 percent to \$19.8 billion. Exports declined 3.2 percent to \$9.2 billion and imports increased 9.7 percent to \$10.6 billion resulting in an increase in the bilateral trade deficit. Canada exported \$1.4 billion in services and imported \$1.1 billion in 1999. Despite the present recessionary climate, the long-term trend in Japan is towards a growing demand for cost-competitive imports, which represents an important market opportunity for Canadian exporters.

Through Canada's Action Plan for Japan, business and all levels of government are cooperating to take advantage of market opportunities in five high-growth sectors: agri-food and fisheries; tourism; information technology; building products; and health care/medical devices. The action plan also draws attention to new opportunities that have been created in the Japanese market through continuing structural economic change, deregulation and changing consumer tastes — opportunities in sectors such as the environment, space, new energies and electricity and education. The action plan alerts Canadian industry to changing market conditions in Japan and encourages them to adapt their product to the Japanese market.

In September 1999, the largest bilateral visit between Canada and Japan occurred when a Team Canada trade mission visited Tokyo and Osaka. The mission was led by the Prime Minister and included provincial premiers, territorial leaders, 269 business persons and other Canadian representatives. This first-ever Team Canada visit to a major industrialized country focussed primarily on bilateral trade, but was complemented by a variety of other issues, such as peace and security, official development assistance, Arctic science, space R&D, social policy research, social security and culture.

The Team Canada mission emphasized the strengths of Canada's high-technology sector in an effort to "re-brand" Canada in Japanese minds as a technologically-sophisticated society, and sought to encourage a diversification of our traditional commodities-based trade relationship.

In all, the Team Canada mission facilitated 34 business contracts worth more than \$450 million, many of which were in the high-technology sector and involved SMEs. The mission was very well-received in Japan, was seen as a timely show of confidence in Japan's economic future and was well-covered by the Japanese media.

DFAIT, the provinces and the territorial governments, with the support of the Japan External Trade Organization (JETRO), have undertaken a series of cross-Canada seminars and other activities to build on the momentum generated by the Team Canada mission.

MANAGING THE TRADE 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 September 1999 Team Canada mission led by Prime Minister Chrétien. The Joint Communiqué confirmed the intention of the two governments to promote 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.

During the Team Canada mission, Minister Pettigrew met with his counterpart, Minister Yosano, to review the bilateral economic relationship. He also met with

Hirochi Okuda, Chairman of the Toyota Motor Corporation and concurrently also Chairman of the Japan-Canada Economic Committee of the Keidanren, to discuss strengthening the economic relationship. In addition, he met with JETRO Chairman Hatakeyama. These organizations are instrumental in strengthening the economic relationship between Canada and Japan.

While trade-policy meetings provide a comprehensive view of the trade and economic relationship, they are complemented by regular issue-specific talks conducted by government departments and agencies in Canada and Japan, in such sectors as telecommunications, culture, building product standards, environment, tourism, air services, oilseeds and transportation, to note a few. The range of meeting themes is indicative of the depth of the economic and trade relationship with Japan.

Both Canada and Japan also welcome and encourage private-sector initiatives to improve trade relations, including the annual Canada-Japan Business Conference, to be held in May 2000, and the annual Canada-Japan Forum, last held in Ottawa in October 1999.

Following up on preliminary discussions between Prime Ministers Chrétien and Hashimoto, the Japanese Ministry of International Trade and Industry (MITI) initiated a study, entitled "The Future of the Japan-Canada Economic Relationship", funded by JETRO and undertaken by Professor Wendy Dobson of the University of Toronto's Institute of International Business. In seeking to find and examine ways to strengthen and broaden the trade and investment flows between Canada and Japan, the study found that both countries were falling short of realizing the full potential of their relationship. The report called upon both governments to take further liberalization measures and called upon the private sector to become engaged in reinvigorating the bilateral relationship. The study found that the Japanese perceive Canada as a source of resource products and that Canadian companies perceive the Japanese market as excessively challenging.

The Canada-Japan Business Council (CJBC) has indicated its intention to carry out a follow-up review of bilateral trade and investment opportunities and to submit reports with recommendations to its next meeting, scheduled for May 2000 in Japan. The Canadian government welcomes this initiative

and looks forward to receiving the views of both private sectors on ways as to how the economic relationship between Canada and Japan can be reinvigorated and strengthened.

Canada is seeking clarification that modifications to the government telecommunications organizations included in the WTO AGP, which Japan has proposed, are consistent with the agreement, and that access will be maintained for Canadian telecommunications suppliers.

Market Access Results in 1999

- Japan revised the Japan Agricultural Standards (JAS) Law allowing foreign organizations to obtain Registered Certification Organization (RCO) and Registered Grading Organization (RGO) status.
- Japan approved the import of all varieties of Canadian tomatoes and agreed to discontinue variety-specific testing for Canadian tomatoes.
- Substantial reform, deregulation and restructuring of Japan's financial services sector resulted in Canada's largest-ever single investment in Japan.
- A new JAS product standard improved access conditions for Canadian plywood.
- Japan moved forward with replacing the system of building product testing and approval based on section 38 of the Building Standards Law toward the new system of foreign recognized evaluation bodies and recognized approval bodies.
- Japan continues to move toward increased adoption of international (ISO) standards for building products.
- Japan discontinued the Dairy Genetics Subsidy Program, which will improve access for Canadian bovine semen.

Canada's Market Access Priorities for 2000

- reduction of duties applied to vegetable oils (particularly canola), processed foods, forest products (newsprint, spruce-pine-fir lumber, softwood plywood, laminated veneer lumber, oriented strand board and laminated beams), red meats, fish, non-ferrous metals and leather footwear;

- elimination of specific technical and regulatory barriers in Japan to facilitate Canadian exports in such priority sectors as agri-food and building products;
- continued participation in Japan's official consultation process and identification of domestic regulatory impediments that limit economic growth or add unnecessary costs to business and consumers; and
- Canada and Japan will begin to negotiate a bilateral agreement on cooperation in competition policy.

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 1999, Canadian agri-food and fish exports to Japan declined 19.4 percent to \$165 million. Canada seeks further access to this important market and has concerns with Japanese measures regarding tariffs, safeguards, GMO environmental field testing, labelling of food derived from GMOs, and import requirements and subsidies regarding plant health. In many cases, Japan maintains that its policies conform to the commitments made at the Uruguay Round of negotiations and that any further tariff reduction or market access concessions will be considered in the context of WTO negotiations.

Safeguard Measures on Chilled and Frozen Pork

Canada remains concerned about the administration of Japanese safeguard measures on pork in the form of an increased minimum import price and higher tariffs, which restrain growth in chilled and frozen pork imports. Since they were first triggered in 1995, the safeguards have been of significant concern to the Canadian pork sector. As currently administered, these measures create considerable uncertainty for Canadian suppliers and Japanese importers. Canada is seeking a resolution that addresses the concerns of both exporters and importers in eliminating the negative market impacts of the safeguard. This will be a priority in the WTO negotiations.

Tariffs on Canola Oil

Japan's duties on imported cooking oils are applied on a specific rate basis, i.e. a certain number of yen per kilogram. Despite the specific rates having declined approximately one-third since completion of the Uruguay Round (to ¥10.9 per kilogram for crude oil and ¥13.2 per kilogram for refined oil as of April 1, 2000), these rates ensure that as market prices decrease, the effective tariff barrier to imports remains constant. Due to the low product prices experienced in the early months of 2000, the *ad valorem* equivalent of this tariff has been in the range of 24 percent to 32 percent. These very high tariffs are designed to heavily protect Japan's domestic oil-crushing industry and other related products such as margarine.

Acceptance of Transgenic Canola

Canola seed is Canada's largest agricultural export to Japan, with shipments in 1999 valued at \$590 million. Transgenic technology refers to the introduction of a new trait, such as herbicide tolerance or the enhancement of nutritional quality, through the insertion of a gene from another species into the canola plant. Transgenic canola is the first genetically altered, Canadian-grown crop to be put forward for approval in Japan. New varieties are subject to approval by Japan on the basis of environmental, food and feed safety guidelines. Japan approved the importation of three varieties of transgenic canola in 1996, and subsequently extended the approval to conventionally derived progeny of approved transgenic lines. Seven transgenic varieties of canola were approved in 1997 and 1998. In 1999, three varieties were approved and a fourth has received the necessary environmental and food approvals, but is awaiting feed approval.

The Japanese approval process remains a concern, and could pose delays in the acceptance of subsequent transgenic crops, whether they be canola with additional GM traits or transgenic traits in other crop species. The multi-step Japanese environmental clearance system recognizes North American clearances and allows a plant to enter the Japanese system at a higher level; however, the current process entrenches a gap of 18 months between North American commercial clearance and Japanese import clearance. Environmental field testing should not be

required for GM varieties that are intended only for processing in Japan, particularly when these traits have already undergone environmental field testing in other varieties of the same species.

Japan has three separate approval systems (feed, environmental and food). Currently, the feed and environmental approval processes do not distinguish between the canola subspecies *brassica napus* and *brassica rapa*. Canada will continue to make efforts to persuade Japan that these subspecies should not be distinguished in the food safety approval process.

Labelling of Food Products Containing Genetically Modified Organisms

In August 1999, Japan announced that it would subject 30 food products, including soybeans, corn, potatoes and products made from these, to mandatory labelling for GMO content. Japan, believed to be the world's largest importer of GMO foods, relies heavily on imports from nations such as Canada to meet food requirements.

Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF) has adopted a pragmatic approach based on currently available methodology: if protein markers or DNA of GMOs are detectable by existing analytical methods, the item will require labelling. Highly processed products including refined oils (such as canola) with no DNA or protein content — and thus no means of detection — would not, at this time, require labelling. The labels will apply to foods that are deemed to be "substantially equivalent" in use, composition or nutritional value, and are therefore being used to describe the process, rather than the product. Japan has not indicated a minimum level of GMO content, so generally, foods could be labelled as non-GMO provided that they are certified to have been segregated from GM crops in production and distribution systems.

The potential impacts of this measure are not fully evident at this time. Many issues remain to be determined, including the scope of the labelling scheme, the extent to which it will be exercised on new products and whether or not it will be expanded to include other GM crops. Canada has raised concerns about Japan's labelling approach, both bilaterally and in the WTO Committee on Technical Barriers to Trade.

Mandatory labelling will take effect in April 2001, one year after Japan is scheduled to revise the Japanese Agricultural Standards. Canada will continue to follow the issue closely and will make representations, where appropriate, to ensure that Canada's reputation as a supplier of safe and nutritious food is not jeopardized, so that access for Canadian foodstuffs is preserved.

Variety-specific Testing of Tomatoes from Canada

Japan had required that tomatoes be approved for importation on a variety-specific basis. The scientific basis for such an approach is questionable. Variety-specific testing is not only expensive, but also delays the introduction of new varieties into the marketplace. This is particularly problematic for commercially grown tomatoes, as new and improved varieties are constantly being developed for commercial use. For example, after seven years of bilateral discussions and testing, Japan removed the ban on imports of seven varieties of Canadian tomatoes in September 1997. Of the seven varieties, only one remained in commercial production.

In June 1998, Canada presented to Japanese officials all of the requisite scientific technical data for five new varieties. Japan delayed in providing final approval. In 1999, Canada made high-level representations, pressing not only for the approval of the five additional varieties, but more broadly for elimination of the requirement for approval of new tomato varieties. As a result, in September 1999, Japan announced the end of the requirement for variety-specific approval for Canadian tomatoes, thus resolving the issue.

Fish Feed in Airtight Containers

The Japanese customs tariff allows duty-free importation for fish and other animal feed imported in "airtight container not more than 10kg each". Larger containers and those considered not to be "airtight" are subject to a duty of 36 yen/kg (reduced from 40 yen/kg on April 1, 2000). Officials are examining whether there is unjustified discrimination in the form of a more onerous definition of "airtight" being applied to imported products than to Japanese products.

Live Oyster Exports

In response to a specific request from oyster producers in British Columbia, CFIA officials have been negotiating with their Japanese counterparts to allow the export of live oysters to Japan.

CFIA has conducted specialized testing and has provided data to Japanese officials. Japan conducted an on-site visit in British Columbia in December 1999. CFIA officials are now working toward completing a final arrangement with Japan in early 2000.

Greenhouse Peppers

The Canadian greenhouse vegetable industry, particularly in British Columbia, is developing markets for its products in Japan. In January 1999, Canada presented arguments in favour of the recognition of a pest-free area in British Columbia. Technical discussions with Japan are scheduled to begin in 2000.

Hay

In December 1998, Japan approved an import protocol for fumigated hay from Canada. Japan's concern is the introduction of the Hessian fly, which is also a pest of rice. The Canadian hay industry wants to pursue the approval of a heat-treatment protocol, which is deemed to be more economical than fumigation. Although the first trials were inconclusive, the heat-treatment method has been refined and tests have resulted in 100 percent elimination of the pest. Canada will present Japan with the heat-treatment protocol as revised by the industry.

BUILDING PRODUCTS AND HOUSING

Early implementation in 1999 of amendments to the Building Standards Law to introduce aspects of a more performance-based (rather than prescriptive) building standard promises to bring great benefit to Canadian exporters. Further liberalization and deregulation with respect to building products would benefit both Japanese consumers and Canadian suppliers of wooden building materials. To this end, Canada and Japan continue their cooperation through mutual recognition of standards, the exchange of test data for building products and joint reviews of construction methods.

Canada will continue to consult bilaterally with Japan on the revision of its building codes to aid Japan's objective of stimulating improvements in the quality of housing stock and to facilitate Canadian exports of building materials. Specifically, Canada is working to remove further restrictions on wood-frame construction — for example, through revisions to fire codes to ensure that test methods and test criteria are transparent and to allow foreign organizations to become recognized approval bodies.

Removal of Restrictions on Three-Storey Wood Frame Construction

After the 1997 revisions to Japan's building codes, three-storey wood frame construction is now allowed in quasi-fire protection zones (QFP), but is restricted to a maximum of only 1,500 square metres, requires severe property line setbacks and requires limiting distance calculations for exterior wall openings. Overall, these restrictions severely limit the use of three-storey wood construction in QFP. There is also a size limit of 3,000 square metres for non-QFP. Wood cannot be used in the construction of special buildings like hotels.

One of the main obstacles to reform resides in Japan's approach to fire codes. The majority of fire performance codes and standards have not been affected by the recent amendments to the Building Standards Law (BSL), which introduced performance-based standards related to structural aspects of a building. As a result, many aspects of the BSL relating to fire remain prescriptive, limiting wood construction and rendering wood-frame buildings less economical. Given new building designs, fire prevention and fire-fighting techniques, Canada believes the BSL as it relates to fire should also move to performance-based standards.

Canada encourages the Japanese government and the agencies responsible for fire-related issues to:

- 1) develop performance-based fire-protection standards aimed at fire prevention and controlling spread of fire, both from internal and external sources;
- 2) develop performance-based fire escape standards;
- 3) ensure that these standards are based on sound scientific evidence and adapted for the specific and unique circumstances of buildings in Japan;

- 4) examine alternative fire-prevention and fire-spread designs which would include sprinkler systems and other international practices, such as the use of fire walls; and
- 5) move to implement new performance-based fire protection standards within five years.

Revision of Japan Agricultural Standards (JAS)

Under the new MAFF system of scheduled and periodic review, the JAS143 standard for graded lumber is scheduled to have its five-year revision completed by April 2000. Canada is concerned that JAS143 will be adopted without sufficient consideration of Canadian data or positions, such as conclusions arising from lengthy scientific tests of Canadian and Japanese species regarding, for example, the wane and knot area ratio issues. The proposed revised JAS143 standard does not include spruce, pine or fir, which are major exports to Japan. Canada will press for acceptance of a performance-based approach in JAS standards.

Registered Certification Organizations (RCO) and Registered Grading Organizations (RGO)

Canada welcomes the decision by Japan to undertake a process to recognize foreign organizations for RCO and RGO status. In implementing this decision, Canada would encourage Japan to rely as much as possible on international standards rather than developing standards unique to the Japanese market. Recognizing that this represents an important new step in the internationalization for Japanese standards, Canada also encourages Japan to develop transparent and understandable systems, for example, in its requirement for equivalency for national standards.

Performance Requirements for Lumber for Traditional Housing

Canada is working to ensure that performance criteria being developed for traditional *zairai* housing in Japan should not be based solely on the use of *tsugi* lumber, but rather should recognize the characteristics of other species (e.g. hemlock).

Ten-Year Housing Warranty System

In implementing the new ten-year Housing Warranty System, Canada is encouraging Japan to ensure that requirements are not so onerous as to discourage SMEs from competing for construction services.

IMPROVING ACCESS FOR TRADE IN SERVICES

Telecommunications Services

Over the last year, the Japanese market for telecommunications services has seen a significant opening to foreign companies. There are now 200 facilities-based (Type I) carriers in the Japanese market, with a significant portion backed by foreign operators, including one controlled by a Canadian company. Of the more than 90 companies with Special Type II licences (resale), over 40 are foreign-controlled local carriers. As well, there are over 7,000 companies, including Internet service providers, which operate under a General Type II licence.

The Government continues to monitor Japanese implementation of GATS commitments for basic telecommunications services. Several issues have been flagged by Canadian companies with respect to compliance with the Reference Paper on Regulatory Principles, including the dominant position of the incumbent, difficulties with interconnection and administrative procedures and the independence of the regulator.

Financial Services

The substantial reform, deregulation and restructuring of Japan's financial services sector currently under way offer enhanced opportunities for Canadian financial services companies. The "Japanese Big Bang" proposals announced in 1996 have led to date to the liberalization of the Japanese financial system, notably through the removal of restrictions on foreign-exchange transactions. However, some regulatory barriers to competition remain, such as entry restrictions. It is hoped that by the end of 2000, banks, insurance companies and securities firms will have complete freedom to enter into each other's activities.

Areas of particular interest in which Canadian companies have both experience and expertise include asset management, asset securitization and insurance. Already several Canadian companies have expanded their existing operations or are considering important investments in Japan. The Embassy has worked closely with some of the financial services companies new to this market to ensure that Canadian companies have equal opportunity compared to foreign and domestic rivals.

Investment

Japan is a major source of foreign investment in Canada, accounting for \$8.1 billion in FDI in 1998. Canadian direct investment in Japan now stands at approximately \$3.2 billion, a slight increase from 1997, but down from a high of \$3.5 billion in 1994. There are encouraging signs that this total may increase given recent indications from Japan of its desire to increase foreign inward investment. In April 1999, the Japan Investment Council (JIC) issued a report incorporating seven sets of recommendations for improving Japan's investment environment, and the Prime Minister released an official policy statement noting that increased foreign investment is vital to the reinvigoration of the Japanese economy. Deregulation is ongoing, particularly in the financial sector, and the Government has introduced such measures as consolidated accounting and bankruptcy legislation in order to increase financial transparency and facilitate corporate restructuring, thus encouraging foreign investment.

Japan imposes few formal restrictions on FDI and has worked to remove or liberalize most of the legal restrictions that apply to specific economic sectors. Prior notification is now required only for investment in certain restricted sectors. The Government does not impose export-balancing requirements or other trade-related FDI measures on firms seeking to invest in Japan. Moreover, risks associated with investments, such as expropriation and nationalization, are not an issue in Japan.

However, Japan continues to host the smallest amount of inward foreign investment as a proportion of GDP of any major OECD nation, and several long-standing, structural impediments remain.

These include a high overall cost structure, exclusive buyer-supplier networks and alliances and regulations that serve to inhibit the establishment and acquisition of businesses. Foreign participation in mergers and acquisitions continues to lag in Japan. However, in the first nine months of 1999, the number of mergers and acquisitions by foreign firms in Japan increased by 30 percent over the previous year. Among them is Canada's largest investment to date in Japan — Manulife Financial's joint venture investment with Daihyaku Insurance, valued at almost \$1 billion.

CHINA AND HONG KONG

CHINA

Overview

The People's Republic of China (not including the Hong Kong Special Administrative Region) is Canada's fourth-largest export market. In 1999, Canada's total exports of goods to China reached \$2.48 billion, an increase of 0.2 percent over 1998. The total value of imports of goods was \$8.91 billion, an increase of 16.5 percent over 1998.

With nearly one quarter of the world's population and a growing middle class, China shows great promise as a consumer market. An increasingly Western lifestyle among the urban middle class, along with a softening of the Chinese government's isolationist policies, make this market all the more attractive from a Canadian perspective.

As outlined in the China and Hong Kong Trade Action Plan 2000, Canada's policy approach takes full account of the reality of China's rapidly growing importance in world affairs. An economic partnership between China and Canada is a key element in supporting long-term relations and encouraging China's further integration in global and regional political and economic institutions.

Despite the opportunities that China presents, a number of significant problems and practices impede full Canadian access to the Chinese market. Canadian companies must bear in mind that China consists of a number of distinct regional markets, similar to the United States or the European Union,

each operating and evolving in a distinct and often autonomous fashion. Some elements of the former planned economy remain, however, so in certain types of economic activity, or in projects exceeding a threshold size, the central government continues to play a key and sometimes decisive role.

WTO Accession

On November 26, 1999, Canada and China reached agreement on a wide range of market access issues related to China's accession to the WTO. A separate understanding was reached on key sanitary and phytosanitary issues affecting trade in agricultural goods. The Canada-China agreement covers agricultural products, industrial products and all services sectors, and comes into effect after China officially joins the WTO. The agreement was signed in Toronto by Minister Pettigrew and his Chinese counterpart. Minister Pettigrew had earlier addressed the members of the Canada-China Business Council on the importance of Canada-China trade relations.

Before becoming a WTO member, China must complete negotiations in Geneva on an overall framework to finalize its entry. It must also negotiate a number of bilateral market access agreements with other WTO members. Since these negotiations are done on a MFN basis, once China is in the WTO, the best results of all the bilateral negotiations will apply to all Members.

Although import tariff levels have been reduced significantly by China over the past five years, high tariffs on some imports remain a major impediment to Canadian exports. The Canada-China agreement on WTO accession provides for tariff reductions on a wide range of Canadian priority industrial and agricultural goods, which had an export value of \$1.5 billion in 1998. China's tariffs on Canadian priority goods will fall from an average of 12.5 percent to an average of 5.2 percent over a period of two and a half years. For those high-tech products covered by the ITA (such as telecommunications equipment), China will eliminate all tariffs within five years.

The Chinese trade regime is not fully transparent and presents real challenges to Canadian companies. Access to fair judicial review of rulings by Chinese officials regulating trade or investment matters is inconsistent. Laws and regulations are also often inconsistently applied because of the increasingly

decentralized nature of administration in China and the growing autonomy of local centres of power, whose administrative units often act independently of central commands and of written laws endorsed by the central authorities.

To join the WTO, the Chinese government will have to address issues of low transparency, lack of access to judicial review and the inconsistent application of laws and regulations. The WTO accession process will also facilitate greater awareness of and more consistent application of trade rules at the local and regional levels.

Under the current trade regime, certain more prevalent problems exist, including variable import tariffs; different standards; complicated or non-transparent investment rules; a lack of equivalent treatment between foreign and domestic firms (no national treatment); and a lack of equivalent treatment of imports from different countries. The application of import licences and import quotas for a number of sectors or commodities also constrains free and fair access to Chinese markets. As part of joining the WTO, China will have to phase out import quotas, apply the same standards to all goods and treat imports from all WTO Members in a consistent manner.

Canada is also concerned that Chinese standards, technical regulations and, in particular, requirements for statutory inspection are being used as impediments to market access and do not reflect the least trade-restrictive principle. Canada, in the context of discussions with China through the WTO accession process, is working to obtain a comprehensive notification of the standards-based measures being applied, and is working to identify and eliminate those that are merely qualitative in nature, disguised barriers to trade or unnecessary impediments to imports. Our objectives are to ensure that China applies international standards and to increase access through various market access tools. In some sectors, such as building materials and construction, a bilateral building codes and standards committee will help to facilitate development of more appropriate standards and codes.

Agricultural products face a number of SPS market access barriers, in addition to often very significant tariff barriers. Efforts undertaken in close cooperation with the CFIA are designed to encourage and facilitate China's adoption of a more transparent and

science-based approval system. In parallel with the WTO accession negotiations, a ROU was reached between the CFIA and China's State Administration on entry-exit inspection and quarantine on a number of long-standing Canadian concerns affecting Canadian exports of beef, pork and seed potatoes. Under the ROU, China agreed to a clear timetable for addressing these concerns on the basis of sound science. Canada continues to press for regulatory approval for other Canadian products, including tobacco and seed corn.

SPECIFIC MARKET ACCESS CONCERNS

Telecommunications Equipment and Services

Sales of Canadian telecommunications equipment are doing well in China. However, there are some concerns about the process of tendering and procurement in this sector, as the Ministry of Information Industry (MII) has at times publicly requested that purchasers of telecommunications products favour locally produced equipment. There are also indications that exporters may face standards-based regulatory barriers that are not applied to domestically manufactured products.

The increasing commercialization of this sector is encouraging, and declining market dominance by former monopoly or para-monopoly carriers will create new opportunities for foreign equipment suppliers. The recent announcement of the establishment of a third national carrier in an effort to increase competition is a move toward deregulation and liberalization of the sector.

The telecommunications services sector in China has remained a high priority in Canada's bilateral negotiations with China on WTO accession, and Canada will closely monitor the implementation of China's GATS commitments in this sector, as well as the treatment of Canadian companies that are already present in the Chinese market.

The Chinese government recently announced that foreign investors are banned from joint ventures in Internet services and with Internet content providers. In the face of reaction from foreign companies already invested in this area, China has committed to examine the possibility that foreign companies could be allowed to invest in this sector.

Newsprint

In 1997, China introduced a new variable tariff on newsprint, with a steep inverse relationship to price and a base figure of US\$550/tonne. This tariff would impose tariffs at rates of anywhere from 3 percent (for high-priced imports) to 45 percent (for imports on the low end of the price scale). Such a variable rate is intended to compensate for loss of revenue from price fluctuations, and is a reaction to a dramatic drop in newsprint prices, which had led to imports being priced lower than domestically produced newsprint. China has agreed that once it joins the WTO, it will replace this variable tariff with a 15-percent tariff, which will fall to 5 percent over a phase-in period.

In June 1999, China rendered a final decision to impose anti-dumping duties on newsprint from Canada, the United States and the Republic of Korea. The duties range from 57 percent to 79 percent. Canada has raised concerns with the Chinese authorities that the provision for judicial review of dumping and injury rulings by China has not been incorporated into their 1997 Anti-dumping and Anti-subsidy Regulations.

Agricultural Tariff Rate Quotas

In 1997, China announced its intention to implement a TRQ system for a number of agricultural imports. Twenty percent of the value of Canada's exports to China in 1997 would have been affected by this new measure. Under the Canada-China agreement on WTO accession, only two Canadian priority exports will face TRQs:

- canola oil: The TRQ, which will be eliminated within six years, will start at 600,000 tonnes upon accession and will rise to 1.13 million tonnes in five years. Canola oil will face the same tariff level as its main competing oil, soybean oil. No TRQ will apply to canola seed.
- wheat: The TRQ is 7.3 million tonnes, rising to 9.3 million tonnes within four years.

It is particularly important to Canada that China's TRQ system operate in as open, transparent, efficient and predictable a manner as possible, so that it does not distort trade. Canada continues to work closely with China to ensure that the TRQ system does not disadvantage Canadian agricultural products.

Pork and Beef

In 1997, Canada signed beef and pork import protocols with China. It was expected that under these agreements, exports of Canadian pork and beef to China would commence; however, Canadian exports did not materialize under the protocols. In November 1999, China signed a ROU with Canada that sets out a clear timetable addressing these restrictions to trade.

Seed Potatoes

Canadian seed potatoes are currently banned from Chinese import. China completed a pest risk assessment for Canadian seed potatoes in 1999 and has agreed to work toward finalizing a phytosanitary protocol in 2000.

SERVICES

Although Canadian services providers have gained some access to limited areas of opportunity in the Chinese market, China continues to limit the operations of foreign services companies. Restrictions include: where firms may operate; how many foreign firms can operate in certain sectors; and licensing requirements that discriminate against foreign services firms. In the course of bilateral WTO accession negotiations, Canada succeeded in obtaining commitments to moderate or remove these restrictions once China is in the WTO, particularly for financial, telecommunications and professional-services sectors, all of which are sectors of Canadian expertise and offer great potential in China.

Investment

Canadian direct investment in China has shown a consistent increase in recent years, rising from \$257 million in 1994 to \$464 million in 1998. Canada continues to consider China a top priority for the negotiation of a FIPA, and discussions are ongoing. For the past six years, China has been the second-largest recipient of FDI in the world. The average size of new investments is steadily increasing, and the profile of the average investment is shifting from small family enterprises to more sophisticated operations of multinational companies.

The Chinese government's stated intention in promulgating the 1995 Interim Regulations Guiding Foreign Investment was to better channel foreign investment into infrastructure-building and basic industries, especially those involving advanced technologies and high value-added, export-oriented products. Priority sectors include transportation, communications, energy, metallurgy, construction materials, machinery, chemicals, pharmaceuticals, medical equipment, environmental protection and electronics. The Chinese government still prohibits foreign investment in projects whose objectives are not in line with the State Plan. Engaging in foreign trade requires the official permission of the state. There are many areas in which foreign investment is technically allowed, although it is severely restricted. While China's investment laws and regulations do not require technology transfer, they strongly encourage it. Although China has passed an insurance law and is taking steps to reform and develop its domestic industry, it still blocks nearly all foreign companies from the market. Foreign firms are prohibited from owning and managing distribution networks, wholesaling outlets or warehouses.

HONG KONG

Overview

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

Hong Kong remains an aggressively free-market economy, with virtually no barriers to entry or 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. 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 investments. In addition, Hong Kong remains a key entry point to the China market, with re-exports of Canadian goods to China totalling \$644 million in 1998.

Investment

FDI in Canada from Hong Kong continues to show a consistent increase, rising from \$2.7 billion in 1994 to \$3.4 billion in 1998. In general, Canadian investors face few difficulties in the Hong Kong market. Canadian investment in Hong Kong has grown from \$2.1 billion in 1994 to \$2.9 billion in 1998.

REPUBLIC OF KOREA

Overview

In 1999, Canada's goods exports to the Republic of Korea totalled \$1.93 billion, and imports were \$3.57 billion. Korea is Canada's third-largest market for merchandise exports in the Asia Pacific region (after Japan and China), and the fifth-largest worldwide.

The Republic of Korea's economic policies are designed to promote its domestic industry and exports, while discouraging imports of some value-added goods. Generally, tariffs, import licences and import procedures all favour the importation of raw materials and industrial equipment rather than finished goods. For instance, the Korean practice of frequently revising applied tariff rates at six-month intervals plays havoc with exporters trying to establish long-term business relationships with Korean importers. While there has been some liberalization of import procedures, significant obstacles and rigidities remain.

The Canada-Korea Special Partnership Working Group (SPWG), launched in April 1994, has the objective of increasing cooperation in areas such as trade, investment, industrial cooperation and technology transfer. A subcommittee of the SPWG addresses market access issues. A Committee on Industrial and Technological Cooperation has also been created to further increase cooperation between the private sectors of both countries, initially focussing on manufacturing technology, new materials, biotechnology, environment, energy and telecommunications. The last meeting of the SPWG took place in Ottawa on June 1, 1999.

Market Access Results in 1999

- In July 1999, Korea and Canada signed the Canada-Korea Telecommunications Equipment Agreement that puts Canadian suppliers of telecommunications equipment on an equal footing with their U.S. and European competitors.

Canada's Market Access Priorities for 2000

- press Korea to maintain its applied tariffs on an open-ended basis and to lock-in tariff reductions;
- continue to make representations on technical bottled water market access problems, such as restrictive government-mandated shelf-life requirements and onerous testing requirements;
- continue to press Korean authorities to obtain the necessary approvals for the sale of seal meat in Korea;
- on investment and services, continue to press for inclusion of recent further financial-sector liberalization as part of Korea's international commitments during the new WTO services negotiations; and
- continue to support as a third party U.S. and Australian challenges of the Korean beef quota.

IMPROVING ACCESS FOR TRADE IN GOODS

Canola Seed and Canola Oil

Canadian exports of canola products to Korea are negatively affected by Korean tariff practices in several ways. First, it is impossible for Canadian exporters to provide long-term price certainty due to the fact that the applied tariff cannot be counted on

to remain in effect for more than six months. For instance, although the canola oil tariff was reduced from 15 percent to 10 percent in January 1999, the Canadian government will need to encourage Korea not to raise the rate again. In December 1999, Korea decided to raise the applied tariff rate on canola meal from 3 percent to 5 percent. Second, Korea maintains lower tariffs for soybean products than it does for the corresponding canola products, despite the fact that these products are interchangeable and compete with each other on price. Korea also favours the use of tariff escalation, i.e. low tariffs on raw materials and higher tariffs on processed goods, as a means of protecting Korean oilseed processors. It is therefore the objective of the Canadian government to seek permanent tariff elimination for all canola products or tariff harmonization for all oilseed and oilseed products.

Tariffs on Feed Peas

Korea's tariff for feed peas is 30 percent. Tariffs for competing feed products are generally less than 5 percent (barley at 1 percent, feed wheat at 1 percent). Canada considers that the current tariff discourages the import of feed peas vis-à-vis other feed imports and is to the detriment of the Korean domestic feed industry. To allow the Korean compounding industry to have access to this alternative feed product, Canada has requested a tariff of no more than 5 percent for feed peas.

Soybean Tendering

The tendering system administered by Korea's Agricultural Fishery Marketing Corporation prevents Korean importers from accessing the high-quality, premium-priced, tofu-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. Canada considers that Korea cannot currently fully supply its soy-processing sector with the required high-quality product and that it would be to the mutual advantage of both countries to provide more options in the administration of imports.

Bottled Water

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

Seal Meat

Korea maintains an informal import prohibition on seal products through its omission from the Korean Food Code. Canada has made numerous representations to Korean authorities since 1995 to have seal meat approved for human consumption, pointing out that Canadian seals are not endangered. The issue was raised again at the June 1999 SPWG meeting but no progress was achieved. Information will be presented to Korea in an effort to document Canada's Food Code information on seal meat, as well as any available OIE information on the subject, in preparation for further discussion of the issue at the next SPWG meeting.

Beef

Canada is participating as a third-party member of a U.S./Australian led WTO challenge of Korean rules and regulations that restrict the marketing channels for imported beef to certain "import-only" stores, and recent measures that may affect the ability of end users to develop commercial relations directly with exporters. Canada presented its submission at the first meeting of the parties with the WTO panel, which was held in December 1999.

INVESTMENT AND SERVICES

Although Korea is Canada's fifth-largest export destination, the stock of Canadian direct investment in Korea remains modest. The reform of Korea's regulatory regime for foreign investment has been the focus of considerable government effort in recent years, particularly in response to the 1997 economic crisis. As a result, Canadian investment flows have shown encouraging increases. The stock of Canadian direct investment in Korea has grown 137 percent since 1993, and from \$172 million in 1997 to \$292 million in 1998. This trend appears to have continued through 1998 and 1999, as a number of Canadian firms have moved forward to take advantage of the liberalizing environment and emerging acquisition opportunities.

Korea's rule-making process, traditionally opaque and non-transparent, and chaebol domination of the Korea economy have often caused practical business problems for investors. However, significant progress has been made by Korea in implementing measures to liberalize foreign exchange and capital flow, open the capital market and reduce barriers to portfolio and direct investment. Limits on foreign investment into the local bond and money markets have been lifted, while the ceiling on foreign investment in the stock market has been eliminated. Foreign banks and securities firms can now establish local subsidiaries and enter into takeovers of Korean corporations. Restrictions on foreign ownership of land have also been eliminated.

To create a more favourable investment climate, effective November 17, 1998, the Korean government passed the new Foreign Investment Promotion Act. This act has increased the number of business sectors that are now open to foreign investment, broadened the scope of tax incentives currently available, simplified the procedures for making an investment and established foreign investment zones. With these most recent reforms, only 13 sectors remain fully closed to foreign investment and 18 partially closed. Other measures that have liberalized the investment environment include the introduction of provisions allowing foreigners to purchase 100 percent of the target company's outstanding stock without the consent of its board of directors.

In connection with the 1999 presidential state visit to Canada, a roundtable with President Kim was held for CEOs of Canadian firms with investment in Korea. Other activities included Canada's participation in the APEC Investment Mart in Seoul and in Technomart 99, a R&D partnering event.

CHINESE TAIPEI (TAIWAN)**Overview**

In 1999, Canadian goods exports to Chinese Taipei totalled \$1.08 billion. Chinese Taipei ranked fourth among Canada's export markets in the Asia Pacific region, accounting for 6.3 percent of our total exports to the region. It was Canada's seventh-largest market globally. Canada's merchandise imports from Chinese Taipei in 1999 totalled \$4.58 billion. Chinese Taipei's economy remains very dependent on trade.

It is a major exporter, as well as a major source of investment for the region, particularly to China and Southeast Asia, and it is growing as an important regional importer. This has given strong impetus to trade and market liberalization, though domestic political pressures continue to lead to protectionist measures, which affect agricultural and agri-food imports, as well as the financial services area.

WTO Accession

Canada remains an active participant in WTO-accession negotiations with Chinese Taipei. A major goal for Canada in these negotiations has been to secure improved, non-discriminatory access to this major market for Canadian goods and services. Bilateral market access talks with Chinese Taipei, which had begun five years earlier, were formally concluded on June 28, 1999. Though the talks had finished in late 1997, exclusive access granted subsequently to the United States for several meat products marked a step backward, in our view. Canada, therefore, reopened the talks, insisting that conclusion would hinge on Canada receiving comparable access for the beef and pork products affected. Such access was granted by Chinese Taipei during 1999 by means of interim MFN quotas covering these products. This facilitated the formal conclusion of our bilateral talks.

The terms agreed bilaterally will seal commitments by Chinese Taipei to liberalize access to its market, commencing the date of its accession. Chinese Taipei's undertakings in the accession negotiations include tariff elimination for WTO "zero-for-zero" sectors, including pharmaceuticals, paper and medical equipment, as well as tariff reductions for chemicals under the WTO Chemical Tariff Harmonization Agreement. As well, Chinese Taipei had already signed on to the ITA, agreeing to full tariff elimination on IT and telecommunications products. Canadian suppliers stand to gain more secure and open access for these and other industrial priorities, including plywood products. Aerospace products will benefit from accession, as Chinese Taipei has undertaken to become a signatory to the plurilateral WTO Agreement on Trade in Civil Aircraft, when it joins the WTO. Canadian suppliers' access to the Chinese Taipei market for automobiles will remain favourable as Chinese Taipei proceeds with the liberalization of its import regime in this sector.

Access conditions will also improve for a range of agricultural, agri-food and fish and seafood products. Among the gains are Canadian priorities such as grains, oilseeds, meat products and processed foods. For example, accession will mean equitable and more open market access for Canadian suppliers of canola oil and beef.

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

The multilateral negotiations related to Chinese Taipei's accession reached a final stage in 1999, focussing on the drafting of the Working Party Report and Protocol of Accession.

As part of its WTO accession, Chinese Taipei has also applied to join the WTO AGP. Canadian suppliers are seeking access to key sectors and assurances that public tendering procedures will be fair and transparent, with an independent mechanism for suppliers to challenge the consistency of procurement actions with the agreement. Our bilateral negotiations continue in this regard.

An issue of concern to the working party relates to the lack of advance consultation and notification in Chinese Taipei's procedures for introducing new legislation and regulations affecting trade. Chinese Taipei has committed to implement appropriate transparency procedures, in accordance with WTO requirements.

Beef

The long-standing discriminatory tariff treatment of some grades of Canadian high-quality beef will be gradually eliminated after Chinese Taipei joins the WTO. Currently, only certain cuts of Canada Prime and Canada AAA beef attract the preferential tariff rates that Chinese Taipei applies to all U.S. high-quality beef (USDA Prime and Choice). This situation was aggravated in mid-1999 when Chinese Taipei applied a higher tariff to imports of several types of Canada AAA beef ('thin meat'). Canada continues to press Chinese Taipei to reverse this decision.

Meat Quotas

In mid-1999, as a pre-accession concession, Chinese Taipei implemented MFN quotas on imports of several meat products that had previously been banned. These quotas were in place until January 1, 2000, the date Chinese Taipei had hoped to be admitted to the WTO. In response to pressure from Canada and others, Chinese Taipei re-established the quotas for a further six-month period, until to June 30, 2000. The quotas were announced in January 2000 and distributed to importers in February 2000.

Seed Potatoes

Following a request from the seed potato industry in the Western provinces, Canada first approached Chinese Taipei to remove its ban on imports of seed potatoes from Canada in 1993. Chinese Taipei prohibits the importation of seed potatoes from Canada because of concerns about the presence of golden nematode and potato wart in Canada. While Canada has demonstrated that its strict quarantine measures prevent the spread of golden nematode and potato wart outside Newfoundland and Vancouver Island, Chinese Taipei insists on additional survey data demonstrating that the production areas from which potatoes are shipped are free from these pests. Chinese Taipei only imports seed potatoes from Alaska, to which Canada is an exporter of the same product. Chinese Taipei's current phytosanitary measures, however, allow the importation of table potatoes from Prince Edward Island, New Brunswick and Quebec, for which Canada has requested a TRQ.

Greenhouse Vegetables

In its efforts to develop export markets, the Canadian greenhouse vegetable industry has indicated that Chinese Taipei is a priority market. Chinese Taipei will not accept tomatoes if it cannot be certified that they originate from an area free from potato late blight type A-2, to which tomatoes are susceptible. Canada maintains that certification that the fruit is free from A-2 late blight is sufficient. Peppers from Canada are banned because they are deemed to be a host for tobacco blue mould, known to have occurred in Ontario. Canada will press for recognition of an area that is free from tobacco blue mould to allow exports from British Columbia.

Softwood Lumber

Chinese Taipei is a major export market for softwood lumber, but only for the lower grades used for packaging. The market is felt to be open to increased use of wood in construction, but the opportunity is held back by the concern of financial and insurance institutions that Chinese Taipei wooden-building code, at four pages in length, is insufficiently prescriptive to provide assurance of adequate quality. With the support of Canadian industry, Canada is to press for enhancement of the code toward that used successfully in Canada or Japan.

Medical Devices

The Chinese Taipei market holds promise for exporters, but growth has been hampered by Chinese Taipei's inequitable treatment of imports from different countries. Canada's U.S. competitors enjoy access based on Chinese Taipei's recognition of U.S. quality-control regimes, while additional guarantees are required from Canadian exporters. Canadian efforts are under way to obtain equivalent recognition.

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 was 6 percent to 7 percent per year from 1993 to 1998, with similar growth expected to be reported for 1999 when final statistics are compiled. Growth for 2000 is expected to remain around the 6 percent mark. The fundamentals of the Indian economy are sound and were not affected by the financial problems in East and Southeast Asia. Measures and sanctions against India imposed after its nuclear tests have had little effect on the Indian economy, except for the non-availability of some foreign lending for infrastructure projects. The election of a substantial majority government in the 1999 general elections, the resultant political stability and the strength in business confidence indices and the capital market underscore the resurgent prospects for the Indian economy in the short to medium term. The new Government has already passed an impressive list of economic bills to further liberalize

and streamline the Indian economy. These include: the Insurance Regulatory and Development Authority Act (detailed in the section on financial services below), the Foreign Exchange Management Act, the Trade Marks Bill, the Geographical Indicators of Goods Bill, the Designs Bill and the Copyrights Bill. Total Canada-India merchandise trade for 1999 reached \$1.4 billion, with a balance of \$628 million in India's favour. Canadian investment in India is relatively modest in comparison with that of other major industrialized countries, with approved direct investment of \$229 million in 1998.

Since liberalization began, the Indian government has been steadily lowering tariff rates from a peak rate of 300 percent in 1991 to a maximum of 40 percent (with a few exceptions) in 1997-1998. However, the 1996-1997 and 1997-1998 budgets announced temporary additional duties of 2 percent and 3 percent respectively. Another 4 percent Special Additional Duty was introduced in the June 1998 budget. Canada has expressed its concern regarding these additional duties and will pursue this issue, along with other interested countries, at the WTO.

India offers significant opportunities for Canadian trade and investment, particularly in areas of traditional Canadian strength, such as telecommunications, power equipment and engineering, infrastructure development and environmental technology. India has a GDP of about US\$470 billion, and over 40 million Indian households have an annual income in excess of US\$4,000. These opportunities were the inspiration for the successful 1996 Team Canada trade mission. Led by Prime Minister Chrétien, a group of seven provincial premiers, two cabinet ministers and 300 business people worked to boost trade and investment ties with India. The growing Canada-India bilateral trade and investment ties have, since then, been facilitated by a number of organized business delegations visiting each other's territories, most notably the Confederation of Indian Industry (CII) delegation that visited Canada in August 1999 and the Canada-India Business Council (C-IBC) delegation that visited a number of Indian cities in October 1999.

Market Access Results in 1999

- Under an agreement announced January 10, 2000, quantitative restrictions (QRs) and import-licensing requirements will be lifted on 1429 agriculture, textile and consumer products. QRs on 714 tariff lines will be eliminated by April 2000, with the remainder phased out by April 2001.
- In October 1999, new telecommunications legislation was passed that will allow basic and cellular service operators to migrate from the existing system of a fixed-licence fee to a revenue-sharing regime. This will enhance market access for new entrants.

Canada's Market Access Priorities for 2000

- press India to respect its ITA commitments, particularly for telecommunications equipment;
- ensure that the accelerated phase-out of QRs on the remaining 1429 tariff lines under the recent (January 10, 2000) Indo-U.S. Agreement is also afforded to Canadian exporters, to be consistent with MFN rules;
- press India to ease existing restrictions on the import of bovine semen from Canada; and
- continue to assist India in reforming its telecommunications policies and regulations.

Telecommunications

Canadian firms continue to have difficulties in penetrating the Indian market for telecommunications goods and services. In the basic and cellular services sector, non-transparent bid methods and additional fees added after the bidding process have frustrated access to the market. However, some of the new fees for basic and cellular services have been reduced or eliminated.

High tariffs (in the 40 percent to 50 percent range) have impeded the ability of Canadian firms to sell in the Indian telecommunications market. Canada is encouraged that India has joined the ITA with a commitment to eliminate its tariffs on a wide range of IT products by 2005 at the latest.

On May 13, 1999, India removed the concessional duty for specific telecom equipment of interest to Canada and other industrialized countries, resulting in duty rates for these particular goods violating

India's ITA commitments. Concessional duties on these products, brought in the February 1999 budget, were highly beneficial to Canadian and foreign firms bidding on telecom infrastructure projects in the promising Indian market. Removal of this concession has put Canadian suppliers at a disadvantage.

India participated in the GATS basic telecommunications negotiations, essentially binding its existing regime, which provides for the government operator plus one other company in basic telecommunications; and for each region, it provides for the government operator plus two private-sector firms in cellular telecommunications. Private operators may have up to 49 percent foreign equity.

The Indian Parliament passed the Telecom Bill, 1999 on October 20, 1999. The introduction of the Telecommunications Regulatory Authority of India (TRAI) in 1997 and the appointment of a task force to develop a new telecommunications policy in India in late 1998 are positive steps in liberalizing India's telecommunications sector. Canada, through the telecom framework project funded by the Canadian International Development Agency (CIDA), with Industry Canada as the executing agency, has assisted India in establishing the TRAI and will support related work by the Department of Telecommunications in connection with spectrum management, the establishment of standards and the resolution of future directions, including the commercialization of R&D in communications technology. Canada will continue to monitor developments in India that affect Canadian companies, particularly the transparency of the licensing regime for new carriers and the tariff rates on imports of telecommunications products.

Power

India's power sector promises to be one of the fastest-growing in the world, experiencing annual growth rates in the range of 9 percent to 10 percent. India's Ministry of Power estimates that India would need an additional 90,000 MW of installed capacity in the next ten years, requiring an investment of Rs. 4 trillion (approximately \$135 billion), in order to meet the rising demand.

Despite strong domestic demand for additional power development, and many government proclamations of fast-track projects and one-stop

application processing, few private projects have been implemented in the power sector. Further delaying much-needed projects are the current regulatory regime, complicated state-level approvals (in addition to those required by the central government) and a lack of transparency in the approvals process. In 1998, the Indian government introduced a number of new policies to help move new projects forward. These included the development of central and state regulatory commissions, a new hydro policy, a policy for mega-projects and a policy on privatization of transmission and distribution, among others. Some of these reforms are already under way, and a number of states have already set up state-level regulatory commissions to complement the central regulatory commission. The Indian government decided in September 1999 that all interstate thermal power projects of over 1,000 MW and hydro-electric projects of over 500 MW would qualify for various concessions and incentives, including tax holiday and the waiver of customs duties.

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

Financial Services/Insurance

In October-November 1999, the Insurance Regulatory and Development Authority (IRDA) Act was passed by the Lower and Upper Houses of the Indian Parliament and received Presidential Assent. The act provides statutory status to insurance regulators and allows foreign equity in domestic private insurance companies to a maximum of 26 percent of paid-up capital. The act also opens up the industry to private sector participation by amending the Insurance Act of 1938 and the “exclusive privilege” granted to the General Insurance Corporation (GIC) of India (GIC Act of 1956) and Life Insurance Corporation (LIC) of India (LIC Act of 1972). The Indian partner, initially holding 74 percent of the joint venture, would be required to reduce its stake to 26 percent within ten years. The act restrains new companies from investing any funds abroad and requires that all insurance companies, with or without foreign equity participation, to carry out some business in rural areas.

Industry observers, including Canadian insurance companies with a presence in India’s financial services sector, believe that the Government is trying to open up the Indian insurance market to foreign participation and competition and believe that these goals are likely to be achieved by October 2000. They do not, however, rule out a readjustment of the equity holdings of both partners in the longer term. The Canadian government will continue to press for further liberalization in the insurance sector and in other parts of the financial services sector, building on recent Canadian successes in India’s asset management subsector.

Agricultural and Manufactured Goods

India maintains a number of restrictions related to balance-of-payments (“negative list”), affecting both agricultural and manufactured goods. The list includes banned items (for example, offal and animal tallow) and restricted items that require an import licence. A large number of items were removed from this list in the 1997 budget. In 1998, the first tranche of items from the bilateral agreements was removed from the import restrictions, and later in 1998, a number of other agricultural goods were freed,

including many oil seeds. The entire 14.4 percent customs duty on the import of peas/pulses was removed effective November 23, 1998. The special additional duty (SAD) of 4 percent on imports of edible oils was also withdrawn.

Subsequently, the 1999 central budget removed about 1,000 consumer products from the restricted list and put those on the open general list (OGL). In the agri-food sector, up to 50 percent of the production of export-oriented units (EOUs) are allowed to be sold in the domestic market, as compared to a 20-percent limit in other sectors, thus encouraging foreign investment in the food sector.

As announced on January 10, 2000, the Government of India has agreed to lift QRs and import-licensing requirements on a total of 1429 agriculture, textile and consumer products. The agreement was pursuant to the decision of August 23, 1999 of the WTO Appellate Body in which the United States had successfully contested the WTO-consistency of the QRs maintained by India on the grounds of balance of payments (BoP) problems. A total of 714 of the tariff lines will be eliminated by April 2000, with the remaining 715 to be phased out by April 2001. The benefits of eliminating these restrictions should accrue to all of India’s trading partners, including Canada, since under WTO rules the results will have to be implemented on an MFN basis. Canada is monitoring the process.

Since 1997, Canadian government officials have held discussions with the Indian government on the issue of access for Canadian live cattle, embryos and bovine semen. To date no resolution of Canadian concerns has been achieved; however, we continue to pursue the issue as a priority.

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

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 regularly growing rapidly in recent years. Total FDI inflows into India have increased dramatically from less than \$300 million in 1992-1993 to more than \$4.2 billion in 1997-1998. Canadian direct investment in India is still modest, but increased to \$226 million in 1998 from \$119 million in 1997.

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

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

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

Negotiations between Canada and India on a FIPA are continuing.

SOUTHEAST ASIA

The Asian financial crisis has had a significant impact on all ten economies of Southeast Asia, and will affect our trading relationship in the short to medium term. As a grouping, in 1999, Southeast Asia accounted for \$1.91 billion of Canadian merchandise exports (a 4.6 percent decrease from 1998) and \$6.96 billion of imports (a 6.4 percent increase). The Asian Free Trade Agreement (AFTA) is evolving slowly and will eventually offer new opportunities in the region. Our goal is to position Canadian business for the economic revival of a highly competitive Southeast Asia over the next two to four years. The ten countries of Southeast Asia are Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Brunei, Burma (Myanmar), Cambodia and Laos.

INDONESIA

Overview

In 1999, the value of Canada's merchandise exports to Indonesia was \$528 million, and the total value of our imports \$865 million. With the recent formation of a new Government, Indonesia is expected to continue liberalization of its trade relations and to institute the International Monetary Fund's (IMF) economic reform program.

Market Access Results in 1999

- Canada maintained market share in wheat sales, despite the predatory subsidy policies of competing economies, particularly those of the United States.
- The Canadian Embassy continued to press Indonesia customs authorities to improve transparency.
- The Indonesian government implemented new regulations permitting greater foreign ownership of commercial banks. Foreign investors may now own up to 99 percent of a bank's shares.
- Non-food agricultural tariffs have been reduced.

Canada's Market Access Priorities for 2000

- maintain equitable access for Canadian wheat sales, especially in the face of aggressive U.S. wheat competition, market disruption caused by U.S. wheat aid and subsidised EU flour entering the Indonesian market;
- continue to encourage the Indonesian government to ensure that Canadian exporters do not face increased costs due to improper delays or unnecessary fees at Indonesian ports. Multilateral trade facilitation efforts (especially within APEC) can be of crucial assistance in this regard;
- closely monitor Indonesia's follow-through on commitments it has made under the IMF Program of Economic and Financial Reform and Restructuring; and
- monitor the development of AFTA negotiations and encourage ASEAN members to allow greater transparency, particularly regarding rules of origin.

Investment

Canadian direct investment in Indonesia fell slightly from \$2.0 billion in 1997 to \$1.9 billion in 1998. Indonesia has actively looked to foreign investment to assist in economic recovery from the recent economic crisis. Several new regulations were introduced in 1998 and 1999 to ease the entry of foreign firms and capital into the country and to ease the impact of the downturn in investment inflows.

Notwithstanding these changes, 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. Efforts have been made by way of a new laws on bankruptcy, anti-monopoly and fiduciary security, but a proper court system is necessary for implementation. Canadian firms continue to face time-consuming procedures and delays in obtaining approvals for licenses and permits required to implement their investment plans. A limited number of sectors are closed to all foreign investment, including freshwater fishing, forestry, public transportation, broadcasting, film and medical clinics.

Indonesia will implement a new law on regional autonomy in May of 2001. This law is a bold attempt by the Indonesian government to decentralize all aspects of the economy except monetary, defence, foreign policy and judicial matters. As a result, investment approvals will no longer be dealt with at the national level, and therefore a number of questions have been raised as to the capacity of regional governments to deal with these matters. Decentralization may cause some initial confusion, but eventually foreign and domestic companies should find investments much easier to make.

The Canadian government has long supported investment to Indonesia by having advisors inside the Ministry of Investment/Investment Coordinating Board and other locations under the auspices of the Canada-Indonesia Business Development Office (CIBDO). These and other Canadian investment advisors in Indonesia are currently focussing their efforts on encouraging investment by the Canadian manufacturing sector that is consistent with Indonesia's interests in diversifying its economy away from a reliance on oil and gas. Canadian investment is expected to once again increase as stability returns to the country and obstacles to investment security are decreased.

THAILAND

Overview

Until recently, Thailand was one of the fastest-growing economies in the world. In July 1997, however, the economic crisis resulted in a 50-percent decline in the value of the Thai baht against the U.S. dollar, a change of government and an IMF rescue package of US\$17.2 billion. These happenings were initially accompanied by a wide array of spending cuts, which were relaxed and then replaced with a substantial fiscal stimulus package aimed at getting the economy growing again. The economy contracted by over 9 percent in 1998, but is recovering, with an estimated 3-percent growth in 1999. Although Thailand still faces serious challenges, notably related to the very precarious situation of its financial sector, its medium- to long-term prospects remain positive, particularly with additional reform legislation.

In 1999, Canadian merchandise exports totalled \$292 million (down 2.7 percent from 1998), while Thai exports were \$1.51 billion (up 18.5 percent) to Canada. The 160-member Thai-Canadian Chamber of Commerce in Bangkok attests to the strong bilateral commercial interest.

Market Access Results in 1999

■ In October 1999, the Thai Parliament adopted a revised Alien Business Law, significantly easing restrictions on foreign companies doing business in Thailand by establishing three tier classifications: foreign investment is banned from industries on List A, which includes all media; investment in List B industries requires Cabinet approval, provided that Thais hold a minimum of 40 percent of the capital in the company and 40-percent membership on the board of directors (List B includes businesses in culture, arts, the environment and/or natural resources); List C industries require approval from the Ministry of Commerce based upon considerations for national security, tradition, conservation of resources and protection of the environment (List C includes accounting and legal services and other businesses in which Thais do not directly compete with foreigners).

■ In August 1999, Thailand, in response to representation by Canada, reduced the tariff on canola meal from 10 percent to 5 percent, thus making it equivalent to the tariff for soya meal imported from the United States. In addition, Thailand reduced the tariff for alfalfa from a prohibitive 30 percent to 5 percent.

Canada's Market Access Priorities for 2000

- seek a reduction in the tariff for feed peas to a level comparable to other feed ingredients;
- seek to address the limit on foreign equity investment in joint ventures at 49 percent;
- fast-track approval for establishing regional headquarters in Bangkok;
- work to eliminate countertrade requirements on government-procurement projects over baht 500 million (\$25 million), which create transparency problems;
- ensure full implementation and enforcement of intellectual property rules in accordance with Thailand's WTO obligations;
- seek the deletion of local content rules on autos and parts, which prevent foreign parts suppliers from fully participating in the auto industry; and
- seek the reduction of tariffs on higher value-added paper products and continued high tariffs on beer and spirits.

VIETNAM

Overview

Canada's exports to Vietnam in 1999 totalled some \$47 million (down 13.2 percent from 1998). These numbers are quite modest because Vietnam's GDP is only US\$300 per capita, and Vietnam is dependent on large amounts of aid (US\$2.4 billion in 1998) from the international donor community. In addition, Vietnam has not yet reformed its market to allow increased trade and FDI. Vietnam's trade-policy regime is being examined by the WTO working party that oversees their accession process. However, the review process only began in 1998, because Vietnam's initial memorandum needed substantial revision following its October 1996 circulation. Two working party meetings have been

held, allowing Canada to emphasize the need for transparency. The Vietnamese accession will be a long and arduous process, as Vietnam's legal framework contradicts many of its future WTO obligations. Canada will continue to work to ensure that Vietnam meets its obligations under APEC and, in the future, the WTO.

Market Access Results in 1999

- In July 1999, a trade agreement was reached between Vietnam and the United States to normalize trade relations under what was formerly known as MFN status. However, it is not at all clear that this agreement will be ratified by either country in the short term. This is unfortunate, as the agreement is seen as a key step toward Vietnam's eventual accession to the WTO.
- In August 1999, Chinfon-Manulife Insurance Company launched operations in Vietnam. This is a joint venture between Manulife Financial of Toronto and a Taiwanese conglomerate, and is the first investment licence to be granted by Vietnam to a foreign-owned life insurance business. It sends a positive sign to the international community of the opening up of the Vietnamese financial services market and is noteworthy for Canada since a Canadian firm was the first to be so licensed.

Canada's Market Access Priorities for 2000

- advocate (including through APEC and through the accession process under the WTO) maximum Vietnamese efforts to open the market to the free flow of goods and services and to develop a more accommodating foreign investment regime.

MALAYSIA

Overview

In 1999, Canadian merchandise exports to Malaysia declined 13.7 percent to \$409 million, while imports increased 3 percent to \$2.06 billion. Malaysia has a relatively open, market-oriented economy and Canadian exporters have not faced major market access barriers. The Malaysian government has announced a temporary relaxing of foreign-ownership restrictions, a "special deal" whereby there are no restrictions on foreign ownership for companies investing before December 31, 1999. Companies previously had to export over 80 percent of their

product in order to have 100-percent foreign ownership; otherwise, there were requirements for 50-percent Malaysian ownership, 30 percent of which had to be Bumiputra (Malays).

In September 1998, in a significant step away from free market policies, Malaysia imposed exchange control measures. Although these measures were aimed mainly at securities traders, they carry a regulatory regime that will affect exporters, importers, other business people and travellers. On September 1, 1999 these controls were significantly relaxed, and while some exodus of capital followed, it was relatively modest. Following this, the Malaysian government attempted to simplify the withholding tax regime applicable to the repatriation of funds from Malaysia to encourage new foreign investment prior to national elections on November 29, 1999, which saw the Government returned to power with a majority. Under the new regime, it is reported that investment that has remained in the country for more than one year may be repatriated without tax, while investment funds removed before one year would be subject to a 10-percent withholding tax on the profits.

The Malaysian government wants to consolidate the banking industry by reducing the number of financial institutions in the country from 52 to 6. The plan is being implemented not by legislation, but by the Central Bank on a "volunteer" basis through encouragement to smaller banks to merge with selected "anchor" banks. Despite understandable problems with compatibility and proposed limitations on the number of institutions, there is optimism that the central bank, with its leverage over the debt-laden banks, will be able to significantly streamline the sector. The banking industry, in return for subjecting itself to the restructuring, is expected to receive significant debt relief from the government. Other fundamental reforms of the banking system to ensure more professional loan management are still under discussion.

The Malaysian economy is well into recovery, with GDP growth for 1999 expected to be near 5 percent when final statistics are released (up from -7.5 percent growth in 1998). Growth for 2000 is also expected to be near 5 percent. While this growth is driven mainly by export resurgence and public spending, the Government has indicated that its next budget will provide for consumer spending through tax relief and incentives to encourage consumer lending.

Canada's Market Access Priorities for 2000

- monitor both intellectual property (IP) legislation, newly implemented to assist in the development of the Multimedia Super Corridor (problems still exist in terms of enforcement of copyright and IP laws), and foreign-exchange control measures, implemented in September 1998, for their impact on Canadian companies;
- advocate restructuring and recapitalization of Malaysian financial institutions, which may open up opportunities for Canadian financial institutions; and
- press for an end to the new Buy Malaysian policies of the Government.

SINGAPORE

Overview

With one of the world's freest economies, Singapore presents few barriers to Canadian exporters. In 1999, Canadian exports of goods to Singapore were down 10 percent to \$339 million, and imports from Singapore were up 6.2 percent to \$1.25 billion. Singapore continues to offer significant opportunities for Canadian exports of goods, services and technologies. Already the region's premier transportation hub, Singapore is investing heavily in positioning itself as a telecommunications and financial hub, and is devoting a large part of its budget to health and education.

Canada's Market Access Priorities for 2000

- encourage joint ventures with Singaporean firms in the information, communications and manufacturing technology sectors; and
- consider renewing negotiations for air services links with Singapore, with a view to expanding business and tourism travel between our countries (Canadian airline industry developments permitting).

Investment

Inward FDI to Canada from Singapore increased substantially from a total of \$213 million in 1997 to \$471 million in 1998. Canadian direct investment in Singapore remained relatively stable over the same time period at \$2.24 billion in 1997 and \$2.20 billion in 1998. Most of the Canadian direct investment in Singapore is in the form of regional offices, primarily in services sectors, such as banking and other finan-

cial services. Singapore has set up a US\$1-billion technology fund, which private sector firms can access for the development of new products, as long as 30 percent of the company ownership is Singaporean.

THE PHILIPPINES

Overview

In 1999, Canadian merchandise trade with the Philippines recovered somewhat from 1998's downturn, following the Asia economic crisis, with exports increasing 15.6 percent to \$287 million. Imports were up 9 percent, totalling \$1.04 billion. The peso has stabilized; GDP growth is forecast to be between 1 percent and 3 percent for 1999; inflation is expected to decline to 7.5 percent by the end of the year.

Over the course of recent years, the Philippines has become a market for a wide range of Canadian goods and services, including agri-food items, machinery and equipment, fertilizers and other commodity products, financial, engineering and other business and professional services. During the administration of President Ramos (which ended mid-year 1998), a program of deliberate and widespread trade and economic liberalization was pursued. This is being continued, perhaps less vigorously, under the administration of President Estrada.

Market Access Results in 1999

- The Estrada administration demonstrated a commitment to economic liberalization by lowering tariff barriers, eliminating non-tariff barriers and deregulating key sectors, such as telecommunications.

Canada's Market Access Priorities for 2000

- urge continued commitment to economic liberalization, including enactment of stated plans to allow foreign investment in the retail sector and privatization of the energy sector;
- reduction of new tariffs imposed as protection for certain industries in the wake of the Asian economic crisis; and
- move forward on specific questions concerning IP rights, duty administration, customs valuations and government procurement in the Philippines.



7. *Opening Doors to Other Key Markets*

<http://www.dfait-maeci.gc.ca/tna-nac>

AUSTRALIA

Overview

Australian imports from Canada were down 3.7 percent to \$915 million in 1999, while Canadian imports from Australia decreased by 6.5 percent to \$1.21 billion, for a two-way total of \$2.13 billion. Canadian sales successes in Australia continue to be oriented toward fully manufactured goods, a pattern closer to that of the United States than of any other Asia Pacific market.

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 MFN rates, including substantial amounts at duty-free rates.

As of July 1, 1998, most MFN applied rates were at, or below, 5 percent. However, some tariff peaks reaching into the 25 percent to 30 percent range remain, such as passenger motor vehicles, textiles, clothing and footwear. Some important non-tariff measures have an impact on market access, especially the tough sanitary and phytosanitary requirements imposed by the Australian Quarantine and Inspection Service. Most fisheries, meat, livestock, fruit, vegetable and food product imports face restrictive measures, ranging from prior approval and lengthy time delays in quarantine (e.g. Canadian dairy and beef breeding stock and ostriches) to outright bans (such as previous bans on fresh, chilled and frozen salmon). 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 and Australia have also announced a joint statement on global e-commerce that articulates a shared vision and a program of cooperation for the growth of global electronic commerce.

Market Access Results in 1999

- Partial access to the Australian market for uncooked salmon products has been agreed as an interim measure while a WTO ruling is implemented.

IMPROVING ACCESS FOR TRADE IN GOODS

Salmon

Since 1975, Australia has prohibited the importation of fresh, chilled and frozen salmon due to alleged concerns about fish health. Canada's position is that there is no scientific basis for the ban. In June 1998, a WTO dispute settlement panel found that the Australian ban is not based on a risk assessment, is maintained without scientific evidence and reflects an arbitrary and unjustified distinction in levels of protection that results in discrimination of a disguised restriction on trade, in violation of the WTO SPS Agreement. In October 1998, the Appellate Body confirmed the panel's rulings. Following arbitration, Australia was given until July 6, 1999, to implement the rulings.

Australia did not meet the July 6 deadline, but announced, on July 19, new fish import policies, which they claim constitute implementation of the WTO rulings. Canada considers the new Australian fish import policies to be unnecessarily trade-restrictive and not in conformity with Australia's WTO obligations. A WTO panel was set up to determine whether the fish import policies announced on July 19 were consistent with the SPS Agreement.

In parallel to the WTO process and in an effort to facilitate trade wherever possible, technical discussions took place between Canada and Australia following Australia's announcement of its new fish-import policies. In October 1999, Canada informed exporters that an agreement had been reached on an interim fish-health certificate allowing access for Canadian wild-caught pacific salmon, subject

to certain product form requirements. In December 1999, the interim fish-health certificate was revised to include Canadian farmed salmon, subject to the same product form requirements. Australia requires that products be in "consumer-ready form", defined as steaks of less than 450 g; skinless fillets of any weight; skin-on fillets of less than 450 g; eviscerated, headless fish of less than 450 g; or products further processed. Products not in consumer-ready form must be further processed in an Australian facility approved by the Australian Quarantine and Inspection Service. Canada has made it clear to Australia that the interim fish-health certificate was without prejudice to Canada's position before the WTO and that the Australian fish-import requirements continue to be unnecessarily trade restrictive.

On January 31, 2000, a WTO panel ruled that Australia's new fish import policies do not comply with its WTO obligations. Canada held discussions with Australia in an attempt to find a mutually acceptable solution that would improve market access for Canadian exporters. Unfortunately, the discussions were not successful. Canada will be allowed to retaliate against Australia following an arbitration over the amount of retaliation.

Current State of GM Foods

Australia and New Zealand continue to move toward mandatory labelling of GM foods. The Australia New Zealand Food Authority (ANZFA) has published a proposed standard for labelling of GM foods, which is currently undergoing public comments. As this requirement may affect Canadian exports, the situation will be monitored closely to protect Canadian trade interests.

ISRAEL

Three years into the Canada-Israel Free Trade Agreement (CIFTA), bilateral trade between the two countries is increasing steadily. Two-way trade in goods expanded to \$707 million in 1999, an increase of 12.1 percent from 1998. Canadian merchandise exports to Israel increased 23.6 percent over 1998 to \$265 million. Canadian firms continue to make strong gains in such priority sectors as telecommunications, transportation, agri-food, construction equipment and pulp and paper. Telecommunications, in particular, has seen increased investment activity by Canadian firms.

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

The most significant factors in increased trade between Canada and Israel continue to be the absence of virtually all tariffs on industrial products and the reduction of tariffs on many agriculture and agri-food products. As provided for under the CIFTA, Canada and Israel continue to engage in discussions (three meetings were held in 1999 alone) to further liberalize bilateral trade in agriculture and agri-food products. Canadian producers and exporters have advised the Government of the following priority areas in which Canada should seek to improve access to the Israeli market: fish; prepared frozen foods; and fresh and frozen fruit and vegetables.

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 will improve market access and customs procedures while supporting emerging industries in this market.

Advances in the Middle East Peace Process will simplify the movement of goods in and out of the West Bank and Gaza Strip. The opening of the Gaza International Airport and the safe-passage route will ease importers' access to the Palestinian Territories and to other Arab neighbours.

SAUDI ARABIA

Multilateral negotiations regarding Saudi Arabia's accession to the WTO began in May 1996. Canada's underlying objective in both the bilateral and multilateral negotiations is to secure reform and market access commitments that are commensurate with Saudi Arabia's role in global trade and investment and its importance as Canada's largest export market in the Middle East. In 1999, Canada's merchandise exports totalled \$273 million, a decrease of 10.4 percent from 1998. Canadian FDI in Saudi Arabia is \$6 million, and investment potential is high given Saudi Arabia's announcement of new investment requirements in the area of power generation/transmission (\$160 billion over the next 25 years), telecommunications (\$8 billion over the next ten years) and natural gas (\$5.5 billion over the next five years). The newly created Supreme Economic Council has been entrusted with a clear mandate to introduce attractive foreign investment regulations, eliminate unnecessary government expenditures, find new sources of government revenue and reduce government bureaucracy.

The WTO working party on Saudi Arabia's accession has made significant progress in its examination of Saudi Arabia's foreign trade regime and is now beginning to shift its focus to setting out the detailed terms of the accession. The sixth working party meeting, which was held in September 1999, focussed on issues such as technical barriers to trade, import licensing, customs valuation and IP production. Members stressed the importance of Saudi Arabia providing copies of draft regulations and legislation in these areas.

Both bilateral and working party negotiations will continue in 2000. While Saudi Arabia has significantly improved its market access offers, Canada will continue to press in the bilateral negotiations for lower tariff rates on key agricultural and industrial exports, such as grains, fish, wood products, paper and medical equipment. Canada is also seeking Saudi Arabian acceptance of other zero-for-zero agreements, the ITA and the Pharmaceutical Agreement; full binding of its tariffs; and membership in the AGP. On services, Canada is seeking more open and predictable access for its services providers in such key sectors as telecommunications, professional

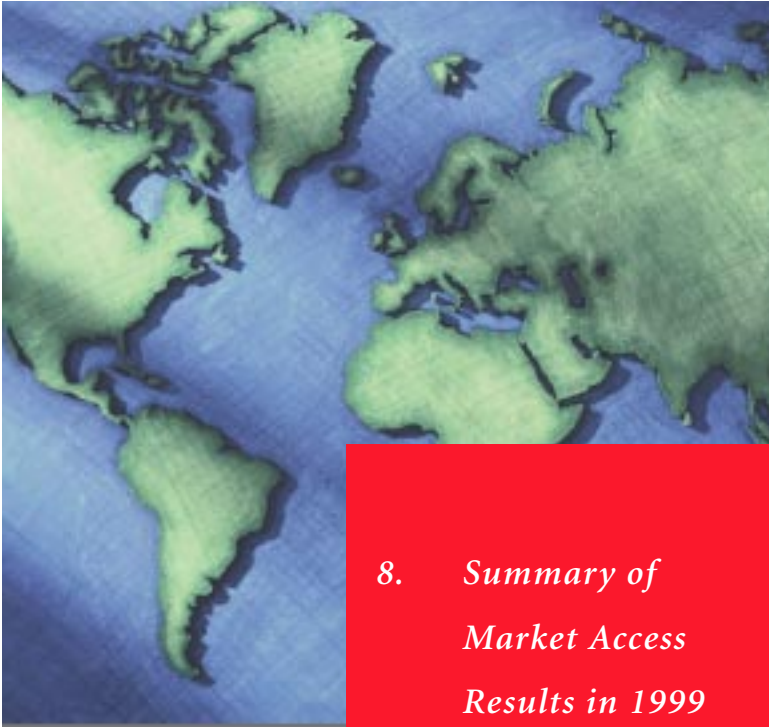
services, a broad range of financial services and other business services. In terms of horizontal services commitments, Canada would like to see improvements in Saudi Arabia's services offerings, regarding the types and level of foreign commercial presence permitted and people's ability to enter Saudi Arabia on a temporary basis to provide services, either as individuals or as representatives of Canadian services firms.

SOUTH AFRICA

South Africa remains Canada's top trading partner in Sub-Saharan Africa. In 1999, Canadian merchandise exports to that market totalled \$235 million, 24.2 percent below the 1998 level. Canada has extended the General Preferential Tariff to South Africa since 1994. In 1999, Canada imported \$487 million from South Africa. This represents a decrease of 5.2 percent over 1998. Two-way investment remains modest, but Canadian direct investment in South Africa reached over \$400 million in 1998, increasing by a further \$520 million in the first nine months of 1999. Inward investment from South Africa has also risen in recent months to over \$350 million, directed mostly at mining operations.

The TICA concluded in September 1998 provides a framework for enhanced dialogue on bilateral and multilateral trade and investment matters. It establishes a Consultative Group, led at the level of senior officials, which will meet every 18 months. The Consultative Group will review trade and investment opportunities and address market access difficulties that may be raised by either party. The TICA also establishes a framework for further training of South African trade-policy specialists. The TICA consultations will provide a forum in which to enhance cooperation on multilateral issues and learn first-hand about developments that could affect Canadian trade and investment interests in South Africa. These consultations are even more valuable given the resumption of WTO negotiations on agriculture and services and South Africa's ongoing trade talks with the EU and neighbours in the Southern African Development Community.

Canada has also signed a FIPA with South Africa. Discussions are ongoing regarding the entry into force of this agreement.



8. Summary of Market Access Results in 1999

<http://www.dfait-maeci.gc.ca/tna-nac>

THE WTO

- New negotiations were launched in agriculture and services aimed at achieving progressively higher levels of liberalization.
- Accession negotiations were concluded between WTO Members and three countries — Latvia, Estonia and Jordan — bringing the WTO membership to 136.
- Canada submitted a formal proposal for the establishment of a working party on biotechnology.
- Canada and the other members of the WTO Agreement to Eliminate Duties on Specified Pharmaceutical Products implemented the third tranche of tariff cuts associated with this agreement. This phase included 639 additional products, including inputs.

UNITED STATES

- The Consultative Committee on Agriculture began operation in 1999 to bring concerns and differences forward for resolution before they become serious bilateral irritants. The committee also involves provinces and states on a more systematic basis.
- The movement of feeder cattle into Canada was facilitated by expanding animal health approvals for cattle from states that meet certain animal health criteria.
- Regulations have been implemented that require a Canadian export permit for access to its tariff rate quota for Canada on sugar-containing products.
- Michigan amended its Single Business Tax (SBT) legislation, significantly reducing its impact on access for Canadian companies. The SBT, currently 2.2 percent, will be phased out at 0.1 percent per year over a 23-year period.
- An agreement-in-principle was reached on the main elements required to resolve problems resulting from changes to the U.S. International Trade in Arms Regulations (ITARs).
- As a result of reviews of 15 long-standing anti-dumping and countervailing duty orders, seven were revoked.

- Anti-dumping and countervailing duty cases against live cattle concluded in the fall of 1999 with neither resulting in permanent additional duties on Canadian cattle. In the anti-dumping case, the International Trade Commission (ITC) found no injury or threat of injury in its final determination; and in the countervailing duty case, the Department of Commerce found that subsidies were below *de minimis* levels and so were not countervailable.
- An anti-dumping investigation of imports of stainless steel wire did not result in the application of additional duties to imports from Canada.
- Two safeguard investigations involving imports of carbon-steel wire rod and carbon-steel line pipe concluded that imports from Canada were not injuring U.S. industry.

MEXICO

- Canada and Mexico signed a satellite services agreement to facilitate the provision of services via commercial satellites licensed by the two countries.
- Canada and Mexico signed a Memorandum of Understanding (MOU) on the acceptance of test data to ensure that telecommunications and IT products meet all necessary safety standards.
- New opportunities for air services between the two countries were created as a result of an agreement on code-sharing that has been effectively implemented.
- A MOU on Cooperation in Food Safety and Inspection and Animal and Plant Health was signed in September 1999 to identify and resolve issues related to bilateral trade in agriculture and food products.

- The Fruit and Vegetable Dispute Resolution Corporation was incorporated in November 1999. This voluntary, industry-based, tri-national dispute settlement mechanism focuses on private commercial disputes involving trade in fruits and vegetables within and among the NAFTA countries.

FREE TRADE AREA OF THE AMERICAS

- The Administrative Secretariat for the negotiations was established in Miami under the directorship of a Canadian.
- Progress was achieved on the work programs for the nine FTAA negotiating groups and three other bodies addressing the cross-cutting issues of e-commerce, civil society engagement and the participation of smaller economies.
- In Toronto, at a meeting of the 34 hemispheric trade ministers on November 3-4, 1999, ministers: reviewed the progress of the negotiations; adopted a substantive package of business-facilitation measures; agreed on a statement directed at the elimination of agricultural export subsidies; instructed negotiators to develop a draft text of the FTAA Agreement by April 2001; and agreed on a renewed mandate for the FTAA Civil Society Committee.

CHILE

- On January 1, 2000, the Convention on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (DTA) came into effect.
- On January 1, 2000, an agreement to accelerate the elimination of tariffs on a selection of products came into effect.
- In May 1999, two MOUs between the CFIA and Chilean Agriculture and Livestock Service on cooperation and the exportation of Canadian pork to Chile were signed.
- Chile lowered its visa processing fee from US\$650 to US\$100.
- Chile continued to suspend the encaje.

EUROPEAN UNION

- In April 1999, the EU dehydrated alfalfa industry imposed a voluntary ban on sales of dehydrated alfalfa to Japan, thus reducing the market disruption that had been occurring in Japan as a result of low-priced, subsidized EU alfalfa.
- In April 1999, the EU opened a single year 4,000-tonne TRQ for cooked and peeled shrimp.
- In November 1999, fisheries ministers from Member States agreed to renew the TRQ for cooked and peeled shrimp for a further three years and increase the quantity to 5,000 tonnes per year.
- In June 1999, Canadian and EU authorities signed an agreement permitting information exchange and cooperation in the area of competition policy and law.
- In September 1999, the EU reduced the gap between the export subsidy levels granted for barley and for malt.
- In September 1999, the EU Standing Plant Health Committee agreed to a multi-year derogation which will allow for the importation of Canadian seed potatoes until March 31, 2002.
- In November and December 1999, explanatory discussions were held on the possible scope of a wine and spirits agreement, which would provide improved market access for Canadian exporters in these areas.
- In December 1999, Canada and the EU announced a Joint Statement on Electronic Commerce in the Information Society, which recognized the potential global benefits of e-commerce and declared the objective of constructing an enabling global environment that maximizes social potential for citizens.

APEC

- Developed an agreement on APEC principles to enhance competition policy and regulatory reform.
- Established a MRA on conformity assessment of electrical and electronic equipment.

- Completed an APEC directory on professional services.
- Developed an APEC website on Y2K for information exchange and preparedness tool kits.
- Completed a study on the development of an APEC food system.
- Published a study on e-commerce adoption by SMEs in APEC Member economies.
- Supported eight specific steps to take the region closer to an open market in air services.
- Published International Commercial Disputes: a Guide to Arbitration and Dispute Resolution in APEC Member Economies, 1999.
- Published Competition Law for Developing Countries.
- Updated the hardcopy and internet versions of the APEC Guidebook on Investment Regimes.

JAPAN

- Japan revised the Japan Agricultural Standards (JAS) Law allowing foreign organizations to obtain Registered Certification Organization (RCO) and Registered Grading Organization (RGO) status.
- Japan approved the import of all varieties of Canadian tomatoes and agreed to discontinue variety-specific testing for Canadian tomatoes.
- Substantial reform, deregulation and restructuring of Japan's financial services sector resulted in Canada's largest-ever single investment in Japan.
- A new JAS product standard improved access conditions for Canadian plywood.
- Japan moved forward with replacing the system of building product testing and approval based on section 38 of the Building Standards Law toward the new system of foreign recognized evaluation bodies and recognized approval bodies.
- Japan continues to move toward increased adoption of international (ISO) standards for building products.
- Japan discontinued the Dairy Genetics Subsidy Program, which will improve access for Canadian bovine semen.

KOREA

- In July 1999, Korea and Canada signed the Canada-Korea Telecommunications Equipment Agreement that puts Canadian suppliers of telecommunications equipment on an equal footing with their U.S. and European competitors.

INDIA

- Under an agreement announced January 10, 2000, quantitative restrictions (QRs) and import-licensing requirements will be lifted on 1429 agriculture, textile and consumer products. QRs on 714 tariff lines will be eliminated by April 2000, with the remainder phased out by April 2001.
- In October 1999, new telecommunications legislation was passed that will allow basic and cellular service operators to migrate from the existing system of a fixed-licence fee to a revenue-sharing regime. This will enhance market access for new entrants.

INDONESIA

- Canada maintained market share in wheat sales, despite the predatory subsidy policies of competing economies, particularly those of the United States.
- The Canadian Embassy continued to press Indonesia customs authorities to improve transparency.
- The Indonesian government implemented new regulations permitting greater foreign ownership of commercial banks. Foreign investors may now own up to 99 percent of a bank's shares.
- Non-food agricultural tariffs have been reduced.

THAILAND

- In October 1999, the Thai Parliament adopted a revised Alien Business Law, significantly easing restrictions on foreign companies doing business in Thailand.
- In August 1999, Thailand reduced the tariff on canola meal from 10 percent to 5 percent, making it equivalent to the tariff for soya meal.
- Thailand reduced the tariff for alfalfa from a prohibitive 30 percent to 5 percent.

VIETNAM

- In August 1999, Chinfon-Manulife Insurance Company launched operations in Vietnam. This joint venture between Manulife Financial of Toronto and a Taiwanese conglomerate is the first investment licence to be granted by Vietnam to a foreign owned life insurance business.

THE PHILIPPINES

- The Estrada administration demonstrated a commitment to economic liberalization by lowering tariff barriers, eliminating non-tariff barriers and deregulating key sectors, such as telecommunications.

AUSTRALIA

- Partial access to the Australian market for uncooked salmon products has been agreed as an interim measure while a WTO ruling is implemented.



9. Glossary of Terms

<http://www.dfait-maeci.gc.ca/tna-nac>

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

Applied Tariffs: An applied tariff is the rate of duty actually in effect at the border.

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

APEC: Asia Pacific Economic Cooperation forum. APEC comprises 21 countries around the Pacific Rim that seek further Asia Pacific economic cooperation.

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

Built-in Agenda: Refers to a set of activities to be undertaken in the WTO at different times in the future, including reviews and further negotiations, which are already inscribed in the various agreements annexed to the WTO Agreement, plus a series of activities that originate in ministerial decisions or declarations adopted along with the Final Act of the Uruguay Round at the Marrakesh Ministerial Meeting in April 1994.

Cairns Group: A coalition of fifteen agricultural exporting countries that develops proposals on agriculture during the Uruguay Round.

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.

CCFTA: Canada-Chile Free Trade Agreement. Implemented July 5, 1997.

CIBS: *Canada’s International Business Strategy.* A blueprint consisting of a series of international business strategies spanning 27 key industry sectors. Created to ensure Government international strategies and initiatives reflect the real needs of Canadian industry.

CIFTA: Canada-Israel Free Trade Agreement. Implemented January 1, 1997.

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

Countervailing Duties (CVD): Additional duties imposed by the importing country to offset Government subsidies in the exporting country, when the subsidized imports cause material injury to domestic industry in the importing country.

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

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

EFTA: European Free Trade Association. When founded via the Stockholm Convention in May 1960, there were 7 members. Since its foundation the composition changed as new members joined and others acceded to the EU. Currently, there are four members: Iceland, Norway, Switzerland, and Liechtenstein.

Expropriation: The seizure of private property by a foreign Government without just or reasonable compensation.

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 percent or more of the controlling shares of a foreign enterprise makes a direct investment.

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

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

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.

GATT: General Agreement on Tariffs and Trade. Since 1947, the multilateral institution overseeing the global trading system. Superseded by the WTO in January 1995.

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

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

Intellectual Property: A collective term used to refer to new ideas, inventions, designs, writings, films, etc. and protected by copyright, patents, trademarks, etc.

ITA: Information Technology Agreement. A WTO-based agreement endorsed by several Members that calls for the gradual elimination of most-favoured-nation tariffs on many information technology and telecommunication products.

Liberalization: Reductions in tariff and other measures that restrict world trade, unilaterally, bilaterally or multilaterally.

MFN: Most-favoured-nation treatment (Article I of the GATT 1994) requiring countries not to discriminate between goods on the basis of country of origin or destination.

NAFTA: North American Free Trade Agreement, involving Canada, the United States and Mexico. Implemented January 1, 1994.

Non-Tariff Barriers (Measures): Government measures or policies other than tariffs which restrict or distort international trade. Examples include import quotas, discriminatory government procurement practices, measures to protect intellectual property. Such measures have become relatively more conspicuous impediments to trade as tariffs have been reduced during the period since World War II.

OECD: Organization for Economic Cooperation and Development. Paris-based organization of industrialized countries responsible for study of and cooperation on broad range of economic, trade, scientific and educational issues.

Osaka Action Agenda: Adopted in 1995, the Osaka Action Agenda is the framework for implementing the Leaders' Declaration (adopted in Bogor, Indonesia, 1994) that APEC member economies would achieve the free and open trade within the region by 2010/2020.

Quota: Explicit limit on the physical amounts of particular products which can be imported or exported during a specified time period, usually measured by volume but sometimes by value. The quota may be applied on a "selective" basis, with varying limits set according to the country of origin, or on a global basis which only specifies the total limit and thus tends to benefit more efficient suppliers.

Rules of Origin: Laws, regulations and administrative procedures which determine a product's country of origin. A decision by a customs authority on origin can determine whether a shipment falls within a quota limitation, qualifies for a tariff preference or is affected by an anti-dumping duty. These rules can vary from country to country.

Subsidy: An economic benefit granted by a Government to producers of goods often to strengthen their competitive position. The subsidy may be direct (a cash grant) or indirect (low-interest export credits guaranteed by a Government agency, for example).

Tariff: Customs duties on merchandise imports. Levied either on an ad valorem (percentage of value) or on a specific basis (e.g. \$5 per 100 kgs). Tariffs give a price advantage to similar locally produced goods and raise revenues for the Government.

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.

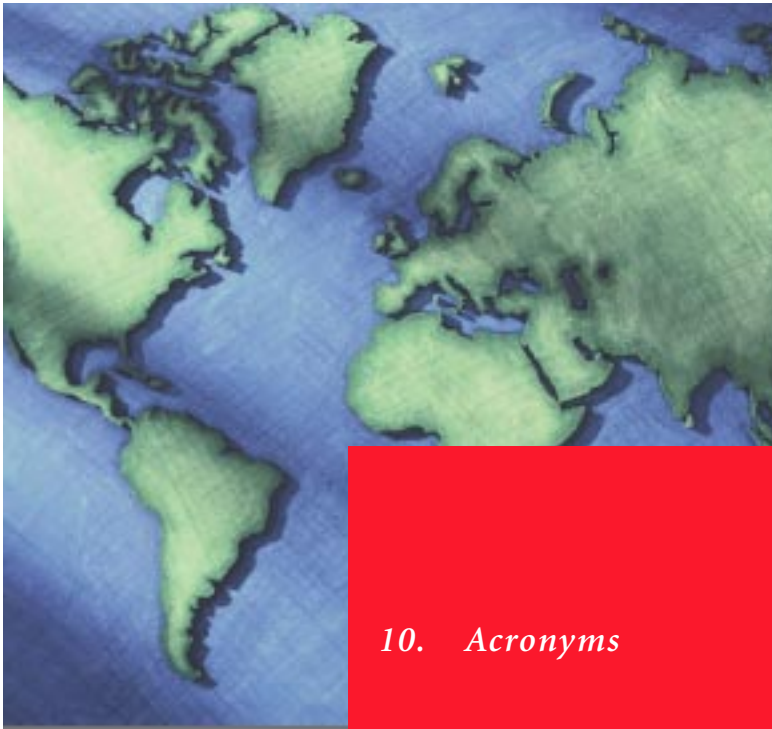
Transparency: Visibility and clarity of laws and regulations.

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.

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.

WTO Appellate Body: An independent seven-person body that, upon request by one or more parties to the dispute, reviews findings in panel reports.

Zero-for-Zero: Refers to a market access agreement where all the participating countries eliminate the same barriers on the same products. Although it most frequently refers to tariff elimination, a zero for zero agreement could include elimination of non-tariff barriers as well.



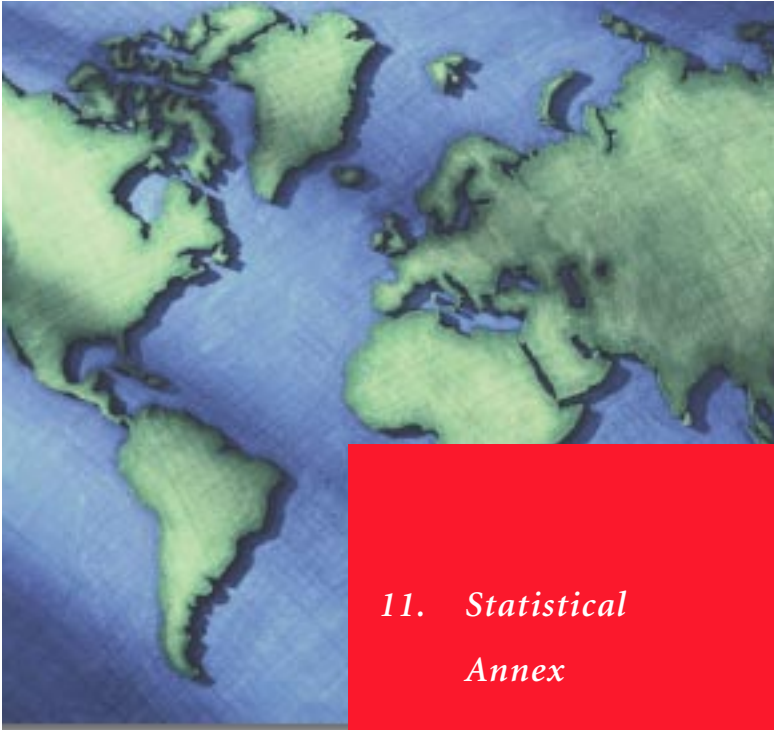
10. Acronyms

<http://www.dfait-maeci.gc.ca/tna-nac>

ABT	Agreement on Basic Telecommunications
ADB	Asian Development Bank
AGP	Agreement on Government Procurement
AIT	Agreement on Internal Trade
APEC	Asia–Pacific Economic Cooperation forum
BKPM	Badan Koordinasi Penanaman Modal (Indonesia’s Investment Co-ordinating Board)
BSE	bovine spongiform encephalopathy
CAP	Common Agricultural Policy
CCFTA	Canada Chile Free Trade Agreement
CDIA	Canadian direct investment abroad
CEC	Canadian Education Centre Mexico
CERC	Central Regulatory Commission
CET	common external tariff
CFE	Comisión Federal de Electricidad (Mexico’s state electricity firm)
CFIA	Canadian Food Inspection Agency
CIFTA	Canada Israel Free Trade Agreement
DFAIT	Department of Foreign Affairs and International Trade
DNA	deoxyribonucleic acid
DSB	Dispute Settlement Body
DSP	distilled spirits plant
DSU	Dispute Settlement Understanding
DTA	double taxation agreement
EC	European Commission
EEP	U.S. Export Enhancement Program
EFTA	European Free Trade Association
EMU	Economic and Monetary Union
EU	European Union
EVSL	Early Voluntary Sectoral Liberalization

FCC	Federal Communications Commission	ILSA	(U.S.) Iran and Libya Sanctions Act of 1996
FDA	U.S. Food and Drug Administration	IMF	International Monetary Fund
FDI	foreign direct investment	IP	intellectual property
FEMA	Foreign Extraterritorial Measures Act	ISO	International Organization for Standardization
FERC	U.S. Federal Energy Regulatory Commission	ISTEA	(U.S.) Intermodal Surface Transportation Efficiency Act
FHWA	U.S. Federal Highway Administration	IT	Information Technology
FIPA	Foreign Investment Protection Agreement	ITA	Information Technology Agreement (1997)
FSL	Food Sanitation Law	ITC	U.S. International Trade Commission
FTA	(Canada U.S.) Free Trade Agreement	JAS	Japan Agricultural Standards
FTA	U.S. Federal Transit Administration	JEC	Joint economic committee
FTAA	Free Trade Area of the Americas	LIBERTAD	(U.S.) Cuban Liberty and Democratic Solidarity Act of 1996 (Helms-Burton Act)
GAO	U.S. General Accounting Office	MAFF	Ministry of Agriculture, Forestry and Fisheries
GATS	General Agreement on Trade in Services	Mercosur	Southern Cone Common Market (Argentina, Brazil, Paraguay and Uruguay)
GATT	General Agreement on Tariffs and Trade	MFN	most-favoured-nation
GDP	gross domestic product	MII	Ministry of Information Industry
GM	genetically modified	MMT	Manganese-based fuel derivative
GMO	genetically modified organism	MOU	Memorandum of understanding
GO	DFAIT's Global Opportunities teams of Trade Commissioners	MRA	Mutual recognition agreement
GPP	Gross Provincial/Regional Product	NAFTA	North American Free Trade Agreement
G-7/8	Group of Seven leading industrialized nations plus Russian Federation	NATAP	North American Trade Automation Prototype
HACCP	(U.S.) Seafood Hazard Analysis Critical Control Point regulations	NEBS	New Exporters to Border States
HKSAR	Hong Kong Special Administrative Region	NIST	U.S. National Institute of Standards and Technology
IDD	international direct dialing (telephone services)	NTB	Non-tariff barrier
IEC	Intergovernmental Economic Commission (Canada–Russia, Canada–Ukraine)	NTT	Nippon Telegraph and Telephone

OECD	Organization for Economic Cooperation and Development	SPWG	(Canada Korea) Special Partnership Working Group
OSB	oriented-strand board	SRM	specified risk material
OSHA	U.S. Occupational Safety and Health Administration	TBT	technical barriers to trade
PCB	polychlorinated biphenyl	TEA-21	(U.S.) Transportation Equity Act for the 21st Century
PEMEX	Petróleos Mexicanos (Mexico's state oil firm)	TECA	Trade and Economic Cooperation Arrangement
PWN	pinewood nematode	TICA	Trade and Investment Cooperation Arrangement
R&D	research and development	TNC	Trade Negotiations Committee
RGO	Registered Grading Organizations	TRAI	Telecommunications Regulatory Authority of India
SAGIT	Sectoral Advisory Group on International Trade	TRIMs	Agreement on Trade-Related Investment Measures
SBT	single business tax	TRIPs	trade-related aspects of intellectual property rights
SCC	Standards Council of Canada	TRQ	tariff rate quota
SCP	sugar-containing product	TSE	transmissible spongiform encephalopathies
SECOFI	Secretaria de Comercio y Fomento Industrial (Mexico's Ministry of Trade and Industrial Development)	WPPS	Working Party on Professional Services (WTO)
SERC	State Regulatory Commission	WTO	World Trade Organization
SMEs	small and medium-sized enterprises		
SPS	sanitary and phytosanitary		



*11. Statistical
Annex*

<http://www.dfait-maeci.gc.ca/tna-nac>

CANADA'S TRADE WITH THE WORLD, BALANCE OF PAYMENTS BASIS (millions of \$)

	Goods			Services		
	Exports	Imports	Balance	Exports	Imports	Balance
1988	143,533	132,715	10,818	19,267	25,863	-6,596
1989	146,962	139,216	7,746	20,777	28,923	-8,146
1990	152,056	141,000	11,056	22,381	33,018	-10,637
1991	147,669	140,658	7,011	23,324	34,743	-11,419
1992	163,464	154,430	9,034	25,122	37,245	-12,123
1993	190,213	177,123	13,090	28,230	41,840	-13,610
1994	228,167	207,873	20,294	32,750	44,413	-11,663
1995	265,334	229,937	35,397	35,796	45,933	-10,137
1996	279,897	237,917	41,980	39,813	48,574	-8,761
1997	301,381	277,708	23,673	42,207	51,270	-9,063
1998	322,262	303,400	18,862	45,901	52,856	-6,955
1999	360,600	326,662	33,938	49,157	55,790	-6,633

CANADA'S MERCHANDISE TRADE, BY COMMODITY GROUPING, BALANCE OF INTERNATIONAL PAYMENTS BASIS (millions of \$)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Goods Exports												
Agricultural and fishing products	12,326	11,572	13,318	13,119	15,339	16,152	18,814	20,966	23,168	24,963	25,143	25,614
Energy products	12,771	13,726	13,961	14,109	15,452	17,751	19,200	20,393	26,010	27,089	23,901	30,310
Forestry products	21,588	21,465	20,336	18,598	20,017	23,380	29,128	36,745	34,471	34,853	35,174	38,903
Industrial goods	31,943	32,273	32,128	31,252	32,380	35,219	42,498	50,899	52,283	56,066	57,453	56,940
Machinery & equipment	21,665	23,962	28,854	29,294	31,893	36,848	45,700	56,032	61,896	68,219	78,823	84,959
Automotive products	34,724	33,971	34,677	32,495	38,101	48,609	57,608	62,917	63,370	69,009	77,415	96,142
Consumer goods	2,812	2,637	3,348	3,474	4,469	5,608	7,102	8,316	9,501	10,667	12,424	13,591
Goods Imports												
Agricultural and fishing products	7,558	8,256	8,739	9,004	9,736	11,014	12,577	13,375	14,138	15,646	17,262	17,639
Energy products	5,176	6,221	8,198	6,629	6,478	6,969	6,960	7,237	9,605	10,629	8,679	10,646
Forestry products	1,293	1,358	1,324	1,218	1,387	1,566	1,810	2,038	1,914	2,386	2,498	2,741
Industrial goods	25,557	26,929	26,325	24,688	27,278	32,162	39,187	45,569	46,483	54,559	60,286	62,142
Machinery & equipment	40,721	43,303	42,918	42,885	46,674	53,096	65,717	75,700	76,613	91,315	101,303	108,230
Automotive products	33,193	31,943	30,480	30,961	33,680	39,944	47,835	50,086	51,107	60,826	66,763	75,903
Consumer goods	13,568	15,023	15,853	16,615	18,943	21,368	23,441	25,546	25,840	29,726	34,574	36,962
Goods Trade Balance												
Agricultural and fishing products	4,768	3,316	4,579	4,115	5,603	5,138	6,236	7,591	9,030	9,317	7,881	7,975
Energy products	7,595	7,505	5,763	7,480	8,974	10,782	12,240	13,156	16,405	16,461	15,222	19,664
Forestry products	20,295	20,107	19,012	17,380	18,630	21,814	27,318	34,707	32,557	32,467	32,676	36,162
Industrial goods	6,386	5,344	5,803	6,564	5,102	3,057	3,311	5,331	5,801	1,507	-2,833	-5,202
Machinery & equipment	-19,056	-19,341	-14,064	-13,591	-14,781	-16,248	-20,017	-19,668	-14,717	-23,096	-22,480	-23,271
Automotive products	1,531	2,028	4,197	1,534	4,421	8,665	9,773	12,832	12,263	8,183	10,652	20,239
Consumer goods	-10,756	-12,386	-12,505	-13,141	-14,474	-15,760	-16,339	-17,231	-16,339	-19,059	-22,150	-23,371

Note: Totals do not include special transactions and inland freight and other BOP adjustments.

CANADA'S MERCHANDISE TRADE, BY PRINCIPAL TRADING PARTNER, BALANCE OF PAYMENTS BASIS (millions of \$)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Goods Exports to:												
United States	105,291	108,025	111,566	108,615	123,377	149,099	181,049	205,691	222,342	242,482	269,497	309,663
United Kingdom	3,798	3,740	3,862	3,243	3,415	3,211	3,677	4,377	4,607	4,460	4,912	5,331
Other European Union countries	7,911	8,697	9,264	9,341	9,362	8,798	9,363	13,879	12,750	12,573	12,886	12,874
Japan	8,998	9,285	8,538	7,644	8,254	9,185	10,788	13,286	12,417	12,269	9,513	9,211
Other OECD countries	3,181	3,641	3,899	2,745	3,179	3,361	4,536	4,563	5,086	8,092	7,511	7,156
All other countries	14,355	13,576	14,928	16,082	15,877	16,558	18,754	23,538	22,690	21,505	17,943	16,365
Goods Imports from:												
United States	92,497	97,298	97,512	97,577	110,379	130,244	155,660	172,517	180,217	211,425	233,635	249,173
United Kingdom	4,733	4,706	5,022	4,317	4,015	4,484	4,854	4,899	5,586	6,130	6,099	7,707
Other European Union countries	10,735	9,974	10,418	10,190	9,908	9,542	11,550	15,390	15,004	18,117	19,349	20,815
Japan	8,024	8,366	8,319	8,749	8,913	8,478	8,315	8,428	7,230	8,712	9,651	10,591
Other OECD countries	3,703	4,125	4,975	4,551	4,616	4,684	7,365	7,942	9,041	11,378	11,368	13,208
All other countries	13,021	14,750	14,754	15,275	16,599	19,691	20,127	20,761	20,839	21,946	23,298	25,168
Goods Balance												
United States	12,795	10,725	14,054	11,037	12,998	18,855	25,388	33,174	42,124	31,057	35,862	60,490
United Kingdom	-936	-965	-1,159	-1,074	-600	-1,272	-1,177	-522	-980	-1,670	-1,187	-2,376
Other European Union countries	-2,825	-1,276	-1,155	-849	-546	-744	-2,187	-1,511	-2,253	-5,543	-6,463	-7,941
Japan	973	919	219	-1,104	-660	707	2,473	4,858	5,187	3,557	-138	-1,380
Other OECD countries	-523	-484	-1,077	-1,805	-1,437	-1,322	-2,829	-3,379	-3,955	-3,287	-3,857	-6,052
All other countries	1,333	-1,172	174	808	-721	-3,134	-1,373	2,777	1,851	-440	-5,354	-8,803

Other EU (European Union) countries includes: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden
 Other OECD includes: Australia, Iceland, Mexico, New Zealand, Norway, Switzerland, Turkey and new members: Hungary, Poland and South Korea and the Czech Republic

CANADA'S SERVICES TRADE BY TYPE, BALANCE OF INTERNATIONAL PAYMENTS BASIS (millions of \$)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Services Exports												
Travel	6,292	6,680	7,398	7,691	7,898	8,480	9,558	10,819	11,749	12,221	13,935	14,869
Transportation	4,130	4,701	4,920	4,883	5,232	5,790	6,678	7,207	7,807	8,370	8,806	9,375
Commercial services	7,963	8,479	9,061	9,814	11,080	13,113	15,492	16,805	19,341	20,688	22,209	23,934
Government services	882	917	1,003	937	912	847	1,022	965	917	929	951	980
Services Imports												
Travel	8,445	9,827	12,757	13,753	14,255	14,359	13,678	14,093	15,345	15,871	15,955	16,762
Transportation	5,849	6,233	6,746	6,760	7,989	9,883	10,528	10,911	10,493	11,521	11,818	12,374
Commercial services	10,722	11,995	12,554	13,208	14,050	16,859	19,602	20,260	22,092	23,245	24,449	26,003
Government services	847	868	962	1,022	951	739	605	669	645	633	634	651
Services Balance												
Travel	-2,153	-3,147	-5,359	-6,062	-6,357	-5,879	-4,120	-3,274	-3,596	-3,651	-2,020	-1,893
Transportation	-1,719	-1,532	-1,826	-1,877	-2,757	-4,093	-3,849	-3,703	-2,687	-3,151	-3,012	-2,999
Commercial services	-2,759	-3,516	-3,493	-3,394	-2,970	-3,746	-4,110	-3,455	-2,751	-2,556	-2,240	-2,069
Government services	36	49	41	-85	-39	108	417	296	273	295	317	329

FOREIGN DIRECT INVESTMENT IN CANADA BY GEOGRAPHICAL AREA, STOCKS (*millions of \$*)

	United States	United Kingdom	Other EU	Japan	Other OECD	All other	Total
1988	76,049	15,696	9,747	3,568	5,180	3,935	114,175
1989	80,427	15,556	12,342	4,769	5,547	4,022	122,664
1990	84,089	17,185	14,339	5,222	5,871	4,227	130,932
1991	86,396	16,224	14,908	5,596	6,803	5,308	135,234
1992	88,161	16,799	15,056	5,962	6,913	5,027	137,918
1993	90,600	15,872	15,732	6,249	7,312	5,727	141,493
1994	102,629	14,693	16,824	6,587	7,989	5,873	154,594
1995	113,206	14,095	21,857	6,952	5,888	6,354	168,352
1996	120,370	14,200	23,844	7,828	6,578	6,697	179,515
1997	131,917	15,102	25,196	8,087	9,347	7,064	196,713
1998	147,345	17,720	27,278	8,058	8,890	7,762	217,053

FOREIGN DIRECT INVESTMENT IN CANADA BY INDUSTRY, STOCKS (*millions of \$*)

	Wood and paper	Energy and metallic minerals	Machinery and transportation equipment	Finance and insurance	Services and retailing	Other industries	Total
1988	5,452	29,773	16,641	20,041	8,607	33,661	114,175
1989	7,308	29,298	18,032	22,435	9,643	35,948	122,664
1990	7,599	31,581	18,431	24,766	9,780	38,776	130,932
1991	7,902	31,706	18,212	25,939	10,363	41,112	135,234
1992	8,895	30,062	18,496	26,873	10,807	42,785	137,918
1993	9,109	30,846	20,641	26,685	11,010	43,203	141,493
1994	9,598	29,959	24,638	28,119	14,417	47,864	154,594
1995	10,167	28,923	25,978	28,855	16,757	57,674	168,352
1996	9,919	30,802	26,726	33,062	18,047	60,959	179,515
1997	13,508	32,836	29,205	38,590	19,723	62,851	196,713
1998	16,467	39,839	30,940	41,610	20,917	67,280	217,053

CANADIAN DIRECT INVESTMENT ABROAD BY GEOGRAPHICAL AREA, STOCKS (*millions of \$*)

	United States	United Kingdom	Other EU	Japan	Other OECD	All other	Total
1988	51,025	8,812	5,291	481	3,152	11,002	79,763
1989	56,578	11,085	6,247	507	3,730	11,704	89,851
1990	60,049	13,527	7,098	917	3,996	12,815	98,402
1991	63,379	15,262	8,505	2,182	3,548	16,192	109,068
1992	64,502	12,271	9,071	2,521	3,957	19,370	111,691
1993	67,677	12,907	11,478	2,845	4,355	23,165	122,427
1994	77,987	15,038	15,620	3,485	6,635	27,551	146,315
1995	87,596	16,455	18,108	2,735	7,168	32,143	164,205
1996	95,006	17,809	19,264	2,676	8,319	38,285	181,357
1997	102,815	21,827	22,268	3,002	9,214	46,576	205,701
1998	126,005	22,716	23,594	3,150	9,759	54,529	239,754

CANADIAN DIRECT INVESTMENT ABROAD BY INDUSTRY, STOCKS (*millions of \$*)

	Wood and paper	Energy and metallic minerals	Machinery and transportation equipment	Finance and insurance	Services and retailing	Other industries	Total
1988	3,017	18,641	2,291	20,598	9,598	25,619	79,763
1989	3,293	18,405	2,982	24,968	8,985	31,218	89,851
1990	3,498	20,876	3,238	28,575	8,273	33,941	98,402
1991	3,473	22,051	2,794	32,443	10,043	38,264	109,068
1992	3,576	24,198	3,188	32,140	10,263	38,326	111,691
1993	3,727	27,008	4,030	37,353	10,423	39,887	122,427
1994	4,358	32,189	4,681	44,725	12,066	48,297	146,315
1995	5,294	37,063	4,858	48,368	22,034	46,587	164,205
1996	4,806	43,598	5,402	57,296	22,973	47,282	181,357
1997	6,185	50,967	7,031	65,860	22,850	52,809	205,701
1998	6,547	54,095	8,244	79,759	26,430	64,679	239,754

PROVINCIAL INTERNATIONAL TRADE IN GOODS AND SERVICES TO THE WORLD (millions of \$)

	1992	1993	1994	1995	1996	1997	1998
Goods Exports							
Alberta	18,734	20,948	24,023	27,431	32,667	33,208	30,977
British Columbia	17,218	19,325	23,633	27,500	26,528	26,048	25,772
Manitoba	4,323	4,586	5,381	6,049	6,602	7,393	8,004
New Brunswick	3,421	3,613	3,942	4,860	5,298	5,368	5,066
Newfoundland	1,626	1,923	2,023	2,760	2,850	2,949	3,357
Nova Scotia	2,717	2,817	3,003	3,346	3,548	4,124	4,661
Ontario	79,523	94,509	112,155	130,857	137,818	151,917	167,686
Prince Edward Island	289	278	367	424	410	512	583
Quebec	29,700	35,538	45,388	52,284	52,870	57,772	63,123
Saskatchewan	5,846	6,334	8,138	9,253	10,715	11,364	11,022
Yukon	436	165	107	161	310	216	152
Northwest Territories	408	332	467	463	513	437	372
Goods Imports							
Alberta	11,642	13,512	14,369	15,813	18,218	22,206	24,868
British Columbia	16,518	18,329	22,708	23,546	23,222	26,594	27,575
Manitoba	3,912	4,451	5,717	6,723	6,413	7,577	8,171
New Brunswick	3,415	4,060	4,518	4,974	5,465	5,741	5,686
Newfoundland	1,158	1,389	1,649	2,114	2,063	2,505	2,542
Nova Scotia	3,385	3,872	4,190	4,398	4,682	5,736	6,397
Ontario	78,762	90,402	109,484	122,242	123,203	144,334	158,108
Prince Edward Island	255	289	339	371	335	367	408
Quebec	34,777	40,011	42,894	46,575	49,660	56,200	61,187
Saskatchewan	3,423	3,964	4,859	5,554	5,605	6,688	7,084
Yukon	119	161	120	154	148	151	151
Northwest Territories	184	187	176	225	293	336	409
Services Exports							
Alberta	1,900	2,027	2,280	2,578	2,835	2,927	3,619
British Columbia	4,355	5,136	6,135	7,263	7,203	7,167	7,596
Manitoba	612	677	854	839	937	952	1,075
New Brunswick	302	398	488	525	604	625	661
Newfoundland	207	266	332	309	321	374	446
Nova Scotia	484	611	685	754	800	959	1,071
Ontario	12,154	14,188	15,564	17,173	19,515	21,446	24,361
Prince Edward Island	53	74	83	92	120	140	156
Quebec	4,840	5,383	6,435	6,904	7,827	8,452	9,336
Saskatchewan	322	406	492	486	554	561	696
Yukon	79	72	75	79	75	82	95
Northwest Territories	33	42	58	70	44	40	67
Services Imports							
Alberta	2,691	3,079	3,574	3,708	4,066	4,502	4,445
British Columbia	3,996	4,434	5,139	5,240	5,819	5,933	6,106
Manitoba	1,011	1,144	1,178	1,281	1,394	1,510	1,574
New Brunswick	485	567	652	640	653	631	665
Newfoundland	252	304	366	391	405	439	468
Nova Scotia	548	634	741	811	789	866	1,135
Ontario	17,475	19,833	20,646	21,678	24,507	26,475	28,565
Prince Edward Island	46	54	66	67	65	61	61
Quebec	6,547	7,516	8,156	8,564	8,877	9,290	10,054
Saskatchewan	649	767	872	909	969	1,119	1,036
Yukon	30	77	42	45	30	30	29
Northwest Territories	41	59	113	151	86	106	126

Source: Statistics Canada – Cansim Matrices 9015 to 9027