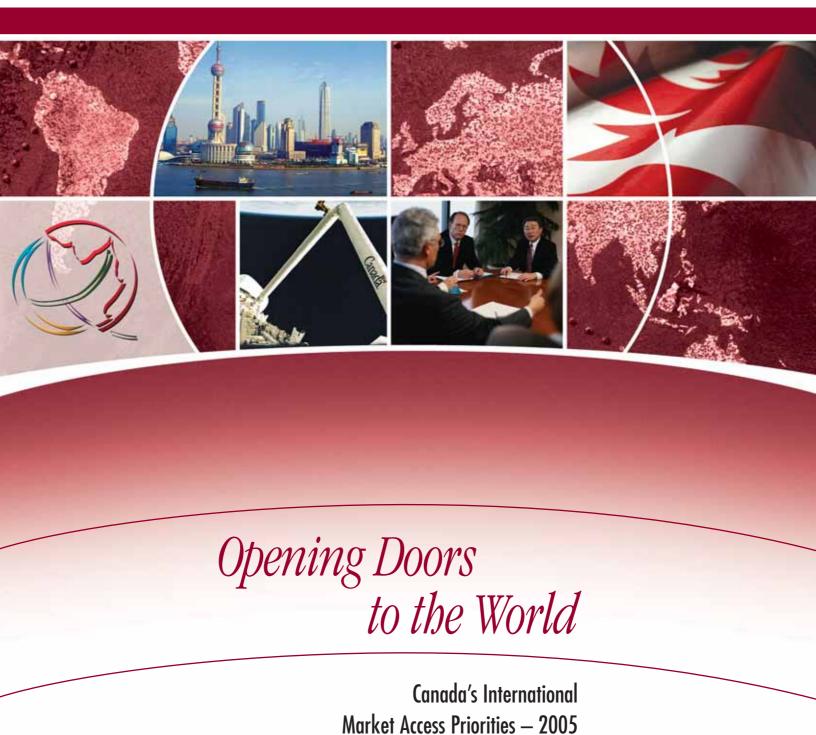






Canada's International Market Access Priorities — 2005





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Unless otherwise specified, monetary figures in this document are in Canadian dollars. Merchandise trade figures appearing throughout this document are preliminary "customs basis" figures released by Statistics Canada, February 10, 2005. Services trade figures are "Balance of Payments" figures released by Statistics Canada, February 25, 2005. All investment statistics are from Statistics Canada.

ABOUT THIS DOCUMENT

Dening Doors to the World: Canada's International Market Access Priorities – 2005 outlines the Government of Canada's priorities for improving access to foreign markets for Canadian traders and investors through a range of multilateral, regional and bilateral initiatives in 2005. It also presents significant market-opening results from 2004 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. The report is not intended to be an exhaustive catalogue of government activities to improve access to foreign markets; neither is it a comprehensive inventory of foreign barriers to trade or investment.

The Department of Foreign Affairs and International Trade coordinated the preparation of this report with the assistance of Canadian embassies and missions abroad, other federal government departments (especially Agriculture and Agri-Food Canada, Finance Canada, Industry Canada and Natural Resources Canada), provincial governments and, of course, Canadians doing business abroad. Its contents are current up to end of February 2005.

Opening Doors to the World: Canada's International Market Access Priorities – 2005 updates and expands on topics presented in the 2004 report, which was released in April 2004.

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MESSAGE FROM THE MINISTER FOR INTERNATIONAL TRADE

s Minister for International Trade, I am pleased to present the 2005 edition of *Opening Doors to the World: Canada's International Market Access Priorities*, which outlines Canada's market access objectives for 2005 and highlights the successes achieved during the previous year.

Canada's economic prosperity depends on its success as a trading nation: an estimated one out of every four jobs in Canada is linked to our international trade activities. These activities no longer limit themselves to the traditional imports and exports of goods and services. International Trade also encompasses investment, joint commercial collaborations, technology partnerships and all the other elements of global value chains, the multi-national and regional networks of finance, production and distribution. As manufacturing integrates across borders and trading between branches of the same firm continues to expand, it is becoming increasingly difficult to identify where the border of our economy actually lies. Our objective in 2005 is to contribute to Canadian prosperity reflecting this new complexity of the international economy while pursuing traditional opportunities.

In 2005, our relationship with the United States will continue to be of paramount importance. Canada and the United States have the world's most successful commercial relationship, with almost \$2 billion in goods and services exchanged daily. But, in a dynamic world economy, we must work continuously to build this long-standing relationship. While securing and deepening our access to the United States market is a constant challenge, it is also an opportunity.

Since September 2001, the movement of goods and people across the Canada–United States border has become a particular concern for Canadian business. In part to address these concerns, a New Partnership was announced by the Prime Minister and President Bush in November 2004. This initiative will build on both NAFTA and the Smart Border Accord to lay out an agenda for expanding economic opportunities, prosperity and competitiveness in North America. It will strike a balance between addressing security



concerns and addressing commercially important measures to facilitate cross-border trade. On March 23, 2005, Prime Minister Martin and Presidents Bush and Fox agreed to pursue this initiative on a trilateral basis.

Mexico also features prominently on our North American agenda. Since the inception of NAFTA in 1994, Mexico has become Canada's sixth largest export market and Canada has become Mexico's second largest. To build on this momentum, the Prime Minister and President Fox of Mexico launched the Canada-Mexico Partnership in October 2004. This is a high level public-private forum which will strengthen bilateral economic and policy cooperation. Bringing together business leaders, key economic actors and senior policy makers, the Canada-Mexico Partnership will foster strategic networks and enable the business communities and governments to respond to the challenges of sustaining and augmenting the level of prosperity and competitiveness that the NAFTA relationship has helped to build.

An important shift in the global distribution of wealth and influence is underway beyond our continent. Countries formerly considered to be "developing" are becoming more influential, with growing middle classes and rising production, purchasing power, human capital and financial strength. These are markets or regions experiencing rapid and

sustained growth, attracting the attention and investment of multinational enterprises. China, India and Brazil are prime examples, exercising influence in international trade negotiations proportionate to their new strength.

These developments have significantly altered the dynamics of international commerce, and have important implications for the competitiveness of companies and the prosperity of nations. Canada's competitiveness within even our most traditional markets will be increasingly influenced by the depth and breadth of our engagement with these countries. Engagement with these markets is not merely a question of expanding our exports; it is about access to competitively priced inputs. It is also about investment flows, intellectual property development and protection, science and technology linkages, and access to distribution networks-all critical elements of being competitive in a global business environment. We must succeed in engaging with these partners if we are to ensure that we remain integral to the business equation.

The year 2005 will also be a busy one on other trade policy fronts. We will engage with emerging market countries to establish Foreign Investment Promotion and Protection Agreements with China and India, we will conduct exploratory talks with Korea regarding possible free trade negotiations, and we remain committed to seeking an ambitious outcome for the Doha Development Agenda at the World Trade Organization. Canadian negotiators will also be involved in several bilateral negotiations to open markets for Canadian business and to complement broader, multilateral efforts. For example, we will continue to pursue a comprehensive Trade and Investment Enhancement Agreement with the European Union. This innovative pact is intended to move beyond traditional market-access issues in the World Trade Organization. Another example is the Canada-Japan Economic Framework on which we will accelerate our efforts to help advance our economic relations with this important trading partner beyond the current base.

The Government of Canada will continue to consult regularly with all stakeholders: the provinces and territories, the business sector, non-governmental organizations, municipalities and the Canadian public. This dialogue is an invaluable tool used by the government to communicate and to inform its forward agenda on a wide range of issues.

I would encourage you to consult the department's trade negotiations and agreements Web site at www.international.gc.ca/tna-nac/ for the most up-to-date information on Canada's trade policy agenda.

The Honourable James Scott Peterson, P.C., M.P.

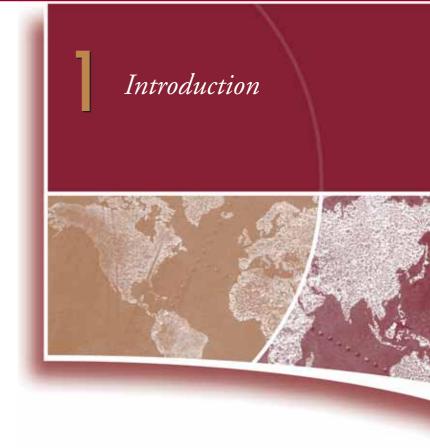
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INTRODUCTION

anada is a trading country, with the export of goods and services accounting for more than 40% of economy activity. International trade is integral to our continued prosperity. Canada's exposure to international competition has energized our economy, spurred innovation, attracted foreign investment and created hundreds of thousands of jobs for Canadians.

Although Canadians have been successful in selling to the world, our ability to fully exploit opportunities in key markets is often limited by a variety of barriers to trade. To ensure secure and predictable access to the world for Canadian traders and investors, the government will continue its efforts to bring down barriers to trade 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 - 2005 presents significant market-opening results achieved over the past year and outlines the government's priorities for 2005 to further improve access to foreign markets. The government will continue to pursue its goals multilaterally (through the World Trade Organization); regionally (through the North American Free Trade Agreement and negotiations towards the Free Trade Area of the Americas); and bilaterally with key partners, through the negotiation of free trade agreements (European Free Trade Association, Central America Four, Singapore), negotiations towards the Canada-European Union Trade and Investment Enhancement Agreement, and through exploratory talks toward the possible negotiation of free trade agreements (Korea, CARICOM, Andean Community and Dominican Republic), as well as other bilateral initiatives such as negotiations on Foreign Investment Protection and Promotion Agreements with China and India and the development of the Canada-Japan economic framework. In all cases, the government's objective will be to ensure that Canada's traders and investors benefit fully from international trade agreements.



TRENDS IN CANADIAN TRADE AND INVESTMENT

Canadian trade performance in 2004 rebounded from the relatively poor showing of the previous year. Merchandise exports on a balance of payments basis (or goods exports) advanced 7.6% (or \$30.3 billion) over 2003 levels, to \$430.3 billion. Merchandise imports posted a gain of 6.2% (or \$21.1 billion), to \$363 billion. Overall, the merchandise trade surplus with the world increased by nearly \$9.2 billion to \$67.3 billion.

Notwithstanding the 7.9% currency appreciation against the U.S. dollar over the year, coming on the heels of a 21.7% appreciation over the year before, there were across-the-board advances in exports in 2004, as all seven of the major commodity groupings recorded increases. Leading the gains were Industrial goods, which recorded both the largest export growth rate and the largest absolute gain in exports, at 16.6% and \$11 billion, respectively. Also registering

impressive gains were Energy products (up 13.9%, or \$8.4 billion) and Forestry products (up 13.8%, or \$4.7 billion).

On the import side, gains were also broadly based, with only Agricultural and fishing products recording a small decline (of 0.7%, or \$0.1 billion). Energy products imports grew at a sizzling 26% pace last year, up \$5.1 billion over their levels a year earlier, while Industrial goods advanced 12.7% (or \$8.3 billion) and Machinery and equipment increased 5.6% (or \$5.5 billion).

Overall economic activity in Canada's largest foreign market, the United States (U.S.), rose as GDP expanded 4.4% last year compared to 3% the year before. As a consequence, Canada's trade with the United States picked up substantially in 2004. Exports rose \$21.5 billion (or 6.5%) to \$351.9 billion, while imports advanced \$10.2 billion (or 4.2%) to just over \$250 billion. Thus, the annual merchandise trade surplus with the United States expanded by some \$11.3 billion to \$101.8 billion. For the year, the United States accounted for 81.8% of Canadian merchandise exports (down from 82.6% in 2003) and 68.9% of total merchandise imports (down from 70.2%). It should be pointed out, however, that these figures are likely overstated due to transshipments.

Exports to the European Union vaulted 12.3% (or \$3 billion), to \$27.1 billion last year. For the same period, imports were up 4.4% (or \$1.5 billion), to \$36.3 billion. Thus Canada's trade deficit with the European Union narrowed by \$1.5 billion to stand at \$9.2 billion in 2004. Most of the gains came from the United Kingdom, where Canada managed to change a \$1.1 billion merchandise trade deficit into a slight (\$115 million) trade surplus between 2003 and 2004. The Canadian trade deficit with Japan was almost eliminated last year, as it was reduced from \$859 million to just \$64 million. Our merchandise exports to that country edged up 1.8% (to just below \$10 billion) last year, while our imports from that country retracted 5.8% (to just above \$10 billion). Elsewhere, Canada's merchandise trade deficit with the other Organization for Economic Cooperation and Development (OECD) nations not already mentioned grew by almost \$1 billion, from \$7 billion to \$8 billion, while the deficit with all other non-OECD nations widened by \$3.4 billion, to \$17.2 billion.

In 2004, Canada recorded a trade deficit on its trade in services of \$11.2 billion, up \$300 million from the year before. Services receipts expanded by \$2.4 billion (or 4%), while payments grew by \$2.7 billion (or 3.8%). Services exports were up across the board, most notably to the European Union (up \$0.9 billion), to Japan and to the other OECD nations (up \$0.5 billion, each), and to the U.S. (up \$0.4 billion). Services imports were up from most major trading regions, with the exception of the United States where they edged down 1.1% (or \$0.4 billion). Gains were led by the non-OECD countries (up \$1.3 billion), Japan (up \$1 billion), and the European Union (up \$0.7 billion).

In terms of services sectors, exports were up by \$1.8 billion (12.3%) for travel and by \$1.6 billion (15.3%) for transportation services, but were down by \$1.2 billion (3.5%) for commercial services. The same pattern holds on the import side, travel services were up by \$2.1 billion (11.3%) and transportation services up by \$1.5 billion (10.9%), while commercial services imports were lower by almost \$1 billion (2.7%). As a result of these movements, Canada's travel services deficit widened by \$0.3 billion to \$4.1 billion and the commercial services deficit expanded by \$0.2 billion to \$3.7 billion, while the transportation services deficit marginally narrowed (\$23 million) to \$3.9 billion for the year.

Canadian direct investors injected \$57.5 billion abroad over 2004. This amount went in roughly equal measures to acquisitions and to increases in the working capital of foreign affiliates. Geographically, just over 70% of the year's direct investment went to the United States, while four-fifths was invested in just two broad industry groups: finance and insurance and energy and metallic minerals.

Canadians have been active recently buying back foreign owned or foreign controlled firms in Canada. Foreign acquisitions have been negative in four of the past five quarters (negative acquisitions result when Canadians on balance repatriate companies from foreign investors). With these re-purchases, total foreign direct investment into Canada in 2004 amounted to a modest \$8.5 billion. Most of the investment came from reinvested earnings. Geographically, foreign direct investment rose from U.S. and Asian investors,

but declined from EU investors. There were two large international mergers accounting for the EU reductions.

With the economy having lost momentum under the weight of the higher valued Canadian dollar in the final quarter of 2004 and somewhat weaker near-term prospects, economic prospects for Canada over 2005 have been trimmed back to about 2.9%, according to the February 2005 federal Budget. Growth is expected to come from the strength in consumer spending and business investment, thanks to solid labour markets and rising incomes. The government sector also appears to be in good shape to support overall economic activity given its solid fiscal position. On the downside, along with the continued challenges of a strong currency and another sustained rise in oil prices are possible efforts to staunch the rising the United States fiscal deficit and threats of a sharp rise in United States core inflation and higher interest rates that could effect growth in the United States economy, all of which add uncertainty to growth expectations for Canada.

FOCUS ON THE EMERGING MARKETS STRATEGY

Why an Emerging Markets Strategy?

All Canadians have a stake in building a better Canada. Canadian prosperity and economic security depend upon our ability to trade goods and services and to benefit from investment. Maintaining the status quo presents the risk that Canadian firms, capital and expertise will be sidelined from centres of growth, finance and knowledge in the global economy. Canada needs to push the frontiers of its international commerce. It needs to maintain its influence on the multilateral agenda through new international partnerships, particularly as emerging powers become more active players. Whether in sustaining value-added economic activity at home or dealing with the geopolitical realities of growth and development around the globe, it is vital that we position ourselves for the future.

Canadians from all walks of life are invited to contribute their views, experience and expertise to the ongoing dialogue on how Canada can support Canadian businesses in establishing themselves within emerging markets and global value chains, and on how to ensure Canada's overall commitment to sustainable development.

The Current Context

Canada is facing new challenges and remarkable opportunities in the global marketplace. The 21st century economy is one characterized by competitiveness defined on a world, not domestic, scale; it involves international networks of production and global value chains in which emerging regional and country markets figure prominently. Some markets are truly global in scope, while others are a major force in their own region. Whatever the scope, emerging markets are commanding greater attention not only because of their new wealth, but also because of their new influence on global agendas. Our success in markets such as China, India and Brazil will increasingly define how effectively Canada will adjust to the new global dynamics.

With over 80% of Canada's goods exports entering the United States, fostering our trading relationship with that economy will continue to be a key government priority. However, we also have a responsibility to provide the tools that Canadian business needs to take advantage of the major opportunities in emerging markets.

In looking beyond our current trade relations to secure Canada's future prosperity and economic security, we also recognize that expanding trade and investment in new markets presents challenges and opportunities for Canada as well as our trading partners. Canada considers trade to be an essential component of an integrated and comprehensive approach to sustainable growth in Canada and, indeed, globally. Social policies and programs such as education and skills upgrading and social protections for workers, as well as effective environmental management that supports increased and better employment, strengthen the contribution that trade and investment make to economic growth.

Global Business + Emerging Markets = New Paradigm

The term "emerging markets" encompasses more than a focus on specific countries. Global companies seek production efficiencies and strategic regional positioning in order to remain competitive worldwide. In this way, production is disaggregated across many jurisdictions and animated by investment in all directions, as well as by the internationalization of the knowledge-based economy and electronic communication.

These progressive international networks, or "value chains" as they are often termed, are most prominent within regional trading blocs such as North America and North and East Asia—and integration is moving at a very rapid pace. We are witnessing the beginning of a profound shift in the distribution of wealth, economic activity and influence. Global value chains are not new: they have been used by multinational enterprises (MNEs) for years to lower costs and increase productivity. For many companies, participation in global value chains, particularly in emerging markets, is not just an issue of reducing costs or increasing productivity but a matter of survival.

Canada is very much part of this setting. For example, sales by Canadian affiliates abroad represent an important source of revenue, with a proportion of the repatriated earnings financing ongoing research and technology development (R&D) in Canada. Similarly, those involved in R&D, design, engineering, sales, marketing, information systems and customer service make a major contribution to this country's economy and prospects for growth. In this context, government must re-evaluate and coordinate the programs and services it offers to investors and the knowledge sector, as well as to exporters.

A Canadian approach must encompass not only companies that have successfully positioned themselves as leaders of global value chains (typically MNEs), but also small and medium-sized enterprises (SMEs) that are under pressure to innovate and upgrade their operations in order to fully participate in international markets. As global competitive pressures mount in traditional markets, SMEs also need to address the challenges and opportunities of emerging markets, either directly or as players in larger value chains that include emerging market partners; their future growth, if not survival, depends on this.

Growth indicators have been impressive in markets such as China, India, Brazil and other emerging markets. But growth is only one consideration for government in selecting target markets. Convergence of demand and Canada's supply capacity must be verified as a first step to identifying markets for priority attention.

Shifting Gears: Adapting to the New Paradigm

Canada, like other Organisation for Economic Cooperation and Development (OECD) countries, must factor in a diversity of new, effective players and priorities as emerging markets come to play an increasingly important role in the world economy. Policy challenges arise in balancing interests such as promoting strong trading relations and advancing human rights and sustainable development objectives.

Emerging markets frequently offer production cost efficiencies but sometimes entail risks such as limited intellectual property protection and restricted market access. We must continue to evaluate whether Canada's current array of policy instruments and business development tools are appropriate to meet available opportunities and the types of challenges and competition we face in the marketplace. Is enough priority being accorded to outward as well as inward investment? How can we best share technologies and develop new partnerships that will promote successful commercialization of research at home and long-term market penetration abroad? What are the skill sets needed that will best help Canadians both to adjust to and benefit from labour mobility in a global context?

Potential Emerging Markets

An emerging market can be a country, a region or a sector that is experiencing rapid and sustained growth, usually attracting the active participation, directly or indirectly, of multinational enterprises. An analysis of the opportunities and challenges of doing business with economic giants, such as China, India and Brazil, will help to shape a framework that identifies priorities and commonalities that can best be addressed through an integrated strategy.

It is evident that China, India and Brazil present specific opportunities accompanied by individual risks, and that they require a careful assessment of different "tool kits" to assist Canadian business. However, they are not the only countries or regions that hold significant promise. Canada's emerging markets strategy must take into account the new realities of regional integration, the growth requirements of specific sectors where Canada excels as well as the role of global sourcing, finance and investment in setting the stage for strategic business partnerships.

China

East Asia has been home to some of the world's fastest growing economies, and China, in particular, has been a driving force in the establishment of regional sourcing and manufacturing linkages. As the world's most populous country with the fastest growing economy (9.5% in 2004), China is an economic giant that surpassed Japan as Canada's second largest bilateral trading partner in 2003. In 2004, Canadian exports to China grew by more than 40%. China's growth is expected to continue: according to Goldman Sachs, China may become the world's second largest economy by 2016, up from sixth, and the world's largest by 2041.

Reinforced by demographic evolution and institutional adjustment, dynamic new patterns of consumption are emerging. The middle class in China is rapidly expanding, resulting in new sources of financial power, along with a realignment of global energy balances, a shift in the locus of infrastructure development, and an altered context of labour, skills and knowledge.

China attracts more foreign investment than most other nation and, recently, has adopted a new strategy of outward investment. China has a growing need for a reliable and diverse supply of natural resources, particularly energy, and it is an important link to regional supply chains in Asia.

China has emerged not only as a growing economy but also as a rising player in regional and global supply chains, resetting patterns of trade and investment internationally and framing the pursuit of competitiveness and prosperity at home in Canada. In order to position firms to benefit from these changes, Canada is currently building on its relationship with China through negotiations for a foreign investment protection and promotion agreement (FIPA). There are many outstanding business opportunities in China—particularly in agricultural technology, agri-food, building products, financial services, information and communications technology, mining and minerals, and transportation. The question for government is where to focus our (limited) trade resources in order to ensure that Canadian industry is thriving in this market and region 10 and 20 years from now.

India

As the world's second most populous country and with a rapidly expanding middle class, India is a potential consumer market for Canadian exports. As India develops, it will need to draw on foreign technology and investment. Indian investment abroad (particularly in high technology) is significant and growing. The Indian business services sector plays an important role in the country's global commercial growth.

Canada is currently negotiating a FIPA with India. The most promising opportunities in India include financial services, energy and transportation infrastructure, information and communications technologies, environmental industries, agri-food, education and cultural industries. Here again, however, we confront tough questions on where to focus resources in order to address Canada's long-term interests.

India is a significant player in the knowledge sector, and heightened Canada–India cooperation in science and technology could support the Canadian innovation agenda and serve as a launch pad for further mutually beneficial trade and investment links.

Brazil

The Brazilian economy is large (15th in the world) and diversified, with strong agricultural, industrial, energy, raw materials and services sectors. Economic reforms are starting to pay dividends with 5.2% growth in the fourth quarter of 2004, compared with the same quarter one year earlier. Brazil's importance in the region is critical. It is the door to Mercosur (a common market/customs union between several South American countries) and, more broadly, the

key to a wider hemispheric integration and trade liberalization process. As a leader of "emerging" and "developing" economies, Brazil has a significant role in the search for consensus on achieving equitable growth in a globalized environment.

In November 2004, Prime Minister Martin and President da Silva of Brazil issued a joint declaration stating their intention to negotiate enhanced market access in the areas of goods, services and investment in the context of the FTAA. The hope is that this initiative will help to move the FTAA negotiations forward, toward the conclusion of a comprehensive and high-quality agreement that promotes regional economic integration.

Engagement on the Issues

During the autumn of 2004, the Minister for International Trade addressed a number of business groups, publicly outlining his vision for Canada's engagement with emerging markets. Specific elements of this vision include:

- ensuring a foundation of country-to-country relations and promoting other non-trade links with selected partner countries;
- providing business with market intelligence, risk analysis, local knowledge and expertise;
- encouraging business to develop its own strategic approaches to selected markets; and
- providing business services and trade policy instruments to assist Canadian business in establishing footholds in emerging markets and protecting their interests once they are on the ground.

Exchanges on emerging markets began early in 2004, with initial visits to prospective partner countries as well as informal discussions with various stakeholder groups including associations, provinces and businesses. Formal discussions also took place in late November, with Minister Peterson and Parliamentary Secretary Mark Eyking hosting three round tables with representatives of the business, academic and civil society communities. The objectives of these consultations were to:

- interact with a broad range of stakeholders;
- determine which emerging markets and sectors will be significant for Canada;

- improve awareness among Canadians and policymakers of the challenges within a complex and changing international trade environment;
- identify the key roles for the federal government;
- establish an overall direction for an emerging markets strategy; and
- encourage discussion of broader related issues. Throughout the consultation process, common themes became apparent. These included:
- optimism about Canada's potential to meet the challenges and opportunities in emerging markets;
- the view that China should be the key focus for Canada's emerging markets strategy, with additional interests being India, Brazil/Mercosur, Southeast Asia, Russia/Central Europe and regions of the Middle East;
- calls for aid, trade and investment development objectives to be more closely integrated;
- calls for government to develop a strategic and integrated approach to supporting Canadian interests in emerging markets; and
- strong support for an approach that will extend and draw upon partnerships already established in North America.

Market Access Issues

The issues raised by emerging markets extend beyond government promotional activity in support of business clients. They challenge the government to review its policies with a view to supporting market access for Canadian products, services and investment with broader forms of economic and social cooperation. Canada's trading partners and competitors are aggressively establishing themselves in key emerging markets through bilateral and regional trade and investment arrangements and other initiatives. Although we can learn from their best practices, we also need to determine which partners and instruments best advance our economic and social interests. Part of this process is to ascertain what more can be done domestically to establish Canada as a partner of choice and which issues need to be more aggressively pursued at the bilateral and multilateral levels.

Some of the key priorities include:

- strengthening the bilateral dialogue with key markets, including through visits by the Prime Minister and Minister for International Trade to China and India;
- negotiating foreign investment promotion and protection agreements with China and India;
- working with partner departments and provinces/territories as part of a whole-of-Canada approach to the opportunities and challenges presented by emerging markets;
- increasing the focus on market intelligence that goes beyond identifying export opportunities to analyse how global and regional value chains operate and to assess the opportunities for Canadian strategic placement within those chains—whether through an expanded service presence, investment and joint venture activities, or knowledge partnerships;
- establishing a policy agenda that facilitates business, not only through enhanced market access but also through a new focus on regulatory questions;
- reviewing the suite of business services offered to Canadian firms to ensure they respond to the needs of the business community; and
- targeting outreach in Canada to draw more SMEs into beneficial activity or partnering in emerging markets.

CITIZEN ENGAGEMENT AND OUTREACH ON CANADA'S TRADE AGENDA

Openness and transparency are key to an informed dialogue between Canadians and their government. The International Trade component of the Department of Foreign Affairs and International Trade (DFAIT [IT]) manages a range of permanent and ad hoc consultative mechanisms to ensure that the views, priorities and interests of Canadians at large, other levels of government, industry, nongovernmental organizations (NGOs) and public interest groups are taken into account in the development of Canada's trade agenda.

In response to evolving needs, and as part of the government's continuing efforts to enhance transparency, the Department has conducted an assessment of the effectiveness and adequacy of its consultations and outreach mechanisms. The evaluation was undertaken by the Office of the Inspector General between February and September 2004, and a final report with a departmental response will be made available to the public in 2005. A new approach to consultations will balance and distinguish between outreach and consultation sessions; provide for timely input from the people across areas of interest and with up-to-date knowledge; include real-time briefings during critical phases of negotiation; incorporate complex and cutting-edge issues in the trade agenda that are reflected in the tools, services and agreements currently being negotiated; reflect the ability of organizations to be represented during consultations; and where applicable, establish a feedback system to reflect the government's accountability to Canadians. Implementation of redesigned trade consultation mechanisms is expected in 2005.

Parliamentarians are an integral part of DFAIT (IT)'s consultations. By encouraging public awareness and understanding of international trade, as well as citizen participation in public consultations, parliamentarians play a critical role in developing trade strategies and policies that reflect the priorities and interests of Canadians. The work of parliamentary committees serves as a key instrument in helping parliamentarians increase their knowledge and understanding of Canada's trade strategy, as well as contribute to the development and refinement of this strategy. Government responses to many of the committee reports, coupled with testimonies and briefings from ministers and senior government officials during committee hearings, provide another opportunity for the government to keep citizens and parliamentarians fully informed about the strategic orientation and policy direction of Canada's trade agenda.

The Government of Canada uses a variety of mechanisms to maintain a close relationship with the provinces and territories in the area of international trade policy. Government officials hold quarterly meetings with their provincial and territorial counterparts, as part of the Federal/Provincial/Territorial Committee on Trade (C-Trade), to review the overall trade agenda and emerging trade policy issues, as well as to consult on the formulation of Canada's negotiating positions and strategy. In addition to these regular meetings, the Minister and Deputy Minister for International Trade meet roughly once a year with provincial and territorial counterparts to develop further the cooperative relationship that exists with the provinces and territories in trade and investment policy, to update them on recent trade developments, and to discuss trade policy directions, priorities and strategies. With the endorsement of the provinces and territories, the Department has established a joint working group to address the concerns of municipal and community-based interests regarding international trade. In 2004, the Government of Canada worked with the Federation of Canadian Municipalities (FCM) to prepare a guide to help Canadian municipalities better understand international trade obligations and impacts involving areas of municipal jurisdiction. Once completed in early 2005, the guide will be posted on the FCM and the department Web sites.

The government is also addressing issues of interest to a broad spectrum of Canadians using multistakeholder and sectoral information sessions, as well as round table discussions. Reports on many of these sessions are available on the Department's trade negotiations and agreements Web site (www.tradeagreements.gc.ca). Examples of information and consultation sessions that took place during the past year are set out below:

- Throughout the year, Canada's chief negotiators hosted teleconferences in order to update key stakeholders on the progress of their respective negotiations.
- In February 2004, representatives of DFAIT (IT) met with some 20 members of the Trade and Investment Research Project, a coalition of Canadian civil society organizations working on issues related to the broad

- realm of international trade agreements under negotiation and implementation, to provide them with an overall picture of the state of negotiations.
- In March 2004, the Montreal World Trade Centre, in partnership with DFAIT (IT), organized a seminar entitled Focus on Trade Agreements: NAFTA 10 years later: An update and outlook for Canadian businesses. More than 60 representatives from the business community, associations, academics and civil society attended the event and shared their experiences and expertise. Minister Peterson joined the group at the end of the event and made a keynote address on the topic: "NAFTA: The Way Ahead."
- In March 2004, DFAIT (IT) organized an Academic Round Table Discussion on Vancouver Island. Participants at the event included experts from British Columbia's universities and representatives from the business community, the civil society and the provincial government. Discussions at the round table explored China's role in Asian regionalism and its implications for the North American Free Trade Agreement (NAFTA), as well as the impacts of a re-emerging Asia for NAFTA economies.
- In March and April 2004, DFAIT (IT) trade officials, in partnership with provincial and territorial governments, conducted a series of 13 consultation workshops across Canada on the services trade negotiations currently under way both at the World Trade Organization (WTO) (with respect to the General Agreement on Trade in Services—GATS) and in various regional forums, to gather valuable input on immediate and prospective markets of interest that will help in refining Canada's negotiating strategy for trade in services.
- In September 2004, Minister Peterson travelled to Vancouver as part of his Outreach Program. The purpose of this visit was to consult Canadians on the development and implementation of Canada's international trade agenda as well as to encourage Canadian companies to export their products and services abroad.
- In November 2004, the Foreign Affairs component of the Department of Foreign Affairs and International Trade (FA) (DFAIT [FA]) held its annual NGO information meeting on issues relating

to the Asia-Pacific Economic Cooperation (APEC) forum, inviting over 100 representatives of civil society organizations. The meeting provided DFAIT (FA) with an opportunity to brief participants on developments in APEC during 2004, to discuss the outlook for the annual APEC Economic Leaders' Meeting, and to obtain participants' views on Canada's priorities for APEC.

- In November 2004, DFAIT (IT) again met with representatives of the Trade and Investment Research Project to provide an update on the Doha negotiations and the way forward, to present a status report on the GATS negotiations, and to answer specific questions from participants
- In November and December 2004, Minister Peterson and Parliamentary Secretary Eyking co-hosted three round tables with academics, businesses and civil society in Ottawa. The round tables allowed for an exchange of ideas and perspectives on the development of an emerging markets strategy. These discussions will help the government to advance its trade agenda and to support Canadian interests within the new international commerce environment. A summary of discussions as well as additional information can be found on the department's Web site (www.itcan-cican.gc.calem_mark-en.asp).

Other activities include DFAIT (IT)'s ongoing program of face-to-face outreach and teleconferenced information sessions, undertaken by representatives of Canada's Permanent Mission to the WTO in Geneva, to sustain and expand awareness of Canada's multilateral trade agenda among key stakeholders here at home.

In addition, the government encourages Canadians to participate in annual trade-related international conferences and consultative initiatives, including the WTO public symposium, the OECD forum, the OECD Trade Committee and Joint Working Party on Trade and Environment consultations, and the thematic meetings held in conjunction with the meetings of the Free Trade Area of the America (FTAA)'s Committee of Government Representatives on the Participation of Civil Society.

To keep Canadians informed and up to date on trade-related issues and events abroad, the government provides briefings by teleconference, webcast and audiocast, etc. Canadians are also encouraged to use the department's trade negotiations and agreements Web site (www.tradeagreements.gc.ca), which contains an extensive consultation section ("It's Your Turn") to enable users to send in comments on Canada's trade policy agenda and stay abreast of specific consultative initiatives launched by the government.

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

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 (IT) with specific information on tariff or non-tariff barriers and other business irritants. Business people are invited to report any problems they are experiencing by communicating in strictest confidence to:

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

The department also regularly consults Canadians on international business development through a variety of means. For instance, the Trade Commissioner Service holds regular meetings with national, regional and sectoral industry and trade associations, as well as with provinces and territories, to seek their views on how to improve the delivery of its programs and services. Moreover, several of the department's trade promotion initiatives are undertaken jointly with industry and trade associations. Business people are also encouraged to remain in touch with the department regarding market access and other issues through its Web sites (www.international.gc.caltradelmenu-e.asp or www.exportsource.ca). These sites contain additional information on many of the issues covered in this document.

MARKET ACCESS AND INTERNATIONAL BUSINESS DEVELOPMENT

Both the federal and provincial governments manage programs that encourage business to expand beyond Canada's borders. Within the federal government, 16 departments and agencies have merged their international business development activities under the banner of Team Canada Inc. The members of Team Canada Inc cooperate in providing international business intelligence, market access information and marketing advice to Canadian business through a single window, via the Internet (www.exportsource.ca) or via telephone at 1 888 811-1119.

Another network, led by the Investment Partnerships Branch, DFAIT (IT), works with companies, trade associations, and provincial, municipal and regional development agencies looking to attract new investors. Canada offers investors a highly skilled workforce, a productive and dynamic economy, a cost-competitive environment and convenient access to the main international markets with preferred access to the United States. The Investment Partnerships Branch can be contacted via the Internet (www.investincanada.gc.ca).

The Trade Commissioner Service, with officers in 146 offices overseas and in 12 regional offices across Canada, is the antenna for both of these networks; it understands the regulations, policy issues and barriers that Canadian business may face in international commerce. The trade offices are a direct point of contact for Canadian business people in foreign markets. Officers are trained to help companies deal with a foreign environment and to help resolve trade policy issues that negatively influence commercial transactions.

With the integration of the International Trade Centres, DFAIT (IT) now has offices in Canada and abroad that focus on international business development. The DFAIT (IT) regional offices (formerly known as International Trade Centres) attract new business clients to participate in international business (client acquisition), serve business clients already active in international business (client retention), help clients to grow their businesses (client competitiveness), and develop DFAIT (IT)'s relationships with provinces and municipalities across the spectrum of the department's international commerce interests (trade, investment, science and technology, and trade policy). These regional offices are being fully integrated with DFAIT (IT)'s so that the Trade Commissioner Service operates as a seamless operation in both Canada and abroad for Canadian clients. This international business development network is one of the main sources of information for Canadian trade policy initiatives that seek to expand access for Canadian firms in international markets.

The International Business Development Branch of DFAIT (IT) is the domestic side of the Trade Commissioner Service. The Branch's Market Research Centre publishes timely, relevant and focused market information products on almost every country in the world for the Canadian business community. The Branch's Market Support Division produces specialized reports that profile Canadian industry capabilities in several industrial sectors. The International Business Opportunities Centre disseminates timely sales leads and business opportunities from our offices abroad directly to Canadian companies. Links to the International Business Development Branch and to each of the trade offices abroad are available at the trade commissioner Web site (www.infoexport.gc.ca). This site is also the gateway to the Virtual Trade Commissioner, a free Internet service that offers direct access to Canada's trade commissioners as well as information, leads and news tailored to the needs of any business.

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

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

The members of Team Canada Inc are:

Agriculture and Agri-food Canada

Atlantic Canada Opportunities Agency (ACOA)

Canada Economic Development for Quebec Regions Agency

Canada Mortgage and Housing Corporation (CMHC)

Canadian Commercial Corporation (CCC)

Canadian Heritage

Canadian International Development Agency (CIDA)

Department of Foreign Affairs and International Trade (DFAIT)

Environment Canada

Export Development Canada (EDC)

Fisheries and Oceans Canada

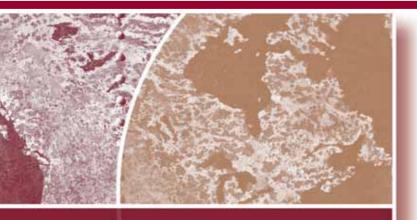
Industry Canada

National Research Council Canada (NRC)

Natural Resources Canada

Statistics Canada

Western Economic Diversification



Getting the International Rules Right – The World Trade Organization

CANADA AND THE WORLD TRADE ORGANIZATION

rade is one of the key engines driving Canada's economy. Our current and future growth and prosperity depend on open world markets and a stable, predictable and transparent trading environment. Opening new markets benefits Canadian agricultural and non-agricultural producers, manufacturers, service providers and exporters. Increased trade means higher productivity and greater access to technology, inputs and funds for investment. For the Canadian public, it means jobs, additional income and access to a wider range of lower-priced goods and services.

Canada's membership in the World Trade Organization (WTO) helps us achieve these benefits. The WTO is a cornerstone of Canadian trade policy and governs our trade relations with the European Union, Japan, other industrialized countries and a host of emerging markets worldwide. It also underpins much of our trade with the United States, our largest trading partner.

At the heart of the multilateral trading system are the WTO agreements, negotiated and signed by members and ratified by their elected representatives. The WTO provides a forum for negotiating trade rights and responsibilities, negotiating market access, monitoring the implementation of obligations and commitments under various agreements, and reviewing members' trade policies and practices. The WTO also offers a state-to-state dispute settlement system, whereby trade disputes are settled based on commonly agreed rules, rather than political or economic might.

The Doha Round of Multilateral Trade Negotiations and Canada's Objectives

In November 2001, WTO trade ministers launched a new round of multilateral trade negotiations, known as the Doha Development Agenda, on a broad range of issues. The agenda included the seven negotiating areas of agricultural trade reform; market access for non-agricultural goods; services; rules on antidumping, countervail and subsidy; a multilateral registry for wines and spirits; dispute settlement; and certain aspects of trade and the environment.

Canada's key objectives in the negotiations include achieving a level playing field for the agri-food sector through elimination of all forms of export subsidies as quickly as possible, the maximum possible reduction of trade-distorting domestic support and substantial improvements in market access for all agriculture and food products. Canada is also seeking enhanced market access for goods and services providers, strengthened rules with respect of trade facilitation, and better integration of developing countries into the world trading system. An ambitious outcome to the Doha negotiations would help us attain these objectives; it would also help developing countries better integrate into the global economy, realize the benefits of increased economic growth and reduce poverty.

On geographical indicators (GIs), Canada is resisting European Union proposals to extend negotiations on GIs beyond the Doha-mandated negotiations on a multilateral system of notification and registration for wines and spirits. On dispute settlement, Canada supports improvements to better protect confidential

information, streamline the panel selection process and enhance the transparency of dispute settlement proceedings. On trade and the environment, Canada supports early action to reach agreement on the definition of environmental goods, so that tariff elimination for these goods can be covered in the non-agricultural market access negotiations.

Considering the needs of developing countries is also central to Canada's objectives with respect to the Doha Development Agenda. For this reason, Canada supports effective special and differential treatment; the provision of trade-related technical assistance and capacity building; and greater institutional and policy coherence between the WTO, the World Bank, the International Monetary Fund and other international institutions, to help developing countries manage their transition to full participation in the global economy.

The negotiations suffered a setback at the Cancun Ministerial Conference in September 2003, when members could not agree on a way forward. Factors that contributed to the lack of agreement included differences over agricultural trade reform; differences over the development of new rules for the "Singapore Issues" (investment, competition, trade facilitation and transparency in government procurement); a weak response to the cotton initiative; and uncertainty regarding the ambition and flexibility that would be provided in the modalities for the non-agricultural market access negotiations.

The July Package

After the setback in Cancun, WTO members returned to the negotiations in 2004 with a commitment to try to make progress. In July 2004, 147 members of the WTO agreed to a July package of frameworks and other decisions that allowed the negotiations to advance to a more detailed phase. The July package is a step toward achieving Canada's goal of an ambitious outcome to the negotiations, including a level playing field for the agri-food sector, increased market access for goods and services providers, strengthened rules on anti-dumping, countervail and subsidies, binding multilateral rules for trade facilitation, and the better integration of developing countries into the global economy.

The July package commits WTO members to the elimination of agricultural export subsidies, substantial reductions in trade-distorting domestic support, and contains a framework that could provide substantial improvements in market access for all products. The package provides momentum to the negotiations on trade in services by calling on members to submit any outstanding initial market access offers as soon as possible and requiring members to submit revised offers by May 2005. The package also reaffirms WTO members' commitment to progress in the rules negotiations on anti-dumping, countervail and subsidy and launches negotiations on trade facilitation, a long-standing Canadian objective. The three other Singapore Issues (investment, competition and transparency in government procurement) were removed from the negotiating agenda. Finally, the July package reaffirms the centrality of developing country concerns in the negotiating groups and reinforces the importance of issues such as trade-related technical assistance, capacity building, and special and differential treatment for developing countries.

Further information on the July package can be obtained from the government's trade policy Web site (www.international.gc.ca/tna-nac/WTO/wto-backgrounder-en.asp).

Trade-related Aspects of Intellectual Property Rights and Access to Medicines

Members reached a decision in August 2003 on trade-related aspects of intellectual property rights and public health that would allow low-cost generic versions of brand-name drugs to be shipped to poor countries to deal with public health issues. On May 14, 2004, the Jean Chrétien Pledge to Africa Act received Royal Assent, making Canada the first country to pass legislation implementing the August 2003 decision. The legislation will come into effect once the regulations necessary to complete the legislative framework have been passed. This is expected to take place in spring 2005.

Moving Forward - Canada's Objectives in 2005

Negotiating groups began meeting again in the fall of 2004 to lay the groundwork for the Sixth Ministerial Conference in Hong Kong, China, scheduled for December 13 to 18, 2005. In Canada's view, WTO

members should aim for modalities in agriculture and non-agricultural market access, an increased number of robust services offers and substantial progress in the other negotiating areas, such as rules and trade facilitation, by the time of the Ministerial Conference. Continued efforts will be required to help developing countries build their capacity to more fully participate in the global trading system and foster the conditions for economic growth that will lead to poverty reduction.

The Doha Development Agenda is about creating opportunities for growth and prosperity and strengthening the multilateral rules-based trading system. Trade alone is not a panacea for all the challenges facing nations, but the long-term prospects for the growth and prosperity of any country depend on its ability to tap into foreign markets and to keep its own markets open. These prospects are enhanced by the lowering of trade barriers and the further development of trade rules, which increase transparency, predictability and stability in the trading system. Canada remains committed to advancing trade liberalization and achieving an end result that is beneficial to all members.

In pursuing Canada's trade policy, the Government of Canada will continue its program of outreach and consultations with provinces and territories, and the full range of Canadian stakeholders, to help build understanding and support for the WTO negotiations and to ensure that objectives and priorities reflect Canadian goals and values. As part of this effort, the government's trade policy Web site (www.international.gc.ca/tna-nac) will continue to provide information on trade policy issues and invite public comments on negotiating priorities and objectives.

Improving Access for Trade in Goods

NON-AGRICULTURAL MARKET ACCESS

Under the WTO's Doha Development Agenda, the Non-agricultural Market Access (NAMA) negotiating group has been given a broad mandate to work toward agreement "to reduce, or as appropriate, eliminate tariffs...in particular on products of export interest to developing countries." "Non-agricultural goods" include fish and forest products as well as the full range of industrial products. In 2003, more than 90% of the world's merchandise exports were non-agricultural goods.

In the past year of NAMA negotiations, Canada continued to seek agreement to reduce and bind applied tariffs that are not yet bound, reduce high bound rates and re-bind them at lower rates, and expand the scope of duty-free trade. We also continued to advocate eliminating low tariffs, sometimes referred to as "nuisance rates."

Work in the NAMA negotiating group remains focused on negotiating modalities (i.e. the methods for achieving trade liberalization). Possible modalities include a formula approach, where tariffs are reduced according to a mathematical formula; a sectoral approach, where tariffs on goods in certain sectors are either eliminated or harmonized; and a "request–offer" approach, where bilateral negotiations take place on specific tariff items or product groups. Most members, including Canada, appear to support the adoption of a formula as the primary approach to tariff reduction, supplemented by other modalities.

In addition to formula reductions, Canada has been a strong proponent of sectoral agreements, and it has proposed new tariff elimination agreements for environmental goods, chemicals, forest products, fish and fish products, fertilizers, energy-related equipment and non-ferrous metals. During the past year, Canada's mission in Geneva hosted two sessions to promote sectoral trade liberalization.

The mandate of the NAMA negotiating group also includes the reduction or elimination of non-tariff barriers that unduly restrict trade. In this regard, Canada has stated that governments must retain the right to apply measures in support of legitimate objectives, albeit in the least trade-restrictive manner possible. Canada continued to promote the view that the NAMA negotiating group should address only those non-tariff barriers that are not covered by existing rules and agreements and are not being addressed by other negotiating groups.

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

AGRICULTURE

Canadian farmers and processors operate in a global marketplace, exporting \$ 33.2 billion and importing \$ 29.5 billion worth of agri-food products in 2004. Canada is the world's fourth largest exporter of agrifood products, after the United States, the European Union and Brazil, and was the fifth largest importer in 2003. Given Canada's share of global agri-food trade, Canadians have a significant interest in ensuring that the international trade rules governing agriculture are fair. The Government of Canada strives to ensure that Canadian producers and processors can obtain access to foreign markets and that they are not disadvantaged by high subsidy levels offered by other countries. For that reason, the current round of WTO agriculture negotiations is very important to Canada's agri-food sector.

Canada's initial negotiating position for the WTO agriculture negotiations was announced in August 1999, following extensive consultations with the provinces and with Canada's agriculture and agri-food stakeholders. Canada's primary negotiating objective is to level the international playing field. Specifically, Canada is seeking:

- the elimination of all export subsidies as quickly as possible;
- the elimination or substantial reduction of tradedistorting domestic support; and
- real and substantial improvements in market access for all agricultural and food products.

Canada will also continue to defend the ability of its producers to choose how to market their products, including through orderly marketing structures such as supply management and the Canadian Wheat Board. For Canada's negotiating position, visit the agri-food trade policy Web site of Agriculture and Agri-Food Canada (www.agr.gc.calitpd-dpcilenglish/current/inp.htm).

During the fourth WTO Ministerial Conference in Doha, Qatar, in November 2001, WTO members agreed to launch a new broad-based round of multilateral trade negotiations, incorporating the ongoing agriculture and services negotiations that began in 2000. The Doha Ministerial Declaration included an ambitious mandate and timetable for the agriculture negotiations. One element of the Doha timetable was the establishment of agriculture modalities by March 31, 2003. Modalities, in this context, refer to the specific rules and reduction commitments that WTO members will work out.

WTO members were unable to agree on agriculture modalities by the March 31 deadline, given the large differences that remained on many of the central issues in the negotiations. During the spring and summer of 2003, WTO members worked at both the ministerial and official levels in an attempt to narrow those differences in preparation for the fifth WTO Ministerial Conference, which was held in Cancun in September 2003.

The Cancun Ministerial Conference, however, did not secure agreement on a framework text for the establishment of modalities on agriculture because ministers failed to reach consensus on certain other issues in the negotiations, such as investment and competition policy.

The negotiations resumed in March 2004 and intensified as WTO members worked toward achieving an agreement on an agriculture framework by the end of July. All WTO members have agreed on the July 31, 2004, agriculture framework as part of a broader package setting out the way forward for the Doha Development Agenda. The framework identifies concepts and approaches to guide negotiators in the next stage of the negotiations.

The agriculture framework clearly points in the direction of a more level international playing field, but it goes further on a few issues than Canada would have liked. It provides Canada scope to continue pursuing its key negotiating objectives, and it reflects many key ideas that Canada has put forward over the course of the negotiations. These include substantial reductions in overall levels of trade-distorting domestic support with larger reductions by those countries that subsidize the most; complete elimination of export subsidies by a credible date to be negotiated—a landmark in international agriculture trade; and substantial improvements in market access for all products. However, there is more work to be done on all of the issues of importance to Canada in the next stage of the negotiations, as WTO members work toward the establishment of specific rules and commitments. Canada will continue to press hard for a positive outcome for the entire agri-food sector.

The Government of Canada will continue to consult the full range of agri-food stakeholders and the provincial governments over the course of the agriculture negotiations. The government will also continue to inform Canadians on developments in the negotiations through the Web sites of International Trade Canada and Agriculture and Agri-Food Canada.

TECHNICAL BARRIERS TO TRADE

Canada's objective is to ensure that regulatory measures and standards relating to goods serve legitimate objectives, do not unnecessarily restrict access for exports of Canadian products, and do not represent unnecessary obstacles to trade. Such measures include mandatory technical regulations and conformity assessment procedures, as well as voluntary standards.

The WTO Agreement on Technical Barriers to Trade (TBT) defines the rights and obligations of WTO members with respect to the development and application of technical measures that affect trade in goods. The Agreement is based on the principle that countries have the right to adopt and apply mandatory technical measures in order to achieve a legitimate objective, provided the measures do not discriminate against imported goods and do not restrict international trade more than is necessary. TBT-related measures are subject to WTO dispute settlement provisions. Canada has well-established procedures

for coordinating domestic compliance with the Agreement and for implementing the Agreement to improve market access for Canadian exports.

Canada promotes wide acceptance of, and adherence to, the WTO TBT Agreement and its Annex 3 (Code of Good Practice for the Preparation, Adoption and Application of Standards). Canada also participates in the activities of many international standards bodies, including the International Organization for Standardization (ISO).

Under the WTO TBT Agreement, Canada will continue to press for the removal of unnecessary, ineffective or inappropriate regulations, standards and conformity assessment procedures that act as trade barriers in order to help maintain or enhance market access and lower costs for producers and exporters. For example, Canada continues to raise concerns over other countries' proposals for unnecessary or unjustifiable barriers to products derived from biotechnology, as well as over mandatory requirements for non-product-related process and production method (npr-ppm) labelling. In 2004, Canada issued a communication to the TBT Committee regarding its voluntary standard for the labelling of foods derived from biotechnology. This document is available on the WTO Web site (www.wto.org) under its official document number G/TBT/W/134/Add.2. Canada is working to ensure that the draft European Community legislation for chemicals (known as "REACH"—Registration, Evaluation, Authorization and Restriction of Chemicals) does not create unnecessary barriers to trade and is designed to operate in a non-discriminatory fashion. Canada also raised concerns with an ongoing New Zealand ban on the importation of trout and with proposed legislation by Belgium to ban market access for sealskin products.

Canada will continue work to align or harmonize standards internationally with trading partners and to promote WTO members' acceptance of the results of conformity assessment procedures generated in other members' territories. Our policy framework for mutual recognition activity developed in 2001, under which proposals are assessed on a case-by-case basis, continues to be a sound one. This document is available on the WTO Web site (www.wto.org) under its official document number G/TBT/W/167. In 2003, Canada also submitted a document outlining our

approach to voluntary conformity assessment, which is also available on the WTO Web site (www.wto.org) under its official document number G/TBT/W/210.

Canada was a full participant in the Third Triennial Review of the Implementation and Operation of the Agreement on Technical Barriers to Trade conducted in November 2003. The review document can be found on the WTO Web site (www.wto.org) under its official document number G/TBT/W/174/Rev.1. Canada's submissions included documents on Canadian objectives for the Third Triennial Review, on Canada's approach to voluntary conformity assessment (noted above), and on Canada's technical assistance and cooperation activities in the TBT field. These documents can be found on the WTO Web site (www.wto.org) under document numbers G/TBT/W/196, 210 and 202 respectively.

The biennial Special Meeting on the Procedures for Information Exchange was held in November 2004. Canada's Enquiry Point representative gave an overview of the Enquiry Point's activities in the preparation and submission of notifications, reintroduced Canada's proposal for the creation of a Web-based option for the submission of notifications, and informed delegates of the improvements made to Export Alert! since the system's details were last presented at the June 2001 Information Exchange meeting.

In March 2005, a workshop will be held on Supplier's Declaration of Conformity (SDoC). Canada expects to make a presentation on the various approaches to SDoC using the example of electromagnetic compatibility and electromagnetic interference. A second conformity assessment workshop, which will explore different approaches to conformity assessment, is now planned for early 2006.

During the Third Triennial Review, Canada encouraged members to commit to conducting information exchanges on good regulatory practices, and in 2004 Colombia and Mexico submitted experience documents. Chile also provided members with a report of the sixth Seminar on Regulatory Reform held in May 2004, part of a joint initiative by APEC and the OECD. Canada plans to submit a paper on an aspect of good regulatory practice in 2005.

In 2004, Canada continued to urge members to pursue work related to providing TBT technical assistance to developing countries.

SANITARY AND PHYTOSANITARY MEASURES

In 2004, the Sanitary and Phytosanitary Measures (SPS) Committee continued to focus on the implementation-related concerns identified by developing countries. In particular, the Committee continued to consider, as a priority, the implementation constraints facing developing countries, including the issue of special and differential (S&D) treatment and technical assistance. In addition, the Committee finalized its work on equivalence and continued work to clarify how the obligations related to regionalization and transparency would be put into practice. The Committee also commenced discussions on the triannual review of the SPS Agreement, which is to be concluded in 2005.

The Committee had previously agreed on clarifications of the Decision on Implementation of Article 4 of Agreement (Equivalence), and at its March meeting the Committee adopted a proposed further clarification on paragraph 5. Equivalence remains a standing item on the SPS Committee agenda.

In 2003, the SPS Committee had adopted in principle the Canadian proposal to make the provision of S&D treatment more transparent, subject to the elaboration of procedures by the Secretariat. Following discussions on this proposal in the Committee meetings in March and June 2004, at the October meeting, the Committee adopted the elaboration of the procedure to improve the transparency of S&D treatment.

Although the Committee completed a work plan in 2003 with respect to the proposals on S&D treatment referred to the Committee by the General Council, the Committee was not able to reach a decision on any of the specific issues raised. However, the Committee did agree that this would remain a standing item, and discussions will continue in 2005.

With the adoption of the decision on equivalence, the Committee turned its attention to regionalization, holding informal meetings on the issue at each of its meetings in 2004. A number of countries, including Canada, tabled documents on this issue, and various members provided information regarding their achievement of pest- or disease-free status. The Committee will continue its work in this area in 2005.

Canada continued to update the Committee on developments relating to bovine spongiform encephalopathy (BSE) in Canada at the March, June and October meetings. It provided information on its regulatory response and called on trading partners to resume imports of beef products from Canada on scientific grounds. Canada also encouraged support for the adoption of improvements to the World Organisation for Animal Health (OIE) chapter on BSE. On the margins of the Committee meetings, Canada met with key trading partners (including China, Chinese Taipei, Hong Kong, Japan and Korea) to press for science-based removal of their BSE-related restrictions on imports from Canada.

BOVINE SPONGIFORM ENCEPHALOPATHY

Following Canada's announcement of its first BSE case in Alberta on May 20, 2003, most of our trading partners banned the import of Canadian cattle, beef and other bovine products.

Several trading partners subsequently resumed partial trade in beef with Canada:

- North America: the United States and Mexico;
- Central America and the Caribbean: Antigua and Barbuda, Barbados, Bermuda, Cayman Islands, Cuba, Honduras, and Trinidad and Tobago;
- Middle East: Saudi Arabia and Lebanon;
- Asia: Hong Kong and Macau.

Canada has been asking trading partners to resume trade for a maximum range of beef products and live animals based on World Organisation for Animal Health (OIE) standards. These standards clearly state that BSE should not significantly impair trade when proper safeguards are in place, such as when specified risk material (SRM) has been removed from the product. Removal of SRM is internationally recognized as the most effective public health measure against BSE, and in July 2003 Canada imposed a ban on SRM in products destined for human consumption.

On January 2, 2005, Canada confirmed its second BSE case in Alberta, and on January 11, its third. The cases were identified through the national surveillance program. No part of either animal entered the human or animal feed systems. On January 21, the Canadian Food Inspection Agency (CFIA) announced the conclusion of its investigation of the January 2 case. On February 2, the CFIA announced the conclusion of its investigation of the January 11 case.

In negotiations with our trading partners, Canada has been very open about the prospect of finding more BSE. The identification of additional cases of BSE in Canada was not unexpected, as we have long believed that a low, declining level of BSE is present in North America. Canada's position remains that trading partners should accept beef from Canada based on the range of mitigation measures in place, in particular our SRM ban referred to above.

Canada has kept its trading partners fully informed of all developments regarding the investigations of its three BSE cases and of its regulatory responses. This has been accomplished through direct contacts between ministers and senior officials in Ottawa and their foreign government counterparts and through all of our missions abroad. At the same time, Canadian ministers, senior officials and missions continue to make representations to our trading partners requesting a science-based resumption of trade.

Please refer to individual country sections for more detailed information about specific markets.

AVIAN INFLUENZA

On February 19, 2004, the Canadian Food Inspection Agency (CFIA) confirmed the presence of a mildly pathogenic form of avian influenza in the Fraser Valley of southern British Columbia. On March 9, CFIA confirmed the presence of highly pathogenic avian influenza (HPAI). The virus found in British Columbia was not the same as the virus that exists in Asia. Most trading partners imposed trade measures: in some cases against British Columbia only; in other cases against all of Canada.

On March 11, Canada established a control area in the Fraser Valley to prevent the spread of avian influenza. The control area encompassed a five-kilometre high-risk area and a 10-kilometre surveillance region surrounding the farms where the virus was found. The movement of any kind of bird, any product or by-products of a bird, and anything that had been exposed to a bird into, out of or within the control area was restricted. A strict program of surveillance led to the detection of infection in a total of 42 commercial and 11 backyard premises. The depopulation of all infected flocks was completed on May 20. On July 19, Canada informed the World Organisation for Animal Health (OIE) that the virus had been successfully eradicated in accordance with OIE standards. On August 18, the regulation that had established the control area was rescinded, allowing the domestic movement of poultry and poultry products to resume. On November 23, Canada informed the OIE that, as of November 20, six months had passed since the detection and slaughter of the last affected flock, that during this period the CFIA had not detected any further activity of the HPAI virus, and that, as a result, Canada had met the prescribed OIE guidelines to be recognized as a country free of HPAI.

Canada was proactive throughout the avian influenza outbreak and its aftermath; it kept its trading partners fully informed of developments, provided them with all the scientific information requested and responded to trade measures imposed by trading partners. Initially, Canada's approach was to limit the trade impact by requesting our trading partners to regionalize their measures to the B.C. Fraser Valley control area. As a result, a number of trading partners did limit their measures to British Columbia or to the B.C. Fraser Valley control area. Following the resumption of domestic movement of poultry and poultry products on August 18, Canada asked its trading partners to remove all remaining measures against Canadian products. Canada is calling upon all trading partners that have not already done so to remove their remaining measures on grounds that Canada has met all of the OIE requirements to be recognized as free of HPAI. (See individual market reports for details on how avian influenza trade issues have been dealt with in individual markets.)

Canada also updated the Committee on developments relating to avian influenza in Canada at the March, June and October meetings. As with BSE, Canada provided information on its regulatory response and called upon trading partners to resume trade with Canada on scientific grounds. It also met bilaterally with some trading partners (e.g. South Africa and Japan) to press for science-based removal of their avian influenza-related restrictions on imports from Canada.

The Committee continues to be widely used by WTO members, including developing country members, as a forum for raising bilateral issues.

During the year, Canada raised the issue of Venezuela's import permit requirements for potatoes and meat, and it intervened in support of other members regarding issues such as the EU's directive on wood packaging material, the EU's animal byproduct requirements, Korea's residue level testing requirements and India's new phytosanitary import requirements. The Committee is also used by members as a forum for providing updates on issues of interest to other trading partners (as Canada did on BSE and avian influenza). Issues and concerns relating to implementation of the international standard developed on wood packaging material were raised by many members at each Committee meeting.

In 2004, Canada issued 73 SPS notifications to the WTO Secretariat and provided comments on 26 notifications from other trading partners.

BIOTECHNOLOGY AND GM LABELLING

A number of countries have recently implemented mandatory labelling requirements for food products processed or produced using genetically modified (GM) organisms. The use of labelling to indicate health and safety issues is a legitimate objective, and Canada supports labelling to convey this important information to consumers. However, Canada is concerned about the increased trend toward mandatory method-of-production labelling that relates to neither health nor safety when other options are available that are less trade-restrictive. The use of mandatory labelling to indicate the method of production (when this does not pertain to the characteristics of a product) could be misused to discriminate against "like products" and could represent a technical barrier to trade. Non-discrimination is a key principle of the WTO Agreement.

It should be noted that the issue of mandatory method-of-production labelling is not limited to foods derived through biotechnology. Mandatory method-of-production labelling could have serious implications for other Canadian industries, including manufacturing, mining, forestry and fisheries.

Canadian industry, producers, consumers and food companies are cooperating to provide more information to consumers. These groups recently reached consensus through the Canadian General Standards Board on a voluntary standard that provides a framework for the voluntary labelling of foods derived through or not derived through biotechnology. This standard was approved by the Standards Council of Canada as a national standard in April 2004. Canada has been promoting this approach with trading partners, such as Argentina, Brazil, Chile, China, Hong Kong, Malaysia and Saudi Arabia, and will continue to do so with other countries as opportunities arise.

Canada recognizes the importance of working internationally on biotechnology policy development, and it will continue to monitor developments in other countries to learn from their successes and failures. Canada is playing a leading role in setting international standards for genetically modified foods and

their labelling through the Codex Alimentarius Commission. Canada chairs the Codex Committee on Food Labelling, which is developing guidance on the labelling of foods derived through biotechnology, and has chaired an international drafting group to provide further technical input on guidelines for the labelling of these foods.

TRADE REMEDIES

Bilateral Level

The Government of Canada plays an active role in monitoring trade remedy developments in countries of trade interest to Canadian industry. Specifically, the government identifies and analyzes changes in the trade remedy laws and practices of Canada's key trading partners and makes representations, as appropriate, in specific investigations against Canadian exports. The government assists Canadian exporters involved in trade remedy investigations by providing information and advice, and it participates as a direct respondent in countervailing duty (CVD) cases.

The government has made submissions to various foreign authorities conducting trade remedy investigations against Canadian products. For example, it has filed extensive responses and interventions with U.S. authorities in the context of the U.S. Department of Commerce (DOC) CVD investigation of alleged subsidies for certain types of wheat from Canada, in the U.S. DOC CVD investigation of alleged subsidization of live swine from Canada, and in the context of the DOC's new duty assessment policy, which could have serious adverse consequences for many Canadian exporters in future anti-dumping (AD) duty investigations. The government also continued to pursue its challenges to the U.S. trade actions against softwood lumber from Canada and its North American Free Trade Agreement (NAFTA) challenge of the U.S. wheat countervail decision (further details on these cases can be found in the U.S. section of Chapter 4). In addition, the government continues to follow developments in various disputes that involve Canadian products under Chapter 19 (Review and Dispute Settlement in AD and CVD Matters) of NAFTA. It also defended Canadian interests in the unsuccessful Extraordinary Challenge that was launched by the United States

regarding a NAFTA Chapter 19 panel decision instructing the U.S. DOC to revoke AD duties on pure magnesium.

Last year's edition of Opening Doors to the World reported that China had initiated a sunset review of the AD order on newsprint from Canada and that the Government of Canada had made representations regarding China's safeguard investigation into certain steel products. In June 2004, China extended the order on newsprint for another five-year period and applied temporary safeguard measures on steel imports, which are scheduled to end in May 2005. Korea concluded its investigation on choline chloride exports from Canada and imposed an AD duty in October 2004. In August 2004, Mexico issued a preliminary determination of dumping on newsprint from Canada; and, in November 2004, Australia initiated a dumping investigation on linear low-density polyethylene exports from Canada.

World Trade Organization

In the current multilateral trade negotiations, Canada is pursuing improved disciplines and greater transparency in the use of trade remedy measures by our trading partners. Canada wants to examine key trade remedy provisions with the goal of strengthening and clarifying the rules to achieve greater international convergence and predictability in their application. Canada is participating in the discussion of issues proposed for negotiations, and it has tabled formal papers on anti-dumping and subsidies and on countervailing duty measures. Since March 2004, informal technical discussions have been taking place in the negotiating group with a view to helping advance the work of the group. Canada has submitted informal papers, elaborating on specific issues identified in its earlier formal submissions. Such documents, which are also being submitted by other WTO members, are intended to stimulate informal technical discussions.

Canada's papers are accessible on the department's Web site. The formal papers are at www.international. gc.ca/tna-nac/goods-en.asp#9, while the informal papers are at www.international.gc.ca/tna-nac/TG/techpapers-en.asp.

As well as contributing to the work of the WTO Anti-Dumping, Subsidies and Safeguards committees to ensure that WTO members administer their trade remedy laws in a WTO-consistent manner, Canada requests third-party rights in WTO dispute settlement proceedings involving trade issues that affect our interests. To this end, Canada is currently engaged as a third party in WTO proceedings in the following cases: the European sugar program, U.S. cotton subsidies, U.S. AD duties on cement from Mexico, and Korean AD duties on paper from Indonesia. In addition, in 2004, Canada remained a co-complainant in the WTO challenge of the U.S. Byrd Amendment (Continued Dumping and Subsidy Offset Act of 2000). (For information on the Byrd Amendment, see Chapter 4.) Finally, Canada participated as a third party in the WTO dispute involving the U.S. steel safeguard measures, which were terminated by the U.S. Government on December 4, 2003.

Organisation for Economic Cooperation and Development Steel Initiative

Work on possible multilateral disciplines on government intervention in the steel sector, which was being pursued under the auspices of the OECD High-Level Group on Steel, was suspended in June 2004, when participants agreed to shift their focus to informal bilateral and multilateral discussions. The chief objective of this work is to establish disciplines on government subsidies, specific to the steel industry, that distort steel markets. Such disciplines, combined with industry action to close inefficient and excess steel capacity, are an attempt to address the factors that distort markets and lead to trade actions. The group will meet again in January 2005 to evaluate the prospects for an agreement.

Organisation for Economic Cooperation and Development Shipbuilding Agreement

In 2002, certain OECD members began negotiations aimed at reaching an agreement on strengthened international disciplines related to government support for the shipbuilding sector. Participating economies represent 95% of global shipbuilding capacity and include non-OECD members that are significant in the shipbuilding sector, such as China. The United States is not participating. The target for

conclusion of an agreement is the end of 2005. Canada has been participating in these negotiations as an observer.

North American Steel Trade Committee

In October 2003, the governments of Canada, Mexico and the United States announced the establishment of a North American Steel Trade Committee. The Committee, comprising officials from the NAFTA governments and industries, is a forum within which multilateral, trilateral and bilateral trade issues related to steel can be discussed. The Committee is also a forum for discussing the circumstances that may give rise to trade frictions. A number of proposals for trilateral government actions on issues of mutual concern and interest (e.g., OECD steel negotiations, monitoring) have emerged from the meetings that were held in November 2003 and May and November 2004. A fourth meeting is scheduled for May 2005.

RULES OF ORIGIN

The WTO Agreement on Rules of Origin established a work program to develop common rules of origin for non-preferential trade. The work program was originally slated for completion in July 1998; however, the deadline for completing the core policy issues identified in the December 2002 report of the Committee on Rules of Origin to the General Council has been extended to July 2005. Should the core policy issues be resolved by July 2005, the Committee on Rules of Origin is to complete its remaining technical work, including a review of the results for overall coherence, by the end of 2005. The inability of the Committee on Rules of Origin to meet the deadline for completing the work program stems from the technical complexity of reaching agreement on rules for all products; the entrenched positions of many members, particularly in the areas of agriculture, textiles and apparel, and industrial products; and the lack of consensus on the implications of the work program (i.e. if and when the harmonized rules should be used).

In the development of common rules of origin for non-preferential trade, Canada's objectives continue to be threefold: to achieve common rules that will provide greater transparency and certainty for traders; to prevent countries from using rules of origin to impair market access; and to achieve rules that are technically proficient, reflecting the global nature of the production and sourcing of goods and materials. Regarding the implications of harmonized rules of origin, Canada's position is that members should use such rules in the application of non-preferential commercial policy instruments only if other WTO agreements require determination of a country of origin.

TRADE FACILITATION

Although WTO rules already contain a variety of provisions aimed at enhancing transparency and setting minimum procedural standards (such as Articles V [freedom of transit], VIII [fees and border formalities] and X [publication and administration of trade regulations] of the General Agreement on Tariffs and Trade [GATT]) these rules date back to the original formation of the GATT in 1947 and, in some cases, build on predecessor arrangements from the early years of the 20th century.

At the fourth WTO Ministerial Conference in Doha in 2001, ministers agreed to a focused trade facilitation work program, leading to modalities for negotiations that were agreed upon in July 2004. Canada's priority for the negotiations is to secure strong and binding rules on trade facilitation in a manner that is both practical and meaningful to traders by building on the existing WTO obligations (i.e. GATT Articles V, VIII and X) so as to maximize transparency and streamline customs procedures.

Canada has also been an advocate of trade facilitation in the context of bilateral and regional agreements, and it continues to pursue inclusion of trade facilitation provisions in such agreements. For example, the Canada—Costa Rica Free Trade Agreement includes a chapter on trade facilitation, and this chapter has been presented by Costa Rica to the WTO as an example of what can be achieved in negotiations on trade facilitation.

Canada views trade facilitation as a win-win for all countries and as a natural complement to market access negotiations on goods. New rules on trade facilitation would help countries modernize border systems to expedite the flow of goods across borders, while fully meeting non-trade objectives such as secu-

rity. At the same time, new rules have the potential to reduce the costs of doing business by facilitating access to information regarding countries' customs regulations and procedures while reducing "red tape" at borders. Progress on these issues would especially benefit small and medium-sized companies, for whom such costs can be particularly burdensome.

The WTO's focus on trade facilitation has already served to raise the significance of the issue on the agenda of WTO members. A wide variety of international financial institutions, donors, United Nations agencies, the World Customs Organization and non-governmental organizations are demonstrating renewed interest in supporting programs that facilitate trade and in the implementation of practical solutions. Canada actively supports efforts on technical assistance and capacity building that help developing countries meet higher standards of border management.

The Government of Canada is hopeful that the many benefits of trade facilitation, widely recognized both within and outside the WTO, will bring forth the necessary political will to make progress in this area. It will continue its efforts in support of a positive outcome in these negotiations.

Improving Access for Trade in Services

NEGOTIATION IN THE GENERAL AGREEMENT ON TRADE IN SERVICES

The service sector is leading Canada's transformation to a knowledge-based economy. As a significant exporter of services, Canada relies on multilateral, legally enforceable rules on trade in services. These rules help ensure that Canadian exporters receive fair and equitable treatment in foreign markets. The ongoing services negotiations at the World Trade Organization are thus important for Canada, promising to open up new markets to Canadian entrepreneurship, innovation and know-how.

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

The current round of negotiations started in January 2000, as required by the GATS (established as part of the WTO agreements in 1995). At the Ministerial Conference in Doha in November 2001, WTO members set two key negotiating deadlines: June 30, 2002, for submission of each country's initial requests to other countries, stating areas of interest for market access commitments; and March 31, 2003, for submission of each country's offer to open specific sectors. On August 1, 2004, members agreed to table revised offers by May 2005.

Canada presented its initial requests and its initial offer to other WTO members by the agreed deadlines. A description of the initial market access requests that Canada made of other countries as well as the full text of the initial conditional offer are available on-line (www.international.gc.ca/tna-nac/TS/gats-negotiations-en.asp). The requests sought greater market access in 12 sectors of key interest where there is considerable economic opportunity for Canadian services providers, including providers of professional, business, financial, telecommunications, computer and environmental services.

Canada was the first country to commit to making its offer public, and it is pleased that other WTO members have done so as well. Canada's initial offer contains the proposed guarantees of market access and non-discrimination that it would offer to other countries in exchange for greater access to foreign services markets. Canada proposed making increased market access commitments in financial services; business services (including accounting, legal, architectural, engineering, real estate, and management consulting); communications services (courier services); construction services; distribution services; tourism and travel-related services; and transport services. In addition, Canada offered to improve its horizontal commitments on the movement of natural persons (Mode 4).

The initial offers take into account the basic negotiating objectives that each country has set for itself, as well as the various bilateral requests it has received from other members. Canada's objectives are reflected in its initial offer, which does not include any commitments on health, public education, social services or culture. The initial offer and all subsequent offers are conditional on the overall level of liberalization achieved at the end of the negotiations. This means that the government will allow the offer to become binding at the end of the negotiations only if the outcome is satisfactory for Canada.

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

The next section gives an overview of the financial services sector, using it to highlight the types of market access challenges facing Canadian services suppliers. This is followed by a section on regulatory transparency, which touches more generally on challenges facing Canadian services suppliers and the types of improvements Canada is seeking in negotiations.

FINANCIAL SERVICES

The financial sector in Canada includes services providers such as banks, life and health insurance companies, property and casualty insurance companies, insurance agents and brokers, trust and loan companies, credit unions and caisse populaires, mutual funds, securities dealers, pension managers and investment advisers, as well as specialized finance companies. Overall, the Canadian financial services industry employs about half a million people and contributes over 5% of Canada's gross domestic product (GDP).

Many Canadian financial institutions have a long history of being active abroad. As intermediaries, they were first "brought" abroad, often by Canadian clients that had significant export and/or production activities outside Canada. More recently, however, Canadian financial institutions have actively sought out organic growth opportunities in less mature international markets and acquisitions in established, but profitable, sectors in developed countries. In particular, the foreign operations of the six largest Canadian banks accounted for about 33% of revenue in 2003, while in the same year Canadian life and health insurance companies drew 58% of their total premium income from abroad. Their key foreign market is the United States. However, a number of Canadian financial institutions also have substantial interests beyond the U.S., for example, in South and East Asia, and to a lesser extent in Latin America, the Caribbean and Europe.

The WTO's General Agreement on Trade in Services governs the services trade relations of its members. With respect to financial services, the GATS applies through the general GATS obligations, through the GATS Annex on Financial Services and through individual member schedules that set out specific commitments taken by each member. The Annex on Financial Services modifies some of the general GATS rules and definitions to take into account the special characteristics of the financial sector, including provision of a prudential carve-out to protect investors, depositors, policy holders or persons to whom a fiduciary duty is owed by a financial service supplier, or to ensure the integrity and stability of the financial system. In addition, WTO members have the option of scheduling their commitments pursuant to the Understanding on Commitments in Financial Services, whereby countries choose to take on a generally higher level of commitments. The Understanding, which forms a part of the schedule of the members adopting it, provides a standardized list of liberalization commitments in financial services. A number of members, including Canada, have scheduled their commitments in financial services further to the Understanding. Canada has also taken on financial services trade and investment commitments under Chapter 14 (and its various annexes) of NAFTA.

The export markets that are of greatest interest to Canadian financial services providers include Brazil, the CA4, CARICOM, Chile, China, Costa Rica, Hong Kong, India, Indonesia, Ireland, Japan, Mexico, the Philippines, Singapore, the United Kingdom, the United States and Vietnam. The majority of barriers to trade for this sector are found in Asia and Latin America: barriers include

restrictions on the types of legal establishment allowed, foreign ownership rules, lack of transparency in financial sector regulation, restrictions on permitted business lines and denial of national treatment in regulation, such as discriminatory capital requirements.

Canada's priority in the Doha Round of the GATS negotiations on financial services is to seek greater market access and national treatment opportunities, while encouraging further progress by certain trading partners in providing increased regulatory transparency for the financial sector. Where we have made market access requests to members, we have encouraged them to schedule their financial services commitments according to the Understanding on Commitments in Financial Services. Canada has also submitted financial services requests for more transparency to over a dozen WTO members.

REGULATORY TRANSPARENCY

The need to improve the transparency and predictability of regulatory conditions under which international business is conducted has been repeatedly emphasized by Canadian industry. As part of its various negotiations and discussions, the Government of Canada is exploring current best practices with members with respect to regulatory transparency to better determine whether existing GATS provisions can be enhanced.

The Government of Canada is a proponent of transparency and predictability in regulatory policy, in recognition of its wide-ranging benefits (www.pco-bcp.gc.ca/raoics-srdc/default.asp?Language=e&Page=Home). Many elements of the government's regulatory policy address directly, or otherwise encourage, transparency. The policy requires that stakeholders—industry, labour, consumer groups, professional associations, other governments and interested individuals—be consulted at all stages, from the identification of problems to the development of regulatory solutions.

The official news bulletin of the Government of Canada is the *Canada Gazette*. *Canada Gazette Part I*, published weekly, contains all formal public notices, official appointments, proposed regulations from the government and miscellaneous public notices from the private sector that are required to be published by a federal statute or regulation. *Canada*

Gazette Part II, published every two weeks, contains regulations that are enacted and other statutory instruments. Only government departments and agencies publish in Part II. Canada Gazette Part III, published as soon as is reasonably practicable after legislation receives Royal Assent, contains the most recent public acts of Parliament and their enactment proclamations.

The need for additional trade disciplines to improve regulatory transparency is an issue of growing importance in a number of ongoing services trade negotiations and discussions. In the context of the WTO General Agreement on Trade in Services, in bilateral trade negotiations, and in APEC discussions, several proposals have been tabled that seek to establish a higher transparency standard for trade in services.

Canada is actively engaged in discussions of the GATS Working Party on Domestic Regulation, a subsidiary body of the Services Council. It was established in 1999 to continue work on the development of disciplines that would ensure that measures relating to qualification requirements and procedures, technical standards, and licensing requirements and procedures do not constitute unnecessary barriers to trade. Discussions continue to date on concepts relating to the development of disciplines including the development of the disciplines specific to professional services.

Canada has been recognized internationally for its high standards in regulatory transparency. In its 2003 Trade Policy Review of Canada, the WTO concluded that Canada's trade and investment regime remains one of the world's most transparent. "Transparency and accountability in policy-making are enhanced by evaluation requirements for all federal and most sub-federal government programmes." Further, members recognized that Canada's efforts in implementing economic reforms, as well as the openness and transparency of its trade regime, have enabled it to achieve strong economic performance despite the global economic slowdown. The OECD also praised Canada for its work in this area. In 2002, the OECD Review of Regulatory Reform in Canada concluded that this country is a world leader in good regulatory practice and an innovator in regulatory reform.

GATS CONSULTATION AND OUTREACH PROCESS

Domestic consultations are key to enhancing good governance and transparency and to promoting a democratic approach to trade policy development. Canada's trade policy encompasses interests beyond those of the business world, and all citizens can have a say in determining this policy. Intensive and ongoing consultations on the WTO's General Agreement on Trade in Services remain an important part of the Government of Canada's overall commitment to ensuring that Canada's position on the GATS continues to reflect the interests of all Canadians.

In 2004, the government engaged in another round of cross-sectoral consultations and outreach across the country. These consultations provided valuable input for the ongoing GATS negotiations as well as the services-related components of our ongoing bilateral and regional free trade negotiations. The government coordinated with the provinces and territories to hear not only from provincial officials but also from local business groups and local non-governmental organizations regarding Canada's negotiating position. In addition to ensuring a mutually beneficial dialogue between government officials and stakeholders, the consultations provided a regional dimension and balance to Canadian input concerning the negotiations.

These regional meetings are part of a broader ongoing consultative process. The government has been seeking, and will continue to seek, the views of Canadians in developing trade policies and positions, using a broad range of consultative mechanisms. These mechanisms include the Standing Committee on Foreign Affairs and International Trade (SCFAIT) process, the dissemination of information and solicitation of views via the Internet, and additional multi-stakeholder consultations. The government is working closely with provincial and territorial governments, which have jurisdiction in many areas of services trade, to develop our negotiating positions. Municipalities are also included in the government's consultation and outreach process.

In the context of the guidelines and procedures reaffirmed at the July 2004 meetings, the government will continue to consult, inform and engage citizens as the negotiations progress, ensuring that Canada's position on the GATS continues to incorporate the interests of the Canadian public. The government welcomes the views of interested Canadians. To provide your comments, please visit the Government of Canada Web site for the GATS negotiations (www.international.gc.ca/tna-nac/service-en.asp), where you will find questionnaires on specific services industries.

Issues That Affect Access for Trade in Goods and Services

TEMPORARY ENTRY FOR SERVICES PROVIDERS

Many Canadian firms export their services to markets around the world. In order to expand their export activities, these businesses require the additional certainty that comes from the development of international rules for trade in services. This certainty is particularly important with respect to the mobility of people. In today's global economy, companies often need to move temporarily key personnel (e.g., managers, executives and specialists) to foreign markets to provide services to a subsidiary or affiliate, assist with the sale or delivery of products or services, consult with clients or negotiate contracts. In addition, individual providers of services, such as professionals, require access to foreign markets to deliver their services.

Canadian services providers have benefited from the commitments obtained from other countries during the last round of negotiations in the General Agreement on Trade in Services. In the current GATS negotiations, Canada continues to pursue additional commitments to secure improved access and predictability for Canadian services providers. For example, Canada has requested commitments on independent professionals in such sectors as computer and related services, engineering services and architectural services. Canada is also actively promoting increased transparency of temporary entry commitments so that business people, immigration practitioners, human resources managers, small and medium-sized enterprises and other affected parties can better understand the temporary entry commitments undertaken by members.

In its initial conditional offer, Canada proposes increasing the length of stay for business visitors, intra-corporate transferees and professionals; providing coverage for after-sales/after-lease services providers and their spouses and common law partners; and increasing the transparency of its temporary entry commitments.

In addition to the GATS, Canada is party to several regional and bilateral trade agreements containing labour mobility provisions that promote trade in goods, services and investment. These include the North American Free Trade Agreement (NAFTA), the Canada-Chile Free Trade Agreement (CCFTA), and the Canada-Costa Rica Free Trade Agreement (CCRFTA). The GATS, NAFTA and the CCFTA contain comprehensive temporary entry provisions facilitating the movement of business persons in three categories: business visitors, intra-company transferees and professionals. In addition, NAFTA and the CCFTA contain a fourth category to facilitate the temporary entry of traders and investors. Canada participates in a trilateral NAFTA Temporary Entry Working Group, which deals with ongoing implementation issues related to temporary entry and works closely with U.S. officials on bilateral temporary entry issues.

Canada is currently negotiating several other regional and/or bilateral trade agreements including the Free Trade Area of the Americas, Central America Four and Singapore, which may include temporary entry provisions.

SINGAPORE ISSUES

At the July 31, 2004, WTO General Council meeting in Geneva, WTO members agreed that the three Singapore issues of transparency in government procurement, investment and competition policy would not form part of the work program set out in the Doha Declaration. The decision followed strong opposition to negotiations on the three issues from the G20 and G90 groups of developing countries. Although no work toward negotiations on any of the three Singapore issues will take place within the WTO during the Doha Round, Canada continues to see value in addressing these issues in the multilateral trading system and will continue to promote their inclusion in future negotiating rounds.

GOVERNMENT PROCUREMENT

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

Canada, along with 37 other countries, is party to the WTO Agreement on Government Procurement (AGP). The AGP provides the basis for guaranteed access for Canadian suppliers to the United States, the European Union, Japan and other key markets. Canada continues to pursue greater and more secure market access through the AGP. A review of the AGP, with a mandate to expand coverage, eliminate discriminatory provisions and simplify the agreement, remains a priority. Work is continuing, with input from the provinces and other stakeholders, to establish Canada's priorities for further market access.

DISPUTE SETTLEMENT

The WTO currently has 148 members. Disputes occasionally arise among members over the application of the rules contained in the Agreement Establishing the World Trade Organization (WTO Agreement). To resolve such disputes, WTO members have agreed to follow a process contained in the WTO Understanding on Rules and Procedures Governing the Settlement of Disputes (Dispute Settlement Understanding or DSU). This process includes consultations, reviews by independent panels when parties are unable to settle their differences at the consultation stage, and possible recourse to a standing Appellate Body. The DSU helps ensure that members adhere to the trade rules they have negotiated and reduces the scope for unilateral trade actions. The DSU is, without question, a key element of the rules-based, multilateral trading system.

There are relatively few disputes among WTO members at any given time, and many are resolved without recourse to the WTO dispute settlement system.

During the past year, Canada has made use of the WTO's dispute settlement process to challenge a number of measures maintained by other members that Canada considers inconsistent with the WTO Agreement. The most significant of these measures concerns the anti-dumping and countervailing duties that the United States has imposed on Canadian softwood lumber exports.

On February 17, 2004, the Panel and Appellate Body reports were adopted in Canada's complaint against the United States regarding the U.S. Department of Commerce's final determination of subsidy with respect to certain softwood lumber from Canada. The DOC's final determination was found to be inconsistent with the United States' WTO obligations under the Agreement on Subsidies and Countervailing Measures. Details can be found on the WTO dispute settlement Web site (www.wto.org/english/tratop e/dispu e/dispu e.htm), under the symbols WT/DS257/R and WT/DS257/ AB/R. On April 24, 2004, Canada and the United States agreed to a reasonable period of time for the United States to implement the recommendations and rulings of the Dispute Settlement Body (DSB). On December 17, 2004, the United States issued a determination, which in its view implemented the

- recommendations and rulings of the DSB. Canada does not believe that the United States has complied with its WTO obligations and on January 14, 2005, requested that a compliance panel review the U.S. implementation.
- On April 26, 2004, the Panel Report was adopted in Canada's challenge to the final determination of the U.S. International Trade Commission that a U.S. industry is threatened with material injury due to imports of softwood lumber from Canada. The final determination was found to be WTOinconsistent. Details can be found on the WTO dispute settlement Web site (www.wto.org/english/ tratop_e/ dispu_e/dispu_e.htm), under the symbol WT/DS277/R. On October 1, 2004, Canada and the United States agreed that the United States would implement the recommendations and rulings of the DSB by January 26, 2005. On November 24, 2004, the International Trade Commission issued a new affirmative threat of injury determination to implement the WTO findings. On February 25, 2005, the WTO DSB established, at Canada's request, a compliance panel to review the U.S. implementation of the DSB's rulings and recommendation. Canada also requested authority to retaliate against the U.S. in the amount of \$4.25 billion. This request will be considered if Canada is successful in its compliance case.
- On August 31, 2004, the Panel and Appellate Body reports were adopted in Canada's challenge of the U.S. Department of Commerce's final determination of dumping with respect to certain softwood lumber from Canada. The DOC's final determination was found to be inconsistent with the United States' WTO obligations under the Anti-Dumping Agreement. Details can be found on the WTO dispute settlement Web site (www.wto.org/english/ tratop_e/dispu_e/dispu_e.htm), under the symbols WT/DS264/R and WT/DS264/AB/R. On October 18, 2004, Canada requested arbitration on the reasonable period of time for the United States to implement the recommendations and rulings of the DSB. The parties have agreed to a reasonable period of time of eight months from August 31, 2004, the date when the Panel and Appellate Body reports were adopted. The United States is to complete implementation by May 2, 2005.

Canada was also a complainant in two other cases.

- On January 26, 2004, Canada and seven other complainants requested authorization to retaliate against the United States for its failure to implement the recommendations and rulings of the DSB regarding the Byrd Amendment. The United States requested arbitration of the level of suspension of concessions requested. The arbitrator's award was issued on August 31, 2004. Details can be found on the WTO dispute settlement Web site (www.wto.org/english/tratop_e/dispu_e/dispu_e.htm), under the symbol WT/DS234/ARB/CAN.
- On August 29, 2003, a panel was established to hear a complaint by Canada, the United States and Argentina against the European Community's moratorium on the approval and marketing of biotech products. The complainants consider that these measures are inconsistent with the European Community's obligations under the Agreement on the Application of Sanitary and Phytosanitary Measures, the Agreement on Technical Barriers to Trade and the GATT 1994. The panel was composed on March 4, 2004, and is expected to issue its report in the spring of 2005.

Canada was also a defendant in one case.

On September 27, 2004, the Panel and Appellate Body reports were adopted in a U.S. complaint that certain actions of the Government of Canada and the Canadian Wheat Board, as well as some Canadian grain transportation policies, were WTO-inconsistent. The Canadian Wheat Board's export regime was found to be WTO-consistent. However, certain Canadian grain transportation policies and parts of the Canada Grain Act and Canada Grain Regulations relating to grain segregation and entry authorization for foreign grain were found to be WTO-inconsistent. Details can be found on the WTO dispute settlement Web site (www.wto.org/english/tratop_e/dispu_e/dispu_e.htm), under the symbols WT/DS276/R and WT/DS276/ AB/R. Canada and the United States have agreed that Canada will have until August 1, 2005, to implement the recommendations and rulings of the DSB.

Turning to the issue of improving the DSU, it should be noted that the WTO's dispute settlement mechanism is arguably one of the most effective system in existence for resolving disputes between sovereign states. The DSU has worked quite well overall, but significant benefits could be realized by improving and clarifying a number of rules and procedures. At the fourth Ministerial Conference in Doha, Qatar, WTO members agreed to negotiate improvements and clarifications to the DSU by May 2003. That deadline was subsequently extended to May 2004; however, because members were unable to reach agreement by that date, the WTO General Council agreed in July to continue the DSU negotiations without imposing a deadline. Members also agreed to have the talks continue on the basis of the work already done, including a draft text produced by the chair and proposals by members. Canada supported this decision.

To advance the negotiations, Canada would like to see members set clear priorities that would form the basis for substantive negotiations on new text. Work that Canada is undertaking with other members, as well as some of the proposals by individual members, will help to bring the necessary focus to the negotiations.

Canada has circulated proposals to better protect confidential information, streamline the panel selection process and enhance the transparency of dispute settlement proceedings. In addition, Canada has brought together a group of developed and developing country members to refine and develop text on other key issues. In May 2004, this group made well-received proposals to the broader membership to address the sequencing of compliance and retaliation proceedings, to provide for the possibility of remanding issues from the Appellate Body to the original panel, and to establish rules to govern the lifting of retaliatory measures previously authorized by the DSB. Canada also supports clarifications and improvements to the DSU to enhance the rights of third parties to disputes and to govern participation by non-members as "amicus curiae." Canada continues to engage with other members to try to achieve consensus on these issues.

Accessions to the World Trade Organization

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

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

The WTO has 148 members, with Cambodia and Nepal being the most recent. The accession of Cambodia and Nepal, which were the first least-developed countries (LDCs) to join the WTO since 1995, brings the current number of LDCs in the WTO to 32.

Canada is active in the accession negotiations of all applicants. To date, the following 28 countries are seeking accession: Afghanistan, Algeria, Andorra, Azerbaijan, Bahamas, Belarus, Bhutan, Bosnia and Herzegovina, Cape Verde, Ethiopia, Iraq, Kazakhstan, Lao People's Democratic Republic, Lebanese Republic, Libyan Arab Jamahiriya, Russian Federation, Samoa, Saudi Arabia, Serbia and Montenegro, Seychelles, Sudan, Tajikistan, Tonga, Ukraine, Uzbekistan, Vanuatu, Vietnam and Yemen.

As well, Canada is working actively with other members to facilitate the accession of LDCs, recognizing that WTO accession will help LDCs in their development efforts and transition to fully participating members of the world trading system. Canada endorses using the Recommendations for Facilitating and Accelerating the Accession of the LDCs to the WTO Agreement, approved by the WTO General Council in December 2002.

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

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

Negotiating positions for accessions are developed interdepartmentally and in consultation with provincial and territorial governments and the private sector. Accession negotiations offer an important opportunity to resolve Canadian market access problems in the applicants' markets.

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

anada has a vested interest in keeping the flow of trade and investment strong. The value of Canadian direct investment abroad increased more than fourfold between 1990 and 2003, from \$98.4 billion to almost \$400 billion. In addition, in 2003 Canada had a stock of foreign direct investment (FDI) amounting to \$358 billion. This, in turn, generates higher levels of innovation, productivity, jobs and growth of the Canadian Economy.

Canadian Direct Investment Abroad

Canadian businesses know that if they are to prosper, they must compete for capital and market share in the international knowledge-based economy. Canadians are responding to this challenge by building some of the most competitive and innovative companies in the world. In this dynamic economic



CANADA'S INVESTMENT REGIME

Canada is consistently cited as an attractive place to invest. The Economist Intelligence Unit recently ranked Canada as the best country in the world in which to conduct business over the next five years (2004–2008), up from second place in the last period (1999–2003). Canada attractiveness was also noted in the 2004 United Nations Conference on Trade and Development *World Investment Report*. In one of the surveys conducted for the report, executives at transnational corporations and economic experts ranked Canada third behind the United States and the United Kingdom as a top destination for foreign direct investment among developed countries. Canada also remained high on the list of economies with high potential to attract foreign direct investment (it ranked fifth).

Further evidence of Canada's desirability as an investment destination comes from the 2004 KPMG study of international business costs in 11 countries in North America, Europe and the Asia-Pacific region (published in *Competitive Alternatives: The CEO's Guide to International Business Costs*). For the fifth time in a row, Canada took top honours with the lowest recorded business costs and a 9% cost advantage relative to the United States. When the results were broken down by municipality, Canadian cities were all more cost-competitive than any of those south of the border.

Furthermore, Canada was the most cost-competitive country in 9 of the 17 industry sectors studied, showing significant advantages over other countries in the following industries: biomedical research and development, clinical trials and back office/call centres. Canada was also singled out for having significant labour cost advantages relative to the United States. These findings, coupled with our strong economic fundamentals and our close trading relationship with the United States, indicate that Canada is an ideal location for international investors seeking to serve the North American market.

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Canada has one other key advantage as an investment destination: the government's commitment to transparency. Transparency-enhancing policies underpin the stable and predictable economic environment that enables the flow of productive capital; they send a positive signal to domestic and foreign investors about the government's determination to create an investment-friendly business environment. In 2003, Transparency International's Corruption Perception Index placed Canada in the top percentile, beating out all other G8 countries in being viewed as transparent and free of corruption.

The findings of these surveys and studies confirm Canada's standing as one of the most open and attractive places in the world in which to invest. However, while the macroeconomic climate for business investment is good, some international surveys suggest that investors feel that Canada's microeconomic environment might need attention. Policy action is required to improve some aspects of the business and investment climate. Here, the Smart Border and Smart Regulation initiatives have the potential to further reduce transaction costs and make Canada a more attractive investment destination. The Government of Canada's Innovation Strategy is intended to similarly improve the investment climate for knowledge-based industries.

The government recognizes the important role that investment plays in the Canadian economy and will continue to work to ensure that Canada remains a top choice for international investors. However, the government is also aware of the need to ensure that incoming investment benefits Canada. This need is addressed through the Investment Canada Act, which provides for the review of significant investments in Canada made by non-Canadians. Under the Act, an application for review must be filed for acquisitions of control of existing Canadian businesses or establishments of new businesses in Canada that exceed a certain dollar value. In 2004, direct acquisitions of Canadian businesses by WTO members were subject to a review threshold of \$237 million. For acquisitions by non-WTO investors, the threshold for review is either \$50 million or \$5 million and at least 50% of global assets in Canada. The Investment Canada Web site provides guidelines on the application of the Investment Canada Act (www.investcan.ic.gc.ca).

system, these Canadian companies not only compete to secure markets in other countries, but many also establish distribution facilities abroad through international investment. Increasingly, many of their suppliers and investors, both in Canada and abroad, may be foreign. Over the past decade, Canadian investment abroad has increased to the point where Canada is now a net exporter of capital by a significant margin.

Although the most important destination for Canadian direct investment abroad as of 2003 was the United States (41% or \$165 billion), Canadian firms have made significant inroads in Europe, especially in the European Union in recent years. The EU's share of total Canadian direct investment abroad (CDIA) rose from 18.6% in 1999 to 24.8% in 2003.

Foreign Direct Investment in Canada

Foreign investment is also critical to Canada's future. FDI accelerates productivity growth and funds economic transformation. In addition to bringing capital to the Canadian economy, FDI brings the latest technology embedded in machinery and production processes, as well as marketing and management expertise and access to export markets through established distribution networks. FDI also stimulates increased domestic competition, a major driver of innovation in a knowledge-based economy. Maintaining the flow of FDI into Canada and expanding existing investment are essential to generating economic growth and wealth to fund a

world-class educational and health system for all Canadians. Canada welcomes foreign investment and its associated benefits for economic growth, employment and broadening of the tax base.

The stock of Foreign direct investment in Canada rose to about \$358 billion in 2003, up by \$8.6 billion over 2002. The United States, Europe and Asia all increased their FDI in Canada, with investment from the United States totalling over \$228 billion, or 64% of total FDI in Canada.

Canada faces a serious challenge in continuing to attract FDI. In the past decade, Canada's share of NAFTA's inward FDI stock has declined by about a third, from 21% in 1990 to about 14% in 2003. Canada's share of global inward FDI stock also fell by half during this period, from 6% to 3%. Canada's share of global inward FDI did, however, remain slightly higher than our share of world GDP. The competition for FDI globally is likely to intensify further, especially from emerging markets such as China, India and Brazil. Those countries have emerged as magnets for FDI following a wave of trade and investment liberalization and privatizations, bolstered by the availability of labour and low production costs.

Canada's International Investment Agenda

Foreign investors in Canada already enjoy a long tradition of regulatory fairness and the strong legal protections available under Canadian law. Canada's commitment to international investment rules further reassures investors that Canada offers a fair, secure and predictable environment. While such rules aim to attract foreign investment into Canada, they also serve to protect Canadian investors abroad. Canadian businesses have been actively investing abroad and making foreign acquisitions. Providing investors with protection from arbitrary and discriminatory actions is important: it promotes a stable and secure environment for international investment, which in turn facilitates innovation, productivity and prosperity, both at home and abroad.

Today's globalized economy is increasingly based on the more intangible output of services firms, and it is to a large extent dependent upon international capital flows. A fundamental characteristic of this new economy is that it relies more and more on the creation, purchase and transfer of capital and knowledge. In addition, the growing importance of positioning within global value chains has increased competitive pressures—and opportunities—for Canadian firms in the marketplace.

Recognizing the keen competitive environment for international investment, the Government of Canada seeks to showcase Canadian economic strengths and attributes to an international audience of potential investors, site selectors, media and business influencers. The government engages its posts around the world, as well as its partners from all levels of government, in raising awareness of Canada's innovative business climate and business clusters. It also participates in various activities aimed at promoting investment and ensuring that decision makers receive the sector-specific information they need to consider Canada as a business location. Key promotional activities include the Business Leaders Initiative and presence at world-class signature events. In addition, government representatives meet with targeted CEOs of transnational firms to highlight business opportunities in Canada.

Canada is pursuing and is party to various agreements establishing a framework of rules and disciplines that provide investors with a predictable, rules-based investment climate, as well as dispute settlement procedures designed to provide timely recourse to an impartial tribunal. Such rules do not jeopardize our sovereignty or threaten our economic or social values. All levels of government are still able to legislate and regulate in the public interest. Foreign investors are subject to the same laws and regulations as Canadian investors—including those aimed at protecting the environment and ensuring high labour, health, building and safety standards—just as Canadian investors are subject to the laws of the foreign states in which they invest.

BILATERAL INITIATIVES

Bilateral investment treaties are used extensively by trading nations as instruments to protect their foreign investments abroad. More than 2,000 such agreements are in place worldwide. Since 1989, Canada has ratified 21 bilateral foreign investment protection and promotion agreements (FIPAs), bringing into force a framework of legally binding rules to protect and promote Canada's foreign investments in specific countries. Canada's FIPAs provide assurances to Canadian enterprises that rules governing their investment will remain bound by certain standards of fairness and predictability. FIPAs reduce the risks and costs associated with investing abroad, particularly in emerging economies, which are becoming increasingly attractive destinations for Canadian investment. Canada has engaged in a renewed effort to expand its network of FIPAs, and it is actively working toward agreements with China, India and Peru. A complete list and the texts of Canada's FIPAs can be found on the department's Web site (www.international. gc.ca/tna-nac/fipa_list-e.asp).

BILATERAL AND REGIONAL FREE TRADE AGREEMENTS

Rules covering investment form an important part of the comprehensive framework that Canada seeks in its free trade agreements (FTAs). An investment template exists in the NAFTA context, which forms the basis for the investment chapter of the Canada–Chile Free Trade Agreement and for most of Canada's FIPAs.

Canada pursues comprehensive investment rules in FTAs or in FIPAs, depending on circumstances such as prevailing trade and investment trends and other criteria.

WORLD TRADE ORGANIZATION

At the fourth World Trade Organization Ministerial Conference held in Doha in November 2001, ministers agreed to launch investment negotiations following the fifth Ministerial Conference, conditional upon an agreement on negotiating modalities. However, at the fifth WTO Ministerial, which took place in Cancun on September 10 to 14, 2003,

ministers were unable to reach consensus on whether to initiate these negotiations. Similarly, at the July 31, 2004, General Council meeting in Geneva, WTO members could not reach consensus on a way forward on investment. As a result, the General Council agreed that no work toward multilateral investment negotiations will take place for the duration of the Doha Round.

Canada has submitted nine papers to the WTO Working Group on the Relationship between Trade and Investment. These papers examined a number of issues, including the seven elements identified for clarification in paragraph 22 of the Doha Declaration. These submissions can be found on the department's Web site (www.international. gc.caltna-naclother/wgti-en.asp). Canada has also participated actively in technical assistance and capacity-building activities organized by the WTO, the United Nations Conference on Trade and Development and other appropriate organizations, in recognition of the importance ministers placed on such assistance in the Doha mandate.

The WTO 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 requirements and export restrictions applicable to goods industries. The General Agreement on Trade in Services addresses foreign investment in services as one of four modes of supply of services (i.e. commercial presence).

ASIA-PACIFIC ECONOMIC COOPERATION FORUM

Canada is also involved in regional investment discussions with Pacific Rim countries through the Asia-Pacific Economic Cooperation forum. Under a program of voluntary individual action plans guided by non-binding investment principles, APEC economies work to liberalize their investment regimes by removing restrictions on market access and strengthening their legislation to protect foreign investment. In 2004, Canada integrated into its Individual Action Plan a set of "Transparency Standards on Investment," which were agreed upon

by Canada and other APEC economies at the 14th APEC Ministerial Meeting held in Bangkok, Thailand, in October 2003. The purpose of these standards is to ensure, at a minimum, that APEC members promptly publish or otherwise make available their laws, regulations, guidelines and other measures affecting investment. In agreeing to these standards, APEC members are one step closer to meeting the Bogor goals of free and open trade and investment in the APEC region by 2010 for developed economies and 2020 for developing countries.

The standards can be viewed on the APEC Web site (www.apec.org/apec/leaders__declarations/2003_leadersstmtimplapectranspstd.html).

Canada's Individual Action Plan can also be accessed on the APEC Web site (www.apec-iap.org).

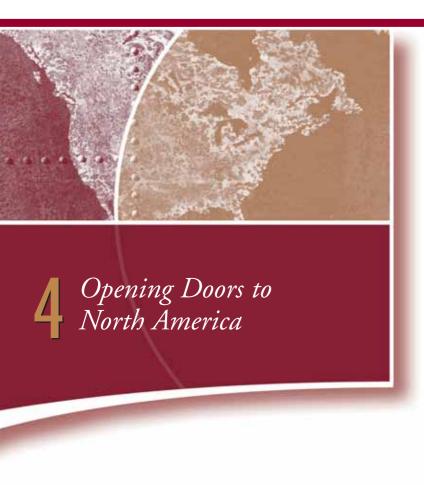
Corporate Social Responsibility

The Government of Canada expects Canadian companies to carry out their operations in a socially and environmentally responsible manner, at home and abroad. To this end, the government strongly encourages Canadian companies to adhere to standards of corporate social responsibility (CSR) such as those in the OECD Guidelines for Multinational Enterprises (MNEs). These guidelines, one of four investment instruments endorsed by 39 governments, provide a voluntary framework of standards and principles for responsible business conduct in areas such as the environment, labour, human rights and anti-corruption.

The government has established a National Contact Point (in the form of an interdepartmental committee) to work closely with business and other stakeholders to raise awareness of the guidelines and help resolve issues. The guidelines and other international standards and best practices, such as the UN Global Compact and Tripartite Declaration of the International Labour Organization, provide corporations with a common frame of reference for responsible business practices.

The government's work promoting CSR builds on private sector—led CSR initiatives and growing recognition in the business community of the business advantages of CSR. In addition to improving corporate reputation and competitive advantage, adherence to international CSR norms can assist companies in managing risks and in operating responsibly in emerging markets, where weak governance structures can be a concern.

Further information is available from Canada's National Contact Point for the OECD Guidelines for MNEs Web site (www.ncp-pcn.gc.ca) or the department's Web site (www.international.gc.ca/tna-nac/social-e.asp).



North American Free Trade Agreement

Overview

anuary 1, 2004, marked the 10th anniversary of NAFTA's entry into force. As we take stock of its impact to date, it is clear that it has served Canada very well. Canada's trade in merchandise with its NAFTA partners has nearly doubled since 1994, reaching \$573.4 billion in 2004. Under the Agreement, Canadian producers are better able to realize their full potential by operating in a larger, more integrated and efficient North American economy. In turn, the enhanced economic activity and production in the region has contributed to the creation of more and better-paying jobs for Canadians. Consumers have also benefited from the heightened competition and integrated marketplace through better prices and a greater choice of higher quality goods and services.

Under NAFTA, Canada has consolidated its position as the largest merchandise trading partner of the United States. Canadian merchandise exports to the United States grew at a compounded annual rate of 8.5% between 1990 and 2004. With regard to Mexico, our other NAFTA partner, bilateral trade in 2004 reached \$16.4 billion; Mexico is now Canada's fifth largest export destination and ranks third as a source of imports worldwide. Altogether, our NAFTA partners account for 85.4% of Canada's total merchandise exports.

Trade in services has also increased under NAFTA. In 2002, Canada's trade in services with the United States and Mexico was approximately \$82 billion, up from \$46 billion in 1994 (an average annual compounded growth rate of 7.4%). Since 1997, the two-way trade in services between Canada and Mexico has grown at a compounded annual rate of 9.5%, to reach over \$1.4 billion. Our trade in services with the United States reached \$78 billion in 2004, up from \$42.3 billion in 1993. In terms of Canada's total services exports, approximately 61% goes to our NAFTA partners.

NAFTA has also had a positive impact on investment. Since 1994, annual foreign direct investment inflows into Canada averaged \$28.7 billion, almost six times the average registered over the three pre-NAFTA years of 1991 to 1993. Total foreign direct investment in Canada reached \$358 billion in 2003, of which more than 63% came from our NAFTA partners. Foreign direct investment in Canada from the United States increased to \$228.4 billion in 2003. Canadian direct investment in its NAFTA partners also grew, reaching \$164.9 billion in the United States in 2004 and \$2.8 billion in Mexico.

The NAFTA framework will continue to offer an effective and efficient tool for further enhancing Canada's trade and economic relations with the United States and Mexico.

Looking Forward

The NAFTA parties continue to look for opportunities to further enhance trilateral trade and investment. The ongoing work focuses on reducing export-related transaction costs in the NAFTA region.

On July 16, 2004, the NAFTA Commission met in San Antonio, Texas. Trade ministers reviewed progress in ongoing initiatives and agreed on a series of practical steps to continue enhancing trilateral trade and investment.

On rules of origin, for example, ministers approved a proposal to liberalize the rules of origin for a broad range of food, consumer and industrial products, such as tea, spices, seasonings and carrageenan (a food and industrial ingredient), precious metals (gold, silver and platinum), speed drive controllers and their printed circuit assemblies, household appliances (e.g. personal fans, mixers, heaters, hair dryers, coffee makers, microwave ovens), loudspeakers, thermostats, toys and some parts used in specific equipment or machinery. These changes, which are supported by industries in the three NAFTA countries, will reduce administrative burdens as well as provide producers with more flexibility in sourcing components for use in the production of their goods. Together, these changes will affect over US\$20 billion in trilateral trade. On January 1, 2005, Canada and the United States implemented measures to liberalize the NAFTA rules of origin applicable to these goods. The measures will come into force in Mexico following ratification by the Mexican Senate.

As well, ministers asked officials to continue considering new requests for liberalizing NAFTA rules of origin from consumers and producers. Specifically, ministers asked that work continue on sectors such as chemicals, pharmaceuticals, plastics and rubber, motor vehicles and their parts, footwear and copper, as well as any items for which all three countries have a common most-favoured-nation duty rate of zero. On August 7, 2004, a Canada Gazette notice was published that invited submissions for this initiative on a so-called Track Two approach. Officials will also examine the rules of origin in the free trade agreements that each country has negotiated subsequent to NAFTA to determine whether those new rules should apply to NAFTA.

Work is also being done to ensure that NAFTA continues to reflect the commercial reality of North America today and to make all three countries more competitive. For example, in the textile and apparel sectors, officials are looking at ways to combat illegal transshipment and enhance the competitiveness of these industries in North America through means

such as cross-cumulation provisions in the rules of origin. The NAFTA parties are also working to facilitate access for business persons who need to work in any of the three NAFTA countries. On the investment front, Canada continues working to increase transparency and improve the implementation of Chapter 11.

Settling Disputes Under NAFTA

In a large trade and economic relationship such as exists under NAFTA, some disputes inevitably arise. NAFTA thus provides for expeditious and effective dispute settlement procedures when the parties cannot resolve their differences through informal discussion in the relevant committees and working groups, or through other consultations.

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

Between November 1, 2003, and November 1, 2004, one request was filed for a Chapter 19 panel review of a decision made by Canadian agencies involving a Mexican product, and this review is still active. The decision centred on the injury determination relating to wood venetian blinds and slats originating in or exported from Mexico. During the same period, the panel proceeding regarding the dumping determination relating to certain iodinated contrast media was completed.

Additionally, two requests were filed during the same period for Chapter 19 panel review of decisions made by U.S. agencies regarding Canadian products, one involving hard red spring wheat (injury) and the other pure and alloy magnesium (CVD). As well, during this period, eight of the reviews of decisions made by U.S. agencies regarding Canadian products such as magnesium, carbon steel, softwood lumber, steel wire rod, durum wheat and hard red spring wheat remained active, while one review involving pure magnesium was completed and another one

involving a dumping determination on steel wire rod was withdrawn. Also during this period, six panel decisions were issued involving magnesium, carbon steel and softwood lumber products.

In other developments, one Extraordinary Challenge Committee (ECC) proceeding involving the United States and Canada was filed relating to softwood lumber from Canada; this proceeding is still active. As well, the Committee issued a decision in another ECC proceeding involving Canada and the United States in the matter of pure magnesium.

At Canada's initiative, during the July 2004 Commission meeting, trade ministers noted the value of the NAFTA dispute settlement provisions and reaffirmed their commitment to their effective operation. Additionally, Canada continuously reminds its NAFTA partners that it is in the interests of all three countries to ensure that panel decisions are respected and implemented properly, in order to protect the integrity of the Agreement. The Prime Minister registered this message directly with President Bush during their meeting on November 3, 2004. The Prime Minister and the President agreed that officials should review NAFTA Chapter 19 (Review and Dispute Settlement in Anti-Dumping and Countervailing Duty Matters) to ensure its effective operation.

Standards-related Measures

Canada continues to engage in a constructive dialogue with its NAFTA partners, principally in the NAFTA Committee on Standards-related Measures. Canada's position is that national regulatory burdens on industry should be minimized given the increasingly integrated North American market.

The recently released report of the External Advisory Committee on Smart Regulation stressed the importance of international regulatory cooperation for building a competitive economy. It argued that minimizing regulatory differences is essential in order to enhance Canada's competitiveness in the global market.

The NAFTA sectoral subcommittees (automotive, land transportation, telecommunications and textile labelling) provide a forum for trilateral cooperation in the area of standards and regulations. Some headway is being made in these committees (e.g. a memorandum

of understanding is close to being finalized with respect to the use of care symbols on textile and apparel goods). The committees serve as an excellent forum for the further development of regulatory cooperation.

Canada is also working to enhance bilateral dialogue at the provincial and state levels in order to increase cooperation in the development of standards and regulations.

Canada will continue to encourage and foster, through collaborative efforts with the United States and Mexico, compatible standards-related measures, including the development and use of voluntary consensus standards for the North American market as a substitute for national regulatory requirements. Success in this area would positively affect existing trilateral trade.

The United States

Overview

It is difficult to overstate the importance of Canada's trading relationship with the United States. Canada and the United States are each other's largest customers and biggest suppliers. This relationship is of paramount importance to Canada. Canada and the United States share the largest bilateral flow of goods, services, people and capital in the world, moving approximately \$1.8 billion in goods and services across the border each day.

Between 1994 and 2004, two-way trade in goods increased at an annual compounded rate of approximately 6%. In 2004, Canada exported \$352 billion in goods to the United States and imported \$250 billion in return. About 79% of Canadian goods and services exports are destined for the United States, and these exports are equivalent to 30% of the value of our GDP. Services exports to the United States totalled \$36 billion in 2004, with corresponding imports of \$41.8 billion.

Since the implementation of the Canada–U.S. Free Trade Agreement (FTA) in 1989, two-way trade has tripled, and since January 1, 1998, virtually all Canada–U.S. trade has been tariff-free, fostering increased trade and investment among the partners.

U.S. direct investment in Canada increased from approximately \$80 billion in 1989 to more than \$228 billion in 2003, while Canadian direct investment in the United States grew from some \$57 billion to close to \$165 billion in the same period.

The visit of President George W. Bush to Canada in November 2004 was particularly critical to Canadian interests. During the visit, Prime Minister Martin and President Bush committed to deepening cooperation in North America and in the world. They agreed to work bilaterally to address Canada–U.S. priorities and to continue close cooperation with Mexico on issues of trilateral importance. They also announced a New Partnership to lay out an agenda designed to increase

the security, prosperity and quality of life of citizens on both sides of the border. Mexico's President Vicente Fox has strongly endorsed the New Partnership and expressed his commitment to work with Canada and the United States on matters of trilateral interest.

As a first step under the New Partnership, Prime Minister Martin and President Bush agreed to accelerate efforts to liberalize rules of origin and to pursue joint approaches to partnerships, consensus standards and smarter regulations in order to promote greater efficiency and competitiveness while enhancing health and safety. Canada and the United States will also continue joint efforts on the Smart Border Accord to secure the safe movement of people and

TRADE AND INVESTMENT PROMOTION

Opportunities exist for Canadian business in virtually every sector. To realize these opportunities, the International Trade component of the department of Foreign Affairs and international Trade (DFAIT [IT]) introduces small and medium-sized enterprises to the market, with a particular focus on helping women, young entrepreneurs and Aboriginal firms begin business relationships in the United States. The ExportUSA initiative, which consists of the New Exporters to Border States (NEBS), Reverse NEBS and Exporters to the United States (EXTUS) programs, has been highly successful in this regard, having helped more than 20,000 companies make their entrance into the U.S. market since 1984. The Government of Canada 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, visit the Department of Foreign Affairs and International Trade's Web site on Canada–U.S. relations (www.can-am.gc.ca).

The government also aims to attract and expand investment from the United States and to encourage Canadian technology partnerships with U.S. companies. The government's plan is to promote investment through the use of a more integrated, sector-focused approach that builds on the cooperation between the Department of Foreign Affairs and International Trade and partner departments and agencies. Further to the Government of Canada's launch of the Enhanced Representation Initiative (ERI) in September 2003, technology partnership business missions are being organized and implemented in concert with eight of the ERI partners in such sectors as nanotechnology, photonics, hydrogen fuel cells, medical devices and security products.

Within the United States, many individual states have economies that are comparable to those of industrialized countries. In fact, all U.S. states, including Hawaii and Alaska, have GDPs comparable to those of whole countries. Canadian federal cabinet ministers and other high-level government officials are in regular contact with key U.S. interlocutors to help forge relationships with government and business leaders. These initiatives are necessary to advance Canadian priorities and to highlight the attractiveness of Canada as an investment destination.

In view of the importance of the trade relationship, a new cabinet committee, chaired by the Prime Minister, has been created to ensure an integrated, government-wide approach to Canada–U.S. relations. A parliamentary secretary to the Prime Minister with a special emphasis on Canada–U.S. relations has also been appointed.

goods within North America, keeping our border open for business but closed to terrorism. On March 23, 2005, the NAFTA leaders met in Waco, Texas and announced the Security and Prosperity Partnership of North America, which builds on the New Partnership Initiative and constitutes a trilateral effort to increase the security, prosperity, and quality of life of North Americans. This work will be based on the principle that our security and prosperity are mutually dependent and complementary, and will reflect our shared belief in freedom, economic opportunity, and strong democratic values and institutions. It will also help consolidate our action into a North American framework to confront security and economic challenges, and promote the full potential of our people.

The Prime Minister and the President also agreed to expand economic opportunities by making businesses more competitive in the global marketplace. Today's economy increasingly reflects a model where design and production are managed on a global platform and where imports, driven in part by direct investment abroad, are critical inputs to exports. Given the integrated nature of Canadian and American industries, Canada and the United States must work together to reinforce North American competitiveness in this new economy.

While the vast majority (96%) of Canada–U.S. trade moves freely across the border each day, the relationship is not without its challenges. Given the amount of trade between the two countries, it is not surprising that disputes occur. But a few of these trade disputes pose serious concern for Canada, including softwood lumber and the Byrd Amendment. Trade irritants have negative impacts on both sides of the border.

Increasingly, companies—whether Canadian, American or Mexican—operate continent-wide supply chains and distribution systems. Approximately one-third of Canada—U.S. trade is "intra-firm," that is, between two branches of the same corporation. The Government of Canada is committed to doing everything it can to respect and foster this trading relationship.

Market Access Results in 2004

■ During President Bush's visit to Ottawa on November 30, 2004, the Prime Minister and the

- President announced a New Partnership to lay out an agenda designed to increase the security, prosperity and quality of life of citizens on both sides of the border.
- On December 17, 2004, Canadian Deputy Prime Minister Anne McLellan and U.S. Secretary of Homeland Security Tom Ridge announced a framework to establish a land pre-clearance site at the Fort Erie–Buffalo Peace Bridge Crossing. Other announcements included an expansion of air pre-clearance to include Halifax airport, the finalization of regulations to implement the Safe Third Country Agreement and further expansion of the FAST (Free and Secure Trade) program.
- At the same time, Canada also committed to partner with the United States in the Container Security Initiative, which will include the deployment of Canada Border Services Agency officials to a foreign marine port by April 2005 to assist in the targeting and verification of shipping containers destined for North America.
- On November 30, 2004, the joint NEXUS Air pilot program was implemented at the Vancouver International Airport. The NEXUS Air project, which employs biometric technology and is open to citizens and permanent residents of both Canada and the United States, expedites clearance through customs and immigration.
- Canada and the United States are also moving forward with plans to open NEXUS Urban Enrollment Centres in Seattle (Washington) and Vancouver (British Columbia).
- The Government of Canada has supported the FAST program through the creation of two new dedicated FAST lanes: southbound at the Pacific Highway (British Columbia)—Blaine (Washington) crossing (October 20, 2004); and in both directions at the Windsor—Detroit Ambassador Bridge on November 1, 2004. The FAST program is currently operational at the 12 highest-volume commercial border crossings.
- On November 7, 2004, the U.S. Food and Drug Administration (FDA) announced the full enforcement of the interim final rules for prior notification and registration under the Bioterrorism Act. Implementation of the staged enforcement schedule had begun on December 12, 2003, and been accompanied by education and awareness activities

- for the industry. The U.S. FDA and Customs and Border Protection considered many of Canada's comments in the rule-making process.
- On July 15, 2004, following ratification by the Mexican Senate, measures to liberalize the NAFTA rules of origin applicable to seven products were implemented trilaterally, making it easier for exporters of these products to comply with rules of origin and to benefit from duty-free treatment under NAFTA. Canada and the United States had earlier implemented these measures on January 1, 2003.
- Canada, in concert with eight of the Enhanced Representation Initiative partners, organized and implemented technology partnership business missions in such sectors as nanotechnology, photonics, hydrogen fuel cells, medical devices and security products.
- Canada and the United States agreed to establish a pilot project under which industrial alcohol and fuel alcohol produced in Canada could be shipped directly to U.S. customers without being subject to an excise tax upon entry; these items must normally be shipped to a U.S. distilled spirits plant in order to avoid the excise tax.
- On August 17, the United States became the first of Canada's trading partners to remove its avian influenza-related trade restrictions against British Columbia.

Canada's Market Access Priorities for 2005

- Continue to pursue the removal of duties on Canadian softwood lumber exports to the United States.
- Continue to press the United States to repeal the WTO-inconsistent Byrd Amendment.
- Regarding BSE, work with the U.S. Administration to ensure access for live animals and other products through the implementation of the U.S. Department of Agriculture's January 2005 final rule.
- To work with the U.S. Administration on a second rule that would fully normalize trade and allow access for animals and products not covered by the January 2005 rule.

- Continue implementing the Canada–U.S. Smart Border Action Plan to build a secure and efficient border that is open for business but closed to terrorists.
- Continue to pursue the removal of duties on Canadian wheat exports to the United States.
- Continue to work with the Canadian hog industry and provincial governments to defend the interests of hog exporters in the U.S. Department of Commerce "live swine" countervailing duty investigation.
- Explore possibilities for greater Canada–U.S. regulatory cooperation.
- Ensure that the United States respects its WTO domestic support commitments in implementing the Farm Act and continue to press the United States to fully repeal mandatory country-of-origin labelling (COOL) legislation.
- Continue to monitor the impact of the Bioterrorism Act on Canadian exports and press the U.S. Food and Drug Administration and Customs and Border Protection Bureau to harmonize regulations for prior notice of shipments to avoid unnecessary disruption of trade.
- Continue to press various U.S. states to ensure that Canadian firms are taxed in a fair and consistent manner in accordance with international taxation norms.
- Continue to pursue the removal of duties on Canadian wheat exports to the United States.
- Continue to work with the Canadian hog industry and provincial governments to defend the interests of hog exporters in the U.S. Department of Commerce "live swine" countervailing duty investigation.
- Continue to press various U.S. states to ensure that Canadian firms are taxed in a fair and consistent manner in accordance with international taxation norms.
- Continue to oppose the extraterritorial application of U.S. laws and regulations.
- Continue to extend Canada's network of representation in the United States for greater strategic impact and engagement on investment and trade issues.

- Continue to monitor closely and respond to key measures that may distort trade and investment decisions in the North American market.
- Continue to press the United States to repeal the WTO-inconsistent Byrd Amendment.
- Continue to pursue unrestricted access to the U.S. market for Canadian goods and services exports.
- Continue work through the NAFTA Working Group on Rules of Origin to reduce rules-of-origin costs on goods trade between Canada and the United States in such sectors as chemicals, pharmaceuticals, plastics and rubber, and motor vehicles.

IMPROVING ACCESS FOR TRADE IN GOODS

Softwood Lumber

Softwood lumber is one of Canada's most important export sectors: in 2004, Canadian firms exported over 21 billion board feet of lumber worth nearly \$9 billion to the United States.

In May 2002, the United States imposed duties on imports of softwood lumber from Canada following subsidy and dumping investigations by the U.S. Department of Commerce and a "threat of injury" determination by the U.S. International Trade Commission (ITC). Between May 2002 and December 2004, Canadian exports of softwood lumber to the United States were subject to duty cash deposits of 27.22%. Since December 20, 2004, when the results of the first administrative review of the U.S. duties took effect, such exports have been subject to duty cash deposits of 20.15%. Cash deposits now total over \$4 billion.

The Government of Canada, the provinces and Canadian industry have been pursuing a two-track strategy for resolving the softwood lumber dispute: (1) litigation, involving NAFTA, WTO, U.S. Court of International Trade (CIT) challenges of the U.S. duties and (2) negotiations toward a durable resolution of the dispute. On November 30, 2004, Prime Minister Martin and President Bush agreed on the need for a resolution to the lumber dispute.

The federal government, the provinces and industry are committed to pursuing a durable resolution to the dispute, and in this regard Canada remains open to

any opportunities for further discussions with the United States. Minister for International Trade Jim Peterson and federal officials maintained regular contact with their U.S. counterparts throughout 2004. In January and February 2005, federal and provincial officials met with American representatives and held exploratory discussions to determine whether and on what basis to re-engage in negotiations. Canada will continue to engage in discussions with the United States in order to find a solution that is in the best interest of Canada.

Until the dispute is resolved, Canada will continue to pursue its NAFTA, WTO and CIT litigation against the U.S. subsidy, dumping and injury determinations. The NAFTA and WTO injury cases remain Canada's critical legal challenges because without a finding of a threat of injury, both the CVD and AD duty orders must be withdrawn. In October 2004, the NAFTA Injury Panel affirmed an ITC negative threat of injury determination. However, on November 24, 2004, the United States Trade Representative (USTR) requested the establishment of an Extraordinary Challenge Committee (ECC) to review the panel proceedings in this case. An ECC decision is expected in the spring of 2005. If Canada is ultimately successful in the ECC, the United States will be required to revoke the duty orders and refund with interest the cash deposits paid to date.

In March 2004, following a challenge by Canada, a WTO Panel ruled that the ITC's original threat of injury determination was inconsistent with U.S. international trade obligations. On November 24, the ITC issued a new determination to comply with the WTO ruling, upholding its original threat of injury ruling. A WTO compliance panel has been established to rule on the consistency of the new determination with the Panel's original ruling. Canada is also seeking WTO authority to retaliate in an amount of over \$4.5 billion. Retaliation will be considered only in the event that Canada is successful in the compliance proceedings. Finally, Canada is challenging the new injury determination in NAFTA.

In addition, the United States is conducting annual administrative reviews of the CVD and AD duty orders. These reviews examine the subsidy and dumping rates for previous periods and establish cash deposit rates for future shipments. On December 14, 2004, final determinations in the first annual

administrative reviews resulted in a lowering of the combined CVD and AD duty rate from 27.22% to 20.15%. The rates resulting from the administrative reviews took effect on December 20, 2004, as new cash deposit rates for Canadian exporters. On January 19, 2005, Canada requested a NAFTA panel review of the administrative review of the AD duty order in the U.S. Court of International Trade. On June 30, 2004, the DOC initiated the second administrative reviews of the AD and CVD orders, covering lumber shipments made during the 2003–2004 period.

The federal government continues to work with the provinces, industry stakeholders, U.S. posts, and allies in the United States to advocate in favour of a durable resolution of the dispute. The government and its advocacy partners have aimed to provide a counterweight to the U.S. lumber industry lobby by engaging the U.S. housing sector, consumer organizations, industrial associations, state legislators and influential members of the Congress. Canada's advocacy efforts underscore the negative effects this trade action has on the U.S. economy, the importance of the United States honouring its NAFTA obligations and the benefits of an integrated North American economy. Canada and its allies have used all occasions, both at the grassroots and federal levels, to deliver our softwood lumber advocacy messages. Allies such as the U.S. National Association of Home Builders (NAHB), the Home Depot, and American Consumers for Affordable Houses (ACAH), which represents over 95% of U.S. lumber users and consumers, have played a longstanding, important role in pressing these advocacy messages with the U.S. Administration, Congress and the media.

The Government of Canada is sensitive to the impact of the dispute on industry and communities in Canada and has made available \$356 million in federal assistance to forestry workers, communities and industries. These include funds for displaced workers under expanded employment insurance programs, community capacity building, competitiveness initiatives, research and development programs and a boreal forest research consortium.

The government will continue to pursue unrestricted access to the U.S. market for Canadian softwood lumber as the top market access priority.

Bovine Spongiform Encephalopathy

Following Canada's announcement of its first BSE case on May 20, 2003, the United States banned the import of Canadian ruminant livestock and meat products. The United States is our largest export market for cattle and beef. Other products were also affected by the ban, including bison, sheep and goats.

On August 8, 2003, the United States announced its decision to reopen the border to Canadian boneless beef from cattle under 30 months of age and certain other products. In addition, on November 4, 2003, the U.S. Department of Agriculture (USDA) initiated a rule-making process to allow for the import of live animals and other products.

On January 4, 2005, the USDA published its final rule to provide access for live animals and other products in the U.S. Federal Register, effective March 7, 2005. When implemented, the rule will provide access for live cattle and bison less than 30 months of age for immediate slaughter or for feeding and then slaughter before 30 months of age, sheep and goats less than 12 months of age for immediate slaughter or for feeding and then slaughter before 12 months of age, meat and carcasses from cattle under 30 months of age from which specified risk material has been removed, meat and carcasses from sheep and goats derived from animals less than 12 months of age, and certain other products. The January rule does not provide access for live cattle over 30 months for immediate slaughter or other cattle (e.g., breeding and dairy). Access for additional products will be addressed in a subsequent rule.

The rule initially would have provided access for meat from cattle regardless of age when implemented on March 7. However, on February 9, 2005, the U.S. Secretary of Agriculture issued a statement advising of a delay to the effective date for allowing imports of meat from animals 30 months or over. The U.S. Secretary also stated that he was asking officials to move forward with a plan to allow imports of animals 30 months and older for slaughter as well as beef from animals 30 months and older as the next step in resuming trade. These imports will have to be addressed in a subsequent rule.

On January 10, 2005, the Ranchers-Cattlemen Action Legal Fund, United Stockgrowers of America (R-CALF) filed a lawsuit in U.S. District Court seeking an order declaring the implementation of the rule unlawful and disallowing the importation of Canadian cattle and meat products. On January 31, 2005, R-CALF petitioned for a preliminary injunction prohibiting the USDA from implementing the U.S. final rule until the lawfulness of this rule can be reviewed in full by the court. This injunction was granted on March 2, 2005, and will remain in place until the U.S. District Court hears the legal arguments of R-CALF's lawsuit, or until the injunction is overturned on appeal.

Avian Influenza

Following the Canadian Food Inspection Agency's confirmation of highly pathogenic avian influenza in the B.C. Fraser Valley on March 9, 2004, the United States imposed measures against poultry products from British Columbia. Other trading partners also imposed measures against British Columbia and in many cases against all of Canada. On August 17, the U.S. became the first of Canada's trading partners to remove its restrictions.

Systemic Trade Remedy Issues

Canada continues to monitor trade remedy developments in the United States to ensure that any new rules, as well as the implementation of existing ones, conform to U.S. international trade obligations. Accordingly, Canada continued to make specific representations regarding the U.S. Department of Commerce practices on duty assessment that could have serious adverse consequences for many Canadian exporters in future anti-dumping duty investigations. Canada also made representations on proposed new certification procedures for U.S. countervail investigations. As well, the government has made submissions to U.S. authorities conducting trade remedy investigations against Canadian products. For example, it has filed extensive responses and made a number of representations in the context of the U.S. DOC investigation of programs affecting Canadian live swine (further details on this case follow). The government also continues to follow developments in various disputes that involve Canadian products

under Chapter 19 (Review and Dispute Settlement in Anti-Dumping and Countervailing Duty Matters) of the North American Free Trade Agreement. It defended Canadian interests in the unsuccessful extraordinary challenge that was launched by the United States regarding a NAFTA Chapter 19 panel decision instructing the U.S. DOC to revoke AD duties on pure magnesium from Canada.

At Canada's initiative, during the July 2004
Commission meeting, trade ministers noted the value of the NAFTA dispute settlement provisions and reaffirmed their commitment to their effective operation. Additionally, Canada continuously reminds its NAFTA partners that it is in the interests of all three countries to ensure that panel decisions are respected and implemented properly, in order to protect the integrity of the Agreement. The Prime Minister registered this message directly with President Bush during their meeting on November 3, 2004. The Prime Minister and the President agreed that officials should review NAFTA Chapter 19 to ensure its effective operation.

Byrd Amendment

On October 28, 2000, President Bill Clinton signed into law the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001. The Byrd Amendment (Continued Dumping and Subsidy Offset Act of 2000) was part of that Act. Under the Byrd Amendment, anti-dumping and countervailing duties are disbursed to U.S. industries that supported actions linked to the amendment. Prior to enactment of the Byrd Amendment, the duties were deposited in the U.S. Treasury.

Canada believes, and the WTO agreed, that these payments are not consistent with U.S. obligations under the WTO agreements governing anti-dumping and subsidies; rather, Canada's position is that the payments constitute action against injurious dumping and subsidization not contemplated in those agreements. The Byrd Amendment provides a "double remedy" to U.S. producers, which benefit not only from the imposition of AD and CVD duties on competing imports, but also from direct payments

when those duties are disbursed. That double remedy amounts to a "double penalty" on Canadian exports subject to U.S. trade remedy action. Moreover, this law encourages U.S. industry to file AD and CVD petitions, to the detriment of Canadian export interests. Accordingly, Canada, along with 10 other WTO members (Australia, Brazil, Chile, the European Union, India, Indonesia, Japan, Mexico, South Korea and Thailand), successfully challenged the Byrd Amendment before the WTO.

The United States was given 11 months (until December 27, 2003) to bring its measure into compliance but failed to comply with the deadline. In order to protect their WTO retaliation rights, on January 26, 2004, Canada and seven other WTO members (Brazil, Chile, the European Union, India, Japan, Mexico and South Korea) requested authorization to retaliate. The United States challenged the request, prompting a seven-month arbitration process. On August 31, 2004, the WTO Arbitrator ruled that complaining WTO members could retaliate at a level up to 72% of disbursement of duties collected on their respective exports. This percentage is based on an economic model developed by the WTO to measure the trade effect of the Byrd Amendment on U.S. trading partners. Finally, on November 26, the WTO granted Canada final retaliation authorization against the United States for its continued failure to repeal the Byrd Amendment. The other WTO members involved in the arbitration also received final retaliation authorization.

In response to the continued U.S. failure to repeal the Byrd Amendment, on November 23 the Government of Canada launched public consultations on Canada's retaliatory options. These consultations, which generated responses from a wide range of interests, concluded on December 20. The government is currently assessing all the comments and will take a decision on the matter as quickly as possible. Further information on the Byrd Amendment can be found on the department's Web site (www. international.gc.ca/tna-nac/disp/byrd-main-en.asp).

U.S. Trade Remedy Investigations on Canadian Goods

Wheat

In 2003, countervailing and anti-dumping duties totalling 14.15% were implemented with respect to U.S. imports of hard red spring wheat from Canada. Taking issue with the countervailing of certain government programs, the Government of Canada and other Canadian parties challenged the U.S. Department of Commerce's countervail determination under NAFTA. As well, the Canadian Wheat Board launched a NAFTA challenge of the International Trade Commission's injury decision with respect to hard red spring wheat. In both cases, Canadian parties have submitted written briefs to the panels and have presented Canadian arguments at panel hearings. The report of the NAFTA panel reviewing the countervail determination, due in late January 2005, has been delayed. The NAFTA panel decision in the injury case is due in June 2005.

Magnesium

The Government of Canada continues to monitor developments surrounding the long-standing U.S. countervailing duties on Canadian magnesium, and it participates in the U.S. Department of Commerce's annual administrative reviews of these countervailing duties. In this context, it must be noted that the government continues to monitor the NAFTA challenges that were brought against the U.S. decision in 2000 to extend the application of the duties. To this end, Canada was actively engaged in the unsuccessful NAFTA extraordinary challenge filed by the United States on September 24, 2003, contesting a NAFTA Chapter 19 panel decision instructing the U.S. DOC to sunset the anti-dumping duties on Canadian exports of pure magnesium.

Live Swine

On April 8, 2004, the U.S. Department of Commerce initiated countervailing duty and antidumping investigations on imports of live swine from Canada, in response to a petition filed by the U.S. National Pork Producers Council (NPPC). The NPPC alleges that the Canadian hog industry is benefiting from countervailable subsidy programs

provided by the federal and provincial governments, and is selling hogs in the United States at prices that are lower than average prices in Canada.

On August 17, 2004, the DOC released its CVD preliminary decision. The DOC found in Canada's favour and determined that trade in Canadian live swine is not unfairly subsidized. As a result of this preliminary determination, provisional countervailing duties are not being imposed on imports of live swine from Canada while this investigation continues.

On October 15, 2004, the DOC released its preliminary AD determination. It ruled that Canadian live swine are being sold in the United States at prices lower than those prevailing in the Canadian market or below full cost. Three Canadian exporters, who were the respondents in the DOC's AD investigation, received company-specific rates. All other Canadian exporters were given a rate of 14.06%.

The DOC's final determinations are due to be released on March 7, 2005. The federal government is the lead in the CVD investigation. The Canadian industry is the lead in the AD investigation, as it concerns the pricing practices of private sector enterprises.

U.S. Farm Act

The Government of Canada continues to express serious concerns about the 2002 U.S. Farm Security and Rural Investment Act, otherwise known as the Farm Act. Particular concerns centre on the increase in trade-distorting domestic support and the mandatory country-of-origin labelling requirements. The domestic support increases run counter to the agreed objective in the WTO agriculture negotiations to substantially reduce trade-distorting domestic support. The government is monitoring the implementation of the Act to ensure that the United States operates within its WTO domestic support commitments. It will continue to follow developments and make its concerns known to Congress and the Administration as the legislation is implemented. In coordination with our Canadian partners and U.S. allies, the Government of Canada will also continue its advocacy efforts in the United States in order to enhance awareness of the disruption that the countryof-origin labelling provision will cause to the integrated Canada-U.S. agricultural trade.

Country-of-Origin Labelling

The 2002 U.S. Farm Act provides for mandatory country-of-origin labelling, which will require certain U.S. food retailers (i.e. those licensed under the U.S. Perishable Agricultural Commodities Act) to display country-of-origin information at the final point of sale for covered commodities. The covered commodities include beef (including veal), lamb, pork, fish, shellfish, perishable agricultural commodities and peanuts. Under COOL requirements, fish and shell-fish must also be labelled to indicate the applicable method of production (i.e. wild or farm-raised). Products sold in food service establishments and ingredients in processed food items are exempt from mandatory COOL requirements.

On September 30, 2004, the U.S. Department of Agriculture Agricultural Marketing Service issued the Interim Final Rule on COOL for fish and shellfish sold at retail, which will come into effect as of April 4, 2005. The applicability of mandatory COOL for all other covered commodities has been delayed until September 30, 2006.

Canada maintains that the COOL legislation is fundamentally flawed and that it places onerous costs on industry while providing no real consumer benefits. Mandatory COOL may also result in price distortions that would hurt all sectors of the red meat industry, and compliance costs could reduce the North American industry's competitiveness on world markets.

The Government of Canada, in partnership with provinces and territories, industry and U.S. allies, will continue advocacy efforts in the United States to build awareness of the disruption that mandatory COOL will cause in the integrated North American market; the government will urge the full repeal of the legislation.

Up-to-date material on COOL is available on the Agricultural Marketing Service Web site (www.ams.usda.gov/cool/).

Electricity

The U.S. Administration supports greater crossborder trade in electricity and is working to reform domestic mechanisms affecting trade. However, U.S. energy legislation could still raise issues with regard to the electricity trade by moving to mandatory reliability standards. Canada continues to seek assurance that the development of any future electricity reliability standards—as well as the creation of an independent, self-regulating, industry-led reliability organization—will be handled jointly by U.S. and Canadian authorities. This approach is reflected in the present draft of the legislation. The Bilateral Electricity Reliability Organization (ERO) Oversight Group is working to ensure that the ERO functions on both sides of the border and does not create any artificial barriers in the electricity trade.

Canada also remains concerned about minimum renewable energy provisions at the state level, which could be used to exclude Canadian-origin electricity generated from renewable resources, notably hydroelectricity, and thus impede access to the U.S. market. In the absence of federal legislation ensuring equal treatment for Canadian renewable electricity, U.S. states may proceed with initiatives that could be inconsistent with existing trade agreements. Canadian advocacy in this sector has raised U.S. awareness of a North American electricity market and the impact of discriminatory measures on the market, which would work against our shared energy security and environmental objectives.

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

Pipeline Subsidies

Canada remains concerned about the legislated incentives for a new pipeline to bring natural gas from Prudhoe Bay, Alaska, to the "lower 48" states, which passed in October 2004. The effects of the loan guarantees and other industry incentives on pipeline development remain uncertain, and Canada remains opposed to any price support mechanism for Alaska gas.

Because any pipeline from Alaska to the lower 48 states must route through Canada, Canada is a necessary partner in that development. The government strongly supports natural gas development in Alaska; however, the private sector should ultimately decide the nature and timing of such a pipeline. As well, in Canada's view the private sector is best suited to decide the pipeline's route, subject to regulatory and environmental review procedures. The Bush Administration has also adopted a route-neutral position on the Alaska pipeline project.

IMPROVING ACCESS FOR TRADE IN SERVICES

Financial Services

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

The U.S. government's response to recent high-profile corporate failures was the Sarbanes-Oxley Act of 2002. It is sweeping legislation designed to promote confidence in U.S. capital markets. The federal government has been working to help ensure that Canadian public companies listed in the United States, and Canadian accounting firms auditing U.S.-listed companies, are treated fairly and, to the extent possible, are not unduly burdened by the new U.S. legislation.

Telecommunications

While there are occasional issues, Canadian telecommunications companies are generally able to obtain regulatory and licensing approvals within a reasonable time in the United States. This is important for Canadian companies competing in the U.S. market

(or planning to). Canada will continue to actively monitor the United States' implementation of its WTO commitments.

Shipping

A number of maritime laws (collectively known as the Jones Act) impose restrictions on foreign participation in the U.S. domestic maritime industry. Canada's particular concern relates to the "U.S. build" requirement, which severely limits the use of Canadian-built vessels in the U.S. domestic commercial maritime industry. In addition, several subsidies and other support measures are available to operators of U.S. vessels. Canadian shipbuilders are also virtually barred from participating in the U.S. defence maritime industry: the defence-related prohibitions of the Byrnes-Tollefson Amendment preclude the Department of Defense from using a foreign shipyard to construct any vessel or major component of the hull or superstructure, or to conduct repair, overhaul or maintenance of ship hull structures in foreign shipyards. Canada will continue to use every appropriate opportunity to raise the issue of the U.S.-build requirement relating to maritime transportation.

Temporary Entry

Facilitating the temporary entry of business people into the United States in order to promote trade in services, goods and investment remains a priority. Canada continues to discuss broader border management issues with the United States through the Smart Border process. NAFTA contains comprehensive temporary-entry provisions that facilitate the movement of business persons in four categories: business visitors, intra-company transferees, professionals, and traders and investors. There is ongoing work in the NAFTA Temporary Entry Working Group to further facilitate the movement of business persons and to develop a trilateral approach to expanding the number of professions that are eligible for NAFTA treatment. Recent additions to the list of eligible professions under NAFTA include actuaries and plant pathologists. In addition, there is an agreement to consider NAFTA coverage for additional information technology professionals.

Despite NAFTA Chapter 16, general immigration provisions and the work being done on the Smart Border Action Plan, U.S. temporary entry remains a concern. Delays at the border or denial of entry can result in loss of business and additional expense for businesspeople, employers and their clients. Moreover, there still appears to be a lack of knowledge or understanding of the NAFTA cross-border provisions among Canadian business persons. Government officials will continue their efforts to raise awareness of the NAFTA provisions within the Canadian business community and to work with U.S. immigration officials to ease some of the U.S. temporary-entry difficulties.

MONITORING DEVELOPMENTS AFFECTING CANADIAN INTERESTS

Canada-U.S. Consultative Committee on Agriculture

Established as a result of the 1998 Canada–U.S. Record of Understanding on Agricultural Trade, the Canada–U.S. Consultative Committee on Agriculture (CCA) provides an ongoing process for enhancing the management of bilateral agricultural trade relations. Specifically, the CCA institutionalizes a comprehensive early warning and consultation process to resolve emerging problems before they develop. The semi-annual meetings of the CCA provide a high-level forum for strengthening agricultural trade relations between Canada and the United States through cooperation and coordination on matters related to agriculture. These include, but are not limited to, agricultural trade and market access, and sanitary and phytosanitary issues.

Further opportunities to enhance cooperation and coordination in areas of common concern occur in the Canada–U.S. Provincial/State Advisory Group (PSAG), established under the rubric of the CCA. The PSAG provides a forum in which producers and exporters, through their provincial and state governments, can raise bilateral agricultural trade issues. The PSAG generally meets twice a year and refers matters as appropriate to the CCA for consideration. In addition, the CCA also encourages joint bilateral industry groups to inform the CCA of their views on trade issues, particularly those that affect bilateral trade.

As bilateral agricultural trade continues to expand, the CCA will continue to serve as a key mechanism for addressing early stage agricultural trade issues between Canada and the United States, in partnership with the provinces and key stakeholders.

Bioterrorism Legislation

On June 12, 2002, President Bush signed into law the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (the Bioterrorism Act or BTA). The stated objective of the BTA is to improve the ability of the United States to prevent, prepare for, and respond to bioterrorism and other public health emergencies.

The U.S. Food and Drug Administration (FDA) has published four rules pursuant to the BTA: (1) prior notice, (2) registration, (3) administrative detention and (4) record keeping. These requirements apply to the import of products such as live animals, fish, fresh fruits and vegetables, dairy products, bakery goods and animal feed. Products such as meat, poultry and shell eggs, all of which are under the exclusive jurisdiction of the U.S. Department of Agriculture, are not covered by the FDA's rules.

The interim final rules concerning prior notification and registration came into effect on December 12, 2003, and were fully enforced on November 7, 2004. These rules require (1) electronic prior notification of each shipment of food and feed exported to and via the United States and (2) registration with the FDA of all Canadian facilities that manufacture, process, pack or hold food for human or animal consumption in the United States and the designation of a U.S. resident agent. Canada has submitted formal comments on both of these interim rules.

The final rule for administrative detention was published on June 4, 2004. It authorizes the FDA to detain food or feed for which there is credible evidence or information indicating that it presents a threat of serious adverse health consequences or death to humans or animals. This rule applies to all products in the United States, regardless of origin.

On December 6, 2004, the FDA published the final rule concerning record-keeping by all persons residing in the United States and involved in the manufacture of food and/or feed. This rule also requires the establishment and maintenance of records by all

Canadians involved in the transportation of food and/or feed to and via the United States. Such records are to be kept for a minimum of six months (depending on the type of goods), must be available within 24 hours of request, and must allow for the identification of the immediate previous sources and immediate subsequent recipients of the food and/or feed.

The Government of Canada supports the objectives of the BTA; however, the Act's implementation comes with real costs for affected Canadian firms and may also cause some confusion in the export community. Responding to Canadian suggestions, the U.S. FDA and Customs and Border Protection have adopted a staged enforcement schedule and are undertaking education and awareness activities for industry. The FDA has indicated that all of Canada's comments will be taken into account prior to finalization of the rules in June 2005.

Up-to-date information on the BTA regulations is available on the Agriculture and Agri-Food Canada Web site (http://ats.agr.gc.ca/us/bioterrorism_e.htm).

Rules of Origin

On January 1, 2003, Canada and the United States implemented measures to liberalize the NAFTA rules of origin applicable to seven products, including alcoholic beverages and petroleum/topped crude oil. The NAFTA Trade Commission (including Mexico) had agreed to these changes in 2002. Following Mexican Senate ratification, the changes were implemented trilaterally on July 15, 2004. These changes, requested by industry associations in Canada, the United States and Mexico, make it easier for exporters to meet the rules of origin and benefit from duty-free treatment under NAFTA. This increases the competitiveness of Canadian exporters, in particular the petroleum industry, which exported over \$25 billion worth of petroleum oils to the United States in 2004.

At the July 2004 NAFTA Commission meeting, ministers endorsed a rules-of-origin liberalization package covering a broad range of food, consumer and industrial products affecting approximately US\$20 billion in trilateral trade. Canada and the United States implemented the package on January 1, 2005, while Mexico's implementation is expected early this year. Work is well under way trilaterally to explore the

scope for agreement on a second group of liberalized rules of origin, to be implemented in January 2006 in sectors such as chemicals, pharmaceuticals, plastics and rubber, and motor vehicles.

Forest Certification

In the last few years, U.S. demand for certified wood products has continued to grow, fuelled in part by the recent decision of a few large U.S. wood retailers to give preference to certified wood products. The Canadian forest industry is responding to this recent trend through increased certification of its operations and wood products. As of June 2004, more than 57 million hectares of forest land in Canada had been third-party-certified under one or other of the three sustainable forest management certification schemes available in Canada. Expectations are that 136 million hectares will be certified under sustainable forestry management schemes by 2006.

Canada supports certification as a voluntary, marketbased tool to promote sustainable forest management. However, it wants to ensure that certification is not used as a market access barrier. In particular, Canada would be concerned about any measure requiring mandatory labelling for forest products based on non-product-related process and production methods. Also of concern are procurement policies, potentially imposed by large U.S. businesses or local governments, that specify that all products must carry the label of one particular certification scheme to the exclusion of other equivalent approaches. Canada will continue to monitor its access to key markets with a view to ensuring that certification remains a voluntary marketplace activity and that criteria are consistent with Canadian forest values.

Certification best supports sustainable forest management when all equivalent certification schemes are recognized in the market. For this reason, Canada supports those who propose equivalency and mutual recognition of various similar certification schemes. It is also Canada's view that a diversity of certification systems is necessary to reflect the variety of producers' circumstances and to safeguard against the risks associated with monopolies. In this context, Canada will continue to encourage and support the recognition of a diversity of forest certification systems.

Marine Mammal Protection Act

The U.S. Marine Mammal Protection Act (MMPA) prevents the import of almost all marine mammal products, including Canadian seal products, into the United States. In Canada's view, the MMPA prohibition on the import of seals and seal products cannot be justified on conservation grounds, since it applies to species that are not endangered. There are an estimated 5.2 million harp seals and 460,000 hooded seals in Canada. Canada supports the efforts of all coastal communities that depend on sealing and will continue to consult these communities in order to develop the best means of addressing this U.S. import ban. Canada has communicated its concerns about the ban on seal product imports to the U.S. government and will continue to do so.

OTHER ISSUES

Government Procurement

Canada will continue to press the United States to further open its procurement markets to Canadian suppliers. Currently, U.S. government exceptions under NAFTA Chapter 10 and the WTO Agreement on Government Procurement prevent Canadian suppliers from bidding on a broad range of government contracts in sectors of key importance. Especially onerous are the set-aside programs for small and minority-owned businesses and the Buy America provisions. In addition, both long-standing and ad hoc legislative provisions, such as the fiscal year 2004 and 2005 defence authorization bills, 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 as they consider whether to offer to open Canadian provincial procurement markets.

Small Business Set-Asides

The Government of Canada remains concerned about the extensive and unpredictable use of exceptions for Small Business Set-asides under NAFTA Chapter 10 and the WTO Agreement on Government Procurement. Canadian suppliers face the ever-present possibility that government markets

that they have successfully developed and supplied may be closed through application of the set-aside exception. The definition of a U.S. small business varies by industry, but it is typically an entity with fewer than 500 employees in a manufacturing firm (up to 1,500 employees in certain sectors) or annual revenues of up to US\$17 million for services firms (as determined by the North American Industry Classification System or NAICS code). Data for fiscal years 2000 and 2001 demonstrated that U.S. federal departments and agencies were not meeting their target of awarding 23% of contract dollars to small business. This finding resulted in new directives on enforcement of the existing programs and increased pressure on federal agencies by the Small Business Administration to meet small business procurement goals. In addition, the U.S. government requires contractors and major subcontractors on projects worth more than US\$500,000 to include plans to subcontract work to U.S. small business. Canada is concerned that the use of such subcontracting plans impedes Canadian access to the U.S. market, and it will continue to press the U.S. Administration on this matter. In 2001, 39% of subcontracting procurement dollars were awarded to small business. The goal for 2004 is 40%. This represents a significant restriction of market access for Canadian business.

Buy America

Buy America provisions are applied extensively to U.S. federal government procurement that is not covered by NAFTA or the WTO Agreement on Government Procurement, as well as to procurement that has been excluded from these agreements through the small business set-aside exceptions. Buy America provisions, such as price preferences for U.S. domestic source materials, put Canadian goods and services at a serious disadvantage when they form all or part of a bid by any supplier, whether U.S. or Canadian.

Buy America Provisions in Federally Funded Sub-federal Procurement

Buy America provisions are attached by the U.S. federal government to federally funded sub-federal procurement, by making such provisions a condition of U.S. federal government grants to state and municipal organizations. Canada continues to

seek improvements to the important U.S. state and municipal procurement markets, including transit, highway and aviation projects.

Almost all large transportation contracts in the United States are federally funded, but they are administered by state and local governments or private sector organizations. The Transportation Equity Act for the 21st Century (known as TEA-21) provides funding for these projects through fiscal year 2005. The Federal Highway Administration (FHWA) and Federal Transit Administration grant TEA-21 funds to state and local governments and transportation authorities for transportation projects on condition that U.S. material and equipment are used. Projects funded by the FHWA require all iron and steel products and their coatings to be 100% U.S.-manufactured. Projects funded by the Federal Transit Administration require all steel and manufactured products to have 100% U.S. content and to be 100% U.S.-manufactured. Rolling stock (trains, buses, ferries, trolley cars, etc.) components must have 60% U.S. content, with final assembly occurring in the United States. The codification, in 1998, of a definition of "final assembly," which was formerly left to the discretion of the procuring organization, has resulted in a further narrowing of opportunities for Canadian suppliers to participate in such projects.

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

State and Local Government Preferences

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

is constrained and unpredictable as a result of these preferences. Canada will continue to press for elimination of U.S. state and local level preferences.

Legislative and Regulatory Changes

Regulations in civilian and defence procurement, which can affect market access for Canadian suppliers, change constantly. Canada continues to press the United States to clarify and resolve potential inconsistencies between its NAFTA obligations and certain acquisition procedures that appear to limit Canadian participation. These include simplified acquisition procedures for all procurement under US\$100,000 and those used for commercial items to a value of US\$5 million. Recent legislation regarding procurement by the Department of Homeland Security broadens the use of simplified acquisition procedures. Canada is also concerned about the propensity of

U.S. legislators to incorporate restrictive procurement provisions into legislation, such as appropriations acts, on an ad hoc basis. Often relating to specific products, such action appears to be taken without full consideration of the potential for inconsistency with international trade obligations.

Waste

Michigan has legislation that attempts to limit imports of Canadian municipal solid waste, while draft legislation allowing states to limit receipt of out-of-state and foreign waste is before Congress. If the United States were to restrict Canadian municipal solid waste exports, the impact on Ontario would be serious. Any trade response that could be taken under the WTO would take too long to have any practical effect, given that Toronto and other municipalities have only a few days' storage capacity for their solid

CANADA'S ADVOCACY IN THE UNITED STATES

Canada is actively working to advance its interests in the United States through targeted advocacy approaches. This work involves customized, sustained strategies and messaging on key issues as well as the use of all channels of influence to reach U.S. decision makers. For example, our representatives in the United States work to influence the U.S. decision-making system through coordinated and strategic contact with Congress, the Administration, state governments, opinion leaders, industry, media, academia and NGOs. These advocacy efforts are enhanced through active interdepartmental collaboration in Canada, as well as partnerships with provincial and territorial governments, parliamentarians, municipalities, industry, academia and unions. For this reason, Canada has established a new Secretariat at the Canadian Embassy in Washington with a mandate to work with the provinces, territories and parliamentarians in support of outreach activities with key U.S interlocutors.

On March 1, 2005, Canada held an advocacy Day in Washington DC, which took place on Capitol Hill in the context of the Canada-US Partnership Day, an event to "welcome" the 109th Congress. On that occasion, Minister Peterson led a Canadian delegation comprised of parliamentarians, provincial and territorial ministers, as well as private sector representatives with the purpose of drawing the attention of U.S. legislators and their staff on the importance of the Canada-U.S. relationship, and to highlight specific themes such as North American competitiveness and the need to resolve trade disputes. Other developments in recent years have focused on the importance of Canadian advocacy in a range of priority areas including borders, BSE, softwood lumber, agriculture, wheat, energy, the environment and key areas of social policy. For example, the various advocacy campaigns have worked in concrete ways to keep the Canada–U.S. border open and ensure the flow of people and goods. Measures have included the development of early warning systems to counter legislation that could be damaging to Canadian interests, mobilizing senior officials and working with industry to raise the profile of key Canadian interests with U.S. allies, and highlighting Canada's contribution to the United States as its largest and most secure energy supplier.

waste. In addition, the Department of Homeland Security has been investigating the screening process for municipal solid waste trucks entering the United States from Canada on the basis of the security threat posed by those vehicles. Singling out garbage trucks for special inspection could cause serious border delays and set a dangerous precedent. Canada continues to encourage the United States to work cooperatively to manage waste in an environmentally sound manner, without regard to borders and in a manner consistent with the Canada–U.S. Agreement on the Transboundary Movement of Hazardous Waste.

ENHANCED REPRESENTATION INITIATIVE

Canada's fall 2002 Speech from the Throne called for an increase in our country's consular presence across the United States in order to expand fair and secure trade and commerce.

Shortly thereafter, the February 2003 budget identified funding for an initiative designed to bolster the Government of Canada's ability to promote advocacy and business development in the United States within the context of an increasingly integrated North American economy.

Less than a year later, the Enhanced Representation Initiative was introduced. The ERI enables Canada to take advantage of opportunities and innovations in the U.S. market, while recognizing emerging geographic centres of political and economic power in the south and southwest. Defending Canada's existing interests, increasing business development and investment, and attracting science and technology (objectives that are all critical to Canadian prosperity) require resources on the ground to build effective market intelligence networks and relationships with influential players.

Reflecting a "whole of government" approach, the ERI is a horizontal partnership of eight federal departments and agencies. Joining the Department of Foreign Affairs and International Trade are Agriculture and Agri-Food Canada, the Atlantic Canada Opportunities Agency, Canada Economic Development for Quebec Regions, Industry Canada, the National Research Council, and Western Economic Diversification. Thanks to the synergy created through the links between these key partners, the ERI is able to focus resources on the Government of Canada's stated priorities and to leverage shared resources on behalf of business.

The ERI has increased Canada's representation in the United States from 15 to 22 offices. The consulate in Miami has been upgraded to the level of consulate general, with San Francisco scheduled for its own upgrade in 2005. A new consulate general has also been established in Denver, and new consulates are opening in other U.S. regions of trade and political interest such as Houston, San Diego, Raleigh–Durham, Phoenix, Philadelphia and Anchorage.

The ERI partnership also manages a network of 20 honorary consuls to facilitate advocacy and business development goals in key U.S. cities where Canada does not have a diplomatic presence. Eight of these honorary consuls have already been appointed to serve in Cleveland (Ohio), Memphis (Tennessee), New Orleans (Louisiana), Omaha (Nebraska), Pittsburgh (Pennsylvania), Portland (Maine), Portland (Oregon) and Richmond (Virginia).

Additional positions in various missions across the United States further build upon Canada's capacity to advocate its interests in vital economic and political matters.

NEW PARTNERSHIP

During the visit of President George W. Bush to Canada on November 30 to December 1, 2004, the Prime Minister and President committed to deepening cooperation in North America and in the world. They agreed to work bilaterally to address Canada–U.S. priorities and to continue close cooperation with Mexico on issues of trilateral importance. They also announced a "new partnership" to lay out an agenda designed to increase the security, prosperity and quality of life of citizens on both sides of our border. On March 23, 2005, the NAFTA leaders met in Waco, Texas and announced the Security and Prosperity Partnership of North America, which builds on the New Partnership Initiative and constitutes a trilateral effort to increase the security, prosperity, and quality of life of North Americans. This work will be based on the principle that our security and prosperity are mutually dependent and complementary, and will reflect our shared belief in freedom, economic opportunity, and strong democratic values and institutions. It will also help consolidate our action into a North American framework to confront security and economic challenges, and promote the full potential of our people.

The New Partnership agenda is composed of four pillars: security, prosperity, quality of life, and beyond North America. The security pillar deals with objectives such as improving intelligence gathering, border security, infrastructure and NORAD (North American Aerospace Defence Command) renewal. The prosperity pillar calls for joint approaches to partnerships, consensus standards and smarter regulations and for stepping up efforts to liberalize NAFTA rules of origin. The quality of life pillar covers environmental and public health cooperation, while the beyond North America pillar deals with Canada–U.S. collaboration on issues such as counterterrorism, democratic institutions, humanitarian crises, infectious diseases and multilateral cooperation, including working toward the early completion of an ambitious Doha Development Round.

Through the New Partnership, Canada and the United States will continue their joint efforts on the Smart Border Accord to secure the safe movement of people and goods within North America, keeping our border open for business but closed to terrorism. The Government of Canada is committed to striking the right balance between ensuring effective border security and facilitating the cross-border flow of low-risk goods and services.

The Prime Minister and President also agreed to expand economic opportunity by making businesses more competitive in the global marketplace. Today's economy increasingly reflects a model where design and production are managed on a global platform and where imports, driven in part by direct investment abroad, are critical inputs to exports. Given the integrated nature of industries, Canada and the United States must work together to reinforce North American competitiveness in this new economy.

As one step in reinforcing this competitiveness, Prime Minister Martin and President Bush agreed that officials should work together in developing standards and regulations to promote greater efficiency and competitiveness, while enhancing the health and safety of our citizens.

The two leaders also agreed to accelerate efforts to reduce rules-of-origin costs on goods trade between the two countries. NAFTA has established a strong foundation for work in this area. At the July 2004 NAFTA Commission meeting, ministers endorsed a rules-of-origin liberalization package covering a broad range of food, consumer and industrial products affecting approximately US\$20 billion in trilateral trade. Canada and the United States implemented the package on January 1, 2005, while Mexico's implementation is expected early this year. Work is well under way trilaterally to explore the scope for agreement on a second group of liberalized rules of origin to be implemented in January 2006 in sectors such as chemicals, pharmaceuticals, plastics and rubber and motor vehicles.

Mexico

Overview

The fundamentals of the Mexican economy are strong, and Mexico's commitment to free trade remains solid. Mexico recognizes the success of the North American Free Trade Agreement and is looking to build on the Agreement as a means of responding to challenges from other regions in the world, particularly Asia.

NAFTA has been a success for all three partners. According to Statistics Canada, in 2004 Mexico was Canada's 5th largest merchandise export market and 3rd most important source of imports. Total two-way merchandise trade in 2004 reached \$16.4 billion. NAFTA has also increased foreign direct investment. According to Mexico's Economy Ministry, in 2003 FDI in Mexico reached \$143.9 billion, with Canada being Mexico's 5th most important investor. Currently, close to 1,400 Canadian companies have offices or representatives in Mexico. Mexican FDI in Canada, while still relatively small, is growing.

Over the last 10 years, Mexico has actively sought to build on the success of NAFTA, establishing a wide network of 12 free trade agreements (including a free trade agreement with Japan, which is expected to enter into force in the spring of 2005) and providing preferential access to 43 countries on three continents. Mexico is an active participant in the WTO Doha Development Round and in the Free Trade Area of the Americas negotiations. Mexico has also reached out to its South American trading partners, and in 2004 it began negotiations with Mercosur to become an associate member.

In 2004, the Mexican government announced a series of measures designed to increase the country's competitiveness, strengthen economic development and transform Mexico into a major world manufacturing centre. The program includes reductions in Mexico's duties on specific goods from its non-FTA partners; the government states that these reductions are urgently needed if Mexico is to retain its share of the U.S. and other markets. While the government insists that these reductions have been negotiated with domestic industry, there are still pockets of resistance

THE CANADA-MEXICO PARTNERSHIP

In October 2004, Mexican President Vicente Fox Quesada led a team of ministers, parliamentarians, members of the press and a large business delegation on a working visit to Canada. The centrepiece of the visit was the launch of the Canada–Mexico Partnership (CMP), a high-level public–private forum that will bring together business leaders, academics and senior policy-makers to build strategic networks and partnerships, facilitate cooperation, and enhance opportunities for economic development and investment.

The CMP will serve as a mechanism for identifying policy areas in which we can facilitate cooperation and enhance opportunities for economic development and investment with the objective of improving our competitiveness as North American economies. The agreement was designed as a cooperative arrangement that will be complementary to NAFTA and will not duplicate efforts under way in other forums or organizations. The titular leaders of the CMP are Prime Minister Martin and President Fox, who will receive regular progress reports. The quadripartite approach, which involves the public and private sectors of both countries (with academic input), will focus on results in advancing initiatives.

A binational steering group involving key stakeholders has been created to guide the process, and an action plan for the CMP was completed in March 2005. By June 2005, a number of working groups are expected to have selected potential opportunities from among those initially identified for cooperative action under the Partnership. Subsequent areas of cooperation will be evaluated and selected as the Partnership gains momentum.

to a unilateral opening of the economy in what is seen as the last bastion of Mexican protectionism: its most-favoured-nation (MFN) duties. Canadian exporters could face competition from non-FTA partners as Mexico begins to reduce its MFN duties.

The possibility of increased protectionism in the agriculture sector remains, along with Mexican concerns over NAFTA's impact on the sector. In line with the National Agreement on Agriculture negotiated in 2003 with Mexican farmers, the Mexican government has committed to using every instrument at its disposal to protect the agriculture industry, including the increased use of non-tariff barriers. This has resulted in the increased use of safeguard and antidumping investigations, along with the application of mandatory regulations and the levying of duties and other fees on imports.

Market Access Results in 2004

- Canada negotiated import conditions with Mexican authorities that allow the import of various agricultural products including meats, pet food and grains.
- Regarding BSE, during 2004 Mexico agreed to resume imports of some additional beef products including veal meat (bone-in and boneless) from calves under nine months of age; tripe, cheek and meat products containing beef and prepared beef (marinated or otherwise prepared) from animals under 30 months of age; fetal bovine serum; tallow for industrial use; pet food; sheep offals (head); and sheep or goat meat, carcasses and viscera.
- In April 2004, Mexico agreed to remove its avian influenza-related measures against duck meat from Canada.
- Canada and Mexico signed a cross-Canada Work Plan in July 2004 for the resumption of trade in seed potatoes from across Canada.
- Canada and Mexico continued work on the mutual recognition agreement (MRA) for engineers and added other professions (actuaries and plant pathologists) to the list.
- In July 2004, Mexico implemented a series of measures to liberalize the NAFTA rules of origin applicable to seven products, making it easier for exporters of these products to benefit from duty-free treatment under NAFTA.

Canada's Market Access Priorities for 2005

■ Monitor key aspects of Mexican domestic policy that may affect Canadian market access, including amendments to Mexico's animal health law to

- require the inspection of imported live animals on the Mexican side of the border.
- Continue discussions with Mexico, and as necessary with the United States, aimed at removal of all remaining BSE-related trade measures including those on beef products (bone-in beef and beef from animals over 30 months) and live animals (including dairy breeding cattle).
- Continue to make representations to Mexico seeking removal of all remaining avian influenzarelated trade measures against poultry from Canada.
- Ensure that Mexican mandatory technical regulations, such as NOM 194 on meat and NOM 66 on mandatory consolidation of all animal and animal product regulations, are not trade-restrictive or in violation of Mexico's international trade obligations.
- Monitor Mexican biosafety legislation to ensure that Canadian interests are not adversely affected.
- Continue to monitor the high-fructose corn syrup/sugar dispute between Mexico and the United States to ensure that Canadian interests are protected.
- Assist Canadian suppliers with respect to the application of NAFTA Chapter 10 (Government Procurement) by Mexican government agencies and state-owned enterprises, as well as monitor and lobby the Mexican government with respect to any identified systemic problems with Mexican government procurement.
- Work with interested Canadian professional associations to expand their access to the Mexican market.
- Monitor implementation in Mexico of measures to liberalize rules of origin and work to expand the list of included items.

IMPROVING ACCESS FOR TRADE IN GOODS

Bovine Spongiform Encephalopathy

Following Canada's announcement of its first BSE case in Alberta on May 20, 2003, Mexico and other trading partners banned the import of Canadian cattle, beef and other products. On August 8, 2003, Mexico announced that it would resume imports of boneless beef from animals under 30 months and

certain other products. By October 2003, final certification arrangements had been worked out between Canadian and Mexican regulatory officials and trade was able to resume. During 2004, Mexico agreed to resume trade in a few additional beef products such as veal meat (bone-in and boneless) from calves under nine months of age; tripe, cheek and meat products containing beef and prepared beef (marinated or otherwise prepared) from animals under 30 months of age; fetal bovine serum; tallow for industrial use; pet food; sheep offals (head); and sheep and goat meat, carcasses and viscera. Canada has been working with both Mexican and U.S. officials to secure a resumption of trade in additional beef products and live animals. Mexico has indicated its willingness to reopen the border for live animals and additional beef products as long as this does not change Mexico's BSE status vis-à-vis the United States, thereby jeopardizing Mexico's own access to the U.S. market. Bilateral and trilateral discussions are continuing to address these issues.

Avian Influenza

Following the Canadian Food Inspection Agency's confirmation of highly pathogenic avian influenza in the B.C. Fraser Valley on March 9, 2004, Mexico imposed a ban against all poultry products from Canada (except for cooked poultry products subject to pasteurization or to a temperature of at least 60°C for 10 minutes, and registered biological poultry products for veterinary use). Other trading partners also imposed measures against Canada, but some limited their measures to imports from British Columbia. In early April 2004, Mexico agreed to restore access for duck meat from Canada. However, Mexico continues to ban imports of other poultry products from Canada.

New Mandatory Technical Regulation for Meat

The Mexican Ministry of Health (Salud) published, on September 18, 2004, a new mandatory technical regulation (NOM 194) that would establish new sanitary provisions for domestic and imported meat. Implementation is set for one year from the publication date. One of the main concerns regarding the proposed NOM is the requirement of zero tolerance for salmonella in uncooked meat, which is not based on sound science and is inconsistent with

international sampling protocols. Canada has made several representations before Salud and submitted comments regarding its concerns about the proposed regulation for meat. Although Salud agreed to consider Canada's comments and consult Canada before publication, no prior notification was given and the comments were not considered. Canada will continue engaging Salud to ensure that the NOM does not adversely affect Canadian meat exports to Mexico and that the NOM respects Mexico's international trade obligations.

Consolidation of Animal and Animal Product Import Requirements Under NOM 66

Mexico has proposed the consolidation of over 7,000 Hojas de Requisitos (sanitary import conditions for all animal and animal products) under one NOM, as a way to reduce costs to importers and provide for more efficient administration of its import laws. Canada (along with other affected export countries) has concerns that the individual import conditions for each country will be lost under this approach, leading to potential losses in market access for many products. This issue will need to be monitored closely to ensure that any new NOM offers acceptable import conditions for Canadian products.

On October 22, 2004, Salud announced in the Official Gazette the cancellation of several proposed NOMs that included sanitary specifications for cheese, fishery products, snacks and confectionery products. This measure is positive for trade, since the NOMs would have generated additional administrative procedures for importers and were of concern to Canada.

Regulation of Biotechnology

Mexico is in the process of creating a legal framework for the regulation of biotechnology and the products of biotechnology (e.g. food based on genetically modified organisms—GMOs). Canada has been lobbying Mexican legislators, as well as Mexican authorities, expressing concerns about the new framework and has shared information regarding Canada's own biotech regulatory experience. A draft Biosafety Law was tabled in the Mexican Senate in November 2002, on which Canada provided formal comments. Although the Biosafety Law passed the Senate in April 2003, the Lower House committee did not

complete its review. Consequently, there is some uncertainty regarding the time frame for approval of the Mexican Biosafety Law, though it may be approved by Congress in 2005. In its current version, the draft law would require labelling of all products containing GMOs. The Mexican government has set up an interdepartmental consultative mechanism (CIBIOGEM) on biosecurity and GMOs, which has to date been headed by SAGARPA (the Agriculture Ministry). A change of leadership to SEMARNAT (the Environment Ministry) could result in a new and less trade-friendly approach that will need to be closely monitored.

In 2004, members of Mexico's Lower House and environmental organizations expressed their concern with regard to the trilateral arrangement on documentation requirements for Living Modified Organisms for Food, Feed or Processing, which was signed by the three NAFTA partners in October 2003. They claim that this arrangement violates the Cartagena BioSafety Protocol and have asked for an explanation from the Mexican government as to the scope, content and obligations of this document. SAGARPA is working to clarify these concerns and has confirmed its intention to continue with the implementation of the arrangement. In December 2004, the Congress approved a version of the Biosafety Law with certain changes, but the law still requires labelling of all products containing GMOs. The law is now with the Mexican Senate.

Border Clearance

Mexico has very complex and continually evolving import regulations for agri-food products. To deal with this issue, in 2001 Canada contracted a border clearance representative (BCR), located at the Nuevo Laredo border crossing, to assist Canadian exporters of agri-food products. The BCR works directly with Canadian agri-food exporters before they ship their products, educating exporters on the correct procedures in order to ensure that proper documentation is in place. The BCR has developed a strong professional relationship with Mexican officials, which facilitates communication and on-the-spot resolution of border clearance difficulties at Nuevo Laredo and other border crossings. The BCR has proven to be a useful mechanism for reducing border clearance delays and expediting the movement of Canadian

agri-food products across the Mexican border. This is a pilot project, which will expire in 2005 unless additional funding can be identified.

High-Fructose Corn Syrup

On January 2, 2002, the Mexican government introduced a 20% tax on beverages containing sweeteners other than cane sugar. This effectively halted Canadian exports to Mexico of high-fructose corn syrup (HFCS), as beverage manufacturers in Mexico switched to using cane sugar as their principal sweetener. Canadian exports of HFCS to Mexico had increased steadily in the years preceding the new tax and were expected to rise further. The tax has adversely affected Canadian corn producers, and questions have been raised regarding its consistency with Mexico's international trade obligations. Under NAFTA, two U.S. companies affected by the tax have filed requests for arbitral proceedings to claim damages for expropriation. In December 2004, Mexico's Chamber of Deputies (with subsequent Senate approval) voted to maintain the 20% tax, despite lobbying by the Economy Ministry and President Fox to have it rescinded.

The Government of Canada has made several representations to the Mexican government outlining its concerns regarding the tax, and has joined the U.S. WTO challenge of the tax under third-party status.

IMPROVING ACCESS FOR TRADE IN SERVICES

Professional Services

Professional engineering associations in Canada, Mexico and Texas are in the final stages of implementing the 1995 Canada–Mexico–U.S. Mutual Recognition Agreement for Professional Engineers. This would allow engineers in participating jurisdictions to be recognized as professional engineers in those jurisdictions, fully authorized to independently perform engineering work. All three parties have signed a letter of intent to go back to their members for approval to implement the MRA. The Canadian Council of Professional Engineers has contacted the Canadian provincial engineering associations in this regard, and so far eight provincial and/or territorial associations have given their approval. The associations

of Quebec and Ontario have not yet approved. Mexico's professional association has given its approval, and the Mexican Education Ministry is working to finalize the language test and other requirements for which it is responsible.

In other developments, representatives of the Canadian Institute of Chartered Accountants and its Mexican and U.S. counterparts have signed an MRA that recognizes the professional qualifications of chartered/certified accountants in their respective jurisdictions. As well, representatives of the Canadian Council of Land Surveyors and its Mexican and U.S. counterparts have approved a draft MRA and are working toward a final agreement.

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

OTHER ISSUES

Government Procurement

Procurement by Mexican entities listed in NAFTA Chapter 10 is governed by the disciplines of this chapter. Mexico may exclude up to US\$1.2 billion per year of government procurement from the disciplines of NAFTA Chapter 10. In addition, Mexico may exclude up to US\$300 million for the stateowned oil (PEMEX) and electricity (CFE) firms. These exemptions reduce the opportunities available for Canadian exporters seeking to bid on procurement by Mexican government agencies and public companies. Canada will continue to assist Canadian exporters on a case-by-case basis and to monitor Mexico's application of these exemptions. Canada remains concerned that Mexico has not demonstrated its compliance with these limits on exclusions. Canada continues to press Mexico for relevant statistical and other information that could demonstrate that these limits have not been exceeded.

Mexican Initiative to Require Bottling of Tequila in Mexico

Mexico has proposed a mandatory technical regulation (NOM) that could require all tequila (which is produced only in Mexico) to be bottled in Mexico. At present, some tequila is exported to other markets

in bulk, where it is bottled and sold as Mexican tequila. The majority (75%) of tequila exported to Canada and the United States is shipped in bulk. Mexican industry claims that the quality of some tequila that is bottled abroad is highly suspect, with disreputable foreign bottlers diluting and lowering the quality of the tequila and damaging its reputation.

Existing tequila trade between Mexico and Canada is mutually beneficial and is expected to grow significantly in the near term. Canada is the fourth most important importer of bulk tequila, after the United States, Germany and France. Introduction of the NOM will interfere with both existing and anticipated commercial arrangements and negatively affect anticipated export growth. Shipments in bulk for bottling in destination countries is common business practice in the beverage alcohol industry. There are various safeguards in place to ensure product quality and integrity.

There have been 10 trilateral meetings (between the Canadian, U.S. and Mexican governments) to discuss this issue, the most recent being in January 2005. Parallel industry meetings concluded in June 2004, with industry recommendations subsequently presented to governments. In future trilateral discussions, Canada and the United States will be working to ensure that tequila exports to our countries continue unimpeded while respecting NAFTA parties' rights and obligations under Annex 313 (Distinctive Products).

Trade Data Reconciliation

The statistics produced by countries on their merchandise trade with the rest of the world frequently differ from the statistics published by their trading partners. These differences reflect legitimate conceptual differences between import and export statistics, as well as possible errors. The Merchandise Trade Reconciliation Canada-Mexico 2000-2001 report produced by Statistics Canada and the Mexican agency INEGI shows a discrepancy of over \$4 billion between what Statistics Canada reports as exports to Mexico and what INEGI reports as imports from Canada. The major factor contributing to this gap is transshipment or indirect trade through the United States. The implication is that Canada's actual exports to Mexico are far greater than the reported figures using Canada's export statistics.



Free Trade Area of the Americas

Overview

he proposed Free Trade Area of the Americas holds the potential to create the world's largest free trade area, with over 837 million people and a combined gross domestic product of more than \$18.8 trillion. In addition to liberalizing trade in goods, the FTAA has the potential to secure improved market access commitments in the services sector and to establish stronger investment protection measures throughout the hemisphere.

The FTAA is an integral part of the larger Summit of the Americas process. It was conceived in principle in December 1994 at the inaugural Summit of the Americas in Miami. At the second Summit, in Santiago in April 1998, the leaders of the 34 democratic countries of the Americas launched the

negotiations toward a hemisphere-wide free trade area. The FTAA complements the Summit objectives of strengthening democracy, promoting human rights and finding ways to address a range of social and economic issues through hemispheric cooperation. The FTAA is perhaps the most visible element of the Summit process, but its principal objectives of growth and development through enhanced economic integration are ultimately intended to reinforce the Summit's broader objectives. Canada hosted the Third Summit of the Americas in Quebec City in April 2001, and it continues to play a significant role in the broader Summit process.

Nine FTAA negotiating groups were established in 1998, with mandates from ministers to negotiate in specific substantive areas: market access; investment; services; government procurement; dispute settlement; agriculture; intellectual property rights; subsidies, anti-dumping and countervailing duties; and competition policy. In addition, a consultative group and two committees were created to address horizontal issues related to the negotiations: smaller economies, and civil society and electronic commerce. Later, a committee was established to address general and institutional issues.

The FTAA will build on Canada's existing free trade ties with the United States, Mexico, Chile and Costa Rica, and our expanding links elsewhere in the hemisphere, enabling Canada to take full advantage of emerging hemispheric markets. The FTAA will coexist with pre-existing agreements, such as the North American Free Trade Agreement. This means that Canada's trade with the United States and Mexico will continue to be governed by NAFTA, and the FTAA will substitute in these relations only if all three parties agree.

Excluding Canada's NAFTA partners, in 2004 the FTAA countries were the destination for \$3.7 billion in Canadian merchandise exports. In addition, in 2003 the stock of Canadian direct investment in the region exceeded \$55.3 billion, or about 13.9% of Canada's total outward investment.

In accordance with ministers' instructions outlined in the November 2003 Miami Ministerial Declaration, the FTAA process will adopt a two-tier approach: work on a set of common rights and obligations in each of the existing nine subject areas (first tier), and work on optional, more ambitious trade liberalization measures through additional negotiations among interested countries (second tier). Despite several formal and informal meetings, negotiators have not been able to agree on the design and procedures for the new negotiating framework. As a result, formal negotiations are suspended, and the January 2005 deadline for the conclusion of the negotiations has not been met. Although this means that the countries of the hemisphere will not realize the benefits of a potential FTAA as quickly as initially envisaged, the vision behind this initiative remains valid. Once consensus is reached on how to implement the new negotiating framework, the negotiations should be able to proceed at a faster pace.

In November 2004, Prime Minister Martin and President Luiz Inacio Lula da Silva of Brazil issued a joint declaration stating their intention to negotiate enhanced market access in the areas of goods, services and investment in the context of the FTAA. The hope is that this initiative will help move the FTAA negotiations forward, toward the conclusion of a comprehensive and high-quality agreement that promotes regional economic integration.

Market Access Results in 2004

■ Due to the pause in the formal negotiations, there are no market access developments to report.

Canada's Market Access Priorities for 2005

- Recommence formal negotiations to develop and implement a negotiation framework, as instructed by ministers, which will advance work on the integrated draft text of the FTAA Agreement and the market access negotiations for goods, services, investment and government procurement.
- Pursue the conclusion of a high-quality, comprehensive Agreement.
- Seek agreement with other countries on a process to establish parallel agreements on labour and the environment in the context of the FTAA.
- Continue to pursue measures, including institutional measures, that increase the transparency and participation of civil society in the FTAA.

MERCOSUR

Overview

Argentina, Brazil, Paraguay and Uruguay established the Southern Cone Common Market (Mercosur) in 1991 through the Treaty of Asuncion. Mercosur provides for the free circulation of goods, services, capital and labour; a common external tariff; and harmonized macroeconomic and sectoral policies by 2006. With 215 million consumers (compared with 400 million in NAFTA), this customs union was Canada's second largest export market in Latin America in 2003, after Mexico. Partially harmonized common external tariffs were implemented in 1995. Approximately 90% of all internal trade is duty-free, with the remaining exceptions to the common external tariff scheduled to be eliminated by 2006.

Since its inception, four other countries have joined Mercosur as associate members and have negotiated free trade agreements with Mercosur: Chile (1996), Bolivia (1997), Peru (2003) and Venezuela (2004). Mexico is slated to become an associate member in the near future. Mercosur also signed an agreement to create a free trade area with the Andean Community in 2003 and has been engaged in negotiations with the European Union. In addition, Mercosur has sought closer ties with other developing countries such as China, Egypt, India and South Africa.

In November 2004, Prime Minister Martin and President da Silva of Brazil issued a joint declaration stating their intention to negotiate enhanced market access in the areas of goods, services and investment in the context of the FTAA. The hope is that this initiative will help to move the FTAA negotiations forward, toward the conclusion of a comprehensive and high-quality agreement that promotes regional economic integration.

Canadian merchandise exports to Mercosur countries totalled \$1.1 billion in 2004, a 14% increase from the previous year. Canada's main exports to Mercosur are fertilizers, paper products, machinery, petroleum products, electrical machinery and equipment, minerals, optical and medical equipment, motor vehicles, chemicals, rubber, plastics, vegetables, pharmaceuticals and wheat. Canadian imports from Mercosur members totalled \$2.8 billion in 2004, an increase of 10% from the previous year.

Canadian direct investment is concentrated in the aluminum, oil and gas, mining, power generation, agricultural nutrients, telecommunications equipment and services sectors and has increased significantly in recent years.

Brazil

Overview

Brazil is officially designated as a priority market for Canada and is Canada's most important trading partner in South America. Two-way trade reached \$3.3 billion in 2004. Canadian merchandise exports to Brazil expanded to almost \$953 million in 2004, an increase of 7% over the previous year. Major exports included fertilizers, paper products, mechanical machinery, mineral fuels, electrical equipment and minerals. Canadian merchandise imports from Brazil totalled \$2.3 billion in 2004, up 18% over 2003. Major imports included industrial goods such as iron and steel, manufactured goods, such as automobiles and mechanical machinery, agricultural goods (raw sugar, prepared fruit and vegetable products), as well as wood, footwear and precious stones.

Export Development Canada (EDC) now has two offices open in Brazil (Sao Paulo and Rio de Janeiro), to meet the growing demand from Canadian exporters. Prime sectors in Brazil for Canadian exporters and investors are energy, mining, oil and gas, information technologies, telecommunications, financial services, pulp and paper, biotechnology, agriculture and environmental services.

Canadian cumulative direct investment in Brazil exceeded \$7.5 billion in 2003.

Since the January 2003 inauguration of the government of President da Silva, Brazilian trade policy has placed considerable emphasis on furthering South American integration. This administration has also taken strong steps to enhance trade and political relations with the rapidly industrializing economies of China, India and South Africa and with less-developed economies throughout the world.

Brazil has further demonstrated its commitment to monetary and fiscal policy reforms to ensure the continued support of the International Monetary Fund (IMF) and has largely succeeded in reassuring international investors of Brazil's financial stability. Primary fiscal surpluses are high at 4.25% of GDP, inflation is on target at 7.3%, and the rate of growth was forecast at 4.5% for year-end 2004 and is projected to be 3.5% for 2005. A standby financing arrangement with the IMF (totalling US\$6.6 billion) was announced in December 2003, a move that was favourably received by the financial markets. The ratio of public debt to GDP decreased to 56% by mid-2004, and Brazil is working to reduce this proportion, as it has constrained policy choices.

Exports continued to grow strongly in 2004 and led to a record trade surplus of US\$25 billion in 2003. Growth in goods exports has been driven by a diversification of products and an emphasis on opening new markets. There has also been growth in the export share of non-traditional Brazilian exporter states and an increase in the overall number of exporters. Commodities exports have grown, largely due to rising international prices, and manufactured exports have shown a steep increase in volume. The external sector should continue to make a positive contribution to economic growth in 2005, with exports supported by robust external demand and the anticipated stability of commodity prices. Imports, which were in decline from 2001 through 2003, began an upturn in 2004 and are expected to remain strong in 2005 in response to a growing recovery in domestic demand.

An important challenge for Brazil in 2005 will be to find the means to stimulate strong growth in private consumption and investment. Brazil's investment regime is largely open to foreign investors, and there are generally no restrictions on the remission of profits and the repatriation of capital that has been duly registered with the Central Bank. However, Brazil's share of worldwide investments has decreased, and improvements to the investment climate are required to reverse this situation. Brazil is developing a system for public–private partnerships, which it hopes will help to boost investment in the country and build much-needed infrastructure.

Brazil is an original member of the World Trade Organization and is one of the most active participants in the multilateral trading system. As leader of the WTO G20, the group of developing countries concerned about market access in agriculture, Brazil has taken a prominent role in the negotiations. Through its membership in the Southern Cone Common Market (Mercosur), Brazil offers the opportunity to access the larger trading arrangement. Along with the United States, Brazil is a co-chair of the FTAA negotiations. The next FTAA Ministerial Meeting is scheduled to take place in Brazil.

Market Access Results in 2004

- Canada's long-standing concerns about its access to the Brazilian seed potato market were addressed when Brazil relaxed tolerance levels for some non-regulated quarantine pests.
- In August 2004, Canada and Brazil agreed on conditions allowing for the resumption of trade in bovine embryos.

Canada's Market Access Priorities for 2005

- Continue representations concerning the levying of duties and charges on imports from Canada that are not consistent with Brazil's international trade obligations; an example is Brazil's Merchant Marine Renewal Tax, which imposes a 25% tax on the ocean freight of imported goods.
- Promote dialogue in the FTAA negotiations and successful completion of an ambitious Doha Round in the World Trade Organization negotiations.
- Continue representations aimed at removing Brazil's BSE measures on imports of beef and cattle from Canada.

IMPROVING ACCESS TO TRADE IN GOODS AND SERVICES

Merchant Marine Renewal Tax

Canada has raised concerns about the imposition of duties and charges on imports that are not notified in Brazil's WTO schedule, such as the Merchant Marine Renewal Tax with its potential trade-restricting and trade-distorting effect. The amount of this tax is 25% of the ocean freight on imported goods. Since the tax does not apply to domestically produced goods, or to goods imported over land from neighbouring countries, Canada considers that it violates both the national treatment and most-favoured-nation

obligations of the General Agreement on Tariffs and Trade. Also, in many cases where Brazil's applied tariff is within the level of its WTO binding, the combination of the Merchant Marine Renewal Tax and the applied tariff exceeds the WTO binding.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a bovine spongiform encephalopathy case, Brazil imposed a ban on imports of ruminants, embryos and by-products from the same species originating from Canada. Canada has kept all its trading partners, including Brazil, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. In March 2004, Brazil agreed to resume trade in bovine embryos. In August 2004, officials agreed on the terms of an export certificate allowing trade of embryos to resume. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On February 20, 2004, Brazil suspended the import of live birds from Canada. After revising information provided by CFIA, Brazil lifted restrictions on all provinces except British Columbia and required that imports of hatching eggs be subject to facility approval by Brazilian authorities. (For further information, see the avian influenza overview in Chapter 2.)

Tariff on Wheat

In 1996, Brazil notified WTO members that it had withdrawn from its WTO schedule a market access concession under which 750,000 tonnes of wheat entered Brazil duty-free, and that it would begin applying a duty, currently set at 10%, to all wheat imports. As the largest non-preferential exporter of wheat to Brazil at that time, Canada notified WTO members of its claim of "principal supplying interest" in order to safeguard its right to compensation from Brazil for the non-implementation of this concession and the new tariff. Brazil's view is that there is no compensation owing because Canada's market share remained unaffected.

Regional Aircraft Dispute

Protracted litigation at the World Trade Organization regarding Brazilian and Canadian financing support for regional jet aircraft sales resulted in substantial, but so far unexercised, retaliation awards to both sides. For the past three years, Canada and Brazil have sought a negotiated solution to the long-running dispute. The goal is an understanding that will minimize the impact of government financing on airlines' decisions to purchase aircraft.

The current negotiations focus on an understanding that would capture the progress made to date and establish a future work plan to address the outstanding issues.

Argentina

Overview

Following the social, economic and financial crisis of late 2001, real output contracted by 10.9% in 2002, after contracting 10% between 1998 and 2001. Output began to grow again in the second quarter of 2002. Real GDP rose by 8.8% in 2003, outstripping the most optimistic forecasts. Growth was driven by a 38.2% increase in gross fixed investment and an 8.2% rise in private consumption. Two-thirds of the investment expansion was in construction, with the remainder in machinery and equipment. Imports grew by 37.6% as they recovered from the depressed levels of 2002. In the first half of 2004, output growth was 8.4% year on year, driven by continued strong investment. During the first nine months of 2004, inflation did not exceed 6%, industrial activity was up 10% (led by the automotive industry and the cement, rubber, plastics and chemicals sectors), and exports grew by 15% while imports increased by 68%. Imports of capital goods rose by 151%, reaching year 2000 levels. Growth is expected to reach at least 7% in 2004.

Nonetheless, the scars of Argentina's 2001 crisis remain visible throughout the country. About 44% of the population, including 5.5 million young people aged between 15 and 29 years, live under the poverty line—in sharp contrast to conditions between 1992 and 1995, when only 22% of the population was

poor. Poverty and unemployment are widespread and represent a potential source of social tension. The country remains vulnerable to adverse changes in the international environment, such as increases in interest rates on its debt and price declines for its primary commodities.

Since 1991, Argentina has received almost continuous support from the International Monetary Fund, and it is one of the five largest borrowers from the Fund, owing US\$15.5 billion at the end of 2003. In September 2003, the authorities signed a three-year standby agreement with the IMF, under which the Fund agreed to refinance Argentina's IMF obligations. In return, the Argentine government committed to meeting quantitative targets for the monetary base and fiscal performance and to fulfilling structural reform commitments. These included compensating the banks for the effects of asymmetric pesification, passing a revenue-sharing law to limit transfers to the provinces, and negotiating in good faith with the holders of defaulted bonds. Argentina passed the first two performance reviews; however, its failure to pass a revenue-sharing law and delays in debt renegotiations and utility tariffs led to delays in the third review. In August 2004, a month before the government was scheduled to meet the Fund to set out a target for the primary fiscal surplus, the government suspended the agreement, postponing the negotiation of new targets until early 2005 and pressing ahead with an offer to bondholders in the meantime.

In November 2004, the Argentine government submitted to the U.S. Securities and Exchange Commission what it considered to be its final proposal for the swap of Argentine defaulted debt bonds. Over an aggregate amount subject to restructuring of US\$81.8 billion, the government intends to issue bonds totalling US\$38.2 billion or US\$43.2 billion, depending on whether the rate of acceptance of the proposal is above or below 70%. The proposal was submitted for consideration by foreign creditors, and there will be two underwriting periods extending from January 14, 2005 to February 25, 2005. In its quest for a high acceptance rate, the Argentine government managed to reach an important agreement with private pension funds, which hold approximately 20% of the defaulted bonds.

The World Bank is currently financing 31 projects, with a total commitment of about US\$4.7 billion. In addition, the new 2004-2005 Country Assistance Strategy (CAS) for Argentina outlines a program that projects up to US\$2.0 billion of new World Bank financing from April 2004 through December 2005 to help reduce poverty as the country recovers from the crisis. The new CAS supports the government's commitment to rebuilding the economy while delivering sustained growth and promoting a framework of social programs. The CAS also stresses the need for improvements in governance, accompanied by institutional and structural reforms to ensure the sustainability of the improvements over time. The International Financial Corporation (the private sector arm of the World Bank Group) will continue to emphasize support for export-oriented investments: it will focus on alleviating the credit crunch faced by export-driven companies while engaging in selective investments in new operations with returns commensurate with risks.

More than a third of all cases before the International Centre for the Settlement of Investment Disputes, representing some US\$15 billion, are against the Government of Argentina. A few cases started hearings in 2004, and the outcomes will most likely have an impact on current negotiations with privatized utilities.

Canadian investment, notably in the oil and gas, and mining and energy sectors, reached \$5.2 billion in 2003, making Canada one of the most important foreign investors in Argentina. Canadian mining juniors are actively exploring opportunities. Other major Canadian investments are in agro-industry, printing and telecommunications. Although additional investment opportunities exist in these sectors, the extent to which they can be explored depends on Argentina's continuing recovery from the crisis. In particular, domestic access to medium- and long-term financing for small and medium-sized enterprises remains difficult to secure, unless in an export-driven sector.

Canada and Argentina signed a foreign investment protection and promotion agreement in 1991. This FIPA follows the OECD model, which does not include all of the enhanced investment protection afforded under NAFTA and Canada's newer FIPAs. Argentina and Canada also agreed to a bilateral trade and investment cooperation arrangement (TICA) in 1991, and Argentina supported Canada's proposal for a TICA with Mercosur (signed in 1998). Canada and Argentina have a double taxation agreement.

In 2004, bilateral merchandise trade fell to \$416 million, down from \$452 million in 2003. This represents a year-over-year decrease of 8%. Statistics Canada reports that Canadian exports jumped to \$128 million in 2004 (up 64% from the previous year), while imports decreased to \$288 million (down 23% from 2003).

Canada's Market Access Priorities for 2005

- Continue representations aimed at removing Argentina's BSE measures on imports from Canada, especially on dairy products and health devices (including products of bovine origin) and encouraging Argentina to align its BSE policies with World Organisation for Animal Health (OIE) recommendations.
- Continue discussions with Argentina to restore access for Canadian pork.
- Support the Canadian business community in Argentina, particularly in the area of investment, with a focus on promoting judicial security, financial stability and a free market in the mining investment regime and fertilizer sector.
- Promote dialogue in the Free Trade Area of the Americas and World Trade Organization negotiations.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of case of bovine spongiform encephalopathy, Argentina temporarily suspended all imports of Canadian products of ruminant origin, including bovine semen and embryos. Canada has kept all its trading partners, including Argentina, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. As a first step, Argentina reopened its mar-

ket for bovine semen coming from Canada in April 2004. In January 2005, Argentina lifted its restrictions on bovine embryos. (For further information, see the BSE overview in Chapter 2.)

Chile

Overview

July 5, 2004, marked the seventh anniversary of the entry into force of the Canada–Chile Free Trade Agreement, which has been the cornerstone of our bilateral trade and economic relationship. The CCFTA established a comprehensive bilateral commercial framework covering trade in goods and services, investment and dispute settlement, as well as significant commitments in the area of trade remedies (a mutual exemption from the application of antidumping measures). The CCFTA is complemented by numerous bilateral agreements, including bilateral cooperation agreements on labour and the environment, the 2000 Double Taxation Treaty and the 2003 Bilateral Air Transport Agreement.

Canada views Chile as a key regional partner, and many Canadian companies consider Chile to be a gateway to neighbouring markets. Prudent fiscal policies, stringent financial sector supervision, structural reforms, and an open trade and investment regime make Chile one of the most open and stable economies in Latin America. In its 2004–2005 Global Competitiveness Report, the World Economic Forum rated Chile as the most competitive country in Latin America.

While Canada took an early lead in partnering with Chile to establish key trade links, other important economies—the European Union, the United States and South Korea—have also implemented FTAs with Chile. Chile's economy will undoubtedly benefit from strengthened confidence and new opportunities arising from these FTAs, as well as from new FTAs that are being negotiated with China, India, New Zealand and Singapore.

Chile's GDP growth was 3.3% in 2003 and is projected to reach more than 5.5% in 2004. Mining was the most dynamic sector on the supply side in 2004, due to double digit growth in copper output. Chile's long term foreign currency debt is the best rated in Latin America and has been considered investment grade by all credit rating agencies since 1992.

Since implementation of the CCFTA in 1997, Canada's bilateral merchandise trade with Chile has flourished and diversified, moving to encompass non-traditional and niche sectors. Total two way trade between Canada and Chile has more than tripled over the past decade, from \$553 million in 1994 to \$1.4 billion in 2004. Two way trade has increased by 132% from \$718 million since the FTA entered into force in 1997, and most Canadian exports now enter Chile duty-free.

The leading Canadian goods exports to Chile are machinery, durum wheat, electrical machinery, petroleum products, paper and paperboard, plastics, iron and steel, aircraft and coal. Canada's leading imports from Chile are copper and copper articles, fruits (particularly grapes), copper ores, wood, wine, fish and seafood, and wine. The major sectors of opportunity for Canadian companies in the medium term include equipment and services in the following areas: mining and metals, energy, environment, information technology and telecommunications, construction and building products, transportation and infrastructure, and plastics.

Canadian services exports have also increased significantly since the entry into force of the CCFTA. In 2002, services exports reached \$162 million, which represents an 86% increase over the pre-CCFTA level. In 2002, service imports from Chile were \$52 million, a 24% increase over the pre-CCFTA level.

Investment in Chile remains a real success story for Canada: Canada is Chile's third largest investor after the United States and Spain. The stock of Canadian direct investment in Chile totalled \$5.9 billion in 2003, according to Statistics Canada. The mining sector remains the main destination for investment, with significant exposure in the energy, chemical, financial services, equipment manufacturing and telecommunications sectors.

Chile remains committed to the promotion of foreign investment, and investment legislation has been incrementally liberalized since 1974. The flexibility of the well-educated workforce is a major attraction for foreign investors, and international capital will continue to flow into export-oriented industries such as mining, manufacturing and agriculture.

The CCFTA and the Canada–Chile Double Taxation Agreement have proven to be highly successful tools for Canadian investment, providing additional benefits and guarantees unprecedented outside the NAFTA context. The CCFTA ensures that Canadian investors will be treated in a similar fashion to Chilean investors and will receive benefits equivalent to those Chile may grant to other countries in future agreements.

Market Access Results in 2004

- Canada and Chile held a successful first meeting of the Canada—Chile Sanitary and Phytosanitary Committee in Ottawa on July 7, 2004. The Committee dealt with a number of bilateral issues, as well as with multilateral issues of common interest.
- Negotiations began to broaden the CCFTA to include a chapter on government procurement.
- Canada and Chile signed a protocol to amend Chile's tariff elimination schedule, giving Canada parity with the United States regarding the tariff treatment of beef and pork.
- Both countries agreed to technical rectifications to the rules of origin within the CCFTA.
- Canada and Chile adopted two declarations that improve the transparency and efficiency of the investment chapter. A declaration on non-disputing party submissions helps to clarify the process for third-party submissions in investor-state arbitration. The second declaration refers to open hearings and confirms the parties' intention to request that all investor-state arbitral hearings be open to the public.

Canada's Market Access Priorities for 2005

- Continue representations aimed removing BSE measures on imports from Canada.
- Continue representations on the import of embryos collected in vitro.
- Hold a second meeting of the CCFTA SPS Committee to continue addressing issues of bilateral interest in this area, as well as issues of shared interest in multilateral forums.
- Seek to conclude negotiations toward a government procurement chapter within the CCFTA.
- Encourage engineering professions in both countries to negotiate a mutual recognition agreement.
- Continue to develop a basis for addressing financial services disciplines in the CCFTA.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Automobiles

On January 1, 2004, Chile began to phase out the 85% luxury tax on automobiles valued at over US\$15,834, following a Chilean Supreme Court ruling that the tax is equivalent to a tariff. The luxury tax will be completely removed by January 1, 2007. Vehicles from Canada will receive treatment on par with that accorded to vehicles imported from other countries, including the United States.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Chile issued a ban on imports of bovines and bovine products from Canada with some exceptions. Canada has kept all its trading partners, including Chile, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. On December 31, 2004, Chile lifted its restrictions on imports of bovine embryos collected in vivo. Restrictions remain on the import of embryos collected in vitro. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On March 8, 2004, the Canadian Food Inspection Agency confirmed the presence of highly pathogenic avian influenza in southern British Columbia, prompting Chile and other trading partners to impose import restrictions. On November 24, 2004, Chile removed its import restrictions on poultry and poultry products from British Columbia.

ANDEAN COMMUNITY

Bilateral merchandise trade with the Andean Community amounted to \$3.6 billion in 2004. This represents an increase of 48% over the same period the previous year. Canadian exports totalled \$1.2 million. According to Statistics Canada, the Canadian stock of direct investment in the Andean region totalled \$2.9 billion in 2003.

In August 2002, Canada began exploring the possibility of a free trade agreement with all five Andean countries (Bolivia, Colombia, Ecuador, Peru and Venezuela) at their request. The Government of Canada launched extensive domestic consultations in November 2002 with business, citizen-based organizations and individual Canadians, as well as with provincial and territorial governments, to obtain advice and views on priorities, objectives and concerns that would help define the scope of further trade initiatives with these countries, including a possible FTA. The majority of responses received support eventual free trade negotiations with the Andean Community. Additional exploratory discussions with the countries of the Andean Community would be necessary before negotiations could commence. Canada and the Andean Community already have a trade and investment cooperation arrangement, signed in May 1999.

The Andean Group (Colombia, Ecuador and Peru) is currently negotiating an FTA with the United States, which may have an impact on the competitive positions of Canadian companies.

Canada is actively negotiating a foreign investment protection and promotion agreement with Peru. In 2003, the Canadian stock of direct Investment in Peru totalled \$1.8 billion. Peru is an important destination for investment by Canadian mining companies, among others. Canada has FIPAs in place with Venezuela and Ecuador.

Venezuela

Overview

Venezuela is an important commercial partner for Canada, with bilateral merchandise trade totalling just over \$1.8 billion in 2004. Canadian exports to Venezuela were valued at \$508 million in 2004, with imports worth \$1.31 billion. This makes Venezuela Canada's second largest trading partner in South America. Bilateral trade has increased approximately 78% relative to 2003, indicating a partial recovery of ground lost in 2002 and 2003 due to adverse economic conditions in Venezuela. While the overall economic situation has improved somewhat, due primarily to high oil prices, Canadian and other foreign suppliers continue to be affected by foreign exchange controls imposed in February 2003 and the general decrease in the purchasing power of Venezuelans. The main Canadian exports to Venezuela are wheat, machinery, motor vehicles, paper and paperboard, optical and medical equipment, vegetables, wood pulp, preserved food and electrical machinery. Canada's imports from Venezuela consist of petroleum products, iron and steel products, inorganic chemicals, ores, slag and ash, fertilizer, vehicles, iron and steel, electrical machinery, aluminum, and organic chemicals.

Canadian investment is concentrated in Venezuela's telecommunications, banking, mining, legal services, and oil and gas sectors. In addition, Canadian exporters and investors are pursuing opportunities in the agri-food, energy, environment and security products sectors.

A foreign investment protection and promotion agreement between Canada and Venezuela was signed in 1996 and came into force in January 1998. A double taxation agreement came into effect on January 1, 2005.

Canada's Market Access Priorities for 2005

- Continue representations to Venezuela aimed at elimination of its discretionary import licensing system for agricultural products.
- Continue encouraging Venezuela to resolve investment disputes in accordance with the principles of transparency and the due process of law.
- Continue representations to Venezuela aimed at resumption of trade in beef and beef products from Canada.
- Continue representations to Venezuela aimed at resumption of trade in poultry and poultry products from Canada.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Foreign Exchange Administration Commission

The 2003 imposition of foreign exchange controls continues to affect exporters of selected goods and services to Venezuela. These controls make it difficult for Venezuelan importers to legally access foreign exchange for goods and services that are not on the priority import lists administered by the Foreign Exchange Administration Commission (CADIVI). To import goods and services not on these lists, importers may have to buy foreign exchange on the black market at rates approximately 25% higher than the official rate. While there was a marked increase in the flow of dollars granted by CADIVI over the course of 2004, the administrative process required to obtain foreign currency via CADIVI represents a bureaucratic delay to the flow of trade. The Venezuelan government has stated that the regime is to remain in place indefinitely, but indications are that the controls will be implemented with some flexibility.

Agricultural Products

Sanitary regulations at the Ministry of Agriculture and Lands (MAT-SASA) are not fully transparent, and authorities do not respond in a timely fashion to official enquiries regarding sanitary and phytosanitary issues. Venezuela's commitment to an open and rulesbased trading system continues to be questioned. During the past few years, Canada has made numerous representations to Venezuelan authorities, raising concerns about Venezuela's SPS-related import licensing system, which restricts agricultural products. Canada's specific concerns have been with respect to meat (beef and pork), table potatoes, onions and, most recently, pulses. According to industry, import licences are either not granted on a timely basis, granted but not for the full amount of the request, or not granted at all. No legitimate reasons are provided for denying or delaying the licences. Canada's position is that as long as Venezuela's legitimate SPS concerns have been addressed, any SPS-related licences should be granted on a timely and automatic basis. On November 26, 2002, and on October 26, 2004, Canada registered its concerns with Venezuela regarding the spotty issuance of permits and rejection of other import permit applications for table potatoes, onions and pulses. A letter outlining these concerns and seeking a resolution to this barrier to trade has been sent to Venezuelan authorities.

OTHER ISSUES

Continuing political and economic difficulties call into question Venezuela's attractiveness as a foreign investment destination. Las Cristinas is a major gold mining project in Venezuela that remains the subject of long-standing and complex legal disputes involving various parties, including the Venezuelan government and several Canadian companies. The case has been registered with the International Center for Settlement of Investment Disputes. The Government of Canada has underlined to Venezuelan authorities the importance of resolving the disputes in accordance with the principles of transparency, good faith and due process of law.

CENTRAL AMERICA

Overview

The Central American countries of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama are emerging economies with generally good economic growth. Annual two-way merchandise trade between Canada and the Central American countries amounted to \$1.18 billion in 2004, with Canadian exports to Central America totalling \$386 million and imports totalling \$791 million. (Note: These statistics do not include many goods transshipped through the United States.)

The Canada–Costa Rica Free Trade Agreement, which came into effect on November 1, 2002, demonstrates that it is possible to take into account differences in the levels of development and size of free trade partners. Two cooperation agreements on labour and the environment have also come into force. The conclusion of a free trade agreement with El Salvador, Guatemala, Honduras and Nicaragua will also enhance Canada's presence and influence in the region and help to further develop the trading relationship between our countries.

Canada has a bilateral foreign investment protection and promotion agreement with Costa Rica and a memorandum of understanding on trade and investment with Central America.

Market Access Results in 2004

- Canada continued negotiations toward a free trade agreement with El Salvador, Guatemala, Honduras and Nicaragua (CA4).
- Canada and Costa Rica continued to implement the Canada—Costa Rica Free Trade Agreement, including the third scheduled tariff reduction on January 1, 2004.
- Costa Rica removed its requirement for a customs information declaration for Canadian imports.
- Canada made representations to the governments of Costa Rica, Honduras and Nicaragua to support and advance Canadian mining interests in the region.
- Canada made representations to the Government of Honduras to request reconsideration of the ban on the import of products containing chrysotile fibres.

- Canada gained access to the Honduran market for boneless beef products.
- Nicaragua reopened its market for pork and beef embryos and semen, frozen pork meat products, onions and table potatoes.
- Canada achieved continued access to the Costa Rican market for pork meat products, based on Costa Rican inspection of Canadian meatprocessing establishments.
- Canada gained access to the Costa Rican market for chicken and turkey meat products.
- Canada achieved continued access to the Panamanian market for pork, despite the individual plant inspection approval system in Panama.
- Guatemala removed its BSE-related measures against pork and its products, enabling trade in these products to resume.
- On September 13, 2004, Guatemala removed its avian influenza-related measures against British Columbia.

Canada's Market Access Priorities for 2005

- Conclude free trade agreement negotiations with El Salvador, Guatemala, Honduras and Nicaragua—the Central America Four (CA4).
- Pursue system-wide approval from Costa Rica, Panama and El Salvador for Canadian meat exporting establishments—the current approval system, which is based on the inspection of individual plants, is costly and onerous for Canadian exporters.
- Monitor the development of Salvadoran and Guatemalan regulations affecting business operations and foreign investment; provide advice to Canadian exporters; and lobby the Salvadoran government, when necessary, on behalf of Canadian export interests.
- Ensure better protection and promotion of Canadian investments in the CA4 countries through inclusion of a comprehensive investment chapter in the Canada—CA4 Free Trade Agreement.
- Continue representations aimed at removing El Salvadoran and the further removal of Guatemalan, Nicaraguan and Honduran BSE measures on imports from Canada.
- Continue representations on behalf of Canadian mining interests in the region.

- Pursue removal of the Honduran ban on products containing chrysotile.
- In El Salvador, promote Canadian goods in the following areas: construction (home and office furnishings), agriculture (food and beverages, fertilizers), and environmental technologies (solid waste disposal techniques, waste-water treatment).

Costa Rica

With 4.1 million people, the smallest population in Central America, Costa Rica boasts the second highest GDP per capita in the region. It also attracts more foreign investment than any other country in Central America, averaging \$795 million per year since 1997. The country's stable political environment and educated workforce continue to offer attractive business opportunities for Canadian exporters of goods and services. Costa Rica accounts for 33% of Canada's two-way merchandise trade with Central America. In 2004, bilateral trade between Canada and Costa Rica totalled \$392 million, with Canadian exports valued at \$76 million and imports at \$316 million. The main Canadian exports to Costa Rica are newsprint and paper, fertilizers, machinery, prepared vegetables and malt. Canada imports mainly fruit (pineapples, bananas, watermelons), electrical machinery, sugar, medical instruments and coffee. Canadian investment in Costa Rica is concentrated in the hotel and tourism industry, banking, news media, mining, environmental technologies and hydroelectric power. Canadian exporters and investors are pursuing opportunities in priority sectors such as agriculture and agri-food, construction and building materials, environmental technologies, information and communications technologies, tourism, energy and road infrastructure.

The Canada–Costa Rica Free Trade Agreement has become the cornerstone of our increasingly important trade and investment relationship with Costa Rica.

The Agreement provides for the progressive elimination of tariffs. Costa Rica eliminated its tariffs on some 67% of its tariff lines at the time the Agreement came into force, and it will do so for the remaining goods over a period of up to 14 years. For its part, Canada provided immediate duty-free access on some 86% of its tariff lines; tariffs on the remaining goods

covered by the Agreement will be eliminated over a period of up to eight years. Both parties have made four tariff cuts already, one at the time of entry into force and the other three on January 1, 2003, 2004 and 2005.

Other agreements that contribute to the effective enforcement of domestic standards are the Canada—Costa Rica Agreement on Environmental Cooperation (CCRAEC) and the Canada—Costa Rica Agreement on Labour Cooperation (CCRALC). The CCRAEC provides for technical cooperation to strengthen environmental management systems and expand the participation of the public in environmental policy making, while the CCRALC establishes a work program and a process designed to enable the public to raise concerns about the effective application of labour law in the other country.

Central America Four: El Salvador, Guatemala, Honduras and Nicaragua

In 2004, two-way merchandise trade between Canada and the Central America Four totalled \$666 million. Canadian exports to the CA4 accounted for \$237 million, while imports stood at \$429 million.

Free trade negotiations with the CA4, which were launched by the Minister for International Trade on November 21, 2001, continued. The parties are negotiating a comprehensive agreement covering market access for goods and services, investment, financial services and government procurement. Key Canadian interests include telecommunications goods and services, environmental equipment and services, value-added processed foods, mining, automotive parts, and construction equipment and services. Parallel agreements on labour and environmental cooperation are also being pursued. While progress has been made, key sensitive issues in the negotiations have now been reached and must be resolved.

The current resurgence of Canadian mining interest in Central America, particularly in Guatemala, fuelled by historically high prices for gold and nickel and supported by renewed investor confidence in the Berger regime, has the potential to involve our missions on several different levels in the coming months. This resurgence of interest is reflected in the fact that Canadian mining interests will soon form the largest single source of both foreign investment and revenue for the Guatemalan government for the next several decades. The three major Canadian mining companies in Guatemala are expected to have investments in that country totalling approximately \$660 million in the near future.

El Salvador

El Salvador is an economic engine of Central America. Home to the region's largest banks, it also features a modern infrastructure for telecommunications and shipping. In 2004, two-way merchandise trade between Canada and El Salvador totalled \$105.5 million. Canadian exports to El Salvador stood at \$52.2 million, while imports were \$53.3 million.

The country's growing prosperity is based on a philosophy of open trade, incentives to encourage foreign investment, and economic reforms. Remittances from Salvadorans living abroad continue to be a driving force in the economy and are expected to reach US\$2.4 million by the end of 2004. The Central Bank has estimated that 80% of family remittances go toward the purchase of consumer goods. It is expected that GDP, currently at \$19.6 billion, will grow at a rate of less than 2% in 2004, the same as the previous year but still one of the highest rates in Central America. Inflation will remain low. The National Assembly has recently passed a fiscal reform package aimed at increasing contributions and diminishing the number of tax evasions.

Imports of consumer goods grew at an annual rate of 10.1%, totalling over US\$4 billion in August 2004. Consumer and intermediate goods, led by food and beverages, continued to record the highest increases. Exports also expanded, rising 7% compared with the previous year and passing the US\$3-billion mark for the first time. Exports to Canada have grown in the last five years, reaching C\$52.3 million in 2003.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, El Salvador banned the import of live animals, beef and beef products from Canada. Canada has kept all its trading partners, including El Salvador, fully informed of the results of its investigations and regulatory response, and it is requesting resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Guatemala

Guatemala has the largest population in Central America (12.7 million) and is the region's largest economy with a GDP of \$35 billion. The country remains Canada's second largest client in the region, importing primarily basic agricultural commodities, value-added agri-food products, newsprint and machinery. In 2004, two-way merchandise trade between Canada and Guatemala totalled \$324 million. Canadian exports to Guatemala accounted for \$143 million (accounting for almost 56% of total Canadian exports to the region), while imports stood at \$181 million. The potential for growth in Canadian goods and services exports to Guatemala remains substantial, particularly given the advantages and security that the impending Canada-CA4 free trade agreement will bring. New opportunities can be expected to emerge in a number of different sectors, but especially in the priority sectors for this country: agriculture (including forestry), food and beverages, environment and mining.

Over the past several years, the overall macroeconomic picture for Guatemala has continued to be fundamentally sound, due to careful management by the Bank of Guatemala, in collaboration with the International Monetary Fund. Economic growth has slowed from a peak in 1998 of 5.0% but, reflecting the resurgence in the economy, was expected to reach 2.5% in 2003. Inflation has continued to decline to manageable levels of 4% to 6% in the last two years. Guatemalan exports have also declined somewhat in 2001 and 2002 (primarily due to the collapse of coffee prices and the slowdown in key export markets for the maquila industries), but increased in 2003; however, they are expected to increase substantially

over the next three years as a new government places increased emphasis on infrastructure spending and international trade concessions.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Guatemala issued a ban on imports of beef and various other products including pork. No other trading partner has included pork in their BSE measures against Canada, and we have raised strong objections. Canada has kept all its trading partners, including Guatemala, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. Guatemala removed its BSE restrictions on pork and pork products in 2004, and trade in pork and its products have resumed. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On February 23, 2004, Guatemala imposed measures against imports of poultry from British Columbia due to avian influenza. On September 13, 2004, Guatemala removed all measures. (For further information, see the avian influenza overview in Chapter 2.)

Honduras

With a GDP of \$9.8 billion in 2003, Honduras is the second poorest country in Central America with nearly two-thirds of its population living below the poverty level. After years of struggling with the devastating effects of Hurricane Mitch in 1998, the economy is gradually showing signs of recovery. GDP growth, which hovered at 2.5% in 2001 and 2002, stood at 3.2% in 2003 and is expected to reach 3.8% in 2004 and 4.0% in 2005. In line with agreements reached with the IMF, the World Bank and other multilateral and bilateral lenders, the government has implemented a series of measures to meet its commitments under the debt relief and poverty reduction programs. Although the fiscal deficit and inflation remain a concern, the government has fulfilled its commitments in fiscal reform (improved revenue collection, cuts in non-essential public spending),

financial sector reform (improved banking regulation and supervision), and political and judicial sector reforms. It has also increased spending on education, health, social security, housing and rural development. Honduras has an open market economy oriented toward free trade and attracting foreign investment (through export processing zones, free port regulations, tourism investment incentives and benefits, and customs and tax privileges). FDI is increasing, particularly in the textiles industry. Opportunities for Canadian businesses include agricultural and food products, building and construction equipment, information and communications technologies, environmental technologies and tourism.

In 2004, bilateral trade totalled \$158 million, with Canadian exports valued at \$25 million and imports at \$133 million.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Honduras banned the import of beef and beef products from Canada. Canada has kept all its trading partners, including Honduras, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. In January 2004, trade in boneless beef from Canada resumed. (For further information, see the BSE overview in Chapter 2.)

Nicaragua

Nicaragua is the largest country in Central America and its poorest economy, with a GDP of \$5.7 billion in 2003. The government has undertaken a series of reforms to boost the economy in recent years, privatizing state enterprises, improving conditions for foreign investors and expanding free trade zones. Nicaragua is still heavily dependent on bilateral and multilateral aid and on the debt relief programs of the IMF.

In 2004, two-way merchandise trade between Canada and Nicaragua totalled \$78 million, with Canadian exports to Nicaragua valued at \$17 million and imports from Nicaragua at \$61 million.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Nicaragua banned the import of beef and beef products from Canada. Canada has kept all its trading partners, including Nicaragua, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. On January 16, 2004, Nicaraguan officials stated that they would allow the import of only special cuts of beef from cattle less than 30 months of age. (For further information, see the BSE overview in Chapter 2.)

Panama

Overview

With a GDP of \$18.1 billion, the second-highest per capita income and the most stable consumer prices in the region, Panama offers significant potential for Canadian goods and services. In 2004, bilateral merchandise trade totalled \$119 million, with Canadian exports valued at \$73 million and imports at \$47 million.

The Government of Canada will continue to encourage Canadian firms to pursue business opportunities with the Panama Canal Administration. With a yearly budget of nearly US\$1 billion, no receivables and possibly the most straightforward procurement process in the region, the Panama Canal Administration continues to be an excellent client. The diversity of the goods and services procured yearly by the Canal, as well as ongoing capacity-expansion projects and the impending modernization of the Canal (a multi-billion-dollar project), offers a number of opportunities for Canadian companies.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Non-tariff import barriers continue to affect Canadian agri-food exports to Panama, although the situation is improving. While the issuance of import permits for pork has been partly resolved, occasional problems still arise due to local government policy changes enacted to appease domestic stakeholders. The requirement for individual inspections of plants wishing to export to Panama continues to be a matter of concern, even though most exporting plants have passed inspection by Panamanian authorities. Canada continues to press the Panamanian government for overall approval of the Canadian system.

CARIBBEAN

Caribbean Community (CARICOM)

Overview

The 15-member Caribbean Community includes Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Montserrat (U.K. dependency). The Bahamas is a member of CARICOM but not of the Caribbean Common Market.

CARICOM is a welcoming market for Canadians, with few barriers to trade, well-established Canadian banks in the region, English as a common language, and legal codes and business practices that are similar to those in Canada. Haiti is an exception. French and Creole are the official languages of Haiti, and its legal codes have evolved from the Napoleonic code.

Annual two-way merchandise trade between Canada and the CARICOM countries amounted to \$1.4 billion in 2004, with Canadian exports totalling \$491 million and imports \$950 million. (Note: Statistics do not include many goods transshipped through the United States.) In addition, more than \$200 million in contracts for Canadian consulting

and engineering services are awarded annually with government and development bank financing. Many privately funded service contracts go unrecorded.

Canadian investment in, and flowing through, CARICOM countries as a group exceeded \$34 billion in 2003 (8.4% of total Canadian investment abroad) and is mainly in financial services (banking, insurance), particularly in Barbados and the Bahamas. In the 1990s, Canadian investment diversified to include Trinidad and Tobago's energy sector and Guyana and Suriname's mining sectors.

Market Access Results in 2004

Regarding BSE, there was a partial resumption of trade in beef and other products with Antigua and Barbuda, Barbados and Trinidad and Tobago.

Canada's Market Access Priorities for 2005

- Commence negotiations toward a free trade agreement with CARICOM.
- Regarding BSE, finalize arrangements with the Bahamas and Jamaica to resume trade in beef and other products and continue representations with other CARICOM countries for the resumption of trade.
- Continue negotiating with St. Lucia to resume trade in beef and beef products.
- Continue representations to Barbados and St. Lucia aimed at removing their avian influenza restrictions.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

At the Canada–CARICOM Summit in Jamaica in January 2001, then Prime Minister Jean Chrétien and the heads of government of the CARICOM countries agreed to initiate discussions toward a possible free trade agreement. Government officials formally met on a number of occasions to exchange information and views on the scope of possible free trade negotiations, and exploratory discussions continued in 2003. Prime Minister Paul Martin reiterated Canada's commitment during bilateral discussions with CARICOM leaders at the Monterrey Special Summit of the Americas in January 2004.

The Government of Canada launched extensive domestic consultations in late 2001 with business, citizen-based organizations and individual Canadians, as well as with provincial and territorial governments, to obtain advice and views on priorities, objectives and concerns to help define the possible scope of a free trade agreement with the CARICOM countries. The majority of responses received supported eventual free trade negotiations.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, many Caribbean countries banned the import of beef and other products. Canada has kept all its trading partners, including the Caribbean countries, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Antigua and Barbuda: In September 2003, Antigua and Barbuda announced the partial lifting of its ban, resulting in the resumption of trade in certain beef and other products.

Bahamas: Bahamas has recently advised that it is willing to lift the ban. Canada is in discussions now with Bahamian authorities to resume trade.

Barbados: In October 2003, Barbados advised of the partial lifting of its ban, resulting in the resumption of trade in certain beef and other products.

Jamaica: In September 2003, Jamaica announced a partial lifting of its ban. However, final details have not yet been arranged. Canada is in discussions now with Jamaican authorities to resume trade.

Trinidad and Tobago: In September 2003, Trinidad and Tobago advised of the partial lifting of its ban, resulting in the resumption of trade in beef and certain beef products.

St. Lucia: In December 2004, Canada and St. Lucia commenced negotiations for the resumption of trade in beef and beef products.

Haiti

Haiti is the only least-developed country in the Western Hemisphere. Under the LDC Initiative, tariffs and quotas on most Haitian exports to Canada, with the exception of supply-managed agricultural products (dairy, poultry and eggs) have been eliminated. All remaining imports are now assessed a tariff rate of zero.

In July 2003, Haiti signed a memorandum of understanding with Canada that will allow Haiti to benefit from the duty-free treatment of imports of textiles and apparel.

Haitian access to the Canadian market, through the LDC Initiative, could contribute to the reduction of poverty in Haiti by strengthening economic growth. Canada has extended the LDC Initiative to 2014.

Cuba

Overview

Cuba is Canada's largest export market in the Caribbean and its fifth largest in Latin America, with exports totalling \$322 million in 2004. Canada is one of Cuba's largest trading partners and its second largest source of foreign investment. Cuba is an emerging market with some potential for Canadian exporters and investors. The attractiveness of opportunities is tempered by the continuing U.S. embargo of Cuba and by U.S. legislation that attempts to impose American laws on companies from other countries. Canada has enacted amendments to the Foreign Extraterritorial Measures Act, which attempt to counteract the U.S. laws by enabling a "clawback" of any losses awarded in U.S. courts that is enforceable against American assets in Canada. The Government of Canada is opposed to the extraterritorial application of U.S. law and does not support the embargo on Cuba.

The eventual end of the American embargo could create significant new business opportunities. Canadian investors must weigh the advantages of early entry into a dynamic market against the risks of abrupt changes in business conditions.

Market Access Results in 2004

Trade in beef resumed following the successful negotiation of an export certificate for beef exports to Cuba.

Canada's Market Access Priorities for 2005

- Monitor the development and implementation of Cuban regulations affecting business operations and foreign investment, providing advice to Canadian exporters and lobbying the Cuban government, when necessary, on behalf of Canadian business interests.
- Monitor the implementation of tariff exemptions granted to Canadian investors, under Cuba's Law (Cuban Decree Law 77) on Foreign Investment, for imports of products necessary for investment projects.
- Continue representations aimed at removing Cuba's remaining BSE-related measures on imports from Canada, including live cattle.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

In 2004, Cuba continued to buy agricultural commodities from the United States, despite the U.S. prohibition on exports to Cuba. Since 2001, Cuba has bought close to \$1 billion from U.S. exporters. These purchases were made pursuant to the U.S. Trade Sanctions Reform and Export Enhancement Act of 2000, which effectively removed agricultural commodities from the U.S. embargo on Cuba providing the purchases were made in cash. These cash terms, offered only to U.S. exporters, have given an advantage to certain U.S. agricultural exports. The Government of Canada continues to raise this issue with Cuban officials in order to ensure a level playing field for Canadian exporters.

On October 23, 2004, the Cuban Central Bank issued a directive restricting use of the U.S. dollar and stipulating that all domestic transactions formerly made in cash in U.S. dollars would now have to be made in convertible pesos (still pegged 1:1 to the dollar). Holding U.S. dollars will still be legal, but a 10% fee will be charged for buying convertible pesos with U.S. dollars. The 10% fee will not be charged when other currencies, such as the Canadian dollar, are used to buy convertible pesos.

This measure follows the introduction in July 2003 of a de facto foreign exchange control, whereby Cuban companies must now receive permission from the Central Bank to access the foreign currencies needed to meet their international obligations. Canada will continue to monitor the implementation of such measures closely. So far, there has been no noticeable impact on trade flows.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Cuba banned the import of live cattle, beef and other products from Canada. A delegation of Cuban veterinarians visited Canada in September 2004 to discuss all aspects of trade in animal products. On December 14, 2004, the certificate for beef was successfully negotiated and beef exports have resumed. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On March 22, 2004, Cuba imposed measures against imports of poultry products from Canada. On January 21, 2005, Cuba removed all restrictions. (For further information, see the avian influenza overview in Chapter 2.)

The Dominican Republic

Overview

The Dominican Republic is one of the Caribbean's largest and fastest growing markets and duty-free manufacturing zones. Official statistics put two-way trade between Canada and the Dominican Republic at \$228 million in 2004, with Canadian exports totalling \$100 million and imports totalling \$128 million. The Dominican Republic is Canada's sixth largest merchandise export market in the Central America and Caribbean region. Canada is the second largest foreign investor in the Dominican Republic, mainly in telecommunications, mining, banking and tourism.

After a significant slowdown caused by the banking crisis of 2003, the country's economy has recovered steadily. The recovery has been helped by the signing of an agreement with the IMF, with its attendant economic and fiscal reforms.

Market Access Results in 2004

■ Three operators of scheduled air service between Canada and the Dominican Republic were designated.

Canada's Market Access Priorities for 2005

- Continue work to enhance trade and investment relations with the Dominican Republic, including through a possible free trade agreement.
- Continue work to improve trade and investment opportunities in the Dominican Republic through the FTAA and the WTO negotiations.
- Continue representations aimed at removing the Dominican Republic's BSE measures on imports from Canada.
- Continue representations aimed at removing the Dominican Republic's avian influenza restrictions.
- Press the Dominican Republic to issue import permits for Canadian agricultural commodities in an automatic and timely manner when applications are received.

IMPROVING ACCESS FOR TRADE IN GOODS

In March 2002, the President of the Dominican Republic and then Prime Minister Chrétien agreed to consider bilateral free trade negotiations and decided that the two countries would initiate exploratory discussions on enhancing their trade relationship. Extensive public consultations were launched in November 2002 to obtain the views of Canadians. Work toward improving trade relations with the Dominican Republic continued in 2004.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, the Dominican Republic suspended the import of Canadian cattle and beef. Canada has kept all its trading partners, including the Dominican Republic, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On March 19, 2004, the Dominican Republic imposed measures against imports of poultry from British Columbia due to avian influenza. (For further information, see the avian influenza overview in Chapter 2.)

European Union

Overview

anada and Europe have long-standing commercial links, and the European Union (EU) is a key trade and investment partner. Canada was the first country to sign a cooperation agreement (the Framework Agreement) with the EU in 1976. Building on this, the 1996 Joint Political Declaration on Canada-EU Relations and the Canada-EU Action Plan (www.international.gc.ca/english/geo/europe/eu/ action-e.htm) set goals for broadening bilateral relations, not only in the trade and economic areas, but also on a broad range of foreign and domestic policy issues as well. Both parties conducted a comprehensive review of their relationship in 2003. Canada also works closely with the European Union on the promotion of the multilateral trading system, and the parties are now starting the negotiation of a bilateral trade and investment enhancement agreement.

The European Union is the world's second largest single market, having surpassed the United States in population and in exports but trailing it in gross domestic product. Its population was 380 million on January 1, 2003, and its share of the world's aggregate GDP in 2003 was 28.8%, compared with 29.9% for the United States and 2.3% for Canada. In May 2004, 10 central and southern countries joined the EU, increasing its population to over 450 million.

As a group, the current 25 EU member states continue to rank as Canada's second most important trading partner. They represent the largest source of foreign direct investment into Canada, as well as the largest destination for Canadian direct investment abroad, after the United States. The total trade between Canada and the EU in 2004 was \$87 billion. Canadian investment flows to the EU amounted \$4.8 billion in 2004 while inward flows from the EU fell by \$12.7 billion. Increasingly, Canadian and EU firms rely less on selling to each market and more on establishing a presence in each market.

Total Canadian merchandise exports to the European Union amounted to \$22.6 billion in 2004, accounting for 5.5% of Canada's global exports and 35% of



Canada's non-U.S. exports. Canada's main exports are precious stones, machinery, and aircrafts. The European Union represents approximately 18% of Canadian services exports. Although the United States absorbed 88% of the growth in Canada's global exports from 1993 to 2004, the European Union accounted for 40% of the growth in non-U.S. exports (or about 5% of the total).

In 2004, Canadian merchandise imports from the EU grew at a faster pace than exports (8.9% compared to 6.2%). Merchandise imports from the EU reached \$42 billion in 2004, with the main imports being machinery, petroleum products, pharmaceuticals, vehicles, and aircraft. As a result, Canada has a deficit in its balance of trade with the EU, which stood at \$19.4 billion in 2004. However, at \$77 billion in 2001, sales by Canadian affiliates based in the EU are now more than four times greater than Canadian exports and will continue to grow as investment increases.

Canada and the EU are leading investors in each other's economies. Over 1,800 European companies have investments in Canada. This makes the EU the second largest investor in Canada, accounting for 27% of all FDI.

Canada is the third largest investor in Europe (after the United States and Japan). The stock of Canadian direct investment in the EU has grown substantially during the past decade. The aggregate value of Canadian direct investment in the EU (15) stood at \$99.1 billion in 2003. Twenty-five percent of all Canadian direct investment abroad is in the Europe Union, a proportion topped only by our investment in the United States.

Certain recent developments in the EU have implications for Canada. These include the expansion of the economic and monetary union, market distortions in agriculture, protective tariffs, the harmonization of regulations for a single market, new bilateral free trade agreements, and certain bans and restrictions on imports imposed by the EU for health, environmental and consumer protection reasons.

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

The EU is negotiating regional free trade agreements with other parts of the world, including with the Mercosur countries and Chile. In recent years, free trade agreements have been reached with Mexico and South Africa. Some 77 developing countries that are signatories to the Cotonou Agreement already enjoy preferential access to the European Union. In addition, the EU is moving to deepen its economic ties with its new neighbouring economies, which include Belarus, Moldova, Russia, Ukraine and the southern Mediterranean economies (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Authority, Syria and Tunisia). Canada is one of only eight economies worldwide that does not have some form of preferential trading relationship with the European Union.

Canada-EU Trade Relations

A number of bilateral instruments are in place to help manage Canada–EU trade relations, and the Minister for International Trade and his counterpart, the EU Commissioner for Trade, meet frequently to discuss the bilateral and multilateral trade agenda. The Joint Cooperation Committee meets annually at the senior official level. Canada–EU trade issues are also addressed by officials through the Trade and Investment Sub-Committee as well as in other sectoral working groups.

Canada-EU Trade and Investment Enhancement Agreement

One of the key outcomes of the December 2002 Canada–EU Summit was the commitment by leaders to "design a new type of forward-looking, wideranging bilateral trade and investment enhancement agreement" (TIEA). This new agreement, in combination with the anticipated results of the Doha Round, is intended to move beyond traditional market access issues and would include areas such as investment and trade facilitation, as well as science, technology and regulatory cooperation. It is expected that negotiations will start in 2005 and will run on a parallel track with the WTO Doha negotiations, where market access issues such as tariffs are being dealt with.

The TIEA will be an important element in the development of Canada's broader relations with the EU. Canada sees the proposed TIEA as a forward-looking initiative, responding not just to current issues, but also anticipating future challenges and creating opportunities to broaden and deepen the trade, investment and overall relationship.

Although trade between Canada and the newly added countries is relatively modest, there will be some impact on trade flows as new members harmonize tariffs and regulatory schemes with the EU. The new member states also no longer have access to Canada's General Preferential Tariff. In terms of investment treaties, Canada currently has bilateral foreign investment protection and promotion agreements with five of the new member states: the Czech Republic, Hungary, Latvia, Poland and Slovakia. Maintaining high-level investment protection for Canadian

investors is important as the new EU members bring their investment regimes into conformity with EU laws and regulations.

Regulatory Cooperation

International trade relations are increasingly affected by domestic decision making and regulatory activity. Consequently, Canada-EU regulatory issues are considered to be central to trade discussions. On December 21, 2004, Canada and the European Commission adopted a Framework for Regulatory Cooperation. The Framework seeks to prevent and eliminate unnecessary regulatory barriers to trade and investment by encouraging increased information sharing, dialogue, transparency and working-level cooperation among regulators. The Framework is expected to enhance market access for producers on both sides of the Atlantic and to promote dialogue between regulators in the early stages of developing regulations. The Framework will also be a key element of the Canada-EU trade and investment enhancement agreement.

Market Access Results in 2004

- Canada and the European Community (EC) negotiated amendments to Annexes V and VIII of the Canada–EC Veterinary Agreement with respect to fresh pork, bovine semen and live lobster.
- Canada achieved market access for Canadian exports of saskatoon berries throughout the EU.
- Canada and the EU adopted the bilateral Framework on Regulatory Cooperation, which aims to increase market access and enhance trade by reducing regulatory irritants and promoting good regulatory practice.
- Canada and the EU finalized the bilateral Agreement on Trade in Wines and Spirit Drinks.
- Canada the EU finalized the bilateral Agreement on Cereals.

Canada's Market Access Priorities for 2005

■ Renew the three-year derogation for seed potatoes from New Brunswick and Prince Edward Island, and discuss with the EU the possible expansion of the derogation to all potato-growing regions of Canada.

- Bring the amendments to the Canada–EC Veterinary Agreement into force; this will provide particularly significant market access opportunities for Canadian pork exporters.
- Press the EU for improved market access for cooked and peeled shrimp, including relaxation of the requirement for further EU processing.
- Advance negotiations in the TIEA and through the WTO Doha Round.
- Press for the removal of Greece's new inspection and testing requirements for imported wheat to ensure continued access to this important market.

IMPROVING ACCESS FOR TRADE IN GOODS

Fish and Seafood

Canadian fish and seafood exports to the EU reached \$484 million in 2004. In 1990, seafood exports to the EU represented about 19% of Canada's global fish and seafood exports; the 2004 figure was 10.7%. Major factors in the decline have been the reduced supplies of groundfish, high EU tariffs and privileged access to the EU market enjoyed by Canada's major competitors. EU tariffs on many fish and seafood items of interest to Canada range from 12% to 23%. Canada is seeking tariff reductions on a range of fishery products during the current multilateral trading round; however, it is particularly concerned about the EU tariff of 20% applied to cold water cooked and peeled shrimp exports. The Government of Canada is lobbying European Commission officials on a regular basis to secure enhanced access to the EU market for Canadian shrimp exports.

Another issue of concern to Canada in 2004 was an unexpected halt to exports of live Canadian molluscs, including those for direct human consumption, to the EU. This stoppage was a result of revised EU requirements that all live mollusc imports include mollusc health certification in addition to food safety certification. After numerous interventions by Canadian officials over a period of two and a half months, the new requirements were amended to allow the resumption of Canadian exports of live molluscs to the EU in July 2004 with food safety

certification only. The question of access to European markets for live molluscs for further development and processing remains under discussion.

New Chemicals Policy

In October 2003, the Commission endorsed the draft regulation for a new chemicals policy that will now have to be approved by the European Parliament and the Council. The proposal replaces more than 40 existing directives and regulations. It foresees one single, integrated system for the registration, evaluation and authorization of chemicals (referred to as "REACH"). Under the new system, manufactured or imported chemical substances weighing over one tonne would require registration. Companies that produce and import chemicals will need to assess the risks arising from their use and take the necessary measures to manage any identified risk. The new system will thus shift the burden of proof from public authorities to industry for ensuring the safety of chemicals on the market.

Canada has expressed concerns in a number of areas of the proposed regulation. Concerns include a registration process that appears unnecessarily costly, burdensome and complex; unclear criteria and procedures for inclusion under REACH and unclear rationale for exemptions; possible anti-competitive behaviour from manufacturers through voluntary consortia; issues around the protection of confidential business information; and the use of production volume thresholds instead of an incremental approach to information submission.

The proposal is in its initial legislative stages; no final decision is expected before the next European Parliament elections. Canada will continue to monitor developments.

Saskatoon Berries

Canadian saskatoon berries were sold by a retail chain in the United Kingdom this past winter. Shortly after introducing saskatoons to the market, the importer and the retailer were advised by the U.K. Food Standards Agency (FSA) that saskatoons could not be sold in the United Kingdom until they had been approved as being safe for consumption under the EU Novel Foods Regulations (Regulation 258/97).

Canada considers that the EU Regulation indicates that a history of safe human consumption in Canada would exempt a food from the requirements of the Regulation. Moreover, the Government of Finland has argued that saskatoons should not be considered a novel food under the EU regulation, given that there was "significant" consumption of saskatoon berries in Finland prior to the passage of the Novel Foods Regulation in 1997.

On December 10, 2004, a committee of EU member states declared that the berries are not novel. This means that the EU market is currently open to Canadian saskatoon berries and Canadian exports of the berry can resume. Canada will continue to monitor the situation in the coming months to ensure that exports of saskatoon berries are able to enter the European Union without mishap.

Organic Food Products

The EU has implemented a mandatory organic standard and certification system under EU Regulation 2092/91, which requires exporting countries to be on a third-country equivalence list by December 31, 2005. Thus, to maintain access to the EU market for organic products, Canada must negotiate an equivalency agreement with the EU on its organic standard and conformity assurance system. The Government of Canada recognizes the importance of the EU market for Canadian organic producers. Agriculture and Agri-Food Canada and the Canadian Food Inspection Agency (with support from DFAIT) have created a joint task force with the mandate to look at different regulatory schemes and develop recommendations on ways to address domestic as well as international market access issues for Canadian organic products.

Canada will submit a formal application for inclusion on the EU list, which will demonstrate how Canada's certification system and national production standard are equivalent to that of the EU. This application will be submitted once the Canadian organic food standards and certification and control process are determined.

Risk Assessment

The EU is currently assessing the health and environmental risks associated with the use of three metals of significant export interest to Canada: cadmium (by Belgium), zinc (by the Netherlands) and nickel (by Denmark). The lead and copper industries have initiated voluntary risk assessments. If a product "fails" the assessment and is deemed a health or environmental risk, the use of the product can be severely restricted or banned. Current EU practice is for member states to take the lead in developing a risk assessment for a given substance. The risk assessment process is an internal EU process that precludes third-party assessment; however, a draft report is submitted to OECD members for review.

Draft risk assessment reports for zinc and cadmium are expected to be completed in the first quarter of 2005, while work continues on copper, lead and nickel. The Government of Canada looks forward to the release of the draft assessment reports and intends to fully participate in future consultation processes. Canada supports science-based assessments of health and environmental risks. However, it is concerned that the use of risk assessment methodologies designed for organic substances can lead to inappropriate outcomes for inorganic substances, such as minerals and metals, resulting in unnecessary market restrictions. The pursuit of legitimate objectives should not result in the implementation of new, unnecessarily trade-restrictive measures.

Forest Products

The "green labelling" bill of Dutch Green Left MP Marijke Vos has met with considerable resistance from trade and industry groups, due to concerns about its threat to free trade should it ever become law. In its original form, it proposed mandatory red or green labelling of products: red for those that cannot be demonstrated to be "sustainably produced" and green for those that, in the view of the initiator of the bill, can (e.g. products certified according to the Forest Stewardship Council system). The current version proposes only green labelling and on a voluntary basis. The Dutch re-notification to the EU regarding this bill recently resulted in comments from various EU member states as well as from Canada and Malaysia at the WTO level. The EU Commission subsequently reacted with a number of concerns, and Canada is awaiting further developments.

A parallel development in the Netherlands is the national assessment guideline (known in Dutch as the "BRL" or "beoordelingsrichtlijn"), which sets out

proposed criteria against which incoming shipments of certified wood and wood products would be evaluated prior to distribution in the Netherlands. Canada is waiting for Dutch authorities to release a formal draft of the guideline upon which trading partners may submit comments, as required under international trade obligations. The Dutch timber industry's position is that the system must permit the evaluation of all certificates and that no monopoly should be created for any one standard, such as that of the Forest Stewardship Council. Canada will advocate for the recognition and equivalency of all sustainable forest products certification schemes (Canadian Standards Association, Sustainable Forestry Initiative and Forest Stewardship Council).

Seal Products Ban in Belgium

The Belgian parliament is considering legislation that would effectively confirm a decree banning the import of all seal products. A ministerial decree dated June 4, 2004, imposed an import licensing requirement for seal products, until the legislation barring their import is in place. The Belgian government has notified the EC of its licensing requirement under this decree. The proposed legislation may violate EC directives; however, formal comments by the EC are pending. Canada believes that the Belgian ban is an unnecessarily trade-restrictive measure and has made formal interventions at the WTO Technical Barriers to Trade Committee.

The decree contains several misleading assertions about the seal species harvested, harvesting methods and the sustainability of the seal population in Canada.

The Belgian decree ignores the findings of the Canadian Royal Commission on Seals and Sealing and the *Canadian Veterinary Journal*, which conclude that the methods used in the seal hunt are comparable to those used to hunt other wild animals and are acceptably humane. In April 2003, the Canadian Marine Mammal Regulations were amended to establish the practice of administering a blinking eye reflex test in order to clearly determine death.

Canada maintains that the seal hunt is based on sound conservation principles and humane harvesting methods. While Belgium is not a major market for Canadian seal product exports, there is concern that the Belgian legislation may set a precedent for similar action by other European countries or encourage the European Commission to revise its position. The overall impact might, therefore, be highly detrimental to the Canadian sealing industry. The Fur Council of Canada is concerned that a ban on seal fur imports would prompt similar action against other types of fur and fur products.

Canada has made numerous representations to Belgian authorities calling for a halt to the implementation and a review of the proposed legislation. The seal hunt is of great economic importance to coastal communities and Aboriginal peoples in both Eastern and Northern Canada, and it is part of their traditional way of life.

Sanitary and Phytosanitary Import Regulations

Beef Hormones

Both Canada and the United States have consistently opposed the EU hormones ban (i.e. the ban on the importation of meat derived from cattle treated with growth-promoting hormones) since it was imposed in 1989. Our position is that the ban is not based on science and that it therefore constitutes an unjustified barrier to trade.

Canada and the United States requested WTO panels in 1996. In 1997, the panels ruled that the EU ban is not based on science and is therefore inconsistent with the EU's WTO obligations. This finding was confirmed by the WTO Appellate Body in 1998. The EU did not comply with the rulings, and on July 26, 1999, Canada and the United States received authority from the WTO Dispute Settlement Body to retaliate against the EU. On August 1, 1999, Canada imposed retaliatory tariffs of 100% on EU products (beef, pork, and cucumbers and gherkins) in the amount of \$11.3 million annually. The United States imposed retaliatory tariffs on EU products in the amount of US\$116.8 million.

In October 2003, the EU announced that it was in compliance with the WTO rulings on the basis of 17 new studies, which the EU claimed supported continuation of the ban. In December 2003, the EU asked both Canada and the United States to initiate a compliance panel under Article 21.5 of the Dispute Settlement Understanding. We responded that, since

it is the EU that is in violation of the WTO ruling, the onus is on the EU to substantiate its claims of compliance.

Canadian experts have engaged in technical discussions with EU experts and have reviewed the 17 studies that form the basis of the EU claims of compliance. However, these efforts have yielded no additional substantive evidence to justify the EU hormones ban.

On several occasions, both prior to the 1999 retaliation and since, the EU has explored with the United States (and to a lesser degree Canada) compensation as an alternative to retaliation. Canada has repeatedly indicated its openness to discussing a possible compensation package as an interim measure, pending the EU's full compliance with the WTO rulings. However, EU discussions with both Canada and the United States have never resulted in an agreement.

On November 8, 2004, the EU requested consultations with both Canada and the United States under the procedures of the WTO Dispute Settlement Understanding, alleging that our retaliation is no longer justified. Consultations with both parties were held on December 16 in Geneva. The EU concluded that the consultations did not resolve the dispute, and at the EU's request, a panel was established on February 17, 2005. We expect to be in active litigation in the WTO by early spring and would expect to see a Panel report later this year. Canada is confident in its positions in this case and is well prepared to successfully defend them before a WTO dispute settlement panel.

Canada-EC Veterinary Agreement

The Canada–European Community Veterinary Agreement was signed in December 1998. The main objective of the Agreement is to facilitate trade in live animals and animal products (including fish) by establishing a mechanism for the mutual recognition of the equivalency of inspection and certification requirements. A Joint Management Committee, chaired by the Canadian Food Inspection Agency and the European Commission's Health and Consumer Protection Directorate General (SANCO), oversees the operation of the Veterinary Agreement.

The CFIA and SANCO have agreed to make several amendments to the Agreement. Most notably, these amendments reflect the reciprocal recognition of the equivalency of Canadian and European Community public health measures pertaining to fresh and frozen pork and animal health measures for bovine semen. These amendments will reduce the number of requirements placed on Canadian exports of fresh and frozen pork and bovine semen, thereby facilitating access to the EU market. These amendments will also reduce the burden of frontier checks for Canadian exports of live lobsters. These are the first proposed amendments to the Agreement and represent a significant achievement.

This equivalency agreement will be of particular benefit to Canadian pork exporters. In the past, EU requirements for pork exports have been considered too onerous by Canadian producers, and we have effectively been shut out of these markets. The Canadian pork industry has indicated that equivalence on public health measures for fresh pork would make it possible for its members to access this large market. The Agreement will also apply to the 10 new member states that joined the EU on May 1, 2004: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia and the Slovak Republic. Canada was a significant exporter of pork to these countries prior to accession, but it has lost market access due to the extension of EU requirements to these countries. The proposed amendments should serve to reopen these markets.

Both Canada and the EU are committed to bringing these amendments into force as soon as possible. The pork equivalency agreement will need to be reviewed to take into account the EU's hygiene requirements, which will apply as of January 1, 2006, and changes to the Canadian meat inspection regulation.

Moratorium on Approval of GMOs

On August 29, 2003, at the request of Canada, Argentina and the United States, the Dispute Settlement Body of the World Trade Organization established a panel on European Commission measures affecting the approval and marketing of genetically modified organisms.

Seven EU member states have blocked the approval of GMOs for marketing in the EU since 1998. There is now a de facto moratorium on these products,

including four "events" (i.e. genomes) of canola grown commercially in Canada. The approval process was to have restarted on October 17, 2002, with the introduction of new regulations on GMOs, but this did not take place. Canada has made a number of high-level representations regarding the moratorium since 1998.

In a final effort to press the EC to lift the ban, Canada held formal WTO consultations with the EU on June 25, 2003. Canada was not satisfied with the outcome of the consultations and, along with the United States and Argentina, requested a WTO panel to resolve the dispute. The first substantive meeting was held June 2 to 4, 2004. Following this meeting, the panel decided to consult with experts on certain issues pertaining to the dispute. The second substantive meeting was held in February 2005. The panel report is expected in summer 2005 (likely June).

Since spring 2004, the EC has forwarded to the European Council submissions to approve two GM corns. In both cases, the Council did not approve the products; however, the applications returned to the Commission, where they were adopted as part of the Commission's administrative procedure. One other corn and one canola remain to be submitted to the Council. Canada remains concerned that despite favourable science-based risk assessments, the products were approved only by default at the last stage of a prolonged procedure. Another development is the EC's addition of 17 varieties of corn derived from one GM event to the catalogue of varieties on September 8, 2004, effectively allowing their cultivation throughout the EU.

Canada is committed to a science-based evaluation and approvals process, and it continues to advance this approach in international forums. Canada's view is that, since it has no scientific basis, the moratorium creates an unjustifiable barrier to trade. Although there has been some movement within the system since spring 2004, we do not consider that two approvals necessarily translates to real and sustained market access. Canada continues to look for a pattern of approvals, including the withdrawal of member state bans on specific products.

Labelling and Traceability of GMOs

On April 18, 2004, new regulations for GM food, feed and the traceability and labelling of GMOs came into effect in the European Union. Member states and the European Parliament had stated that strict compulsory regulations would assist in rebuilding EU consumer confidence and would have to be in place as a condition of restarting the GMO approval process.

Canada remains concerned with the EU measures on mandatory traceability and labelling of GMOs in food and feed. A particular issue is the threshold for the adventitious presence of GMOs in shipments to the European Union, set at 0.9% for authorized GMOs and 0.5% for unauthorized GMOs with a positive scientific opinion. Such measures could have an impact on current Canadian commodity and processed food exports to the EU, which are valued at more than \$750 million per year. The technical difficulties in testing for a 0.9% threshold, particularly in bulk shipments, or for detecting the presence of modified DNA or protein in products that have been highly processed (such as oil and starch), raise serious concerns about the efficacy of the regulation and could increase the risk of fraud and misrepresentation of products. As well, there is no international standard or protocol on GM testing methodologies at this time. Canada has outlined its concerns about these regulations on many occasions since the EU issued its first proposals.

Canada remains opposed to the proposed EU regulations on compulsory labelling and traceability, because they are aimed at only one particular method of production and are not commensurate with the risks.

Kiln-dried Heat-treated Lumber Paperless Certification

In 2000–2001, Canada developed and sought EU approval of an innovative paperless certification program to streamline paperwork requirements for exports of kiln-dried lumber that has been heat-treated (KD-HT) as part of the kiln-drying process. During the September 2002 EU visit, significant progress was made on the KD-HT paperless certification file, and discussions continued throughout 2003. The EU's plant health committee unanimously approved Canada's KD-HT paperless

certification proposal in November 2003, with a 17-month trial period beginning on February 1, 2004. Details of the program are still under discussion.

Seed Potatoes

A derogation from EU phytosanitary requirements is required for continued access to the European Union for Canadian seed potatoes. The particular pests of concern are bacterial ring rot and potato spindle tuber viroid. Typically, an annual derogation has been granted based on the requirement that Canada conduct stringent laboratory testing and certification of disease-free zones in Prince Edward Island and New Brunswick for all exports to the European Union. In September 1999, the EU Standing Plant Health Committee approved a three-year derogation for Canadian seed potatoes. Historically, Italy and Portugal are the only member states that take advantage of the derogation.

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

Export of Cereals to Greece

On August 25, 2004, Greece introduced Decision 552/2004, establishing new inspection and testing procedures for imported cereals from non-EU members, including Canada. These new procedures are onerous, costly and time-consuming and threaten Canadian wheat exports to Greece, Canada's top export to the country.

Canada considers that this decision is inconsistent with WTO obligations, and it has informed both Greece and the EC of this view at senior levels. These procedures are also contrary to a December 2002 agreement between Canada and the EC that established the inspection practices for shipments of Canadian wheat.

Greek officials have provided no evidence of any concern over the safety of cereals from Canada or any other third country. Rather, senior Greek officials have stated publicly that these measures are designed to hinder imports of wheat in order to protect domestic producers.

The EU agrees with Canada that these measures are unacceptable, and it is currently exploring all available options to remedy this situation. As Greek authorities have given no indication that they will remove these measures, Canada will continue to actively protect the interests of our exporters and to insist on adherence to international agreements.

OTHER ISSUES

Government Procurement

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

Telecommunications

Canadian companies have benefited from the ongoing liberalization of EU telecommunications services and markets. As this publication has noted in previous years, particularly in regard to Germany, there have been problems in effectively implementing some provisions. However, national regulators (including Germany's) and the European Commission are addressing such problems. As well, the new European Union regulatory framework for electronic communications networks includes pre-emptive use of regulation where there is significant market power in relevant markets. Canada will monitor how effectively all EU member states transpose and implement this new framework in order to address and resolve any continuing problems.

European Free Trade Association

Canada's bilateral relations with the European Free Trade Association (EFTA) states are strong, and its commercial ties with them continue to grow. Negotiations on a free trade agreement with the EFTA states (Iceland, Liechtenstein, Norway and Switzerland) were launched on October 9, 1998. The last negotiating session was held in May 2000, in Geneva, where agreement was reached on most issues. The principal outstanding issue remains the treatment of ships. Extensive industry consultations have been undertaken to better understand the issues that are of particular concern and to determine the scope for a compromise solution that would mitigate the potential effects of an agreement on the Canadian shipbuilding industry. At present, no dates have been set for the resumption of negotiations.

Russian Federation

Overview

Russia enjoyed strong macroeconomic performance in 2004, with real economic growth of 6.8%, the fifth fiscal surplus in a row and inflation of about 12%. This growth, coupled with high oil prices, declines in public and external debt and growth of foreign currency reserves, has led to an improved Russian credit rating. At the end of January 2005, Standard & Poor's was the last of the three major international credit rating agencies to give Russia's long-term foreign currency debt an investment-grade rating (after Moody's in 2003 and Fitch in 2004). High oil and gas prices and rising petroleum output continue to be the main sources of growth. The petroleum sector accounts for more than 35% of government revenues and over 55% of exports. Thus, there are concerns about the predominance of the energy sector and the economy's vulnerability to changes in oil prices.

While foreign direct investment still lags behind levels in other Eastern European economies, 2004 is expected to be a record year with an estimated US\$11 billion inflow. Paradoxically, capital flight by Russian investors has also started to rise again, largely due to fears of greater state intervention in the economy, a perceived weakening of property rights and instability in the banking sector. Much of new Western investment is being driven by a combination of strategic interests, perceptions of greater political stability, market size and growth rates, natural resource endowment and a skilled labour force. The energy sector has been the recipient of most incoming FDI, with the agri-food, financial, transportation and telecom sectors all attracting some interest.

High domestic demand and an appreciating rouble led to increasing imports over the course of 2004 of some 25%. Russia's largest trading partner remains the European Union, which accounts for about 55% of the country's imports and exports. Total Canadian merchandise exports to Russia in 2004 were \$412 million, a 23.3% increase over 2003. Since a significant volume of Canadian exports to Russia is shipped through third countries (in particular, Finland, Korea, Latvia, Poland and the United States), this figure significantly understates the true size of our trade with Russia. Among Canada's main exports to Russia in 2004 were machinery and equipment for the oil and gas, mining and agriculture sectors; meat and fish; special purpose vehicles and automobiles; building products; and telecommunications equipment. There is also a notable volume of Canadian services exports to Russia, especially in the engineering, construction and legal areas.

The rapid increase in Canadian exports underwritten by Export Development Canada (EDC) underscores the growing importance of Russia as an export market. EDC's total business volume in Russia grew to approximately \$135 million for 2004, significantly outstripping the \$4 million for 2002 and the \$16 million for 2003. In addition to providing export credit insurance, EDC completed a number of long-term financings to Russian corporations (Gazprombank, ALROSA, SUAL, UralSIB Bank and RTK-Leasing) in support of Canadian exporters in 2004. In December 2004, EDC concluded negotiations with Vneshtorgbank (VTB), Russia's leading

trade finance bank, on a US\$50-million general purpose line of credit to be used to finance purchases of Canadian exports by VTB's Russian clients. This is the first multi-purpose line of credit that EDC has established with a Russian bank since the financial crisis of 1998. In addition to promoting use of the VTB line of credit in 2005, EDC is developing several new transactions in the oil and gas, mining and metallurgy, telecommunications, transportation and agri-business sectors. The corporation has identified Russia as one of its key emerging market priorities in 2005.

In 2003, Canadian foreign direct investment in Russia totalled \$221 million, much of which is in natural resource development, infrastructure, services, industrial development, high technology and agri-food. While concerns remain about corporate governance, an underdeveloped judicial system, rule of law, inefficient bureaucracy and uneven treatment from regional administrations, major Canadian firms are now taking a strategic, long-term approach to Russia, particularly in the natural resource and information technology sectors.

Over the past year, the Russian government has introduced new legislation in areas such as taxation, sub-soil resources, customs procedures and judicial reform. It has also improved the laws on enterprise bankruptcy and joint stock companies. As well, business registration, licensing and verification requirements have been streamlined, and a new voluntary corporate governance code was introduced in 2002.

Canada's merchandise imports from Russia in 2004 totalled \$1.4 billion. This represents a significant 72% or \$577 million increase over the same period last year. Crude oil dominates Canadian imports from Russia, accounting for \$884 million in 2004 compared with \$493 million in 2003. Other significant imports from Russia are vodka, fertilizer, fish, precious metals, and inorganic chemicals.

Market Access Results in 2004

■ Regarding BSE, Russia approved the certificate for bovine embryos.

Canada's Market Access Priorities for 2005

- Achieve progress in bilateral market access negotiations with Russia as part of its accession to the WTO.
- Restore Canada's former market access for meat products and seek improvements on this access for the future
- Pursue most-favoured-nation treatment for space equipment as provided for in the Canada—Russia Agreement on Trade and Commerce of 1992.
- Continue to seek the removal of Russia's remaining BSE measures on imports from Canada, in particular live cattle and beef.
- Continue to make representations to Russia asking for removal of its avian influenza measures.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

World Trade Organization Accession Negotiations

In 1993, the Russian Federation applied for membership in the GATT, which later became the World Trade Organization. It made initial market access offers to WTO members in 1998 (for goods) and 1999 (for services). Since 2002, there has been a concerted effort among current WTO members to accelerate the pace of Russia's accession negotiations. Several members concluded bilateral negotiations with Russia in 2004, including the European Union and China. However, Russia has yet to sign agreements with Canada and other key members such as Australia, Switzerland and the United States. Canada supports Russia's WTO accession and has been an active participant in the negotiations.

Canada's bilateral negotiations with Russia on market access for agricultural products made good progress until 2003, when Russia took a step backward by creating a more trade-restricting tariff rate quota regime for pork, poultry and beef imports. Canada is insisting on the restoration of its former market access and on improvements to this access as a key condition for completing the bilateral negotiations. In the negotiations on market access for services, the focus has been on financial, energy-related and professional services, although Canada has some interests

in other areas. Negotiations on Russia's import tariffs are targeting products for which Russia's current tariff rate offer remains above international norms such as aerospace goods, mining equipment and building products (where Canada has technologies suited to the geography, geology and climate that it shares with Russia) and machinery, transportation equipment, pharmaceuticals, fish and meat (where Canada has significant export capacity).

Russia's economic and trade regime, as well as its internal policies affecting trade, are discussed in a WTO working party consisting of interested WTO members including Canada. Canada is seeking improvements to Russia's trade regime in a number of areas, including:

- the transparency and predictability of sanitary and phytosanitary measures applied by Russia to imports of food;
- the level of trade-distorting agricultural subsidies that Russia will be able to apply in the future;
- Russian standards and technical regulations applied to imports;
- the protection of intellectual property rights including, in particular, the enforcement of existing laws and regulations;
- the discriminatory tax and tariff treatment of imported goods;
- the trade-distorting effects of below-market energy prices, especially as they benefit Russian fertilizer manufacturers;
- the transparency and predictability of licensing for service providers; and
- the consistency of Russian customs procedures with WTO obligations.

Tariff Rate Quotas on Meat Products

Canada objected to the introduction in April 2003 of tariff rate quotas (TRQ) on meat products, specifically on pork, beef and poultry as these measures have reduced Canadian pork and poultry exports to Russia by about 40% in 2003. Canada's pork exports to Russia in 2004 were about 40% below that of 2002, pre-TRQ year. Russia's TRQ regime (with country reserves for the EU and the U.S.) would have further reduced Canada's pork exports to its market had Russia not banned the pork of another major

supplier for sanitary reasons late in the year. Through bilateral and multilateral negotiations in the context of Russia's accession to the WTO, Canada will continue to seek terms and conditions that restore and improve access for Canadian meat products.

Application of the Canada-Russia Agreement on Trade and Commerce Provisions

According to the Canada–Russia Agreement on Trade and Commerce of 1992, Canada is entitled to receive most-favoured-nation treatment with respect to trade in goods and services. Pursuant to this, Canada is seeking waivers to the import duty and value added tax (VAT) that Russia currently applies to space equipment from Canada; Russia provides such waivers to some other trading partners.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Russia issued temporary restrictions on the import of Canadian live cattle, bovine embryos, beef and beef products, as well as feed and feed additives that contain processed animal protein. Canada has kept all its trading partners, including Russia, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. In May 2004, Russia announced the implementation of a ban on the import of beef and live cattle from any country where BSE cases have been registered. On June 4, Russia approved the proposed certificate for bovine embryos. We continue to press for access for beef and live cattle. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On February 24, 2004, Russia imposed measures against imports of poultry from British Columbia due to avian influenza. (For further information, see the avian influenza overview in Chapter 2.)

OTHER ISSUES

Next Session of the Intergovernmental Economic Commission

The Canada–Russia Intergovernmental Economic Commission (IEC) was established in 1994 through the Canada–Russia Agreement on Economic Cooperation. The IEC provides a forum for government dialogue to promote and enhance commercial and trade relationships between Canada and Russia. The most recent IEC meeting was held in Ottawa in 2001, and discussions are under way to hold the next one in 2005 in Moscow.

In December 2004, The Canada–Russia Business Council (CRBC) was created by the Canada Eurasia Russia Business Association and the Russian Union of Industrialists and Entrepreneurs. The new CRBC will be managed exclusively by representatives of the private sector to address bilateral trade and commercial issues. The CRBC will liaise and make representations to both governments and play a key role in the IEC process through the establishment of sectoral working groups.

Ukraine

Overview

The Ukrainian economy likely posted the highest growth in the world last year at 12%. The major factors behind this growth were increases in real wages, exports and domestic investment. In particular, strong demand and higher prices for steel and agricultural products boosted export revenues. On the investment side, despite the fact that Ukraine continues to underperform in attracting foreign direct investment, domestic investment in the form of new construction, machinery and equipment purchases grew substantially. Ukraine also achieved a record current account surplus in the fall. Overshadowing the impressive growth in 2004 was the political and economic uncertainty caused by the fall presidential elections, which raised the question of how fast the economy could bounce back to previous levels of

activity. We expect the new government to introduce widespread economic reforms; however, its capacity to do so quickly will be an issue.

Total Canadian merchandise exports to Ukraine fell by 14% in 2004 to \$57 million, after rising 113% in 2003. Canada's primary exports to Ukraine include agricultural machinery, vehicles, textiles and pharmaceuticals. There continues to be significant market potential for Canadian goods and services firms in the agriculture, oil and gas, construction, and information and communications technology sectors. Trade Team Canada has also identified interest in services industries such as management consulting, professional services and environmental services. Canada's large Ukraininan diaspora community is expected to continue to play a significant role in trade with Ukraine.

In 2004, Canada's merchandise imports from Ukraine grew by some 106% to \$160.9 million. Iron and steel products and petroleum products dominate Canadian imports from Ukraine. Growth also occurred in the imports of clothing and railway equipment parts.

Canada's cumulative investments are classified confidential by Statistics Canada. Canada signed a foreign investment protection agreement with Ukraine in 1994. Investment-related problems in the form of corporate governance issues for Canadian investors increased in the run-up to the fall presidential elections. The new administration has pledged to work toward resolving outstanding disputes and improving the foreign investment climate.

The Government of Canada is working to increase bilateral trade and investment with Ukraine through the Canada–Ukraine Intergovernmental Economic Commission established in 1996 and through Ukraine's WTO accession negotiations. The IEC was created to promote business-to-business networking and to resolve trade and investment irritants for Ukrainian and Canadian companies. The last IEC meeting took place in October 2001, with the next one expected some time in 2005.

With the strengthening of the Ukrainian economy over the past three years and improvements in financial transparency, Ukraine is becoming a market of increasing interest to Export Development Canada. EDC's focus in Ukraine is on the private sector.

While a growing number of companies are producing financial statements according to international accounting standards, the practice is not yet widespread. In the interim, EDC is working with Ukrainian banks to support transactions. For example, EDC has concluded a number of transactions with the State Export–Import Bank of Ukraine and has proposed entering into a line of credit with the Bank in 2005.

The sector of most interest to EDC is agricultural equipment. EDC is establishing a business development plan for this sector to better respond to the needs of Canadian exporters. Other sectors that show promise include food processing and packaging, metallurgy and possibly construction and construction technology.

Market Access Results in 2004

■ In November, Ukraine approved export certificates for fresh pork meat and spray-dried animal protein for use in animal feed.

Canada's Market Access Priorities for 2005

- Continue representations aimed at removing Ukraine's remaining BSE measures on imports from Canada.
- Continue representations aimed at removing Ukraine's avian influenza restrictions.
- Lobby Ukraine to implement its tariff offer on pulse products prior to its WTO accession. Ukraine currently applies tariffs of approximately 90% on pulse products, even though it does not produce these products. As per the Canada—Ukraine market access agreement signed in February 2002, the bound tariff will not be higher than 10% when Ukraine joins the WTO.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Bovine Spongiform Encephalopathy

In 2003, Ukraine issued a ban on imports of Canadian live cattle, beef and beef products, milk, milk products, leather and raw materials, bovine embryos and semen. Canada has kept all its trading partners, including Ukraine, fully informed of the results of its investigations and regulatory response. Canada continues to make representations requesting a resumption of trade on scientific grounds. Imports of Canadian live cattle, beef or beef products are still banned. However, Ukraine now allows imports of Canadian milk, milk products, leather and raw materials, bovine embryos and semen. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On March 24, 2004, Ukraine imposed measures against imports of poultry from British Columbia due to avian influenza. (For further information, see the avian influenza overview in Chapter 2.)

World Trade Organization Accession Negotiations

In 1993, Ukraine applied to join the World Trade Organization. Since then, Canada has focused on securing more open, secure and non-discriminatory market access for Canadian exports of goods and services.

The pace of progress toward WTO accession has accelerated in the past two years. Ukraine has continued to take important steps in preparing the domestic legislation and regulations required to bring significant parts of its trade regime into conformity with WTO obligations. However, work remains to be done in a number of areas, in particular on commitments for agricultural supports, technical barriers to trade, sanitary and phytosanitary regulations, customs procedures and intellectual property. Ukraine must also establish the domestic regulations and administrative practices needed to implement the required domestic legislation.

A bilateral goods and services market access agreement was signed by Canada and Ukraine on February 20, 2002. Ukraine has completed bilateral negotiations with several other key WTO members, including the EU. However, negotiations continue with several countries including the United States, China and Australia. Lower and simplified import fees and charges, less burdensome customs procedures and reduced non-tariff measures must be implemented to support the market access commitments secured by Canada and other WTO members. Canada will

continue to closely monitor Ukraine's efforts to liberalize such measures in the context of its WTO accession process.

The Centre for Trade Policy and Law of Ottawa and Carleton universities continues to work with the Ukrainian Ministry of Economy to build Ukraine's capacity to participate effectively in the accession process and to enable it to implement its WTO obligations.

Kazakhstan

Overview

Kazakhstan has enjoyed significant economic growth since 2000, thanks to its booming energy sector, economic reform, good harvests and foreign investment. Oil now accounts for over half of industrial output. Other significant sectors are semi-processing of metal, steel production and construction. The largest employer, the agricultural sector, represents about 7% of gross domestic product, down from 23% in 1992.

In 2004, Kazakhstan's GDP is expected to rise by 9.3% to over \$40.98 billion. Growth is fuelled primarily by high oil and commodity prices, but also by buoyant domestic consumption. Average annual inflation rate could reach 7.5% in 2004, up from 6.4% in 2003, partly because of large inflows of foreign exchange.

Canadian exports to Kazakhstan in 2004 rose by 80% to \$74 million. Main exports to Kazakhstan include agricultural machinery, vehicles, iron and steel products, medical instruments, furniture and plastics. In 2004, imports from Kazakhstan totalled \$48 million, an increase of 162% over the previous year. Iron and steel dominate by far Canadian imports from Kazakhstan, followed by chemicals and base metals.

Export Development Canada has identified the energy and agricultural equipment sectors as having significant potential for Canadian exporters in Kazakhstan. A key to EDC's strategy for Kazakhstan is the country's strong banking system, which enables EDC to partner with Kazakhstan's banks and other financial intermediaries in financing transactions with Kazakhstan buyers. EDC recently completed its first

direct financing of Canadian agricultural equipment through Kazkommertsbank, and it is looking at similar deals with others such as Bank TuranAlem. Canadian services providers have highlighted financial, energy, transport and professional services as priorities for Kazakhstan.

Canada and Kazakhstan signed a trade agreement in 1995. This was followed by the Joint Action Plan for an Enhanced Economic Bilateral Partnership, signed during the visit of President Nazarbayev in June 2003. A double taxation agreement has been in place with Kazakhstan since March 1998.

Canadian investments in the country are confidential according to Statistics Canada. The country also has potential for Canadian investment in certain oil and gas spinoff areas, for example, industrial housing, pipeline construction, offshore equipment and training. Development of offshore Caspian deposits and new pipelines is expected to continue to drive economic growth over the next 15 years.

The agriculture sector has suffered greatly since 1991 due to internal and external factors. The Kazakhstan government has now adopted a strategy to revive the industry that will require foreign expertise and equipment. Up to 80% of existing machinery needs replacing, representing an outlay of about \$305 million annually for the next five years. Construction and mining are other areas of significant opportunity for Canadian business.

Under its 12-year industrial development strategy (2003–2015), Kazakhstan is aiming to diversify its economy before oil output reaches a plateau. In January 2004, Kazakhstan reduced the flat-rate VAT on all goods from 16% to 15%. Corporate taxes have remained unchanged, reflecting the government's strategy of maximizing tax revenue from investors, particularly foreign investors. During 2004, the government launched various programs to restructure national companies and open some services to competition, notably railway and telecommunications services. The results of these efforts remain unclear.

Canada's Market Access Priorities for 2005

- Continue to use bilateral and multilateral discussions to improve access for Canadian goods and services to Kazakhstan.
- Continue to make representations asking Kazakhstan to remove it's avian influenza restrictions.

Avian Influenza

On March 2, 2004, Kazakhstan imposed measures against imports of poultry from Canada due to avian influenza. (For further information, see the avian influenza overview in Chapter 2.)

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

World Trade Organization Accession Negotiations

The working party for the accession of Kazakhstan to the WTO was established in February 1996. Topics under discussion in the working party include agriculture, the customs system (and customs union arrangements), price controls, import licensing, industrial subsidies, sanitary and phytosanitary measures and technical barriers to trade, transparency of the legal system, legislative reform, services and trade-related aspects of intellectual property rights.

Canada is an active participant in the WTO accession negotiations with Kazakhstan. Bilateral market access negotiations between Canada and Kazakhstan started in October 1997. Canada's overall objectives are to ensure Kazakhstan's full compliance with WTO obligations and to seek more open, secure and predictable access for Canadian goods and services.



Asia-Pacific Economic Cooperation Forum

Overview

nince its inception in 1989, the Asia-Pacific Economic Cooperation (APEC) forum's agenda has evolved in response to developments in world trade. APEC ministers and leaders have acted as an informal caucus in support of strengthening the multilateral trading system. During the latest APEC Economic Leaders Meeting held in Santiago, Chile, in November 2004, leaders expressed continued support for the World Trade Organization's Doha Development Agenda, welcomed the July package of agreements reached by the WTO General Council, and pledged an APEC contribution to trade facilitation negotiations, building on APEC's expertise in that area. (APEC ministers had previously endorsed the APEC Business Advisory Council's recommendations on trade facilitation negotiations in the WTO,

which include a list of specific areas in which a trade facilitation agreement should include commitments.) Leaders also pledged to redouble technical assistance and capacity-building efforts to ensure the full and effective participation of all APEC members in the WTO. They recognized that regional and bilateral trade agreements (RTAs/FTAs) can accelerate liberalization, but they stressed that such agreements must be of high quality. They agreed to a set of APEC best practices for RTAs/FTAs and committed to greater RTA/FTA transparency.

Since the Shanghai Summit of 2001, APEC has been active in counterterrorism efforts through the promotion of secure trade, highlighting the linkages between security and prosperity. In 2004, leaders continued to stress this APEC theme with commitments on combatting terrorist financing and money laundering, ship and port security standards, and business mobility initiatives such as advance passenger information systems. They also agreed on guidelines for the control of portable anti-aircraft missiles, identified best practices for export control systems for weapons of mass destruction, and agreed to implement or conclude additional protocols with the International Atomic Energy Agency for the control of nuclear materials.

Following up on the "Shanghai Accord"—adopted in 2001 to reinvigorate APEC's trade agenda and help provide momentum toward APEC's goal of free and open trade and investment in the region by 2010 for developed economies and 2020 for developing economies—members continued to implement the APEC Trade Facilitation Action Plan. This plan aims to cut transaction costs in the region by 5% by 2006, and it includes a menu of concrete actions and measures that members can implement to reach this goal. A mid-term review of APEC's progress in implementing the Action Plan showed that APEC members are well on their way to implementing all of the actions and measures they committed to. Leaders and ministers agreed to a set of recommendations from the mid-term review and from an associated "Expanded Dialogue on Trade Facilitation," which will see greater monitoring of APEC's trade facilitation work, closer cooperation with the business community in identifying and implementing trade facilitation measures, and more APEC work to promote WTO trade facilitation negotiations.

APEC leaders also agreed to an anti-corruption action plan, which calls for signature and ratification of the UN Convention Against Corruption, stronger transparency measures, denying safe haven to those guilty of corruption, fighting both public and private sector corruption, and cooperation mechanisms among APEC members. In addition, in 2004 APEC established a self-assessment mechanism to track members' progress in implementing transparency measures, and it agreed on a set of transparency standards for government procurement, thus completing the nine sets of area-specific standards called for by the 2002 Leaders' Statement on Transparency. APEC's transparency standards are designed to foster greater transparency in the laws, procedures and administrative rulings of APEC members. The eight other areas with specific transparency standards are services, investment, competition policy and deregulation, intellectual property, customs procedures, business mobility, market access and standards.

Throughout 2004, Canada was involved in a number of initiatives aimed at building the capacity of developing economies. With respect to trade negotiations, DFAIT (FA) organized a workshop on environmental impact assessment in trade negotiations, as well as a ground-breaking APEC symposium on best practices in WTO capacity building, which attracted participation from the WTO, the United Nations Conference on Trade and Development, the World Bank, regional development banks and the Organisation for Economic Cooperation and Development, as well as both developing and developed APEC members. As co-chair of the APEC Group on WTO Capacity Building, which coordinates all of APEC's work in this area, Canada worked to improve the focus and relevance of APEC's trade-related capacity-building activities. The Canadian International Development Agency continues to implement its \$9-million APEC economic integration program, which is providing WTO capacity-building assistance throughout Southeast Asia. Canada also organized capacitybuilding events in a number of other areas, including customs procedures, secure trade and international financing instruments.

Market Access Results in 2004

- At their meeting in June, APEC trade ministers called for the launch of WTO negotiations on trade facilitation, adding to momentum on this issue and precipitating the launch of such negotiations a few weeks later.
- Ministers endorsed the July package adopted by the WTO General Council, as well as the APEC Business Advisory Council's recommendations on trade facilitation negotiations in the WTO.
- Ministers agreed to a list of information technology products to forward to the WTO for consideration and possible tariff elimination. (The products were modems, multi-function digital machines and multi-chip integrated circuits.)
- Ministers adopted APEC best practices for regional and bilateral free trade agreements.
- Ministers endorsed the recommendations of the APEC Expanded Dialogue on Trade Facilitation on implementing the APEC Trade Facilitation Action Plan, increasing interaction with business, and advancing trade facilitation negotiations in the WTO.
- Leaders expressed strong political support for continued liberalization efforts and, in particular, for the Doha Round of WTO negotiations.
- Leaders adopted an APEC "anti-corruption course of action."
- Leaders adopted APEC transparency standards on government procurement.
- APEC members, including Canada, implemented a wide range of capacity-building projects on trade policy and counterterrorism.

Canada's Market Access Priorities for 2005

Korea, which will host APEC in 2005, is expected to emphasize APEC's work in support of the multilateral trading system, regional and free trade agreements, and security. In 2005, Canada's major objectives will include support for the WTO; implementing the Trade Facilitation Action Plan consistent with the direction provided by the 2001 Shanghai Accord; and the expansion of opportunities for Canadian businesses in the region. In addition, Canada will play a major role in APEC's WTO capacity-building

initiatives, with further projects expected to take place in 2006. Canada will also continue work on counterterrorism capacity building.

Japan

Overview

Japan is Canada's second largest export destination, receiving 2.1% of our total merchandise exports, and is the fifth largest source of foreign direct investment in Canada. Canada is a leading supplier to Japan of a number of products of key export interest, including lumber, oilseeds, meat, pulp and paper, coal, fish and aluminum.

While resource-based exports continue to represent much of our trading relationship, Canada is an increasingly important source of sophisticated, value-added, technology-driven products and services for Japan. There is an increasing interest in and demand for Canadian technology in areas such as aircraft, information technology, environmental products and services, optical instruments, vehicles and chemicals.

The total stock of Japanese FDI in Canada increased by about 55% over the last decade. In 2003, with a stock of \$9.7 billion, Japan accounted for about 2.7% of FDI in Canada. Thus, Japan is the most important investor from Asia—Oceania, accounting for about half of all FDI from the region. Canadian direct investment in Japan has doubled over the last five years, with the current total stock standing at \$9.1 billion.

In 2004, total merchandise trade between Canada and Japan was \$22 billion. Canadian exports to Japan have been declining steadily since the mid-1990s. Our exports to Japan rose slightly to \$8.5 billion in 2004, from \$8.1 billion in 2003. Imports from Japan decreased by 3% in 2004 to \$13.4 billion. In 2004, Canada exported \$1.9 billion in services and imported \$3.5 billion. The long-term trend in Japan is toward a growing demand for cost-competitive and innovative imports, which represents a significant market opportunity for Canadian exporters.

To identify opportunities arising through regulatory reform and restructuring in Japan's changing market-place, International Trade Canada analyzed trading patterns in potential sectors of opportunity. The results of this study have been shared with Canadian and Japanese business, as well as with interested representatives of the Japanese government. The analysis points to new opportunities in information and communications technologies, value-added food products, transportation equipment, building products and prefabricated buildings, medical devices and pharmaceuticals, new energy products such as fuel cells, power generation and environmental services.

In addition, DFAIT (IT) and Industry Canada commissioned a study on opportunities in the services sector, which identified where shifts in the Japanese economy have created significant potential. Produced by the Japan Market Resource Network in August 2002, this study found that the most potential for Canadian business lies in services related to information technology, the environment, accounting, architecture and health care. It also found, however, that barriers to trade such as domestic opposition to foreign competition, excessive regulation and opposition to deregulation of certain sectors pose serious challenges for Canadian companies aiming to enter the Japanese market. The Government of Canada will use these findings to supplement its efforts in established trade sectors (such as automotive, aerospace, forest products, minerals, agriculture and fisheries, and consumer products) with new initiatives aimed at supporting these emerging priority industries.

To encourage further diversification of Canada's traditional commodities-based trade relationship with Japan, efforts are being made to emphasize Canada's strengths in high-technology sectors and to re-brand Canada as a technologically sophisticated society. These efforts have begun to bear fruit, with signs of increased business activity, especially in the hightechnology sectors. Despite a worldwide slowdown in the information and communications technologies (ICT) sectors, Canadian companies continue to take advantage of opportunities in the huge Japanese ICT market, valued by InfoCom Research Inc. at \$490 billion in 2001. This amounted to 13% of the world ICT market in 2001, with a growth rate of 4.5% during that year. During the past two years, many Canadian ICT companies have entered the

market directly or indirectly through partners, agents or distributors, and the share of manufactured goods and value-added services exports to Japan continues to increase.

Japanese awareness of Canada as a sophisticated business partner will also be raised through Canadian efforts to attract Japanese FDI. International Trade Canada is working closely with other federal government departments, as well as provincial and municipal authorities, to maintain and attract Japanese investment into Canada. More than 550 Japanese companies have investments in Canada, which have directly created over 55,000 new jobs. The largest sector influenced by Japanese investment is the auto industry: Honda, Toyota and Suzuki have a major presence, along with 52 auto parts manufacturers operating in Canada.

Collaboration with the Japan External Trade Organization (JETRO) is ongoing and productive. For example, JETRO has supported Canada's efforts by sending information technology (IT) missions to Canada in each of 2000, 2001 and 2002; it has assisted financially in the organization of events, by providing funds for interpretation and translation; its offices in Montreal, Toronto and Vancouver provide Canadian IT companies with information about the Japanese market and advice on entering it; and it helps companies find partners and distributors. In addition, Canadian companies are invited to the annual JETRO-organized TechnoBusiness Forum, a trade show held in Japan where small and medium-sized businesses with innovative products or technology are introduced to Japanese companies. Finally, JETRO and Industry Canada signed a memorandum of understanding in April 2003 to increase levels of data sharing and technical cooperation and to improve electronic access for both Japanese and Canadian firms.

Managing the Relationship

The basic framework for Canada–Japan trade and investment is provided by the multilateral WTO system, supplemented by a number of bilateral instruments, such as the 1976 Framework for Economic Cooperation Agreement and the Joint Economic Committee (JEC). The JEC, which meets every 12 to 18 months at the deputy minister level,

helps focus attention on enhancing bilateral trade (including solutions to specific problems) and encourages cooperation in multilateral forums.

Prime Minister Martin's visit to Japan in January 2005 was an opportunity to take stock of the economic relationship and build on previous bilateral cooperation. Prime Minister Martin and Prime Minister Junichiro Koizumi recognized that the Canada–Japan partnership of trust and friendship fostered over the years remains solid but still has potential for further development. In order to strengthen economic relations, the prime ministers confirmed their intention to address strategic economic priorities and emerging opportunities through an innovative Canada–Japan economic framework to be developed within the next six months.

This framework will be a comprehensive document bringing together various areas of Canada–Japan trade and economic cooperation, and it will include the terms of reference for a 12-month study on the further promotion of the bilateral economic relationship. In addition, in enhancing the role of the JEC, the framework will allow for, inter alia, appropriate and effective ways to take into account issues raised by the Canadian and Japanese private sectors. Some the work described below will flow from the framework; further details on other areas and progress on the framework can be found on the department's Web site (www. international. gc.ca/tna-nac/can-jap-ecoframe-en.asp).

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

In the area of competition policy, Canada and Japan have been negotiating a cooperation agreement to facilitate the enforcement of anti-competitive activities of mutual interest. Successful completion of this agreement is expected in the very near future. Canada and Japan have also entered negotiations to conclude a social security agreement. The first round of formal negotiations was held between Canadian and Japanese authorities in October 2004. Such an agreement would improve the business environment for the businesses of one country operating in the other's jurisdiction by encouraging labour mobility, and it would also bring significant costs savings for their workers.

Regulatory reform has been a priority for the Japanese government for a number of years. Canada has made regular annual submissions to the Japanese regulatory reform authorities, as have Australia, the United States, the European Union and domestic organizations such as Keidanren. On March 19, 2003, a new three-year program to promote regulatory reform replaced an earlier program instituted under the Council for Regulatory Reform. This body has been renewed as the Council for the Promotion of Regulatory Reform, and a new component, a ministerial-level headquarters for regulatory reform, has been added. This step will help ensure that recommendations from the Council make their way directly to the relevant cabinet ministers. Canada's 2004 submission to the Council for the Promotion of Regulatory Reform included not only areas of particular concern to Canada, such as financial services, telecommunications and building standards, but also more cross-cutting structural issues related to the overall investment environment in Japan.

Many of these issues have serious implications for the overall recovery of the Japanese economy and for the ability of Japan to attract foreign, including Canadian, investment. We have seen some progress in deregulation—including on issues included in the Canadian submission—with improvements in the areas of foreign lawyers, customs procedures, competition policy, reviews of medical devices and pharmaceuticals, judicial reform and corporate governance. Canada will continue to promote further reform, as well as the efficient and transparent application of those measures already adopted.

In 2003, the Japanese government began implementing a program for the "promotion of special zones for structural reform," and hundreds of special zones have already been created. A zone may be a region, city or business that has requested and received approval for a modification to or exemption from

specific rules, with the goal of promoting innovative thinking in the zone. Many of the proposed modifications have now been expanded on a national level. It is hoped that examples of successful deregulation in these limited areas will have a demonstration effect and promote further bottom-up reform initiatives. They will make it easier for new entrants with novel concepts to enter the Japanese market.

Market Access Results in 2004

- Canada worked with the Japanese government to reduce the impact on Canadian exporters of new regulations to control the use of formaldehyde in building products. The regulations, introduced in 2003, impose stringent requirements for certification and have the potential to limit market access for Canadian exporters. Japan has agreed to exempt hardwood flooring, a major Canadian export to Japan, and to accept foreign test data for certifying products. However, Canada has not yet succeeded in having a Canadian evaluation body accredited by Japan.
- In May 2004, Japanese authorities granted approval for fire-resistant construction using the 2x4 construction method. Canada has worked closely with the Japan 2x4 Association to undertake supervised fire tests since Japan introduced a performance-based system for fireproof buildings under the revised Building Standards Law (BSL).
- Canada, in collaboration with embassies from other countries, worked with Japan's Ministry of Health, Labour and Welfare to facilitate the approval of food additives in regular use internationally and to help bring Japanese legislation into line with international practice. This work is ongoing with respect to a large number of food additives.
- Canada made substantial efforts to engage Japan's cooperation on living modified organisms. Although the bilateral discussions did not lead to a memorandum of understanding, the exchanges served to increase mutual understanding of the respective agricultural commodity handling systems and regulations on agricultural products of biotechnology.

- The Japanese government introduced legislation to promote cooperation and collaboration between Japanese lawyers and foreign lawyers qualified under Japanese law, which will make it easier for Canadian lawyers to practise in Japan and to provide legal assistance on international transactions involving Canadian and other foreign companies.
- On September 17, 2004, Japan lifted all avian influenza restrictions on the import of poultry products from Canada.

Canada's Market Access Priorities for 2005

- Continue representations aimed at removing Japan's BSE measures on imports from Canada.
- Develop the Canada–Japan Economic Framework and launch a joint study on the benefits and costs of further promotion of trade and investment, as well as other cooperative issues between the two countries.
- Continue to press for a reduction of duties applied to vegetable oils (particularly canola), processed foods, red meats, fish, forest products (spruce-pine-fir lumber, softwood plywood, laminated veneer lumber, oriented strand board and laminated beams), non-ferrous metals and leather footwear.
- Continue to press for the elimination of specific technical and regulatory barriers in Japan. These barriers include regulations and standards that vary from international norms (e.g. practices regarding the use of foreign clinical data when approving pharmaceutical products and medical devices, and levels of formaldehyde in infant's clothing).
- Negotiate and finalize an agreement on social security and totalizations, whereby the calculation of benefits would be based on the period of time contributions were made in either country. The aim is to reduce the costs of social security contributions and to help protect the pension rights of employees in both countries.
- Continue to press for increased access to slots at Narita Airport and enhanced air services between the two countries.

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 2004, Canadian agri-food and fish exports to Japan amounted to \$3.1 billion. Canada seeks further access to this important market and has concerns regarding Japanese tariffs, safeguards, labelling of food derived from genetically modified organisms, and import requirements dealing with organic standards, food sanitation and plant health. Most market access concessions and tariff reductions will be discussed in the context of the current WTO negotiations; however, other issues are being addressed at the bilateral level.

Safeguard Measure on Chilled and Frozen Pork

Canada remains concerned about the Japanese "snap-back" safeguard measure on pork, which raises the minimum import price by approximately 25%. This safeguard was triggered again on August 1, 2004, for the fourth consecutive year and will last until the end of the current fiscal year, March 31, 2005. Since it was first triggered in 1995, the snapback safeguard has been a significant issue for the Canadian pork sector. As currently administered, this measure creates considerable market fluctuations for Canadian suppliers and Japanese importers. Canada is seeking a resolution that addresses the concerns of both exporters and importers by eliminating the negative market impacts of the snapback safeguard. This is a priority in the WTO agriculture negotiations.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Japan imposed a temporary ban on imports of all ruminant animals, meat and meat products including embryos and ova. The ban on embryos was lifted in January 2004. Pork or poultry meat sausages made with ruminant casings from Canada and sausages made with cattle casings remain banned. In July 2004, Canada and Japan established the Canada–Japan BSE working group, which has met three times to discuss technical issues.

Discussions with Japan on conditions to resume trade are ongoing. (For further information, see the BSE overview in Chapter 2.)

Safeguards on Beef

During the Uruguay Round of WTO/GATT negotiations, Japan's trading partners agreed to a specific safeguard mechanism for beef that would protect domestic producers from sudden import surges.

The occurrence of bovine spongiform encephalopathy in Japan in September 2001 resulted in unusually low consumption of beef and a decline in both domestic and imported beef sales. Since then, the market has recovered, domestic production is now above pre-BSE levels and live animal prices are above the government-recommended price band. In contrast, import volumes, while they have grown, are still below pre-BSE levels. Although the growth in beef imports in 2003 was merely a return toward the former level of imports, not a surge, it nevertheless triggered, on August 1, the application of the safeguard on chilled beef, which lasted until March 31, 2004. The outcomes have been higher prices for importers and a slower recovery of Japan's beef market, neither of which are advantageous for Japanese producers or consumers.

The Canadian embassy has expressed, jointly with the embassies of other beef-exporting countries, a serious concern about the implementation of the snapback safeguard. Despite this, the beef safeguard system has been maintained for the current fiscal year ending March 31, 2005. As a result of the ban on imports from the United States, it has not been triggered in the current fiscal year. The import of beef from Canada has been banned since May 21, 2003.

The import ban on beef from the United States and Canada has reduced the import of beef into Japan to an extremely low level. Once that ban is lifted, it is likely that the volume of imports could again trigger implementation of the safeguard. Canada will therefore continue to work with key exporting countries to ensure that Japanese officials do not automatically apply this safeguard mechanism. This is another priority in the WTO agriculture negotiations.

Tariffs on Canola Oil

Japan's duties on imported cooking oils are applied on a specific rate basis (i.e. a certain number of yen per kilogram). As a result of the Uruguay Round of multilateral trade negotiations, specific duties for these products have decreased in Japan. Because ad valorem equivalents (AVEs) of specific duties are inversely related to import prices (i.e. when import prices fall, the AVEs rise, and vice versa), specific duties progressively cushion domestic producers against competition from lower-priced imports. The AVEs of specific rates on canola generally approach or exceed 20%. These high tariffs give Japan's domestic oil-crushing industry (and producers of other related products, such as margarine) a significant advantage over the Canadian oil-crushing industry when competing for a limited supply of oilseeds. Canada will seek the maximum negotiable reduction in these high tariffs in the WTO agriculture negotiations.

Japan Agricultural Standards Organic Certification System

On October 1, 2004, Japan stopped accepting Canadian organic products that are accredited under the U.S. Department of Agriculture's National Organic Program (under a U.S.–Japan agreement). In this regard, Canada has been working on revising its own national organic standard with the objective of entering into discussions with Japan on the acceptance of Canadian organic products. However, Japan is now considering abolishing the equivalency requirements for registered foreign certification organizations to be able to certify Canadian organic products as meeting the Japanese standard for organics, although this would not be implemented before June 2006.

Positive List System for Maximum Residue Levels

Japan will be implementing a "positive list system" to prohibit the distribution of foods that contain agricultural chemicals above a certain level unless maximum residue levels for the chemicals on or in the foods have been established. The agricultural chemicals include pesticides, veterinary drugs and feed additives. This activity is based on the revised Food Sanitation Law published in May 2003. The

law is scheduled for implementation by May 2006. Since the release of the first draft of provisional maximum residue levels in October 2003, Canada has provided comments and has worked with Japan's Ministry of Health, Labour and Welfare.

Building Products and Housing

The building products industry in Japan is subject to many laws and regulations that Canadian exporters must comply with before they can access the Japanese market. Of particular importance is the Building Standards Law (BSL). Japanese regulations are frequently criticized for being difficult to understand, complex and costly, developed without public input and slow to change. Japan is being urged to revise the BSL as it relates to test methods, criteria and related restrictions, and to adopt international codes, standards and practices. Canada has a number of formal and informal links with the Japanese government that provide opportunities to press for change. These links include joint work between Canadian and Japanese scientists (e.g. the Canada-Japan Research and Development Workshop) and formal bilateral meetings (e.g. the Canada-Japan Housing Committee). In 2004, Canada hosted the Canada-U.S.-Japan talks on Japanese building codes and standards that take place in the Building Experts Committee, as well as the Japan Agricultural Standards Technical Committee. These meetings provided a good opportunity for Canada to demonstrate its regulatory system and use of building products. The same committees will meet in the United States in 2005.

Three- and Four-Storey Wood-Frame Construction

Japanese demand for three- and four-storey mixed-use buildings is significant. Although three-storey wood-frame apartment construction is allowed in quasi-fire protection (QFP) zones, it is restricted to a maximum of 1,500 square metres and requires uneconomic property line setbacks and limiting distance calculations for exterior wall openings. These restrictions unfairly and sharply limit the use of three-storey wood-frame construction. There is also a size limit of 3,000 square metres for non-QFP zones, and the calculations for Japanese firewall specifications (which could allow larger structures) are not science-based. Since a performance-based system for fireproof

buildings was introduced under the revised BSL, Canada has worked closely with the Japan 2x4 Association to undertake supervised fire tests, and in May 2004 ministerial approval was obtained for fire-resistant construction using the 2x4 construction method.

Value-added Building Products

To help Canadian exporters better understand the process for product certification under the revised Building Standards Law, Canada has developed a road map document for several value-added building products. In 2003, Japan implemented regulations concerning emissions of volatile organic compounds (VOCs) from building products. In spite of the challenges that foreign exporters faced initially, many Canadian companies have successfully had their products tested and obtained approvals. At present, only formaldehyde is subject to these regulations, but there is a possibility that additional VOCs will be regulated at a later date. Canada will monitor the situation and report back to Canadian industry.

Agricultural Standards for Building Products: Standards Review Process

In accordance with the five-year review system of Japan Agricultural Standards, the Ministry of Agriculture, Forestry and Fisheries (MAFF) launched a review of standards for dimension lumber in 2003. Canada supplies about 95% of Japan's imported dimension lumber. Outstanding issues with other standards remain, however. Canada will work to ensure that Canadian stakeholders have access to the MAFF process and full membership on the review committees.

Tariffs on Spruce-Pine-Fir Lumber and Panel Products

Japan's system of tariff classification distinguishes between the species and dimensions of lumber, regardless of end use. As a consequence, spruce-pine-fir (SPF) lumber imports, worth over \$400 million per year to Canada, are subject to duties ranging from 4.8% to 6%, whereas other species imported for the same purpose enter duty-free. The 6% tariff on softwood plywood and oriented strand board is also considered to severely limit Canadian exports and

favour the domestic Japanese industry. Industry estimates that the 6% tariff on plywood reduces Canadian exports by \$100 million per year. Reducing SPF and softwood plywood tariffs are a high priority for Canada and will be pursued in the WTO multilateral trade negotiations.

IMPROVING ACCESS FOR TRADE IN SERVICES

As the number of international firms doing business in Japan continues to rise, there is an increasing focus on regulatory and other non-tariff barriers that may be impeding the development of business in underdeveloped areas of the Japanese economy, particularly in services. There has been significant business development in those areas that have undergone regulatory reform, notably financial services and telecommunications. Canada continues to point out areas in which further regulatory reform would have similar stimulative effects. Canada hopes to continue to build on the Japan Market Resource Network's study of August 2002, which identified significant opportunities in business and professional services such as accounting, legal, and education and training. This market is of particular interest for Canada's newly created Language Industries Association.

Environmental Services

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

Telecommunications Services

The Japanese telecommunications services market has become quite accessible to foreign companies. All restrictions on foreign investment in the telecommunications sector, except in Nippon Telegraph and Telephone Corporation, have been lifted. Canada

particularly welcomes the new Telecommunications Business Law (which was amended in 2003 and came into force in the spring of 2004), especially its provisions removing the obligation to notify tariffs for certain services. This law is seen as a significant step toward Japanese competitiveness in the telecommunications sector.

Air Transport

Canadian officials held consultations with their Japanese counterparts in Tokyo in May 2004 concerning our long-standing and productive bilateral air transport relationship. The meeting resulted in some progress. Canadian carriers have gained increased access to Japan and enhanced capacity. Code-sharing rights were also significantly increased. Frequency limitations were lifted and additional rights beyond Japan were obtained, although restricted in both cases to cooperation with Japanese carriers. Canada will continue to push to gain code-sharing rights with third-country carriers.

The pending issue of additional slots at Tokyo-Narita was not solved, but Japanese authorities have assured the Canadian delegation that Canada will be given equal treatment when they are in a position to allocate future slots at Narita. New runways and resulting slots at Narita might not be available until 2009. This limits Canada's opportunity to expand air services to Tokyo, as well as constraining Canadians' travel plans and the possibilities for both sides to realize additional commercial benefits. Canada will continue to press Japan for increased capacity at Tokyo. The planned expansion of Haneda airport could indirectly free up spaces at Narita in advance of the 2009 deadline.

Financial Services

Positive Change in the Financial Sector Continues, but Risks Remain

It is clear that the positive changes we noted last year continue, and the pace of change and financial sector revitalization appears to be accelerating.

While issues remain that prevent Tokyo from realizing its full potential as a global financial capital, we are encouraged by recent developments in the sector and in regulatory approaches. We also recognize that,

particularly with the privatization of Japan Post now in the cards, the forward-looking agenda is ambitious. This agenda has the potential to bring very positive change to the financial sector in Japan, as well as direct benefits to savers, investors and consumers of financial services. The wider economy would also benefit through a more efficient financial system.

Competition is increasing in the marketplace, non-performing loans are on a downward trend and on track to meet the government target for their reduction, and credit practices are improving. Financial reconstruction has proceeded, notably thanks to a clear target and clear enforcement (including sanctions) by the Financial Services Agency (FSA), and a more resilient financial system has emerged. Canada welcomes proposed changes in the distribution channel, in particular the easing of restrictions on bank branches selling securities and insurance. We are also encouraging the Japanese government in its efforts to widen consumer choice, which will facilitate a more varied use of household savings and greater risk-taking by individual investors.

However, the system still remains vulnerable, and new lending is still on a downward trend. Continued and robust financial sector supervision, increased shareholder accountability and continued action on industrial revitalization are required to foster a dynamic, sustainable and efficient financial sector.

Canada continues to request that the Financial Services Agency offer a more flexible regime that is sensitive to smaller institutions' need to contain costs. A longer-term goal, which fits with the FSA's current efforts to define a medium-term "vision" for the financial sector, should be to move regulation to a more macro-level approach.

Supervision and Regulation: Greater Simplification and a Regime More Supportive of Product Innovation Are Needed

To introduce genuine and transparent regulatory reform, a regulatory system that focuses on macrolevel financial supervision is desirable. Applying an ex post supervisory approach that promotes efficiency and competition (in place of the current a priori regulation and supervision approach) would enhance the efficiency of Japan's financial system without harming its safety or soundness.

With the purported goal of ensuring consumer transparency, the FSA applies a micro-level analysis to product and rate approvals. This supervisory approach hinders competition because it is time-consuming and stifles the forces of innovation. We have noted the progress achieved since the establishment of the FSA, but we are requesting that greater efforts be made to move from a system of prior product approval to a system of notification combined with clear standards of disclosure. Supervision should move to a focus on solvency ratios, capital adequacy and appropriate modern accounting practices.

Canada is also of the view that, although the independence of the inspection division is of prime importance under the current supervisory regime of the FSA, better coordination and communication between the inspection division and the supervisory division is needed to ensure a more efficient supervisory administration. Canada is requesting that firms be given more complete feedback on the results of discussions and consultations with the supervisory division; these results should also be well communicated to the inspection division. Such feedback would help firms ensure their compliance with laws and regulations ahead of inspections.

Finally, in order to lighten the burden of regulatory compliance, we are encouraging agencies with a role in regulating the financial sector to harmonize their information requirements. In this way, financial institutions would only need to provide one standard set of information, which could then be used by all regulators.

Public Sector Financial Institutions Still Distort the Market: Privatizing Japan Post Could Resolve This Issue in the Long Run

There continues to be a general concern that government financial institutions in Japan provide many services that private sector institutions can provide efficiently. The involvement of government enterprises in the financial sector, some of which have very sizable market shares, distorts competition significantly and could be seen to contravene Japan's General Agreement on Trade in Services commitments. Examples of government institutions that have large market shares are the Postal Savings system (yucho) and the Postal Life Insurance system (kampo).

Public institutions should be made to compete in a manner that does not discriminate against the private sector. Canada supports the efforts of Prime Minister Junichiro Koizumi's government to streamline and privatize government financial institutions. As much as possible, Japan should seek to use private institutions to promote increased financing and corporate rehabilitation unless a clear market failure exists. Foreign financial institutions and companies can play a useful role in the Japanese government's reform efforts.

Recent decisions to move ahead with privatization of Japan Post are good news. In the interests of a competitive market for financial services and the efficient allocation of household savings, Canada is urging the government to follow through on its intention to (1) split the company into four separate entities, with savings and insurance operating on a purely commercial basis, and (2) subject postal savings and insurance to the same rules and regulations as private sector competitors.

The government should also ensure that the branches of the future government-controlled counter services company offer a range of competing products from various suppliers of financial services. Much as bank branches can be more effectively used as points of distribution for insurance and securities, so can the branches of a privatized Japan Post. To protect customers, products offered by the new company should be selected based on a transparent and competitive process that is open to all financial services firms.

Despite the positive, forward-looking developments, the postal insurance system, or kampo, still holds about 40% of life insurance assets in Japan but does not compete in the market on the same basis as private firms. Kampo is still not subject to the same kind of regulatory oversight, or operating costs, as private sector life insurers. It is not subject to the Insurance Business Law, the Law on Sales of Financial Products or the Commercial Code. Furthermore, it is not supervised by the FSA. Finally, because its products are fully guaranteed by the government, kampo is not required to contribute to the Policyholders Protection Corporation. Until this situation is rectified through the process of privatization, kampo will continue to distort the market.

As well, to ensure that kampo as presently constituted does not encroach further on private sector activities, the government should instruct kampo not to create new products that could be provided by private sector insurers. Failing this, Canada continues to request that any new financial service activities proposed for the postal financial institutions (whether kampo or yucho) be subject to FSA supervision and to full public notice and comment, with responses being given due consideration by officials before their introduction. Canada also continues to request that legislation relating to the financial services activities of Japan Post be subject to full public notice, comment and consideration before legislators make final decisions.

Specific Issues

Operations of financial conglomerates: Most major industrialized countries have moved to a regulatory framework that allows for greater synergies among their financial activities. However, the requirement in Japan for so-called firewalls between banking and securities has been a concern to Canadian financial institutions operating in Japan. It imposes considerable additional costs and does not allow for optimal efficiencies for clients. One example is the requirement for advance written consent from the customer to enable sharing of customer information between banking and securities. In some cases, the requirement for firewalls may actually increase risk. Canada continues to request that the Financial Services Agency offer a more flexible regime that is sensitive to smaller institutions' need to contain costs.

Proposed new capital and reserve requirements for variable annuity products: Canada is concerned that these requirements will be so onerous that consumers will be required to pay far more than is needed or that the products will no longer be made available to the consumer. These products play an important role in enabling the public to save in a prudent fashion for their long-term needs, especially their retirement needs. These products also provide an important stimulus to the equity markets, by giving the consumer a cost-effective way to participate in those markets as an alternative to low-interest rate savings accounts.

Funding for the Policyholders Protection Corporation: The current scheme will expire in early 2006. Canada has encouraged the Japanese government to consult closely with domestic and foreign life insurance firms in a transparent and open manner when developing and implementing any legislation associated with reform of the Corporation.

Deregulation of the distribution of insurance products: There has been progress in this area. This positive development should be built upon, by expanding the scope of previous reforms to new product classes. In addition, we would specifically note the need to eliminate the so-called kosei-in rule, which limits the products that agencies can sell inhouse, and to allow commissions to be paid by life insurers to corporate agencies that sell insurance policies to the agency itself (or affiliated companies).

Legal Services

Canada applauded the enactment of legislation that substantially eliminates restrictions on freedom of association between Japanese lawyers and foreign lawyers qualified under Japanese law. We are now closely following the development of rules and regulations to implement this legislation. Canada will continue to promote reforms that will allow for a more transparent and predictable legal environment, which will be conducive to business activities. Canada has requested that Japan improve its market access commitments with respect to legal services in the context of the market access phase of the ongoing GATS negotiations.

Competition Policy

The Japanese government has made efforts to strengthen the competition policy regime. For example, draft amendments to the Antimonopoly Act (AMA), which went before the Diet in October 2004, were some of the most drastic since 1977. They included raising the basic amount of surcharge from 6% to 10% for firms that violate the AMA and enabling the Fair Trade Commission to make compulsory investigations on suspicious firms. The surcharges in the draft, however, are low by international standards and, therefore, might not be punitive enough to deter cartels and bid-rigging. Thus,

Canada will continue to encourage the Japanese government to make further efforts in this regard while improving enforcement.

Investment

In his general policy speech to the Diet on January 31, 2003, Prime Minister Koizumi strongly welcomed foreign direct investment as a way to help revive the country's economy and achieve sustained growth. Mr. Koizumi stated that "[f]oreign direct investment in Japan will bring new technology and innovative management methods, and will also lead to greater employment opportunities. We will take measures to present Japan as an attractive destination for foreign firms, with the aim of doubling the cumulative amount of investment in five years." To help facilitate investment, the Japan External Trade Organization established a one-stop Invest Japan centre to offer information and support to potential investors.

Japan has continued to promote foreign direct investment aggressively and has held investment seminars in Canada and around the world. In Japan, the Government of Canada has worked with JETRO to help promote bilateral investment generally as well as foreign direct investment in priority sectors. These sectors include the automotive, biotechnology, nanotechnology, energy and agricultural sectors. Canada is committed to attracting investment in growth sectors.

Japan was the largest recipient of Canadian direct investment in the Asia–Oceania region in 2003, with total Canadian investment valued at \$9.1 billion. On a prefectural level, there has been growing interest in attracting foreign investment, especially into high-technology areas, although so far growth in Canadian direct investment has been concentrated in the important urban areas. As an example of Canadian investment, Manulife is the 16th largest foreign employer in Japan.

Nevertheless, long-standing structural impediments continue to hamper foreign direct investment into Japan. These impediments include a high overall cost structure, bureaucratic discretion, exclusive buyer–supplier networks, a lack of labour mobility, bankruptcy regulations, merger and acquisition regulations for foreign companies, and a lack of financial transparency, all of which serve to inhibit

the establishment and acquisition of businesses. It is still very difficult for foreign investors to execute ownership transfers and merger and acquisition transactions. Some areas that still need to be opened to investment are medical care, education, retailing, utilities, agriculture, postal and delivery services, and financial advisory and asset management services.

Japan is the fifth largest source of foreign direct investment in Canada (behind the United States and the European Union), with a stock of \$9.7 billion in 2003. Although Japan's relationship with Canada through its FDI greatly enhances the ability of Canadian industry to compete in the global marketplace, Canada accounts for a relatively minor portion of Japanese FDI worldwide.

The lion's share of Japanese FDI is in the automotive industries. This investment trend has maintained its impetus over the past years, reflecting the strong showing of Japanese autos in the North American marketplace. Canada's efforts to attract Japanese investment into Canada focused on six priority sectors in 2003. These sectors were agri-food, automotive, chemicals, information and communications technologies, life sciences, and metals and minerals.

Although large greenfield investments do still occur, an increasing number of smaller investments, strategic partnering and joint ventures are taking place. These investment decisions are often made by Japanese subsidiaries in North America, which are assuming the responsibility that once belonged to Japanese head offices. Canadian senior officials regularly visit the North American headquarters of Japanese companies, in addition to headquarters in Japan, to promote further investments in Canada.

China

Overview

The People's Republic of China (excluding the Hong Kong Special Administrative Region) is Canada's fourth largest export market. In 2004, Canada's total merchandise exports of goods to China amounted to \$6.6 billion, an increase of 39% over 2003. Total merchandise imports from China increased to \$24.1 billion in 2004, up 30% over 2003.

China has accelerated the pace of trade and investment liberalization and reaffirmed its commitment to social and economic reform. China has become one of the drivers of the world economy and an increasingly important market for the world's goods and services. Only the United States and the European Union import more. Moreover, in 2003 China attracted more foreign direct investment than any other country.

Canada's approach to its relationship with China takes full account of its rapidly growing importance in world affairs. An economic partnership between China and Canada is a key element in supporting long-term relations and encouraging China's further integration into the global economy.

Despite the opportunities that China presents, a number of significant problems and practices impede Canadian access to the Chinese market. Additionally, some elements of the former planned economy remain.

During Chinese Premier Wen Jiabao's official visit to Canada in December 2003, a strategic working group (SWG) was formed to discuss long-term political and economic strategic issues without the distraction of current irritants. A joint action plan for the SWG was released during Prime Minister Martin's visit to China in 2005.

Canada and China engage in regular formal consultations to review matters related to economic development, trade and investment. These meetings give Canada the opportunity to register specific market access concerns and to underline the importance of transparency in a rules-based market economy.

China formally acceded to the WTO on December 11, 2001. The extensive commitments China has made to substantially lower barriers to foreign trade and investment, as well as to increase the predictability and transparency of its trade regime, will engender profound changes in its economy and governance. As a result, significant new business opportunities are opening up for Canadian exporters and investors in sectors in which Canadian firms have a competitive advantage. China will continue to face considerable challenges in fully implementing its WTO commitments and in pursuing further economic reform. In the long run, however, economic growth and prosperity will be strengthened.

As a member of the WTO with a significant portion of world trade, China is an important participant in the Doha Round of multilateral trade negotiations. Canada will continue to cooperate with China to support the early conclusion of these negotiations.

Market Access Results in 2004

- Chinese regulatory bodies authorized a range of activities by Canadian firms in the financial sector:
 - one company was granted "qualified financial institutional investor" status;
 - two banks received approval to establish a representative office in Shanghai;
 - one bank received a licence to sell derivatives in China;
 - one bank received approval for a minority investment in a Chinese commercial bank;
 - two life insurance companies received approval to establish a branch in Beijing; and
 - one life insurance company has been authorized to begin preparatory work to open a branch in Ningbo.
- Chinese authorities lowered capital requirements for the expansion of insurance companies, responding to concerns raised by Canada and other WTO members (refer to the Regulations on the Administration of Insurance Companies, Detailed Rules on the Regulation for the Administration of Foreign Investment Insurance Companies).
- Chinese authorities eliminated the one-year waiting period and reduced capital requirements for establishing new foreign bank branches in response to concerns expressed by Canada and other WTO members (refer to the Implementation Details for Regulations of Foreign-invested Financial Institutions).
- Canada ensured the uninterrupted access of canola to the Chinese market by cooperating with local authorities on new regulations governing the evaluation and import of genetically modified organisms.
- China addressed a long-standing Canadian objective by introducing a new building code that permits construction of wood-frame housing.

- China lifted the ban on imports from Canada of cosmetics, which was imposed after the announcement of a BSE case in May 2003.
- Canada negotiated the resumption of porcine gelatine exports to China.
- In January 2005, trade in poultry products, bovine semen, bovine embryos and porcine blood products resumed. Registration of porcine semen centres was renewed to enable trade to take place.

Canada's Market Access Priorities for 2005

- Conclude a foreign investment protection and promotion agreement.
- Work with Canadian companies to ensure effective implementation of China's WTO commitments, especially in the financial, agriculture and agrifood sectors.
- Monitor the impact of new laws, regulations and customs procedures to ensure equitable treatment for Canadian exporters and investors.
- Continue representations aimed at complete removal of China's remaining BSE-related restrictions on imports of beef, beef products and live cattle from Canada.
- Work with Chinese authorities to address the burdensome inner-labelling requirement on packaged meat products.
- Work with China to further develop the 2004 building code in support of higher-density woodframed and mixed structure construction.
- Continue to urge China to harmonize the tariff for canola seed with that for soybeans.
- Continue to urge China to reduce the value-added tax on small and medium-sized aircraft, such as regional jets, so that it is the same as the value-added tax on large aircraft.
- Continue representations aimed at removing China's restrictions on the import of deer and elk products.
- Continue to work with China to eliminate barriers that restrict the marketing of Canadian travel services and destinations.
- Develop an agreement with China on technical and regulatory cooperation in bio-engineered agricultural products.

■ Work with China to remove chemical treatment requirements for alfalfa seeds from Saskatchewan.

IMPROVING ACCESS FOR TRADE IN GOODS

Implementation of China's WTO Commitments: Highlights

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

Canada and other parties will continue to ensure that China adheres to WTO rules aimed at transparency and consultation with trading partners, as it implements new policies and procedures.

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

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, China issued a ban on the import of Canadian live cattle, meat and meat products, tallow and feed of ruminant animal origin. Canada has kept all its trading partners, including China, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. In October 2004, China and Canada resumed trade in porcine gel and signed protocols on conditions for the resumption of trade in bovine semen and embryos. In January 2005, China approved Canadian collection centres allowing trade to resume. Canada will continue discussion with China on conditions for resuming trade in beef, beef products, live cattle and tallow. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On January 18, 2005, China lifted all avian influenza restrictions on the import of poultry and poultry products from Canada. (For further information, see the avian influenza overview in Chapter 2.)

Meat Labelling

In August 2004, China notified the World Trade Organization that it would implement Decree 49, the Regulation of Inspection and Quarantine on Import Meat and Its Product, on November 1, 2004. Article VI (1) of the Regulation requires that the inner package shall be labelled with the product name and plant registration number.

Following consultations with exporters, Canada provided comments to Chinese authorities on the inside labelling requirements. Following representations by Canada and other exporting countries, Chinese authorities agreed that goods shipped to China on or after December 1, 2004, must have the product names printed in English and Chinese on inside bags.

Alfalfa Seed

China considers Saskatchewan to be an area infected with verticillium wilt and currently requires all shipments of alfalfa seed from this province to be chemically treated for this pathogen. This requirement has adversely affected the export of Saskatchewan alfalfa seed to China. The CFIA and Chinese authorities are currently discussing approaches to validate testing methods for verticillium wilt, and discussion will continue toward a mutually agreed testing protocol that will enable the eventual resumption of trade in this commodity.

Genetically Modified Organisms

China's Regulation on Biosafety Management for Agricultural Genetically Modified Organisms, established in 1993, was revised in 2002 to include new implementation measures on GMO safety evaluations, GMO imports and GMO labelling. Key elements of the current measures include the addition of an extra pre-product trial stage prior to commercial approval, new regulations for processing GMO products, mandatory labelling requirements for domestic and international use, new import and export regulations, and local and provincial GMO monitoring guidelines.

Under this new regulation, Canada was issued safety certificates for seven transgenic rapeseed events from China's Ministry of Agriculture (MOA) GMO office. These safety certificates have enabled Canadian canola exports to China to continue. However, the safety certificates are issued for a period of only three years, and Canada will have to renew the certificates prior to April 2007. The measure is intended to assess and monitor GMO products and to minimize the involuntary release of GM canola into the environment.

The Government of Canada has recently engaged in dialogue with both AQSIQ (the Administration for Quality Supervision, Inspection and Quarantine), the government body responsible for inspection, import/export and quarantine requirements in China, and MOA, which is responsible for implementing biosafety regulations for agriculture biotechnology. The intent is to initiate future technical and regulatory exchanges and to negotiate conditions in the development of a bilateral regulatory agreement.

Deer, Elk and Their Products

In August 2003, China had suspended the issuance of permits for the import of antler velvet from Canada, due to concerns about chronic wasting disease in deer and elk. Canada is trying to involve in technical discussions with Chinese authorities aimed at the resumption of trade.

STANDARDS AND TECHNICAL REGULATIONS

Since joining the WTO, China has been moving ahead with implementation of its WTO commitments on standards and technical regulations. These commitments include establishing contact points for enquiries about regulations, improving transparency by notifying the WTO of new regulations being put in place, and ensuring that standards, technical regulations and conformity-assessment procedures are the same for imported and domestic products. Canada will continue to monitor the impact of standards and technical regulations to ensure that they are both transparent and consistent with WTO commitments.

Canadian-style Wood-Frame Construction

In January 2004, China adopted a revised building code allowing for wood-frame construction. The code imposes restrictions on the size of buildings and the distance between these types of wood-frame structures. Consequently, only single-family dwellings are covered by the code. Canada is working with the Chinese Ministry of Construction and Ministry of Public Security to reduce some of the restrictions imposed by the codes and to introduce mixed-structure, higher-density construction.

The Canadian system of wood-frame construction has become a niche subsector for high-end villa developments in China. Canada is working to develop more opportunities in this market. The level of activity has remained modest in 2004 with approximately 1,000 wood-frame houses constructed in China's largest cities.

Value-added Tax on Aircraft

Large aircraft (above 25 tonnes) currently face a value-added tax of 4%, which is significantly lower than the 17% VAT applied to smaller aircraft, such as

regional jets produced in Canada. Canada believes that this differential tax hinders the growth of regional aviation in China. Moreover, it limits the ability of all producers of smaller aircraft to sell their products in China.

IMPROVING ACCESS FOR TRADE IN SERVICES

Financial Services

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

Investment

In 2003, China was the second largest recipient of foreign direct investment inflows in the world. Canadian direct investment in China has shown a consistent increase in recent years, rising from a stock of \$419 million in 1997 to \$542 million in 2003 (while direct Chinese investment in Canada reached a level of \$422 million in 2003). The average size of new investments is steadily increasing, and the profile of the average investment is shifting from small family enterprises to the more sophisticated operations of multinational companies. China is also starting to become a source of FDI, and we are increasing efforts to attract such investment.

Foreign Investment Protection and Promotion Agreement

Canada and China are currently negotiating a foreign investment protection and promotion agreement (FIPA). Canada has introduced and explained the

nature of its FIPA proposal. Although Canada and China agree on the key principles of non-discrimination, investor protection and dispute-settlement procedures, differences remain on a number of technical but important issues. Concluding a FIPA will likely take until mid- to late 2005. Once implemented, the FIPA should create more predictability for Canadian investors when dealing with otherwise irregular and complex Chinese investment scenarios.

Tourism Marketing

China grants "approved destination status" (ADS) to selected countries to facilitate the travel of Chinese nationals abroad. China agreed to grant ADS to Canada in early 2005. Modalities and timing for the implementation of ADS remain to be determined.

Hong Kong

Overview

The Hong Kong Special Administrative Region maintains considerable autonomy in economic, trade, cultural and political affairs and will continue to do so until 2047. Hong Kong has its own fiscal system: it does not remit revenue to the central government, nor does the central government levy any taxes. The Hong Kong dollar, pegged to the U.S. dollar, continues to circulate as legal tender, and Hong Kong remains a free port and a separate customs territory. This distinct economy is a member of APEC and the WTO under the name "Hong Kong, People's Republic of China."

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

On January 1 2004, Hong Kong and the Chinese mainland signed their Closer Economic Partnership Arrangement, which corresponds to a bilateral free trade deal between the two entities. The Arrangement facilitates trade in goods, services and investments.

Canadian firms continue to enjoy excellent access to the Hong Kong market, and there are no outstanding bilateral market access issues. Canada exported \$1.4 billion to Hong Kong in 2004 and imported merchandise worth \$720 million. Trade in services is extensive. The Hong Kong government continues to develop its own economic, fiscal and budgetary policies based on its own interests and its dependence on trade. The policy of minimal government interference in the economy continues to apply equally with respect to trade in goods and services and to investment. In addition to being an attractive market in its own right, Hong Kong remains China's largest port and the entrepôt for most of China's value-added imports and exports, particularly goods exported by small and medium-sized enterprises.

Market Access Results in 2004

- Hong Kong partially lifted the ban on the import of Canadian beef and beef products, imposed following Canada's announcement of a case of BSE in May 2003.
- Hong Kong lifted the ban on poultry products from all regions of Canada and now regards Canada as free of highly pathogenic avian influenza.

Canada's Market Access Priorities for 2005

Continue representations aimed at the complete removal of Hong Kong's BSE measures on imports from Canada.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Hong Kong banned the import of Canadian beef and beef products. Following extensive technical discussions, on November 30, 2004, Hong Kong announced the resumption of imports of boneless beef from Canada derived from animals under 30 months of age. Discussions continue on expanding the list of eligible products and registered establishments that may export. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

In November 2004, Hong Kong lifted its avian influenza restrictions on the import of live birds and poultry meat from Canada. (For further information, see the avian influenza overview in Chapter 2.)

Investment

In 2004, Hong Kong was the eighth largest investor in Canada with \$4.7 billion (stock) in investments. Canada has invested \$2.7 billion in Hong Kong. There was a significant concentration of Canadian investments in the financial services sector. In general, Canadian investors face few difficulties in the Hong Kong market, which features excellent infrastructure, low taxes and a full range of modern business services.

Republic of Korea

Overview

Korea is Canada's third largest market in the Asia-Pacific region (after Japan and China) and the eighth largest worldwide. In 2004, Canada's merchandise exports to the Republic of Korea totalled \$2.3 billion, while imports were \$5.8 billion. Korean direct investment in Canada in 2003 was \$280 million, while Canadian investment in Korea in 2003 totalled \$609 million. In 2002, services exports totalled \$653 million and imports \$218 million.

Although considerable market liberalization occurred after Korea's 1997 financial crisis, Korea's economic policies are typically designed to protect its domestic industry, encourage exports and discourage imports of some value-added goods. Generally, tariffs, import licences, import procedures and social norms all favour the import of raw materials and industrial equipment rather than finished goods. Despite the liberalization of import procedures over the past few years, significant obstacles and rigidities remain a problem in some areas.

The Canada–Korea Special Partnership Working Group (SPWG), launched in April 1994, aims to increase cooperation in areas such as trade, investment, industrial cooperation and technology transfer. One subcommittee of the SPWG specifically addresses market access issues, while another subcommittee was created to further cooperation between the private sectors of both countries. This subcommittee is initially focusing on manufacturing technology, new materials, biotechnology, the environment, energy and telecommunications.

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

The Republic of Korea approached Canada in 2004 with a strong expression of interest in pursuing an ambitious free trade agreement. On November 19, 2004, Prime Minister Martin and Korean President Roh Moo-Hyun announced that Canada and Korea would explore the feasibility of negotiating an FTA. The announcement was made in Santiago, Chile, following a bilateral meeting held on the margins of the APEC Leaders' Meeting. In keeping with its commitment to engage Canadians on issues of trade and investment, policy, the Government of Canada has launched comprehensive consultations with the provinces and territories, the Canadian public, businesses and non-governmental organizations. The results of these consultations will help advise officials on Canadians' priorities, objectives and concerns to help define the possible scope of an FTA with Korea.

A high-growth and rapidly advancing market, Korea is widely recognized as a gateway to Northeast Asia, a region of strategic importance to global value chains. With an estimated 48 million inhabitants and a GDP of \$849 billion, Korea is the largest of the four "Asian tigers" (Hong Kong, Singapore and Taiwan are the other three). An FTA between Canada and Korea has the potential not only to enhance Canada's important bilateral economic relationship with Korea but also to strengthen Canada's presence in the region by serving as a stepping stone to greater economic ties with China and Japan. Canada's interest in Korea lies in three main areas: tapping into the value chains of globally competitive production and supply from Korean corporations, selling raw materials and key technologies and products, and using Korea as a strategic base for establishing an export and manufacturing presence in Northeast Asia.

Market Access Results in 2004

- Korea increased its 2004 tariff rate quota for feed peas to 450,000 tonnes.
- In March 2004, Korea lifted its import ban on tallow, and accepted the import certificate on March 10, 2004
- Korea lifted import bans on fetal blood serum and porcine blood plasma on June 4, 2004, and accepted modified certificates.
- Korea decided on June 29, 2004, to lift import bans on gelatin, collagen and di-calcium phosphate (with no trace of protein or fat) and provided notification of the conditions on July 15, 2004.
- Korea expanded the phytosanitary protocols for softwood lumber to include approved markings.

Canada's Market Access Priorities for 2005

- Pursue removal of Korea's BSE measures on imports from Canada.
- Seek removal of Korea's restrictions on the importation of poultry and poultry products from Canada because of avian influenza.
- Continue discussion toward agreement on a protocol for fumigation of feed peas.
- Ensure that the tariff rate quota (TRQ) for feed peas is pursued in subsequent years.
- Continue to press for tariff parity between canola and soy products.
- Continue to press for changes in the tendering procedures for soybeans and honey.
- Continue annual monitoring of applied tariffs that are subject to possible adjustment to ensure that market access for Canadian products is not reduced.
- Pursue implementation of phytosanitary protocols for heat treatment certification of softwood lumber.
- Conclude exploratory talks with Korea and consultations with Canadians in preparation for a decision on whether to proceed with formal negotiations toward a bilateral free trade agreement.

IMPROVING ACCESS FOR TRADE IN GOODS

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Korea issued a ban on the import of Canadian ruminant animals, meat and meat products, including semen, embryos, ova, tallow, gelatine and collagen. While access for some products has been obtained, Korea still bans the import of meat and live animals. Canada has kept all its trading partners, including Korea, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On February 20, 2004, Korea suspended imports of poultry and poultry derived products from Canada. The Canadian Food Inspection Agency will be asking Korean authorities to lift the suspension. (For further information, see the avian influenza overview in Chapter 2.)

Canola Oil

Canada continues to seek tariff parity between canola oil and other competing products such as soybean oil, as well as the elimination of tariff escalation (i.e. low tariffs on raw materials and higher tariffs on processed goods). Korea applies a tariff of 10% on crude canola oil and 30% on refined. Canola oil is the only imported edible oil that is subject to this treatment. In comparison, Korea applies a 5.75% tariff on crude and refined soybean oil.

Tariffs on Feed Peas

In 2004, Korea provided differential tariff treatment for dried peas for human consumption and feed peas through the creation of a tariff rate quota on feed peas. The quantity and rate for the TRQ is announced annually. In 2004, the applied rate for feed peas was 2% for an amended volume of 450,000 tonnes. Imports above this volume face a 27% tariff (the same as the tariff on dried peas for human consumption). The tariffs for most of the

competing feed products are as follows: barley, 20% or 30%; wheat (for milling and feed), 1.8%; and lupin seed, 0%. The TRQ allows the import of feed peas, up to the quota level, at a reduced rate, which is an improvement over previous years, but which does not provide complete parity with other feed ingredients. Ultimately, parity will be sought as an outcome of the WTO agriculture negotiations. Maintaining a TRQ is a temporary solution in the absence of permanent tariff parity, as the TRQ is renewed on a yearly basis and can be cancelled or reduced unilaterally by Korea.

Protocol for Fumigation of Feed Peas

Korea has phytosanitary concerns about Hessian flies and, because straw can be a host for Hessian flies, has rigorous requirements that there be no straw in shipments of agricultural products such as feed peas. To address Korea's concerns, Canada has proposed to Korean authorities a fumigation process for feed pea shipments that would kill any Hessian flies that may be in the straw. Discussions with Korean technical officials to resolve this issue continue.

Soybean Tendering

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

Chronic Wasting Disease: Elk and Deer Products

On December 28, 2000, Korea suspended the import of live cervids and their products (elk and deer products including antler velvet) from Canada and the United States, because of concerns relating to chronic wasting disease. In 2004, Canada made

numerous high-level representations and initiated technical discussions with Korean authorities aimed at the resumption of trade.

Honey

The current tariff rate quota for honey is 420 tonnes; the tariff on in-quota imports is 20%, while the tariff over the TRQ is 243%. Under the competitive bidding process for import rights, the price of the honey becomes the determining factor, and it is difficult for higher-quality or higher-priced products to compete within the TRQ.

Softwood Lumber

Korea currently requires all Canadian softwood lumber exports to be kiln-dried and heat-treated in order to eliminate plant pests. As a result of a number of meetings between the Canadian Food Inspection Agency and Korean plant health officials, Korea has amended its regulations to provide for the issuance of phytosanitary certificates and will visit Canada to consider the use of industry-issued heat treatment certificates.

Chinese Taipei (Taiwan)

Overview

In 2004, Canadian merchandise exports to Chinese Taipei totalled \$1.2 billion. Chinese Taipei ranked sixth among Canada's export markets in the Asia-Pacific region, accounting for 4.7% of our total exports to the region. Canada's goods imports from Chinese Taipei in 2004 totalled \$3.9 billion.

Chinese Taipei's economy remains highly dependent on trade. It is a major exporter to the region, particularly to China and Southeast Asia, as well as a major source of investment. It is also growing in importance as a regional importer. These factors have provided a strong impetus for trade and market liberalization, though domestic political pressures continue to support a degree of protection, particularly with respect to certain agricultural and agri-food imports.

Chinese Taipei officially joined the WTO on January 1, 2002. As Chinese Taipei is a prominent export market for Canadian suppliers, its formal membership in the international rules-based trading system was an important development. Chinese Taipei has undertaken significant reforms and liberalization in order to bring its economic and trade regime into line with the WTO framework. A key outcome has been the disappearance of the preferential market access previously accorded to U.S. suppliers in a number of product areas, consistent with Chinese Taipei's obligations under the WTO principle of non-discrimination.

World Trade Organization Accession Negotiations

Chinese Taipei has implemented many improvements in market access for goods and services under terms negotiated with Canada and other WTO members. These include the elimination of tariffs in some sectors under so-called zero-for-zeros, as well as reductions, and/or harmonization, for goods of export interest to Canada such as chemicals, pharmaceuticals, paper and medical devices. Prior to acceding to the WTO, Chinese Taipei had already signed on to the Information Technology Agreement, agreeing to full tariff elimination on specified information technology products. Canadian suppliers have gained more secure and open access for these and other industrial priorities, including plywood and aerospace products. Canadian suppliers' access to the Chinese Taipei market for automobiles remains favourable, as Chinese Taipei proceeds to liberalize its import regime in this sector.

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

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

Chinese Taipei has committed to join the WTO Agreement on Government Procurement and has agreed to market access concessions in the Agreement for some key sectors of interest to Canada. Although the formal accession process has been slowed for technical reasons, Chinese Taipei has stated that its public tendering procedures will be fair, transparent and consistent with the WTO Agreement on Government Procurement. Despite this commitment, public project tendering often continues to favour local suppliers.

Market Access Results in 2004

■ Chinese Taipei lifted its BSE-related ban on certain pet food products. Canadian pet food plants that are not using raw materials derived from domestic ruminants can now apply through the Canadian Food Inspection Agency to obtain Taiwanese approval to export to Taiwan.

Canada's Market Access Priorities for 2005

- Continue representations aimed at removing Chinese Taipei's remaining BSE measures on imports of beef and beef products from Canada.
- Continue representations aimed at removing Chinese Taipei's BSE measures on avian and porcine meat and bone meal, processed porcine blood and protein-free tallow.
- Continue representations aimed at removing Chinese Taipei's avian influenza measures on poultry products from British Columbia.
- Monitor Chinese Taipei's compliance with its WTO accession commitments, as they affect access for products of interest to Canadian firms.
- Encourage the accession of Chinese Taipei to the WTO Agreement on Government Procurement.
- Press for tariff parity with soybeans and corn for Canadian feed peas.
- Encourage Chinese Taipei to adopt a standard for icewine.
- Continue to encourage Chinese Taipei to recognize the equivalency of Canadian and U.S. quality control regimes for medical devices.
- Continue to press for advance notification of any changes in Chinese Taipei's regulations affecting trade in agricultural and forestry products.

■ Request recognition of Canada's regulatory regime for products, which would reduce the need for Chinese Taipei's regular inspections of Canadian operations, for example, apple orchard inspections. Inspections are paid for by industry.

IMPROVING ACCESS FOR TRADE IN GOODS

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Chinese Taipei issued a temporary ban on the import of Canadian meat and meat products including offals, animal feed, tallow and embryos. Effective August 27, 2003, Chinese Taipei authorities lifted the ban on imports of bovine, sheep and goat embryos from Canada. Canada has kept all its trading partners, including Chinese Taipei, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Feed Peas

Chinese Taipei applies the same import tariff rate to feed peas as it does to peas for human consumption. This puts Canadian feed peas at a competitive disadvantage compared with soybeans and corn, which are used for animal feed. In WTO accession negotiations, Chinese Taipei agreed to reduce the tariff on feed peas to zero by 2007. The tariff rates on soybeans and corn meal are already zero.

Ice Wine

The Canadian Vintners Association and member wineries have complained that the presence of "false ice wine" in Chinese Taipei is undercutting the market for Canadian Vintners Quality Alliance ice wine and is having a negative impact on consumers' appreciation and acceptance of the product. Canada would like Chinese Taipei to follow the lead of Canada, the United States and European Union countries, which have adopted minimum quality standards for ice wine.

Softwood Lumber

Chinese Taipei is a major market for softwood lumber, but only for the lower grades used for packaging. While the market is open to increased use of wood in construction, the opportunity is limited by the concern of financial and insurance institutions that the island's wood building code is insufficiently prescriptive to assure adequate quality. In May 2003, Chinese Taipei made changes to sections of its wood building code, providing for wood-frame construction using softwood lumber. The Canadian wood products industry is working with the Chinese Taipei government to achieve recognition of the equivalency of Canadian and Chinese Taipei standards for various wood building products, as well as to deliver technical training to local industry.

Consultations on Regulatory Changes in Agriculture

Canada has expressed concerns to Chinese Taipei's Board of Foreign Trade and Bureau of Animal and Plant Health Inspection and Quarantine about the lack of prior consultation on changes to regulations affecting the import of food products. For example, in 2003, Canada did not receive notification of amendments to the quarantine requirements for the import of plants or plant products until the implementation date, leaving no time to request clarification prior to the measures being applied. In late 2004, Chinese Taipei announced certification requirements for bark-on lumber imports, leaving little time for industry to seek needed clarifications and to comply.

Australia

Overview

In 2004, two-way merchandise trade between Canada and Australia was worth \$3.3 billion, a 7.4% increase on the previous year. During the year, Canada exported \$1.6 billion worth of merchandise to Australia, while imports were valued at \$1.8 billion. Canada's main exports continue to be car engines, pork, aircrafts, lumber, telecommunications components and wood pulp.

The Canadian stock of direct investment reached \$7.8 billion in 2003, a 10% increase from 2002 (\$7 billion). This growth was due mainly to the large number of Canadian firms that have acquired interests in the Australian mining industry. It is now estimated that Canadian firms own over 25% of Australia's gold resources.

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

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

Australia has been particularly active in signing bilateral trade agreements with Thailand, Singapore and, most recently, the United States. The impact of these FTAs on Canada–Australia trade will be monitored closely.

Canada's Market Access Priorities for 2005

- Continue to make representations for improved access for Canadian pork and support Canadian industry participation in the Productivity Commission inquiry in an effort to ensure that it does not recommend any further restrictions.
- Closely follow the Australian Customs Service's dumping investigation of linear low-density polyethylene from Canada.

IMPROVING ACCESS FOR TRADE IN GOODS

Pork: Import Conditions

For several years, Australia has imposed requirements preventing the import of unprocessed pork products from Canada and other countries due to alleged concerns relating to porcine respiratory and reproductive syndrome. The measures require that imported pork be cooked either in the exporting country or in a transitional facility in Australia. These measures raise the cost of Canadian pork and exclude Canadian exporters from direct access to Australia's retail market. Canada considers the restrictions to be more trade-restrictive than necessary.

In May 1998, Australian authorities initiated a generic import risk analysis (IRA) on imported pork. Canada participated in the IRA process that led to the release of the final IRA in February 2004. The new import conditions, implemented in July 2004, include quarantine import requirements to control entry of the post-weaning multi-systemic wasting syndrome (PMWS) into Australia. Canada believes that Australia's PMWS measures do not reflect the most current scientific literature, and it is making representations with appropriate Australian authorities on this issue.

Pork: Productivity Commission Inquiry

At the request of the Australian government, the Productivity Commission initiated an inquiry into Australia's pig meat industry on August 31, 2004. On December 15, 2004, the Commission issued a draft report that concluded that the economic difficulties faced by Australian pig meat producers do not justify additional government assistance. The Australian industry is using this inquiry as an opportunity to argue that the Australian government should impose temporary safeguards measures against imports. Canadian industry made a submission to the inquiry in October 2004. The draft inquiry report included an analysis of the structure and regional distribution of the industry, key factors influencing its profitability, the international competitiveness of the industry, and the impact and effectiveness of government and industry programs. The Canadian government continues to closely monitor the progress of the inquiry. The final report is expected in March 2005.

Linear Low-Density Polyethylene: Antidumping Investigation

On November 9, 2004, the Australian Customs Service initiated an investigation into the alleged dumping of linear low-density polyethylene exported from Canada. The preliminary determination, which could lead to provisional duties is expected in January 2005. A final report and recommendations are due by April 12, 2005. The Canadian industry is participating in the investigation, and the Canadian government will monitor the process.

New Zealand

Overview

In 2004, Canada exported \$457 million in merchandise to New Zealand and imported \$538 million in return. In 2004, Canada's leading exports to New Zealand were vehicles, machinery, fertilizers, wood and meat. Canada was New Zealand's largest foreign supplier of each of these products. In the same period, Canada's leading imports from New Zealand were fresh, chilled and frozen beef and lamb meat, dairy and machinery. Total Canadian direct investment in New Zealand was \$454 million in 2003.

Canada's Market Access Priorities for 2005

- Continue to press for improved access for Canadian pork.
- Make representations for removal of New Zealand's trout import ban, which has just been extended until November 2007.

IMPROVING ACCESS FOR TRADE IN GOODS

Pork

Effective September 1, 2001, New Zealand imposed requirements suspending the import of unprocessed pork products from Canada and other countries due to alleged animal health concerns relating to porcine respiratory and reproductive syndrome. The measure requires that imported pork must be cooked either in the exporting country or in a transitional facility in New Zealand. These measures raise the cost of Canadian pork and exclude Canadian exporters from direct access to New Zealand's retail market. Canada considers the measure to be more trade-restrictive than necessary. Canadian and New Zealand animal health authorities are consulting on the matter.

Trout

In December 1998, New Zealand imposed a "temporary" ban on the import of trout. Since then, the ban has been extended five times. In October 2004, the ban was extended for another three years (up to 2007). New Zealand claims that the ban was imposed to complement and ensure the effectiveness of the domestic sales ban and for conservation reasons. Canada's position is that New Zealand has provided no scientific information to justify the ban on conservation or any other grounds, and that it is inconsistent with New Zealand's international trade obligations. Canada is continuing to make representations, bilaterally and multilaterally, to remove the ban, and New Zealand authorities have undertaken to examine less trade-restrictive alternatives to meet desired objectives.

SOUTHEAST ASIA

Southeast Asia continues to have some of the most dynamic economies in the world. They offer better market access than a number of other Asia-Pacific nations and, as a group, are one of Canada's major trading partners, ranking fourth after North America, Europe and East Asia. In 2004, bilateral trade with the region totalled approximately \$10.9 billion. Southeast Asia is also one of the major destinations for Canadian investment abroad, which was valued in excess of \$11 billion in 2003. The region comprises the 10 economies of the Association of Southeast Asian Nations (ASEAN)—Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam—plus East Timor.

Structural reform and trade liberalization in most of the Southeast Asian countries have helped to improve trade prospects. All Southeast Asian states, with the exception of East Timor, Laos and Vietnam, are members of the World Trade Organization. All indications are that Vietnam will complete the process of WTO accession by the end of 2005. This is testimony to the progress these countries have made in opening markets, strengthening institutional structures and adopting international standards. ASEAN members of the WTO have been active in the Doha Round of negotiations, and they

agree that continued progress is tied to gains in agricultural and non-agricultural market access and rules such as those on anti-dumping, subsidies and countervailing measures.

Further liberalization is, however, warranted in the area of market access for trade in services. Seven of the 10 ASEAN countries have market access priorities for Canada. Of those seven, Indonesia, Malaysia, the Philippines and Thailand are among the top 40 countries identified by the Canadian Trade Commissioner Service as target markets. In recent GATS multilateral negotiations at the WTO, Canada has sought commitments from Indonesia, Malaysia, the Philippines and Thailand to liberalize their services markets. In seeking liberalization, Canada's interests differ from country to country, but they are mainly in financial services, professional services, movement of natural persons, oil and gas services, and mining services.

Southeast Asia, like Canada, stands to gain from better access to global markets for services and from commercially significant liberalization in goods. The requirements of the ASEAN Free Trade Area (AFTA) and bilateral trade agreements have also contributed to deregulation in the region. All indications are that access to this market will continue to become more open.

Indonesia

Overview

With a population of approximately 240 million people, Indonesia offers a large and growing domestic market and a large workforce, diverse and abundant natural resources, reasonable communication and other infrastructure, and a strategic location along some of the world's major trade routes. If Indonesia, particularly with a new administration in place, continues to move toward implementing a sound policy framework and maintains a strong commitment to reform, it should be able to take advantage of its fundamental economic strengths to restore investor confidence.

In 2004, the Indonesian economy grew by 5.1%, with domestic private consumption and higher prices for commodity exports continuing to replace

investment as the country's primary engine of economic growth. Inflation has been reduced from nearly 60% in 1998 to 6.4% in 2004. Foreign reserves have risen, and Indonesia's rupiah currency is hovering at a three-year high. More important for business, the rupiah has remained relatively stable over the past year facilitating longer-term planning. Indonesia's debt burden, which swelled to over 100% of gross domestic product after the 1997–1998 crash, has since eased to about two-thirds of GDP.

On the fiscal and monetary policy fronts, Indonesia is performing well. This fact has not gone unnoticed. Several international rating agencies recently upgraded Indonesia's sovereign currency ratings in light of rising external reserves and falling debt. At the end of 2003, the government exited the International Monetary Fund economic support program and entered a post-IMF economic reform program. This program aims to maintain investor confidence in the economy by creating macroeconomic stability (through low inflation levels and healthy foreign exchange reserves), continuing banking sector reform, and increasing investment, export and employment opportunities. The Bankruptcy Law was amended in September 2004 in an effort to close loopholes that could have allowed creditors, even if unproven, to place solvent firms into bankruptcy. The new government, elected in October 2004, has committed itself to increasing security, fighting corruption, fiscal responsibility and economic growth.

Indonesia remains one of Canada's largest merchandise export markets in Southeast Asia and was the second largest investment destination in Asia (after Japan) in 2003. In 2004, Canadian merchandise exports to Indonesia were valued at \$672 million, an increase of 48% over 2003. Canadian imports from Indonesia totalled \$930 million.

Canadian investment provides jobs for more than 30,000 Indonesians, and total Canadian direct investment reached \$5.5 billion in 2004. New Canadian direct investment has increased in the resource sector. New small and medium-sized Canadian investments, which are more immune to uncertainties, have continued. Within these new investments, there has been a shift from manufacturing for the domestic market to manufacturing for export markets because of lower production costs.

Market Access Results in 2004

- Indonesia revised its Forestry Law, effectively restoring the property rights of several Canadian mining companies and enabling them to continue developing their existing mining operations (in an environmentally responsible manner).
- Indonesia completed revisions to the Bankruptcy Law, giving greater protection against unjustified civil suits against Canadian investors.
- Indonesia removed its avian influenza restrictions on the importation of poultry and poultry products from Canada.

Canada's Market Access Priorities for 2005

- Seek a more transparent tendering process for government procurement of goods and services, particularly on contracts that require external financing and for which financial proposals should form part of the tender document.
- Continue representations aimed at removing Indonesia's BSE import measures on beef from Canada.
- Continue to seek reductions in the numbers of regulations impeding the development of a free market, particularly the requirement to register principal and agency relationships.
- Cooperate with Indonesia's telecom regulator to establish clear directions in the wireless and fixed-line telecommunications industry, including regulations on interconnection tariffs, spectrum licensing and voice-over-Internet protocol (VoIP). The lack of regulation restricts growth in the industry, impeding market access for Canadian exporters of information and communications technologies.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Indonesia issued a ban on the import from Canada of live ruminants, meat and meat products, including offal, embryos and semen. Canada has kept all its trading partners, including Indonesia, fully informed of the results of its investigation and

regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

In April 2004, Indonesia banned the import of poultry and poultry products from Canada. In December, Indonesia lifted the ban. (For further information, see the avian influenza overview in Chapter 2.)

Investment

Canadian investors continue to face numerous challenges in accessing the Indonesian market. Existing and potential investors cite concerns that include political uncertainty, unclear decentralization, uneven implementation of economic reforms, unreliable judicial system, security issues and the treatment of existing investors. On the plus side, Indonesia's government is making efforts to reform the judicial system and to streamline the time-consuming procedures for obtaining the licences and permits required for investment in Indonesia.

With new investments currently under consideration by Canadian firms in the manufacturing and domestic services sectors, as well as in the resource-based sector, Canadian investment is expected to increase once broader stability returns to the country and obstacles to investment security are removed. The Government of Canada will continue to monitor developments and to make representations on behalf of specific companies.

Malaysia

Overview

Although Malaysia has a relatively small population, it is Canada's largest merchandise trading partner in Southeast Asia. Canadian merchandise exports totalled \$444 million in 2004, a 7.6% decrease from 2003. In 2004, imports from Malaysia were valued at \$2.6 billion. Trade in services is far more balanced. As the Malaysian economy picks up momentum in 2005, overall trade is expected to continue to grow.

Canada is exporting an increasing amount of information technology and telecommunications parts and equipment. Sales of Canadian newsprint have been reduced to a trickle since April 2003, when newsprint originating in or exported from Canada was hit with a 33.55% anti-dumping duty.

Malaysia has a relatively open, market-oriented economy. This situation is expected to continue under the administration of Prime Minister Abdullah Badawi. Export Development Canada has noted, however, that politics play a role in the economy. The transparency of the decision-making process for projects involving the government requires that Canadian exporters appoint strong local representatives. The Malaysian government allows 100% foreign equity in investments in most sectors. A notable exception is the oil and gas sector, where joint ventures with Petronas are the norm.

Market Access Results in 2004

- Malaysia's high-profile campaign against piracy of software and movies has resulted in the closure of some of the factories manufacturing the pirated items.
- Malaysia removed its avian influenza related restrictions on the importation of Canadian chicken.

Canada's Market Access Priorities for 2005

- Continue representations aimed at removing Malaysia's BSE measures on imports from Canada.
- Monitor intellectual property legislation and enforcement.
- Pursue further trade liberalization for goods and services in the context of the WTO negotiations, especially in the banking sector, which holds potential for Canadian companies. No banking licence has been issued to a foreign bank for more than 20 years, and existing foreign banks face numerous restrictions in expanding retail banking.
- Continue to press for further progress in corporate governance and judicial reform; the current lack of progress acts as a non-tariff barrier to Canadian trade and investment.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Malaysia issued a temporary suspension on the import of live bovines, meat and meat products, including offal. Canada has kept all its trading partners, including Malaysia, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

Malaysia lifted its temporary ban on the import of poultry and poultry products from Canada on October 29, 2004. However, the import ban on game birds remains, and there is no indication as to when it may be lifted. Canada will continue to press for the elimination of these restrictions. (For further information, see the avian influenza overview in Chapter 2.)

Financial Services Sector

The financial services sector in Malaysia is relatively well developed, with local expertise available in most areas. Although the financial system is considered to be restrictive, there are encouraging signs that the government is moving toward a more liberal approach. The aim of the government's Financial Sector Master Plan is to first improve the strength of the financial sector before opening it up to greater foreign competition in the medium term. The Master Plan covers a 10-year time frame to 2010. The government also has a detailed framework for developing Malaysia's capital markets over the next 10 years, which is set out in the Capital Markets Master Plan. The plan is published by the Securities Commission, the central authority in the regulation and development of the securities and futures industries in Malaysia.

Banking

With respect to commercial banking, there are 14 foreign banks with approximately 140 branches. The 51 domestic banking institutions have been

merged into just 10 banking groups, and further mergers are believed likely. The 10 merged banks are Maybank, Alliance Bank, Bumiputra-Commerce bank, Affin Bank, Public Bank, Southern Bank, RHB-Utama Bank, EON Bank, Arab-Malaysian Bank and Hong Leong Bank. The foreign banks account for approximately 25% of total banking assets. Investment banks, where American banks dominate, are subject to more stringent restrictions than are commercial banks. Bank of Nova Scotia, the only Canadian bank with a presence in Malaysia, has one branch in Kuala Lumpur offering a comprehensive range of banking products.

Insurance

The insurance market in Malaysia is still highly regulated. However, it is also to be opened up to foreign competition under the Financial Sector Master Plan. This will occur only when the domestic industry is fully consolidated (from 64 to 15 domestic insurers by 2010) and ready, by government standards, to withstand international competition. Foreign firms are already benefiting alongside domestic ones from some of the liberalizing measures, including the lifting of restrictions on outsourcing and employment of expatriates, as well as a generally more flexible attitude by Bank Negara. The 14 foreign firms that are already active in Malaysia hold about 40% of the equity and 50% of the assets in the market, and they dominate the fast-growing life insurance market. Canadian insurer Manulife will be represented in this market now that it has acquired the worldwide assets of John Hancock.

Islamic Banking and Finance

Malaysia is promoting itself as a centre for Islamic banking and finance. It already has a comprehensive system, with a new Islamic Financial Services Board to set standards and harmonize practices and a centralized Sharia council in the Bank Negara. The Islamic banking sector currently accounts for a little less than 10% of the banking sector's total assets, and the government has a target of doubling this to 20% by 2010.

Selective Capital Controls

The selective capital controls introduced on September 1, 1998, have been amended on several occasions since then. All that remains in effect since May 2001 are measures to prevent international trading in the ringgit and, in particular, hedging against it. These measures include restrictions on borrowing in ringgit, on transfers between ringgit and foreign exchange accounts, and on amounts of foreign currency that can be brought into the country. Despite a current discussion on the merits of this policy, the ringgit remains pegged to the U.S. dollar at a ratio of 3.8 to 1.

Budget 2005 unveiled initiatives to enhance international participation in the Malaysian capital market. Five foreign stockbrokers and five global fund managers will be issued new licences to enable them to establish fully owned operations in Malaysia. The five foreign stockbrokers may also acquire existing licensed stock-broking companies subject to certain conditions. Limitations on foreign equity ownership in futures broking and venture capital companies will be lifted completely. Employment of foreign employees will also be liberalized.

Philippines

Overview

In a landmark and far-reaching decision released December 1, 2004, the Philippine Supreme Court declared the 1995 Mining Act constitutional, thereby setting aside a contrary decision promulgated only 11 months earlier. The decision is landmark because the Supreme Court has stated that it will take the economic well-being of the country into account when ruling on issues of national importance and constitutionality. It is far-reaching because, while not yet final and executory, it sends an unequivocal signal that the Philippines again welcomes long-term foreign investment, with security for that investment, not only in mining but also in other key extractive sectors, including oil and gas.

The ruling did not spare the Philippines a credit rating downgrade only days later, nor the real potential of another. However, it has rekindled optimism in an

economy otherwise driven by consumption. The Philippine economy remains fuelled by an ongoing flow of substantial foreign remittances, estimated at between US\$8 billion and \$21 billion, and by its growing population of 84 million. The Philippines remains well positioned to compete in the global services market. However, business competitiveness continues to be hampered by the slow progress of fiscal reform, lack of infrastructure, high energy prices, lingering corruption, institutional barriers, low savings rates and the inability of local sources of finance to meet the current investment savings gap, and the perception of indecisive government. The Philippines is unlikely to pass key tax reform measures before the end of the year, with the exception of one watered-down tax reform measure. Consequently, the Philippines remains increasingly at risk of being left behind by its regional neighbours.

As a result of the Mining Act decision of December 1, 2004, the Philippines is better positioned to reorient itself toward an investment-led paradigm for economic growth. However, its GDP grew by 6.1% in 2004, and a target in a range of 5.3% to 6.3% is set for 2005.

In 2004, the Philippines registered its first trade surplus in recent years, with exports edging up by 9.3% and imports increasing 7.5%. Indeed, the Philippines continues to post trade balances with Japan, the United States and China. Nevertheless, with its ASEAN neighbours averaging export increases of 18% as global demand rebounded in 2004, the Philippines has yet to leverage its potential. With global demand expected to slow in 2005, the ability of the Philippines to achieve its proposed 10% growth in exports for this year is in question.

Since coming to power, the new administration has proposed a series of reforms to address fiscal, power and banking sector issues. At the same time, the Philippines continues its minimalist approach to trade liberalization. For example, as the ASEAN harmonized tariff scheme exerts regional pressure on the Philippines to adopt a more liberal approach, the Philippines' protectionist reflexes will more than likely ensure that the government does not exceed its minimum multilateral trade liberalization commitments. While the government remains particularly sensitive to agricultural imports, particularly pork,

chicken and vegetables, it remains committed to special and differential treatment for developing countries.

In 2004, Canadian merchandise exports to the Philippines reached \$417 million (a 10% rise over the previous year). The principal exports are wheat, ores, slag and ash, wood, machinery, mechanical appliances and fertilizers. The Philippines continues to enjoy a positive trade balance with Canada, with Canadian imports valued at \$955 million in 2004. With the Philippines now actively geared toward building a world-class mining industry—it has offered some 23 proven mining projects for foreign partnerships—the impending investment potential, and related sale of equipment and services, could change that trade relationship in 2005.

In 2003, cumulative Canadian direct investment in the Philippines was valued at \$111 million. The largest Canadian investors in the country remain Sun Life and Manulife, respectively the second and fourth largest insurers in the country. The newest investors are represented by Celestica, Nucomm International and Royal Ventures.

Market Access Results in 2004

- The Philippines lifted its avian influenza–related import ban on B.C. poultry effective September 13, 2004, as per Bureau of Animal Industry Memorandum Order 32.
- On June 25, 2004, the Philippines lifted its BSE-related import ban on bovine tripe and tongue, as per Department of Agriculture Memorandum Order 19, subject to the same conditions as imposed on Canadian boneless beef and bison. In January 2005, the Philippines re-imposed the restriction.
- Canada successfully negotiated with the Philippines an import protocol and acceptable Canadian Food Inspection Agency export certification for dairy products and animal feed, as per the letter of acceptance from Bureau of Animal Industry Director Jose Molina dated June 9, 2004.
- Canada successfully renegotiated with the Philippines the import protocol for Canadian boar semen. The Philippines' acceptance of the revised CFIA export certificate for boar semen was

- contained in a June 4, 2004, certification from the Bureau of Animal Industry.
- Outstanding issues on a Philippine import protocol for Canadian seed potatoes were resolved, as per the February 20, 2004, letter from the Director of the Bureau of Plant Industry.

Canada's Market Access Priorities for 2005

- Monitor closely any possible resurrection of the inspection requirements embodied in Memorandum Order 7 or any entirely new regulations being tabled through Administrative Order 39, thereby ensuring continued access of CFIA-certified meat and meat products into the Philippine market.
- Seek renewed access for beef and other edible beef offal from cattle.
- In view of the Philippines' intention to seek an extension of its special treatment for rice, as per WTO Agreement on Agriculture Annex 5, attempt to leverage expanded market access and special concessions such as a reduced tariff for pork.
- Ensure that full implementation of Department of Agriculture administrative regulations supporting the Cartagena Protocol does not impose unreasonable constraints on Canadian exports of agri-food products derived through biotechnology.
- Continue to advocate the benefits of a socially and environmentally responsible mining industry.
- Monitor and assess the investment climate for transparency and due process, and continue to press for due process on a number of specific investment cases.

IMPROVING ACCESS FOR TRADE IN GOODS

Bovine Spongiform Encephalopathy

In November 2003, the Philippines granted renewed access to Canadian boneless beef, tripe and tongue from cattle under 30 months of age. However, in January 2005, the Philippines renewed the restrictions following the new Canadian cases of BSE. Canada continues to advocate a resumption of trade on scientific grounds for all other beef products such

as bone-in beef and other offals from cattle aged under or over 30 months. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

In September 2004, the Philippines lifted its restrictions on the import of poultry products from Canada. (For further information, see the avian influenza overview in Chapter 2.)

Annex 5 Negotiations on Philippine Extension to Special Treatment for Rice

Canada is seeking an accord with the Philippines regarding tariffs for its rice quota when its special treatment expires in 2004. If no accord can be reached, Canada may seek "additional and acceptable concessions" in return. One suggestion is to request a tariff reduction in pork from the current in-quota rate of 30% to 10%.

OTHER ISSUES

Investment

Government decision making can be complex and slow. Although the recent Philippine Supreme Court decision suggests that the legal environment could become more predictable, investors remain cautious, especially in certain sectors. Prospective Canadian investments in infrastructure have been hampered by less than fully predictable government decision making on build-operate-transfer (BOT) and private sector participation projects, with (in particular) the law and regulations on unsolicited BOTs subject to differing interpretations. Foreign investors are further deterred by the limitation on foreign equity in certain areas to 40%, notably in public utilities, mass media and educational facilities. There are also restrictions on foreign ownership of lands. Struggling with some of the highest electricity rates, the Philippine government is caught between trying to assess how best to deal with contracts that could be damaging to the national interest and further discouraging foreign investors by challenging the sanctity of foreign investor contracts. The initial reaction from foreign investors has been to applaud the Supreme Court's recent decision declaring as constitutional all provisions of the 1995 Mining Act that allow the direct

participation of foreign-owned corporations in mineral resources exploration and development in the country. Nevertheless, memories linger of the Supreme Court's earlier annulment of the contract to build a new, world-class international airport terminal, which remains built but closed, as well as several other contracts. Foreign investment in some sectors (e.g. call centres, manufacturing and financial services) has proven more straightforward.

Mining

The Philippines is considered to hold some of the largest deposits of minerals in the world. Geologists estimate that minerals (including gold, copper and chromites) constitute an onshore area of about 9 million hectares. In 2003 alone, the industry accounted for upwards of US\$519 million in export earnings from mining permits that cover only 1% of the country's land area.

The government's Minerals Action Plan is intended to revitalize the industry through the promotion of responsible mining grounded in the principles of sustainable development. Once all the reforms proposed under the Action Plan have been implemented, the Philippine government expects that mining investments could reach US\$4.36 billion, with annual potential revenues of US\$2.23 billion over the next 10 years.

The Supreme Court's December 1, 2004, majority decision rules that the 1995 Mining Act's implementing rules and regulations (crafted by the Department of Environment and Natural Resources-DENR), as well as the 1995 Financial and Technical Assistance Agreement between the Philippine government and Western Mining Corporation Philippines, do not contravene the constitution. Since its issuance, local industry, through the Philippine Chamber of Mines, has begun a series of targeted initiatives to reacquaint foreign investors with the country's wealthy resource base. A further signal of the President's strong advocacy of mining investment, premised upon specific environment and social responsibility commitments, was the earlier appointment of a more pro-mining Secretary of DENR, as well as the first-ever Undersecretary of Mines. DENR is now assessing ways to enhance its administrative capacity in the regions, and it is working with other government departments to clarify issues of importance to

the National Council of Indigenous Peoples, including ancestral land claims. Another outstanding issue is the role of local governments, notably their ability to enact laws that obstruct legitimate mining operations. At the same time, there remains vigorous opposition to mineral development from civil society and church groups. Canadian investors have already begun monitoring new policies and initiatives aimed at revitalizing the Philippines' mineral industry.

Singapore

Overview

With one of the world's most open and transparent trade and investment regimes, Singapore presents few barriers to Canadian goods and services. Only six product lines are subject to tariffs (stout, porter, beer, ale and two samsu products). Singapore is a strong supporter of the multilateral trading system, but it has also signed several free trade agreements (both at the regional and bilateral levels) and is actively pursuing many others in an effort to further liberalize and facilitate trade and investment with its key trading partners.

Already the financial services and transportation hub of the region, Singapore continues to promote the development of key knowledge-based sectors, including biotechnology and life sciences, information and communications technologies, news media, electronic and precision engineering, professional services and education services. These sectors offer growing trade and investment opportunities for Canadian companies.

In 2004, Canadian exports of merchandise to Singapore were valued at \$614 million, up 38% from 2003. Merchandise imported from Singapore amounted to \$977 million in 2004, a decrease of 6% over the previous year. Bilateral trade in services between the two countries also continues to grow and was valued at \$1.12 billion in 2002.

In October 2001, Canada and Singapore launched negotiations toward a bilateral free trade agreement. Since then, Canada and Singapore have held six full rounds of negotiations, covering a comprehensive range of topics, including trade in goods, customs

procedures, trade facilitation, financial services, investment, government procurement, competition and telecommunications. In addition, Canada is pursuing parallel arrangements on labour and environmental cooperation with Singapore. Significant progress has been made to date. However, key sensitive issues in the negotiations have now been reached and must be resolved. The trade agreement, when complete, would improve the ability of Canadian firms to export to, and invest in, Singapore.

Market Access Results in 2004

Canadian and Singaporean officials continued to engage informally on the free trade agreement to bridge remaining differences.

Canada's Market Access Priorities for 2005

- Continue representations aimed at removing Singapore's BSE and avian influenza measures on imports from Canada.
- Work toward resolving outstanding issues in the bilateral free trade negotiations and obtain an appropriate level of market access and protection for Canadian services and investment in Singapore.
- Continue to encourage discussions on outstanding matters with a view to concluding an air transport agreement, following consultations between the respective airlines and completion of Canada's air policy review.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Singapore suspended the import of Canadian beef. Singapore views the United States and Canada as an integrated market, and until steps are taken to resume beef exports from the United States, Canada is not likely to make progress on the existing ban. Canada has kept all its trading partners, including Singapore, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

Restrictions on live and raw Canadian poultry products to Singapore have been in effect since the avian influenza outbreak in British Columbia. Canada has kept all its trading partners, including Singapore, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. Singaporean authorities are currently reviewing Canada's request to lift the ban. (For more information, see the avian influenza overview in Chapter 2.)

Investment

The Singaporean government actively encourages foreign investment and offers several incentive schemes (mostly tax exemptions) to attract foreign investment, particularly in key target sectors (see above). There are no foreign investment restrictions in the manufacturing sector; however, foreign ownership limitations exist in broadcasting, newspaper services and in some government-linked companies.

Canadian direct investment in Singapore is considerable at \$3.7 billion (2003), making it Canada's third largest investment destination in Asia. Most of the investment is in the form of regional offices in the banking and insurance, information and communications technology, aerospace, tourism and retail sectors. Singapore's direct investment in Canada declined slightly to \$75 million in 2003.

Thailand

Overview

Despite the avian flu crisis and the soaring price of imported oil, Thailand's economic performance remains impressive, with GDP growth rate for 2004 at 6.1%. The country still faces challenges, notably in its financial sector, but its prospects remain bright, particularly with additional reform legislation. The government has announced major infrastructure projects that, if implemented as planned, will contribute not only to economic growth but also to import growth over the next six years.

Thailand is one of Canada's largest export markets in Southeast Asia. Between 1999 and 2004, Canadian merchandise exports to Thailand increased by 61% to \$514 million. Canadian imports from Thailand over the same period grew by 34%, reaching a record high of \$2.0 billion in 2004. The stock of Canadian investment in Thailand was valued at over \$923 million in 2003. Thailand's continued growth, particularly in the consumer sector, presents opportunities for Canadian businesses investing and exporting to the country, even though the business environment remains relatively challenging. Thailand's reduced vulnerability to financial shocks means that investors are less likely to be caught in a devaluation, such as occurred in 1997. The appreciation of the baht has improved confidence.

Thailand continues to actively pursue regional and bilateral free trade agreements with a number of countries. It has already reached some agreements on trade arrangements, sometimes limited in scope, with Australia, Bahrain, China, India and Peru. It has started FTA negotiations with Japan, New Zealand and the United States.

Market Access Results in 2004

■ In August 2004, the National Telecommunication Commission (NTC) was established as part of Thailand's WTO commitment to lift market barriers in telecommunications by 2006. The NTC is an independent state telecommunications regulator whose job is to set policy and prepare a master plan for telecommunications services; prescribe the characteristics and categories of telecommunications services; license and regulate the use of frequency spectrum in telecommunications services; and license and regulate telecommunications business operations.

Canada's Market Access Priorities for 2005

- Continue representations aimed at removing Thailand's BSE measures on imports from Canada.
- Continue to pursue further reductions in the tariff for dried peas; the goal is to have it reduced to 5%, where it would compare favourably with those for other feed ingredients.
- Monitor intellectual property legislation and enforcement.

■ Monitor the draft legislation relating to computer crime, personal data protection, national information infrastructure and electronic funds transfer.

IMPROVING ACCESS FOR TRADE IN GOODS

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Thailand banned the import of Canadian live cattle, meat and meat products, including embryos, tallow and offal. Canada has kept all its trading partners, including Thailand, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On February 9, Thailand lifted its ban on imports of poultry and poultry products from Canada. (For further information, see the avian influenza overview in Chapter 2.)

IMPROVING ACCESS FOR TRADE IN SERVICES

Canada is seeking improved market access for trade in services. In recent GATS multilateral negotiations at the WTO, Canada sought commitments from Thailand to liberalize its services market. Canada's interests in Thailand are mainly in financial services, professional services and movement of natural persons.

Vietnam

Overview

In 2004, Canada's merchandise exports to Vietnam totalled \$110 million, an annual increase of 28%, while Canada's imports of Vietnamese products were valued at \$450 million. Vietnam is absorbing increasing levels of debt associated with infrastructure development. However, the International Monetary

Fund is satisfied that the fundamental economic indicators are sound. Vietnam is also dependent on large amounts of financial aid.

Economic reform continues to be a top priority. To this end, Vietnam is making an effort to play a greater role in the international trading system. It is pursuing membership in the WTO and could accede as soon as 2005. Vietnam tabled revised market access offers on goods and services in 2004, and its accession negotiations are expected to intensify in 2005. Vietnam has recently made further progress in its accession negotiations, including the conclusion of a bilateral agreement with the European Union. Vietnam's membership in the WTO would help consolidate its economic reforms and yield a more open, stable and predictable environment for Canadian traders and investors. Canada supports Vietnam's efforts to accede and has provided accession-related technical assistance. Canada is also providing funding for the APEC Economic Integration Program, which aims to help six Southeast Asian developing economies (including Vietnam) strengthen their trade facilitation and negotiating capacities.

Vietnam recognizes that attracting foreign investment is essential to expanding economic opportunities, and to that end it is trying to reform its economic, legal and judicial systems. Foreign donors, including Canada, have urged Vietnam to accelerate the equitization (purchase of shares by employees) of state-owned enterprises and to dismantle competitive barriers against private sector companies (notably in regard to access to finance and land). However, progress by the Vietnamese government has been slow.

Market Access Results in 2004

- The Vietnamese government continued to signal its commitment to early WTO accession. Canada and Vietnam had useful bilateral negotiations that helped each side better understand the positions of the other side. However, more negotiations are expected.
- As mentioned above, Canada is assisting Vietnam in the accession process through ongoing traderelated technical assistance and capacity building; it is also providing funding for the APEC Economic Integration Program, which is helping

six Southeast Asian economies (including Vietnam) strengthen their trade facilitation and negotiating capacities.

- Canada also included a representative from the Vietnamese Ministry of Finance in a Canadianorganized APEC Workshop on WTO Capacity Building, which was held in Santiago, Chile.
- The Vietnamese government continued to implement key reforms, including in the financial sector and with respect to private sector development.

 Canadian businesses will benefit from improved commercial conditions, although Vietnam remains far less developed than the regional average.
- Vietnam removed its avian influenza related restrictions on the importation of Canadian poultry and poultry products.

Canada's Market Access Priorities for 2005

- Press for improved treatment for Canada's goods and services in bilateral negotiations with Vietnam.
- Support multilateral efforts at the WTO designed to assist Vietnam in developing a consistent, transparent and open trade policy regime.
- Continue to play a positive role, through bilateral programs and in forums such as APEC (which Vietnam will host in 2006), in setting up a capacity-building program to assist Vietnam in developing and implementing trade and economic policy.
- Continue representations aimed at removing Vietnam's remaining BSE measures on imports from Canada.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Vietnam issued a temporary ban on the import of Canadian live ruminants, meat and meat products, including semen and embryos. In September 2003, the Canadian Food Inspection Agency and Vietnamese officials reached agreement on bovine semen and embryo health certificates, thereby allowing trade to resume. Canada has kept all its trading partners, including Vietnam, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption

of trade on scientific grounds for live animals and beef products. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

In December 2004, Vietnam agreed to resume trade in poultry and poultry products from Canada. (For further information, see the avian influenza overview in Chapter 2.)

Brunei Darussalam

Overview

Brunei is a politically stable and economically wealthy country. Brunei's economy is dominated by the oil and gas industry, which fuels 50% of GDP and accounts for between 75% and 90% of the government's revenue.

The Brunei government is aware of its over-reliance on finite oil reserves. Since 2000, it has taken steps to strengthen and diversify the economy, promoting local small- and medium-sized enterprises, encouraging greater local and foreign participation in the economy, developing downstream industries, encouraging the development of service industries such as eco-tourism and financial services, and reviewing education policies.

The government has often stressed the role of the private sector in economic growth. However, Brunei has a limited entrepreneurial culture; 75% of Bruneians are employed by the government.

There are some barriers to trade. These include slow decision making by senior government officials, the need for a local partner to bid for a government contract, and high labour costs which hamper competitiveness. In recent years, the government has introduced strict halal regulations (Islamic laws that require the slaughter of meat in a prescribed way) and a prohibition on alcohol. These moves have restricted the food import industry and increased costs.

Market Access Results in 2004

■ Canada made progress in the education sector, with various Canadian universities training local Bruneian students and civil officials in many fields. However, Bruneians traditionally turn to the United Kingdom for education and training.

Canada's Market Access Priorities for 2005

■ Continue capacity-building initiatives, especially in the areas of good governance, education, e-government, defence and environment.

Cambodia

Overview

Cambodia has a relatively open, market-oriented economy. Government reforms are ongoing, and Canadian exporters do not face major market access barriers. GDP fell steadily to 5.3% in 2003, and real GDP is expected to decrease again in 2005 due to Cambodia's projected termination of the U.S. garment quota system—the engine behind the country's growth in recent years.

Local partners are essential to doing business successfully in Cambodia since informal barriers to trade exist. In 2004, Canadian merchandise exports to Cambodia totalled \$1.6 million, while merchandise imports from Cambodia shot up to \$140 million in 2004 as a result of a market access memorandum of understanding signed in January 2003.

WTO members approved the accession of Cambodia in September 2003, making it one of only two least-developed countries (with Nepal) to have gained access to the organization since 1995. Canada supported Cambodia's efforts to accede and provided accession-related technical assistance. Canada is also co-sponsoring the APEC Economic Integration Program, which aims to help six Southeast Asian developing economies (including Cambodia) strengthen their trade facilitation and negotiation capacities.

Cambodia has developed a "pro-poor trade policy strategy," as one of three pilot countries under an integrated framework supported by six core agencies (International Monetary Fund, U.S. International Trade Commission, UN Conference on Trade and Development, UN Development Programme, World Bank and WTO).

Market Access Results in 2004

■ Cambodia's legislature ratified the country's accession to the WTO.

Canada's Market Access Priorities for 2005

- Advocate the interests of Canadian companies with respect to projects funded by international financial institutions and sectors of interests such as information and communications technologies, agri-food and power.
- Continue to press for progress in corporate governance and judicial reform, which act as non-tariff barriers to Canadian trade and investment.

India

Overview

The Indian economy has changed dramatically since 1991, when India launched its program of economic reforms, which included trade and investment liberalization. The process of economic reform continues. All remaining quantitative restrictions were lifted in April 2001. The insurance sector has been opened to private and foreign investment, and other sectors (e.g. garments, leather, toys and shoes) have been removed from the list of sectors reserved for small-scale industries. Further liberalization of capital account, foreign direct investment and foreign institutional investment rules has been effected. Legislation to reform the bankruptcy, competition, pension and labour regimes, among others, is also being contemplated.

Total Canada–India merchandise trade for 2004 reached almost \$2.5 billion, with a balance of \$701 million in India's favour. Paper products, vegetables, fertilizers, electrical machinery and wood pulp are Canada's principal exports to India.

The stock of Canadian direct investment in India is relatively modest but increased from \$183 million in 2002 to \$184 million in 2003.

Indian investment in Canada remains underreported for a variety of technical reasons; according to official figures, it reached \$62 million in 2003. The opening of several software development centres in Canada by major India-based information technology firms and investments from major Indian banks point to the attractiveness of Canada as an investment destination. The growing Canada–India bilateral trade and investment ties have been facilitated by a number of business associations, most notably the Confederation of Indian Industry, the Federation of Indian Chambers of Commerce and Industry, the Canada–India Business Chamber and the Indo–Canadian Chamber of Commerce.

India constitutes a potentially significant market for almost any type of good, service or technology. An expanding middle class, estimated at up to 300 million people, is interested in new products from around the world and offers significant opportunities for trade and investment, particularly in areas of traditional Canadian strength. These include telecommunications, transportation, agriculture and agri-food, power equipment and engineering, infrastructure development, oil and gas, mining and environmental technology, as well as banking, insurance and educational services.

Market Access Results in 2004

- Canada reached an interim agreement with the Indian government to allow imports of Canadian pulses to India to continue without methyl bromide fumigation, while a more permanent solution is negotiated. Under its Plant Quarantine Order of 2003, India requires the fumigation of pulses with methyl bromide, a requirement that has proved very disruptive to the pulse trade.
- Canada reached agreement with the Indian government on a new health certificate for bovine semen that will enable Canadian exports to India to resume. In 1997, India banned the import of bovine semen from Canada.

Canada's Market Access Priorities for 2005

- Continue to seek approval of Canada's export certificate for pork.
- Seek to reduce the level of tariffs on spirits.
- Seek permanent removal of the requirement for methyl bromide fumigation of pulses exported to India.
- Continue to encourage India to raise its ceiling on foreign direct investment in the insurance sector.
- Seek amendments to India's Plant Quarantine Order of 2003, to minimize negative impacts on Canadian agricultural exports.

IMPROVING ACCESS FOR TRADE IN GOODS

Agricultural and Manufactured Goods

In 2004, Canada's agri-food exports to India totalled \$111 million, the majority of which were pulses (peas, chickpeas and lentils). Canadian exporters are seeking improved access to the Indian market for some additional agricultural products but have concerns regarding India's import requirements and tariff levels. India's Plant Quarantine Order of 2003 has introduced additional import requirements that have further restricted Canadian exports.

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

Bovine Semen

In mid-1997, India stopped imports of bovine semen from Canada, citing concerns about Canada's BSE status. In April 2000, India formally notified the WTO of its import conditions. Following upon several political and technical level interventions on this issue, the Canadian Food Inspection Agency was provided with a draft import protocol for bovine semen in June 2004. The CFIA provided India with an official response and comments on the proposed certification in October 20, 2004, and is awaiting a response from Indian authorities.

Pork

India does not accept Canada's pork export certificate, because certification does not cover some diseases that India requires to be reported. Canada views India's requirements as more trade-restrictive than necessary and will continue to press for changes so that trade can take place.

Canola Oil

Canada is seeking improved market access for canola oil to increase its competitiveness vis-à-vis other edible oils. Tariff rates applied by India on edible oils currently vary widely. For example, olive oil imports are subject to a 45% rate while canola imports face a rate of 85%. Canada will continue to make representations to request that India ensure that canola imports are treated no less favourably than imports of other edible oils.

Spirits

While India consumes about 75 million cases of spirits annually, imported products account for only 1% of this total. Domestic producers are powerful and have successfully lobbied the government to restrict imports to a minimum. India's basic rate of duty is slated to fall from 210% to 150% over the next five years, as per its WTO commitment; however, this rate is still far higher than that in other developing countries, such as China. After the elimination of quantity restrictions, the Indian government imposed an additional duty on imported spirits in the range of 20% to 150%, depending on landed cost. Indian

states also impose their own duties. As a result, the total effective rate of duty on imported spirits can range between 400% and 700%. Canada is seeking reductions in these tariffs.

Pulses

Under its Plant Quarantine Order of 2003, India requires the fumigation of pulses with methyl bromide at 28 degrees Celsius before import into India is permitted. Methyl bromide is an ozone-depleting substance and is to be phased out in the near future. In addition, climatic conditions in Canada do not allow for the fumigation at the required temperature during winter months. Canada will continue to make representations requesting the removal of this condition or its replacement by less disruptive requirements. Imports are continuing under an interim arrangement that will remain valid until June 30, 2005. Canada will continue to press Indian authorities to resolve this issue and to permit imports of pulses to continue without barriers.

OTHER ISSUES

Investment

Foreign direct investment is allowed in all sectors, except for arms and ammunition, atomic energy, railways, coal and lignite, ore mining, magnesium, chrome, sulphur, gypsum, gold, diamonds, copper and zinc. FDI ceilings and approval processes have been progressively relaxed, so that a large majority of sectors are now open to 100% foreign equity, via the automatic approval route. Ceilings on FDI remain in a diminishing number of sectors, such as insurance (26%), defence (26%), banking (74%) and telecommunications (49%). In certain cases, approval has to be obtained from the Foreign Investment Promotion Board under the Ministry of Finance. The current government elected in May 2004 has indicated that it would raise the FDI ceilings in the insurance (49%), civil aviation (49%) and telecom (74%) sectors. Canada will continue to make representations to encourage the Indian government to implement these proposals and to further increase these ceilings.

Pakistan

Overview

Pakistan continues to enjoy strong economic performance. In 2004, GDP growth is set to attain 6.4%, exceeding the target rate of 5.3% and the 2003 growth rate of 5.1%. The government, under President Pervez Musharraf, has implemented a comprehensive agenda of macroeconomic stabilization and economic and governance reforms. Various positive effects are apparent, including reduced domestic and external debts, reduced fiscal deficit, increased current account surplus and increased foreign exchange reserves. The international credit rating agencies have also taken notice and increased the country credit rating for a second year in a row. In 2004, Pakistan successfully returned to the international capital market with a well-received Eurobond issue worth US\$500 million. In addition, Pakistan's economic reforms permitted the Pakistani government to proceed with termination of its loan program with the International Monetary Fund.

There were signs of progress toward increased stability in the South Asia region in 2004 with the start of a meaningful India–Pakistan dialogue. The signature of the South Asia Free Trade Agreement in January 2004 is also a welcome sign for businesses wanting to trade in the region.

During 2004, inflationary pressures started to appear. The World Bank anticipates 8% inflation in 2004 compared with 3.1% in 2003. These pressures reflect higher food prices and some transmission of the rapid escalation of world oil prices. Other factors posing some threat to Pakistan's continued economic progress are poor indicators of human development and the need to improve security and the rule of law.

Canada–Pakistan merchandise trade totalled \$594 million in 2004, with Canadian exports of \$349 million and imports of \$245 million. Canadian export figures are likely much higher when transshipment through the United States and regional ports such as Dubai and Singapore are taken into account. Additionally, services are not included in the figures, and Canada's presence in Pakistan's service sector is significant.

The composition of our exports evolved significantly in 2004. Canola oilseed was our largest export to Pakistan in 2003 but, due to unfavourable weather conditions in Canada, it failed to reach the same level in 2004. Our leading export that year was aerospace products. Canada's other ranking exports include pulses, coal, pulp and industrial manufacturing equipment. Textiles and clothing represent the lead import items from Pakistan.

Aware of the benefits associated with North American Free Trade Agreement, Pakistani entrepreneurs have been showing interest in Canada as both a business and an investment destination. Initiatives under consideration include investment proposals for textile plant, pharmaceutical, automotive parts and financial services.

Market Access Results in 2004

- Pakistan ratified the Cape Town Convention, establishing an international legal framework for modern asset-based financing and leasing to protect high-value equipment, including aircraft and aircraft engines. Such ratification will help to further open doors to the Canadian aerospace industry in Pakistan.
- Pakistan's telecommunications sector was the main recipient of foreign direct investment in Pakistan in 2004. Local and foreign investors have been actively pursuing business opportunities in this sector, which has seen tremendous growth since Pakistan implemented a policy to deregulate the sector in July 2003.
- In its 2004–2005 budget, the Pakistani government introduced a single sales tax rate and abolished multiple sales tax rates levied on different imported items, in an effort to promote international and domestic investment.

Canada's Market Access Priorities for 2005

- Provide regular information to the Ministry of Food, Agriculture and Livestock on the Government of Canada's BSE initiative.
- Continue to press the Pakistani government to ease the ban on imports of livestock from Canada.
- Promote acceptance of Canadian wheat specifications.
- Monitor the Pakistani government's agenda for infrastructure development.
- Monitor the Pakistani government's process for developing biosafety guidelines for GMOs.

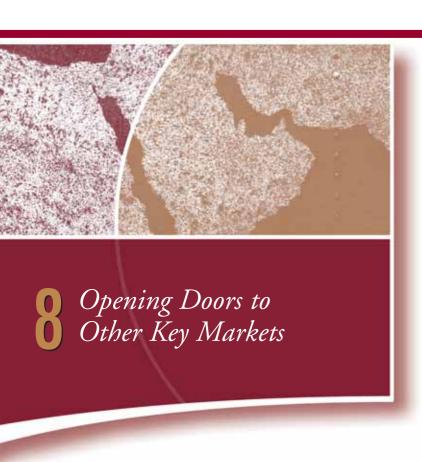
Oil and Gas Sector Program

This project is funded by the Canadian International Development Agency. Its purpose is to strengthen the capacity of the Ministry of Petroleum and Natural Resources to develop, manage and implement policies for the oil and gas sector in Pakistan. Now in its third phase, the Oil and Gas Sector Program contributes to the privatization of Pakistan's oil and gas sector by creating an enabling environment for foreign investment in new ventures as well as existing entities.

Investment

The Pakistani parliament has enacted a provision that enables non-resident taxpayers to obtain advance rulings on the interpretation of the tax laws. A ruling will take the form of a binding statement from the revenue authorities, issued upon the request of a non-resident, concerning the treatment and consequences of contemplated future actions or transactions in Pakistan. Canada closely monitors the application of this ordinance.

In order to facilitate the financing of infrastructure projects by banks and development financial institutions, the State Bank of Pakistan has devised Guidelines for Infrastructure Project Financing. These guidelines will enable private sector participation in and funding of infrastructure projects.



MIDDLE EAST

Israel

Overview

srael is a sophisticated, energetic, highly technological, democratic and free market system of more than 6.7 million people. It continues to maintain a robust economy, despite the ongoing challenges in the region. Israel can boast good economic indicators for 2004, based largely upon the recovery of the global advanced technology sector. The Israeli government is committed to a program to rein in the growth of the public sector, reinvigorate its privatization program and set realistic fiscal targets. There are a growing number of initiatives for major infrastructure programs, which are open to foreign companies in the tendering process. Israel is increasingly reaching out to Europe and emerging markets such as China and India.

Israel possesses a business environment and opportunities that are comparable to those of OECD countries. With a GDP per capita equivalent to that of OECD countries, in 2004 Israel is projected to have the fourth largest GDP growth (after Singapore, Taiwan and Hong Kong) among 29 emerging markets (projections from The Economist Intelligence Unit).

Israel's labour force is multilingual and highly educated, with almost 20% of the workforce holding academic degrees. The country has more doctors, scientists and engineers per capita than any other nation. Israel's economic base and activities over the past three decades have shifted to reflect its intellectual capital, moving from traditional sectors to services and the production of higher-value products for the advanced technology sector. Israel's advanced technology sector is now among the most competitive in the world, accounting for over 17% of Israel's exports.

Israel also continues to rank favourably in the 2004 Index of Economic Freedom (compiled by NGOs), which categorizes its economy as "mostly free" in terms of openness to market forces. Areas where Israel ranks highest are monetary policy, trade policy, foreign investment, property rights, and wages and prices. Areas where it receives mid-ranking are government intervention, regulations, and banking and finance. Fiscal burden is noted as the area in most need of improvement.

The government's general economic philosophy is toward greater market orientation and openness to the world economy. This philosophy has been reflected in Israel's fundamental economic reforms, its provision of foreign investment incentives and its negotiation of free trade agreements with many countries, including Canada (1997). An important attraction for foreign investors is Israel's double taxation agreements with various countries including Canada, the United States, and most of Western Europe and Japan.

Due to the global economic situation and regional security issues, Israel's economy grew by 1.3% in 2003. The security situation had a particularly adverse effect on traditional sectors such as tourism, construction and agriculture. Nonetheless, Israel's economy has shown remarkable resilience in the face of severe strain.

A significant recovery was experienced in 2004, with rising business and consumer confidence, as well as higher demand for Israeli exports. However, Israel's economy began to slow in the last quarter, and growth reached 4.2% for 2004. With a global cooling of economic growth, The Economist Intelligence Unit forecasts 3.6% growth for Israel in 2005, higher than the Bank of Israel's prediction of 3.2% and lower than the Finance Ministry prediction of 3.8%.

Canada-Israel Bilateral Trade and Economic Issues

Canada and Israel have maintained a robust trade relationship, with two-way merchandise trade totalling \$1.1 billion in 2004 (\$381 million in exports to Israel and \$697 million in imports). Our trade with Israel almost doubled since the Canada–Israel Free Trade Agreement (CIFTA) came into effect in 1997, and tariffs on almost all industrial products manufactured in Canada and Israel have been eliminated. Canada's major exports to Israel include machinery and electrical equipment, aircraft parts, wood and paper, and telecommunications equipment.

Pursuant to a 2003 expansion of the product coverage of CIFTA, Israel now grants duty-free access to Canadian exports of wheat, frozen blueberries, potato flakes, flour and corn, as well as to some frozen vegetables and various dried peas and beans. In addition, improved market access was granted to imports of other agri-food products, including chickpeas, canary seed, beef, pet food and french fries. These measures will allow several export products to regain markets lost to the United States and the European Union.

Israel is also an important market for Canadian services exports, which were estimated at over \$196 million in 2002. Canadian firms have also developed successful joint venture partnerships in information technology, biotechnology and construction.

Market Access Results in 2004

- On September 1, 2004, Israel removed its avian influenza measure on poultry products from Canada.
- In October 2004, the Air Minutes Agreement extended access and landing rights for the winter season for Air Canada and El Al Airlines.

Canada's Market Access Priorities for 2005

- Ensure that the 2003 expansion of CIFTA, which included a wider range of agricultural products, provides optimum market access conditions for Canadian exports to Israel.
- As provided for under CIFTA, continue discussions with Israel to further liberalize bilateral trade in agricultural and agri-food products.
- Negotiate a technical amendment to CIFTA that would harmonize the agreement with the international Harmonized System code.
- Negotiate a memorandum of understanding (MOU) on the space industry to ensure benefits to both countries; this will clear the way for a space industry mission to Israel later in the year. (The Canadian Space Agency and Israeli Space Agency are working on the MOU.)
- Continue representations aimed at removing Israel's BSE measures on imports from Canada.

Bovine Spongiform Encephalopathy

Israel has an import ban on bovine animals, meat and meat products, animal feed and meals and other products from countries with cases of BSE. This ban has been applied to Canada. Canada has kept all its trading partners, including Israel, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On March 16, 2004, Israel imposed measures against imports of poultry from Canada due to avian influenza. On September 1, 2004, Israel removed its restrictions on poultry products from Canada. (For further information, see the avian influenza overview in Chapter 2.)

West Bank and Gaza

Canada is committed to promoting trade and investment relations with the Palestinians. The Joint Canadian-Palestinian Framework on Economic Cooperation and Trade (the Framework), signed in 1999, established a two-way commercial relationship based on free trade. Aside from eliminating tariffs, the Framework aims to improve market access and customs procedures while supporting emerging industries in this market. Services are not included in the agreement. Palestinian law stipulates that a local agent or representative is required to sell into this market. The status of the Middle East Peace Process has affected the movement of goods into and out of the West Bank and Gaza. Since the current intifada began in 2000, economic activity has slowed considerably. However, there is a pent-up demand for goods and services in the West Bank and Gaza. An improvement of the present situation following the January 2005 elections, combined with a renewal of the Middle East Peace Process, will create good opportunities for Canadian companies wishing to enter or re-enter that market.

Egypt

Overview

Egypt is one of the largest and leading states in the Arab world; it enjoys a unique, geographically strategic location and plays a key role in the region. Egypt also represents a market of 72 million people, is an excellent hub for the Middle Eastern and African countries, and is a key member of the Common Market for Eastern and Southern Africa (COMESA). There is good scope for Canadian and Egyptian cooperation across a broad spectrum of goods and services sectors, including agriculture, forestry products, education, environment, health, high technology, telecommunications, oil and gas, transportation and infrastructure.

With the recent appointment of a new prime minister and a new cabinet, Egypt is moving ahead with economic reforms that could provide a much-needed

boost to the economy. The Ministry of the Economy announced in September 2004 several major economic reform initiatives addressing areas of long-standing concern; they include reform of the banking and tax systems, a slashing of tariffs and reorganization of the customs system, and an effort to stimulate the long-stalled privatization program.

The June 2003 Unified Banking Law, which set down parameters for a revitalized sector, now seems likely to be implemented. It includes a new minimum capitalization requirement of 500 million Egyptian pounds (\$80 million), which would eliminate many of the smaller institutions. The government is to merge six of the smallest banks into the larger public sector banks and then completely overhaul their operations. Banks will be restructured with capital injections linked to performance. The customs reform will remove some of the expenses and difficulties associated with getting products in and out of Egypt; customs fees and tariffs, for example, have been slashed. The average tariff has dropped from 14.6% to 9% and the number of tariff brackets has decreased from 27 to 6. The list of products subject to tariffs has been shortened from 13,000 to 6,000. Under the revived privatization program, there would no longer be "strategic" commodities or sectors that must remain in government hands.

Egypt is ranked 45th globally and fifth regionally among Canada's merchandise export markets, and it is ranked by Agriculture and Agri-Food Canada as one of the top five emerging markets worldwide. It is ranked globally as Canada's 54th largest import supplier. During the 2001 to 2003 period, external impediments (9/11, the war in Iraq and continued tension in the Middle East region) coupled with economic stagnation negatively affected bilateral trade. Nonetheless, in 2003, Canada's merchandise exports to Egypt reached \$232 million and in 2004, \$200 million, down 13% from 2003 despite a severe devaluation of the Egyptian pound (42%). Exports for the first nine months of 2004 are valued at \$134.84 million.

Principal Canadian exports to Egypt are paper, aircraft, coal, machinery, wood pulp, dairy products, pharmaceutical products, ores, plastics, vegetables, and grains and cereals. Canadian successes during the past three years include sales of wheat, lentils, and

aircraft; investment in the oil and gas sector; and several projects in the education sector (primary and secondary, technical institutions and colleges, and a memorandum of understanding signed in October 2003 for the creation of a Canadian university). Much of the rise in exports in 2003 was due to cereals (especially wheat), paper products and some fossil fuels (coal).

Canada's merchandise imports from Egypt reached \$116.8 million in 2003, more than double the figure achieved in 2002. Exports have reached \$199.4 million in 2004. The sectors accounting for most of the rise in 2004 were iron products, carbon products and petroleum products. Canadian imports from Egypt include iron products, carbon products, petroleum oils, fertilizers, and clothing. Canadian direct investment in Egypt, which is mainly in the oil and gas sector, is estimated at approximately \$37 million.

Market Access Results in 2004

- Egypt authorized the import of canola.
- Egypt licensed two Canadian companies to undertake oil and gas exploration in southern Egypt; these are the first foreign companies to receive such licences, opening doors for other small and medium-sized Canadian companies to play a role in the market.
- Canada organized the Educ-Canada fair to promote Canadian education in the Middle East and North Africa and create a brand name (EDUC-CANADA) for the international promotion of Canadian education.
- The Egyptian cabinet gave final approval for the establishment of the new Al-Ahram Canadian University, which will open its doors in September 2005.
- The Northern Alberta Institute of Technology (NAIT) secured a licence from local authorities giving it the necessary legal status to operate a gas pipeline training institute.
- CMHC International signed a contract with Taamir Mortgage Company (the first mortgage financing company) to develop its business plan. CMHC's experience, both domestically and internationally, is valuable to Egypt as it continues to

implement the new mortgage law and develop its housing finance system. The contract is expected to be the first in a series of contracts to help regulators and mortgage finance institutions in Egypt.

Canada's Market Access Priorities for 2005

- Secure access for exports of halal beef.
- Commercialize canola oil supplies to Egypt through bulk shipments.
- Secure sales of wheat to Egypt.
- Resume wood exports to Egypt.
- Building on positive momentum in the oil and gas sector, promote further bilateral collaboration in the petrochemical industry.
- Promote Canadian capabilities in the IT and communications sector and encourage Canadian companies to take advantage of Egypt's ambitious national plan for the sector, which includes postal services.
- Follow up several projects to establish a second Canadian international school following the B.C. curriculum.
- Promote Canadian capabilities and capacity building in the mortgage law sector.
- Secure a licence to operate a technical Canadian school (University College of Cape Breton) from the Egyptian Ministry of Higher Education.
- Secure a licence to operate the Al Ahram Canadian university, a joint effort between Al Ahram Establishment (the most widely distributed Arabic daily newspaper in the Middle East) and the Association of Universities and Colleges of Canada. Cabinet approval has already been obtained, but the presidential decree is still pending.
- Continue representations aimed at removing Egypt's BSE measures on imports from Canada.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Egypt banned the import of live animals, beef and beef products from Canada. Canada has kept all its trading partners, including Egypt, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

IMPROVING ACCESS FOR TRADE IN SERVICES

Canada has been a key supporter of Egypt's liberalization policies. It has encouraged foreign direct investment in Egypt; assisted in capacity building through the transfer of bridging technologies, know-how and training; and encouraged Egypt to adopt more transparent policies. These steps are key to the continued growth of the Egyptian private sector and the overall economy. They will help promote an environment that is friendly to foreign trade and investment.

Syrian Arab Republic

Overview

In 2004, the Syrian population continued to grow at a robust rate of 2.4% to 2.8%. It will soon reach 18 million. Coupled with a young and expanding population base is a growing problem of youth unemployment. Approximately 250,000 young people are entering the labour force each year; however, the economy has been, at best, able to generate only 130,000 new jobs.

GDP growth in 2004, at 2.3%, was slightly better than the meagre 0.6% recorded in 2003. The virtual stagnation in 2003 was largely attributed to reduced trade with Iraq due to the U.S. invasion of Iraq and continued unrest in the region. GDP is not expected to grow much beyond the 2004 rate in the next few years.

Since May 2004, the country has been under U.S. trade sanctions due to implementation of the Syria Accountability and Lebanon Sovereignty Restoration Act. This has caused some slowdowns in certain sectors such as oil and gas equipment, which had previously been almost exclusively supplied by U.S. manufacturers.

Despite steadily declining production, oil continued to play a dominant role in the economy, due in part to the significant surge in oil prices in the second half of the year. This surge helped boost government revenues and current account balances.

The government has continued, in a tentative way, to push through further political and economic reforms aimed at reducing state control of the economy and encouraging further private and foreign investment. These efforts are slowly bearing fruit in some sectors. For example, in 2001 the government changed the banking laws to allow for the creation of private banks with foreign partners. In 2004, four banks were established with foreign partners (three Lebanese and one Jordanian). These banks are also being allowed to repatriate some foreign reserves. While these are positive first steps, there is still a long way to go before Syria's banking system can claim to be fully integrated into the global financial system. Consumer savings and credit facilities are virtually absent as is bank financing for new business ventures.

The country has initialled an Association Accord with the European Union that should lead to its eventual membership in an EU–Mediterranean free trade zone; however, the date for full implementation will be dependent on continued political and economic reforms. With the initialling of the accord, the EU has released more development money to finance major infrastructure improvements.

As a member of the Arab Free Trade Agreement (AFTA), Syria has seen a further reduction of tariffs with its Arabic trade partners, and it is looking forward to complete elimination of tariffs by 2006.

Syria submitted its application for accession to the WTO in 2004 and is now preparing for what is expected to be a fairly long approval process.

In January 2005, the government issued the first major revision since 1973 to Trade and Contract Law 195. The revision is important for foreign firms because the Law has now fixed bid bonds at 5% of contract value and performance bonds at 10%. There has also been explicit clarification that bonds are to be released immediately when a bid is rejected or withdrawn. Bid bonds must be converted to performance bonds immediately upon successful conclusion of a bid offer.

Syria's main exports in 2003 (latest year for which complete statistics are available) were crude oil, petroleum products, fruits and vegetables, cotton fibre, clothing, meat and live animals, and wheat. Exports totalled approximately US\$5.1 billion, and the top five export destinations were Germany, Italy, the United Arab Emirates, Lebanon and Turkey. Imports for 2003 reached \$4.8 billion and consisted of machinery and transport equipment, electric power machinery, food and livestock, metal and metal products, chemicals and chemical products, plastics, yarn and paper. The top five source countries were Germany, Italy, China, France and Turkey.

Canada's merchandise exports to Syria in 2004 reached over \$41 million, placing Syria in 82nd place worldwide as a destination for Canadian merchandise and in 14th place in the region. This represents more than threefold increase since 2000. These figures represent goods only and do not include a significant dollar volume of engineering services, technology transfer, investment in oil and gas exploration and production-sharing agreements.

In 2004, Canada imported more than \$24 million from Syria. The country is Canada's 97th most important source of merchandise imports in the world and 10th in the region. Imports from Syria have see-sawed from lows of \$2.4 million in 1999 to highs of \$96.9 million in 2003.

Market Access Results in 2004

- Syria agreed to ease restrictions on the import of seed potatoes, leading to the award of a feasibility study to the Canadian Agro Sustainability Partnership and longer-term potential for joint ventures in this field.
- Canadian companies achieved increased market penetration in the pulp and paper sector, with several major contracts awarded to Canadian paper manufacturers.
- Syria liberalized entry rules for foreign companies in the oil and gas sector, and streamlined procedures for granting oil and gas exploration and development permits; as a result, Canadian firms were able to successfully negotiate new exploration rights, production-sharing agreements and field rehabilitation contracts.

■ Canadian companies achieved increased market penetration in the industrial goods sector, including the sale of an entire \$12-million aluminum siding plant to Syrian enterprises.

Canada's Market Access Priorities for 2005

- Continue to provide market information on sectors where competition has been significantly reduced or eliminated by the withdrawal of American firms and to educate Syrian industry representatives on the availability of high-quality North American goods from Canada.
- Work with Canadian firms to understand U.S. content restrictions, which could be affected by the U.S. sanctions.
- Work with Canadian firms who are involved in force majeure issues in the market resulting from U.S. sanctions.
- Continue to provide market intelligence on the implementation of banking reforms and resulting opportunities for consulting, software, equipment and financial services.
- Continue to provide market intelligence on new project tenders in the agricultural sector and to explore opportunities for Canadian institutions to partner with Syrian equivalents to transfer Canadian technology and standards (related to agricultural machinery and food processing technology, in particular). It should be noted that Syria has import restrictions and bans on most food commodities and canned goods.
- Continue to support Canadian consortia interested in the planned major energy infrastructure projects and future opportunities in the energy sector.
- Continue to assist Canadian companies in the pursuit of opportunities and projects in the information and communications technologies sectors.
- Continue to provide market intelligence on the need for technical training in a number of fields, such as the oil and gas sector, and support Canadian companies involved in these areas.
- Continue representations aimed at removing Syria's BSE measures on imports from Canada.
- Continue representations aimed at removing Syria's avian influenza restrictions.

IMPROVING ACCESS FOR TRADE IN GOODS

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Syria banned the import of live animals, beef and beef products from Canada. Canada has kept all its trading partners, including Syria, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On February 23, 2004, Syria imposed measures against imports of poultry from Canada due to avian influenza. (For further information, see the avian influenza overview in Chapter 2.)

OTHER ISSUES

Access to the Iraq Market

Syria has historically maintained strong trade ties with Iraq, especially the northern provinces. These trading relationships, as well as the approximately 250,000 Iraqi refugees resident in the country, provide a wealth of excellent contacts and potential partners for the pursuit of future opportunities in Iraq. The current safety situation in Iraq, combined with political tensions between Syria and the United States, prevents Canadian firms from pursuing reconstruction projects in Iraq with Syrian partners. However, there will be increasing opportunities to pursue private business contracts once stability and an elected government return to Iraq. Ports in both Lebanon and Syria provide some of the shortest shipping routes into northern Iraq, and there is an operational rail link between Syria and Iraq. Existing oil pipelines that have been shut down since the U.S. invasion but will be reopened in the future provide additional interesting opportunities. In recent months, a number of government-to-government business deals have been concluded between Syria and Iraq. These have included contracts for the supply of electricity and the purchase of commodities.

Jordan

Overview

Jordan's economy remains vulnerable to external shocks beyond the government's control and heavily dependent on foreign aid. Jordan signed in late 2002 a financial accord with the IMF spanning the period 2002-2004. The accord focuses on the continuation of fiscal, monetary and structural reforms. The IMFprescribed reforms call for a higher sales tax, effective income tax collection procedures, lower customs tariffs and the swift privatization of public institutions. These reforms represent highly sensitive issues for the Jordanian citizen and, consequently, the Jordanian government. While the reforms have achieved financial successes, it remains to be seen how the new programs and policies have affected the Jordanian standard of living and the two major problems of poverty and unemployment.

In 2000, Jordan acceded to the World Trade Organization, having amended or introduced a number of laws to open up the economy and having ratified an association agreement with the European Union. In addition, a free trade agreement between Jordan and the United States came into effect in 2002. Jordan will also become a member of the Arab Free Trade Agreement, which aims to dismantle barriers to inter-Arab trade and investment. In addition, Jordan has bilateral trade agreements with a number of Arab economies including Algeria, Bahrain, Djibouti, Egypt, Iraq, Kuwait, Lebanon, Libya, Morocco, Oman, Palestinian National Authority, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, Yemen and United Arab Emirates.

Jordanian exports increased by 11.3% to \$4 billion in 2003, while imports rose by 12.8% to \$7.4 billion. The trade deficit stood at \$3.4 billion. The bulk of Jordan's exports (chemicals, food and live animals, and manufactured goods) go to other Arab countries (\$928 million in 2003), followed by the United States (\$857 million) and India (\$258 million).

The major worldwide Jordanian imports are machinery (\$1.7 billion), manufactured goods (\$1.5 billion), foodstuffs, mineral fuels and lubricants (\$1.2 billion), food and live animals (\$1.15 billion) and chemicals (\$815 million). The bulk of imports come from Arab countries (\$2.1 billion in 2003), followed by European countries (\$1.9 billion), China (\$590 million), the United States (\$505 million) and Japan (\$259 million).

The value of Canadian merchandise exports to Jordan was \$41.6 million in 2004, against imports from Jordan totalling \$6.7 million. The major exports were paper products, machinery, wood, vehicles, and electrical machinery. The top imports were apparel, vehicles, vegetables, cosmetics, prepared vegetables, fruits and nuts.

Although the disposable income of the Jordanian consumer has been growing steadily, the Jordanian market remains highly price-sensitive, making it difficult for Canadian products to compete against cheaper sources of supply. Other obstacles include the small size of the market, its distance from Canada (which makes business travel and transportation costs high relative to the value of goods traded), fierce competition from traditional sources of supply (such as Europe, the United States, Arab countries and Japan), and Canadian exporters' unfamiliarity with Middle East business customs and practices.

Canada and Jordan have good bilateral trade relations and have reached an agreement to prevent double taxation. The treaty will encourage and facilitate Canadian investment in Jordan.

Market Access Results in 2004

- Increased sales of Canadian food products to the United Nations Relief and Works Agency.
- Increased market penetration of Canadian paper products.
- Increased market penetration of Canadian education institutions.
- Agreement between the Royal Scientific Society and Canada's International Development Research Centre for the adoption and implementation of wastewater management policies and technologies for marginal communities in Jordan.

Canada's Market Access Priorities for 2005

- Continue to support export growth in the processed food, dairy products and confectionery sectors.
- Provide market intelligence on opportunities for suppliers of equipment and veterinary health products, as well as strategic alliances to enhance livestock production and processing, particularly in the poultry subsector.
- Provide market intelligence on opportunities for sales of transportation equipment and machinery, and on the sale or lease of passenger aircraft and equipment and services related to railway links.
- Provide market intelligence and support for Canadian companies regarding opportunities in the water sector, particularly the planned construction of a canal bringing water from the Red Sea to the Dead Sea. Besides conventional contracting for the canal and pipeline, opportunities will include build-own-operate and build-operate-transfer structures for the hydropower stations and desalination plants.
- Encourage and support Canadian participation in the GITEX fair in Dubai, the region's most important information technology fair.
- Monitor developments and opportunities arising from the government's privatization program, particularly in electricity generation and distribution, phosphate mining (Jordan Phosphate Mines Company), telecommunications (Jordan Telecommunications Company), airlines (non-core units of Royal Jordanian Airlines), and mail distribution (Jordan Post Company).
- Continue representations aimed at removing Jordan's BSE measures on imports from Canada.
- Continue representations aimed at removing Jordan's avian influenza measures against Canada.

IMPROVING ACCESS FOR TRADE IN GOODS

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Jordan banned the import of live animals, beef and beef products from Canada. Canada has kept all its trading partners, including Jordan, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On February 26, 2004, Jordan imposed measures against imports of poultry from Canada due to avian influenza. (For further information, see the avian influenza overview in Chapter 2.)

OTHER ISSUES

Access to the Iraqi Market

Jordan represents a significant channel for Iraqi trade, primarily through the port of Aqaba. Historical trading relationships, as well as a large population of Iraqi refugees resident in the country, provide a wealth of excellent contacts and potential partners for the pursuit of future opportunities in Iraq. As the security situation in Iraq continues to deteriorate, more Iraqi business is being conducted in Jordan. Various NGOs, foreign government aid programs, UN agencies, the U.S. military and private Iraqi businesses with foreign trade interests have set up offices in Amman. This city is thus an important destination for any firm seeking some of the billions of dollars of international aid and reconstruction money pledged for Iraq, as well as for firms seeking to develop trade over the longer term. For many private sector Iraqi tenders, the currency of transaction is the Jordanian currency, and the contracts stipulate that Jordanian law and courts will apply in case of dispute.

Iraq

With the adoption of Resolution 1483 on May 22, 2003, the United Nations Security Council lifted most sanctions against Iraq, with the exception of the arms embargo. Although the UN sanctions regime has ended, Canada requires that exporters obtain an export permit for any goods on the Export Control List. Exports of such goods will be carefully scrutinized according to their final destination. Companies considering exports in these fields should contact the Export Control Division at International Trade Canada. For more information, call (613) 996-2387.

Canada-Iraq trade peaked at over \$440 million before the Gulf War in 1989. At the time, Iraq was one of the most important export markets for Canada in the Middle East. Although Iraq has the potential to once again be an important market for Canadian firms, major challenges will remain in the medium to long term. However, once the security situation has stabilized and governance issues are resolved, Canadian companies should be able to participate fully in the redevelopment of Iraq. For now, the main avenue for Canadian enterprises wishing to enter the Iraqi market is through contracts for projects funded by the United States or multi-national organizations (such as the World Bank and UN Development Programme) and through developing regional contacts in countries such as Jordan, Kuwait, Lebanon, Turkey and Syria.

A new foreign direct investment policy for Iraq was announced in September 2003, which is intended to permit foreign investors to own up to 100% of enterprises in all sectors except natural resources. There are very few other restrictions. Profits, dividends, interest and royalties may be fully remitted. Land may not be purchased, but it may be leased for up to 40 years. The heaviest infrastructure investments in 2005 are likely to be in electric power, oil production, refining and distribution, and water treatment. Industries such as cement aggregates and other construction materials are expected to do well. The shift toward a more market-oriented economy—as well as the establishment of a new currency, the future transparent

legal environment and a friendly business environment—will help ensure opportunities for Canadian exporters.

The Government of Canada advises Canadians not to travel to Iraq at present due to ongoing security problems.

Iran

Overview

The economic and business environment in Iran during 2004 has been marked by changes and uncertainty. The outgoing reformist parliament had proposed sweeping changes and modifications to the existing legal and investment environment, indicating a strong will to open Iran's markets, privatize the largely state-controlled economy and facilitate foreign investment. The entry into power of a new conservative parliament has put these positive developments in jeopardy. For the moment, the ideological debate on the economy continues, rendering it difficult to determine which course the government will choose to pursue.

During 2004, Canada's exports to Iran totalled over \$187 million, ranking Iran 7th as an export market for Canada among countries in the Middle East and North Africa region and 46th in the world. However, overall since 1998, Canada's exports to Iran have fallen by some 29.3%. Canada's merchandise imports from Iran during 2004 totalled just over \$77 million, ranking Iran 8th among countries in the region and 77th in the world as a source of imports into Canada. This represents an increase of some 22% over the previous year. Overall since 1998, Canada's imports from Iran have fallen by 49.7%.

In past years, Iran was one of the world's largest importers of wheat, with an annual consumption of 11 to 12 million tons and imports of 5 to 6 million tons in some years, particularly during the country's three-year drought from 1998 to 2001. During that period, Iran was the single largest purchaser of Canadian wheat, importing a record 3.5 million tons in the 1999–2000 crop year. However, in 2002 Iran

produced a record domestic wheat crop of nearly 10 million tons (an 80% increase), and in 2003 domestic wheat production increased by another 10% to 15%. This growth combined with a three-year drought in the Canadian prairies resulted in a sharp drop in Canadian wheat exports to Iran, which amounted to only 140,000 tons in each of 2002 and 2003. During 2004, Iran's domestic wheat production reached a new record of 13 million tons, enough to make the country self-sufficient. However, due to the low quality of the domestic Iranian wheat (very low protein levels), the Iranian government may be forced to import up to a million tons of wheat annually for blending purposes.

Market Access Results in 2004

- Export Development Canada signed a letter of intent with the Central Bank of Iran and five state banks to finalize a US\$300 million line of credit. Once finalized, this facility will allow Iranian banks to offer medium-term project financing guaranteed by the Iranian government to Iranian companies cooperating with Canadian firms. This will significantly enhance opportunities for Canadian exporters to Iran.
- Iran cut its tariff rates on canola crude oil and canola oil seeds from 5% to 4%, bringing them into line with those for popular imported oils such as soy and sunflower.
- Iran awarded the second GSM (global system for mobile communications) operator licence for Iran to the private sector.
- Iran reduced its import tariff on automobiles from 170% to 130% and is expected to further reduce the tariff to about 60% over the next five years.
- The Iranian Ministry of Finance implemented a flat corporate tax rate of 25%, which is much lower than previous tax rates of over 60%.
- Iran introduced a 72-hour visa, issued at airports and other ports of entry into Iran, which has facilitated the entry of Canadian business persons into the country; visas previously took several weeks to be issued.

Canada's Market Access Priorities for 2005

- Finalize a revision of the existing sanitary and phytosanitary protocol between Canada and Iran, which stipulates a number of requirements for the import of cattle. The revision is expected to significantly enhance the potential for live cattle exports to Iran
- Conclude a general protocol between the Iranian Health Ministry and the Canadian Food Inspection Agency to cover all Canadian food manufacturing and/or products. The protocol will expedite logistical procedures for exports of Canadian processed food products to Iran.
- Continue work to finalize a bilateral double taxation agreement between Canada and Iran. The agreement would provide additional reassurance to Canadian companies considering the Iranian market.
- Continue representations aimed at removing Iran's remaining BSE measures on imports from Canada.

IMPROVING ACCESS FOR TRADE IN GOODS

Livestock and BSE

Following Canada's May 20, 2003, announcement of a BSE case, Iran banned the import of live animals, beef and beef products from Canada. Canada has kept all its trading partners, including Iran, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. On July 29, 2004, Iran confirmed that beef coming from Canada must be de-boned, from cattle under 24 months, and follow Halal requirements. (For further information, see the BSE overview in Chapter 2.)

While the Iranian Ministry of Agriculture has approved in principle the import of live cattle into Iran, thereby reversing a ban that has been in place for the last 12 years, the Iranian Veterinary Organization has not signed any protocol with major live cattle exporters such as Canada and Australia.

Processed Food

High tariffs continue to apply to some processed food products, although graduated tariff reductions are planned between 2004 and 2014. Canada will continue to seek reductions in tariffs. Canadian exporters should note the following:

- exporters must have a local agent or distributor in Iran;
- entry processes in Iran often delay cargoes, which can sit at the port of entry for up to three weeks as food and drug laboratories conduct analysis on samples. However, this obstacle can be overcome by obtaining a permanent warrant for the import of a particular processed food item. To obtain the warrant, a Canadian company, through a local agent or distributor, must pay for two Iranian health inspectors to visit the Canadian manufacturing facility.

Information and Communications Technology

Until recently, Iran Telecom maintained a monopoly on the provision of telecommunications services in Iran. Although the telecommunications industry was one of the least developed sectors of the Iranian economy until the late 1980s, the strong demand for modern technology brought rapid structural changes in the following decade. This has created business opportunities for foreign firms in conventional as well as emerging technologies, and the industry's development in the last 10 years has been unprecedented. As a result, the communications market in Iran is not only the largest and most significant in the Middle East, but it also provides access to other regional markets.

Iran's very young population is a market force behind the rapidly growing Internet services and the high demand for cell phones, pagers, telecom services, software and hardware. In 2004, the Iranian government announced new regulations requiring all ministries to spend 2% of their total budget on ICT-related goods and services. During 2004, Iran spent US\$1.1 billion on Internet connectivity and infrastructure. Moreover, in its proposed fourth five-year development plan, the government has established a budget of US\$5 billion for the development of this promising sector.

Today, the Iranian ICT sector is one of the fastest growing and most promising industries of the Iranian economy. The demand for ICT and telecom-related products and services in this market are well above market supply, forcing the Iranian government to source its needs from foreign companies. The third five-year development plan (2000-2005) pushed the Iranian ICT Ministry toward privatization. Iran's largest mobile telecom contract was awarded in February 2004, when the government awarded the second GSM operator licence to a private company called Irancell, a consortium led by Turkcell of Turkey. The project involves issuing some 15 million mobile numbers in the next four years, worth an estimated \$25 billion in revenues for the next decade. Backed by TeliaSonera and Ericsson as the main technology partners, and by Turkey's Cukurova Group, the consortium has made a \$300-million cash deposit along with a \$1.5-billion investment to offer 2.8 million mobile lines in 2004-2005. However, the recent legislation targeting the Irancell project has left the fate of this key economic development project uncertain.

Automobiles

During 2004, as ratified by the Iranian parliament, all real and legal entities as well as foreign companies were permitted to import new vehicles and their spare parts into Iran. The government is also studying the possible approval of imports of second-hand vehicles into the country. Iran reduced its automobile import tariffs from 170% to 130% in 2004 and is expected to further reduce them to about 60% over the next five years. Moreover, according to Iran's budget law (March 2003-2004), domestic car makers are now required to produce cars with dual fuel systems (gasoline and natural gas) at a rate commensurate with the overall capacity of gas filling stations. The requirement is intended to reduce air pollution (specially in Tehran) and also to cut gasoline imports, which cost the government billions of dollars in the form of subsidies. By the end of the current Iranian year (March 20, 2005), 100,000 vehicles will have been mandated to use gas as a fuel, and 280 compressed natural gas filling stations will have been constructed in 15 cities. The move should enable Canadian companies to benefit from opportunities in Iran's automotive sector.

Oil and Gas

Iran's constitution prohibits any foreign company from legally owning hydrocarbon fields. However, setting up buy-back contracts (BBCs) is allowed. The investment for a BBC comes from the entrepreneur. In return, the entrepreneur receives compensation in the form of an allocation of a share of production. Unlike past agreements, the latest BBCs include penalty clauses in the event of low output, but there is no positive counterpart if the field's production is higher than anticipated. Furthermore, petroleum legislation keeps all activities in this sector under government control. Although a recent restructuring plan led to the privatization of a few organizations, the main companies remain under state control. Finally, the regulation requiring 51% of resources to be set aside for Iranian use is sometimes impossible to apply in this sector, because it is often only a foreign company that can provide the necessary know-how and/or technologies. This restriction has in several cases led to delays, the use of unethical methods or the misuse of local partners' purchasing power.

Mines

Under the current Mines Act of Iran adopted in 1998, there is no theoretical restriction on the exploration and exploitation of minerals in Iran, and all persons (real and juridical, Iranian and foreign) can engage in these activities upon the issuance of the appropriate licences and decrees. This is an important improvement on the previous legislation, which excluded foreign-owned companies. However, the exploitation of "large mines" (a term that is not clearly defined) continues require the approval of the Council of Ministers on a case-by-case basis, constituting an effective barrier to entry for foreign companies.

Pharmaceuticals

In July 2004, the Food and Drug Department of Iran's Ministry of Health announced that all international pharmaceutical companies interested in Iran's drug market should establish an exclusive representative in Iran. Pharmaceutical companies that already export their products into Iran though the Iran Pasteur Institute or the Iranian Red Crescent Society are among the affected companies. In addition, the

Ministry announced that in the near future, government procurement agencies will be obliged to procure pharmaceutical products only from company representatives inside the country.

Power and Energy

In 2004, the Iranian government reduced fines levied on financiers involved in build-operate-transfer deals (under the Foreign Investment Protection and Promotion Act). The move is intended to encourage the contribution of the private sector, as well as to minimize the risks for foreign investment, in Iran's power industry. Iranian officials in the power sector also announced that, with the launch of the proposed privatization program in Iran, 20% to 40% of companies currently affiliated with the Ministry of Energy will gradually be turned over to the private sector.

IMPROVING ACCESS FOR TRADE IN SERVICES

The business environment in Iran is constrained by ongoing government reluctance to allow substantial foreign investment into the country. Iran's Foreign Investment Protection and Promotion Act has improved regulation surrounding foreign investment; however, the level of investment still remains capped in most instances, and Iranian companies still need to hold the majority stake in most ventures. Excessive red tape makes most private sector investment a lengthy process, and the government continues to promise reductions in the bureaucracy.

Education

Generally, it is impossible for foreign universities to provide their services in Iran outside the free zones, unless they provide their courses or programs in conjunction with and as part of a local institution. That said, this year a foreign university was granted the privilege of setting up in Iran outside the free zones. Such special permission may be granted more often in the future, but the procedure is neither clear nor transparent, and it seems it will not become so in the near future.

Canada admitted over 500 Iranian students during 2002, the majority to university programs. Potential for recruitment to Canada is great since competition for a place in an Iranian post-secondary institution is intense. In 2003, there were approximately 350,000 places available (46% public sector, 54% private sector) for a total of three million applicants. The number of students enrolled in post-secondary institutions in 2000 was approximately 1.5 million (48% public sector, 52% private sector). The higher number of students registered with private institutions reflects the willingness and ability of students to pay to upgrade their skills if they are unable to gain admission to a public university. In lieu of university, they enrol in a myriad of programs offered locally both by foreign and domestic institutions.

OTHER ISSUES

Intellectual Property Rights

In November 2003, Iran signed the Madrid Agreement Concerning the International Registration of Marks (1891) and its Protocol (1989), thereby officially joining the International Registration of Marks system (the "Madrid system"). More than 70 countries (including industrialized and developing countries) are parties to the system, and many more countries are considering their accession. Should Iran's stated aspirations to join the World Trade Organization come to fruition, this will add considerably to the significance of intellectual property issues for all manufacturers, importers and exporters inside and outside Iran, particularly with respect to the recognition and enforcement of foreign patents and trademarks in the country.

Expatriates

Expatriates can be employed in Iran provided they have a work permit, which may be granted to foreigners only when there is no Iranian available for similar employment and the foreigner has the required expertise. The permit is valid for one year and is renewable at the end of each year. However, a levy of 30% of the expatriate employee's monthly salary, together with benefits (as determined by the Ministry of Finance) plus 3% of the base salary of the social security premium, may be collected by the

Ministry of Labour from private sector employers of such employees. These restrictions continue to create a significant disincentive for foreign companies that want to send qualified expatriate staff to Iran.

ARABIAN PENINSULA

Six of the seven Gulf countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) are members of the Gulf Cooperation Council (GCC), which is mandated to strengthen relations and foster economic integration between those countries. The GCC implemented a customs union early in 2003, setting a harmonized GCC-wide tariff of 5%. The group recently approved the establishment of a customs information centre in Riyadh, Saudi Arabia, to link the customs departments of the GCC states. There are also plans to move toward monetary union by 2010. In December 2003, the GCC endorsed a Unified Law for the Prevention of Dumping, with mandatory enforcement from the beginning of 2004. It also ratified the founding charter for the Metrology Organization in Riyadh, with a view to unifying standards and measures in the member states and to ensuring the safety and quality of goods entering the markets of the GCC.

The GCC has confirmed its commitment to signing free trade agreements with other economic blocs, and discussions are well under way with the European Union, the United States and Australia. In the case of the European Union, discussions are quite advanced. Canada's merchandise exports to the region increased in 2004 to \$1.3 billion, up from \$997 million in 2003.

Saudi Arabia

Saudi Arabia is Canada's largest merchandise export market in the Middle East and North Africa region, with two-way trade reaching \$1.8 billion in 2004. Saudi Arabia recently renewed its commitment to completing its accession to the World Trade Organization and hopes to accede in 2005. In this context, Canada and Saudi Arabia have completed their bilateral market access agreement. In addition to securing market access improvements, Canada will

seek to ensure in the working party negotiations that Saudi Arabia fully implements its obligations under all WTO agreements on accession.

Market Access Results in 2004

- In July 2004, Canada successfully negotiated the removal of a ban on the export of bovine semen to Saudi Arabia, allowing Canada to resume exports to the kingdom.
- On January 9, 2005, Saudi Arabia removed its avian influenza restrictions against Canada.

Canada's Market Access Priorities for 2005

■ Continue representations aimed at removing Saudi Arabia's remaining BSE measures on imports from Canada, in particular on live cattle and bovine embryos.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Saudi Arabia did not initially announce any new restrictions on imports of Canadian cattle, beef or their products. While many markets initially banned Canadian beef, Canada was successful in maintaining its significant beef (veal) exports to Saudi Arabia. Canadian officials continue to engage in discussions with their Saudi counterparts in an effort to remove the remaining restrictions on the import of other Canadian products (i.e. live animals). Canada has kept all its trading partners, including Saudi Arabia, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On March 13, 2004, Saudi Arabia imposed measures against imports of poultry products from Canada due to avian influenza. On January 9, 2005, Saudi Arabia removed its avian influenza restrictions against Canada. (For further information, see the avian influenza overview in Chapter 2.)

The United Arab Emirates

The United Arab Emirates (UAE) is gathering strength as a major regional distribution centre and investment destination, through its focus on economic diversification and development of port and manufacturing operations, as well as high-end tourism facilities. A key factor in the UAE's success has been the development of free zones, providing users with abundant low-cost energy, land, labour and government financial incentives and special concessions on foreign ownership regulations. In the rapidly expanding Dubai emirate, this transformation now encompasses significant investment and foreign interest in knowledge-economy facilities in information technology, education, health, media and finance. Canada and the UAE have excellent bilateral relations, particularly in the health, education and services sectors. Canadian merchandise exports to the UAE grew to \$416 million in 2004, a 21% increase over 2003. The UAE signed a double taxation agreement with Canada in 2002, which was formally ratified and came into force on May 25, 2004.

Market Access Results in 2004

- On February 23, 2004, following Canadian interventions, the UAE issued a decree to permit the import of bovine semen, embryos and hides. The UAE Ministry of Agriculture and Fisheries agreed on the certification to be used for the embryos and bovine semen on May 23, 2004.
- On August 30, 2004, the UAE removed its avian influenza restrictions against British Columbia.

Canada's Market Access Priorities for 2005

■ Continue representations aimed at removing the UAE's BSE-related ban on beef and veal imports from Canada, including seeking approval of the certificate for embryos.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, the UAE issued restrictions on the import of Canadian live cattle and beef products, including veal, bovine semen, embryos and hides. On February 23, 2004, the UAE issued a decree to permit the import of semen, embryos and hides. On May 3, 2004, the UAE Ministry of Agriculture and Fisheries agreed on the certification for semen. Canada awaits the approval for the certification of embryos. Canada has kept all its trading partners, including the UAE, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On March 15, 2004, the UAE imposed measures against imports of poultry from British Columbia due to avian influenza. On August 30, 2004, the UAE removed its avian influenza restrictions. (For further information, see the avian influenza overview in Chapter 2.)

Kuwait

Kuwait is responding slowly to the challenges of economic diversification and liberalization, and it relies on petroleum for nearly half its GDP and 90% of export revenues. Promised privatization has consisted mostly of allowing the private sector to enter areas once reserved exclusively for government, rather than divestiture of state assets. Market access is rarely a major problem in Kuwait as tariffs on the vast majority of items range from zero to 5%. Only 58 items receive tariff protection. Canada and Kuwait signed a double taxation agreement in 2002. The convention entered into force on August 26, 2003, and took effect as of January 1, 2004.

Market Access Results in 2004

■ On December 29, 2004, Kuwait removed its restriction on avian influenza.

Bovine Spongiform Encephalopathy

Kuwait has imposed a temporary ban on the import of ruminant animals from Canada until further notice. Canada has kept all its trading partners, including Kuwait, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. Canada has renewed representations to Kuwaiti officials, and a proposed certificate for live cattle exports from Canada has been submitted to appropriate authorities in Kuwait for approval. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On March 21, 2004, Kuwait imposed measures against imports of poultry from Canada due to avian influenza. On December 28, 2004, Kuwait removed its restrictions on avian influenza. (For further information, see the avian influenza overview in Chapter 2.)

Oman

Canada and Oman negotiated a double taxation agreement in 2003, which was ratified by both sides on June 30, 2004.

Market Access Results in 2004

■ In August 2004, Canadian and Omani officials agreed upon a revised veterinary health certificate that allowed for the continued export of Canadian milk and milk products to Oman.

THE MAGHREB

The Maghreb region represents a good market for Canadian goods and services. Exports of merchandise, mainly agricultural commodities, were valued at \$649 million in 2003 and \$583 million in 2004. Exports of services to the region are very significant, exceeding \$354 million in 2002. Canada's success in

the Mahgreb services market is due in part to Canada's ability to offer modern North American technology in the French language, though Libya, where English is the main foreign language used, is also a significant market for services. The region as a whole has made important progress in trade and investment liberalization in recent years. Algeria, Morocco and Tunisia have all signed association agreements with the European Union. Morocco has a free trade agreement with the United States. Morocco and Tunisia are members of the WTO.

The discovery of BSE in Canada in 2003 negatively affected some agricultural exports, and both Agriculture and Agri-Food Canada and the Canadian Food Inspection Agency have actively pursued contacts with veterinary authorities in the region in 2004.

Algeria

Overview

Algeria has initiated an ambitious campaign of privatization and modernization, as well as regulatory reforms that have opened up sectors such as mining and telecommunications to foreign investors. Algeria has a double taxation agreement with Canada and an association agreement with the European Union.

Algeria has applied to join the WTO, and accession negotiations continued in 2004. Canada's market access priorities for the coming year will include support for Algeria's accession to the WTO.

Algeria is Canada's largest market in Africa and consistently among the top markets in the Middle East and North Africa (MENA) region. Canadian merchandise exports were \$349 million in 2003 and \$285 million in 2004.

According to Algerian regulations, genetically modified agricultural products, such as seeds and plants, cannot be imported into Algeria. The Assemblée Nationale Populaire adopted the legislation on GMO seeds and plants on January 4, 2005.

Market Access Results in 2004

- In 2004, the Export Development Corporation established new lines of credit worth \$600 million in Algeria.
- A dispute with Algerian authorities regarding bovine semen was resolved in 2004, effectively reopening the market to Canadian exporters.

Canada's Market Access Priorities for 2005

■ Continue representations to re-establish conditions for live cattle exports.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Algeria required that the certificate for live cattle be renegotiated. Canada has kept all its trading partners, including Algeria, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Libya

Libya submitted its application for accession to the WTO in December 2001. However, the file remained dormant until 2004, when Libya resolved a number of international disputes arising from terrorist acts in the 1980s. The WTO General Council agreed in July 2004 to set up a working party for the accession of Libya. The working party will meet once a chairperson is appointed and Libya submits the required memorandum describing its foreign trade regime. Canada does not have a most-favoured-nation agreement with Libya, but many manufactured products enter Libya at low or zero rates of duty because they are destined for the oil industry.

The Canadian Embassy in Libya officially opened in 2002, and it has made significant progress in expanding access to the Libyan market for Canadian companies. Canada's merchandise exports to Libya increased by 131% between 2001 and 2002, by 41% in 2003, and by 51% to \$101 million in 2004. Libya is also a significant market for engineering services, which do not show in our trade data.

United Nations trade sanctions, which had been suspended in 1999, were lifted in 2003 when Libya agreed to pay compensation for the 1988 Lockerbie airliner bombing. Canadian sanctions were lifted in 1999, after Libya agreed to deliver two Lockerbie suspects for trial. In December 2003, Libya renounced weapons of mass destruction following secret discussions with the United States and Britain. Since then, the United States has progressively lifted most restrictions on trade with Libya. This has benefited Canadian firms whose product lines include U.S.-manufactured goods.

During 2004, as part of ongoing reforms under Prime Minister Shukri Ghanem, Libya relaxed its import licensing system. Many agricultural products that were once imported by the state National Supply Corporation are now imported by new private sector companies. In the long run, this liberalization is expected to lead to a growth in the market.

Morocco

Overview

Morocco has been a member of the WTO since January 1995. Its economy is undergoing a period of transition as substantial economic reforms, encouraged by the International Monetary Fund, are implemented. These reforms (e.g. liberalization of certain services areas such as banking, privatization of state-owned companies, abolition of regulations limiting foreign holdings, easing of exchange regulations and encouragement of joint ventures) should help modernize the economy while promoting market access. Morocco has an association agreement with the European Union. In 2004, it signed a free trade agreement with the United States.

Canada's Market Access Priorities for 2005

- Continue representations aimed at removing Morocco's BSE measures, in particular those on live cattle.
- Negotiate health certificates for the export of turkey hatching eggs and day-old poults to Morocco.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Morocco did not impose any specific BSE-related measures against Canadian products. However, Morocco has a general decree that bans imports of live animals, meat and associated products from countries that have a declared BSE case, including Canada. Canada will continue representations aimed at negotiating a certificate for live cattle exports. Canada has kept all its trading partners, including Morocco, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Tunisia

Overview

Tunisia joined the WTO in 1995 and is actively pursuing a trade liberalization policy. Tunisia has introduced a large number of structural and regulatory reforms in order to promote foreign investment, including free trade zones and updating of infrastructure.

Canadian merchandise exports to Tunisia more than doubled to \$138 million in 2002, before declining in 2003 to \$89 million, due largely to lower demand for agricultural products after good local harvests. In 2004, Canadian exports were \$32 million.

Market Access Results in 2004

■ In October 2004, the Canadian Food Inspection Agency hosted a technical delegation of the Tunisian veterinary service, which visited laboratories, slaughterhouses and farms to find out more about the Canadian BSE regime.

Canada's Market Access Priorities for 2005

- Participate in a Canada—Tunisia Bilateral Commission in Tunis to advance economic cooperation and market access.
- Start a technical cooperation program and exchange of missions with the École Nationale de Médecine Vétérinaire.
- Continue representations aimed at removing Tunisia's BSE measures, in particular those on live cattle.

Avian Influenza

On April 22, 2004, Tunisia amended its avian influenza measures to apply to B.C. exports. (For further information, see the avian influenza overview in Chapter 2.)

SUB-SAHARAN AFRICA

South Africa

Overview

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

South Africa continues to pursue an open trading regime. It actively participates in multilateral organizations such as the Cairns Group, which seeks further liberalization of agricultural trade. Since 1994, competition from global players has had the effect of improving the competitiveness of South African businesses. Aided by some privatization and a move

toward deregulation, South Africa encourages foreign investment in order to accelerate development and increase employment. To encourage greater inclusiveness for historically disadvantaged people in the economy, the South African government has enacted legislation to promote economic empowerment for these elements of society, in both the public and private sectors.

Market Access Results in 2004

- On January 21, 2005, South Africa accepted the proposed certificate for poultry products from Canada.
- Negotiations on a bilateral air transport agreement took place in South Africa in April 2004. However, they did not result in an agreement. Airlines continue to hold discussions that may identify commercial opportunities and lead to a subsequent request to resume government-to-government negotiations. Government air transport negotiators continue to consult one another regarding changes in their respective policies.
- The ban on beef products remained in place, except for items specifically allowed entry by South Africa: milk and milk products, semen and embryos, protein-free tallow, hides and skins, and gelatine and collagen prepared from hides and skins from Canada.

Canada's Market Access Priorities for 2005

- Continue to monitor the implementation of legislation in the mining sector to ensure that the interests of Canadian mining companies invested in South Africa are not compromised.
- Continue to monitor Canada's competitiveness in light of the free trade agreements that South Africa has negotiated (with the European Union and Southern African Development Community) or will be negotiating (with the United States, EFTA, Mercosur, China and India).
- Monitor South African legislation and policies in areas such as natural resources and economic empowerment for historically disadvantaged South Africans, to ensure that the interests of Canadian investors are protected.

- Continue to consult airlines to determine whether commercial discussions could lead to negotiation of an air transport agreement.
- Re-engage in discussions with South Africa to update, finalize and ratify the 1995 Canada—South Africa Foreign Investment Promotion and Protection Agreement (which was signed but never ratified).
- Continue representations aimed at removing South Africa's BSE measures.

IMPROVING ACCESS FOR TRADE IN GOODS AND SERVICES

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, South Africa issued restrictions on the import of Canadian live cattle and beef products. Canada has kept all its trading partners, including South Africa, fully informed of the results of its investigations and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Avian Influenza

On March 11, 2004, South Africa imposed measures against imports of poultry from Canada due to avian influenza. On January 21, 2005, South Africa accepted the proposed certificate for poultry products from Canada. (For further information, see the avian influenza overview in Chapter 2.)

Bilateral Air Transport Negotiations

The Government of Canada will continue to consult airlines regarding their commercial discussions and will maintain a dialogue with the South African government concerning its air transport policy. The goal is to determine whether prospects have improved for negotiation of an air transport agreement. A satisfactory agreement would represent a gain in market access for designated Canadian airlines and benefit other Canadian businesses by easing travel to and from South Africa.

OTHER ISSUES

Investment: Mining Royalty Bill

In 2003, Canadian companies raised concerns about the draft South African Mineral and Petroleum Royalty Bill. A particular issue was the way royalties were to be assessed, that is:

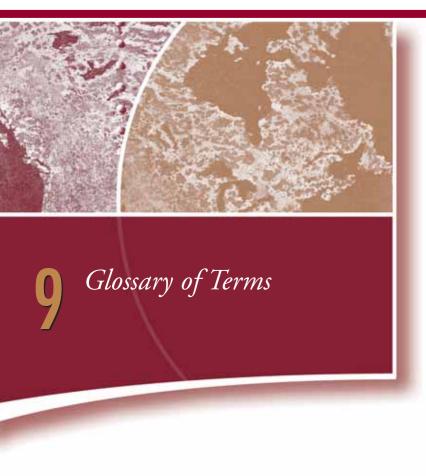
- on gross revenue rather than on profit, contrary to the model prevailing in Canada;
- at different rates for different minerals; and
- at relatively high rates subject to potential future increases.

All of these aspects of the draft bill were strongly opposed by Canadian mining firms, other international mining firms, and the South African mining industry in general. A revised version of the bill is expected to be presented by the Treasury Department in 2005, which will take effect beginning in 2009.

East, West and Southern Africa (Excluding South Africa)

Canadian exports to the rest of sub-Saharan Africa are concentrated in wheat, machinery and telecommunications equipment. Investment is primarily concentrated in the resource extraction industries. Canadian firms are the major investors in the mining sector across the continent.

Exports to the region from the European Union and the United States suggest that Canadian suppliers are not winning the share of African business that might be expected. In 2005, a priority will be to identify new opportunities to export to Africa and to explore reasons for the apparent limited access of Canadian exporters to African markets. As well, the Government of Canada will continue to encourage African governments to implement a transparent, business-friendly environment in order to facilitate commercial transactions and make African countries more attractive as export and investment destinations, in line with the New Partnership for Africa's Development. Regional integration initiatives, such as the implementation and expansion of a uniform business law across much of West Africa or the expansion of a customs union in Southern Africa, are important examples of efforts to achieve legislative consistency and reduce uncertainty in the market.



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

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

ANTI-DUMPING: Additional duties imposed by an importing country where imports that are priced at less than the "normal" price charged in the exporter's domestic market, or less than their full cost, are found to be causing material injury to the domestic industry in the importing country. (*Antidumping*)

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

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

CA4 (Central America Four): El Salvador, Guatemala, Honduras and Nicaragua. Currently in free trade negotiations as a group with Canada. (*Groupe des quatre de l'Amérique Centrale*)

CAIRNS GROUP: A coalition of 17 agriculture exporting countries (Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, Uruguay) that develops proposals in the context of multilateral trade negotiations. (*Groupe de Cairns*)

CANADA-EU ACTION PLAN: Signed on December 17, 1996, the Action Plan is designed to strengthen Canada-EU relations and consists of four parts: economic and trade relations, foreign policy and security issues, transnational issues and fostering links. (*Plan d'action commun Canada-UE*)

CCFTA: Canada–Chile Free Trade Agreement. Implemented July 5, 1997. (*ALECC : Accord de libre-échange Canada–Chili*)

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

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

CROSS–CUMULATION: The practice whereby a material sourced in a country with which parties to a free trade agreement (FTA) each have separate FTAs could count toward the production of an originating good in any of these countries under any of the FTAs, provided all the countries taking part in such an endeavour give like treatment in return.

CUSTOMS VALUATION: The appraisal of the worth of imported goods by customs officials to determine the amount of duty payable in the importing country. The GATT Customs Valuation Code obliges governments that sign it to use the "transaction value" of imported goods—or the price actually paid or payable for them—as the principal basis for valuing the goods for customs purposes. (*Évaluation en douane*)

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

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

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

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

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

FTAA: Free Trade Area of the Americas. Proposed free trade agreement between the 34 democratic countries of the Western hemisphere. The FTAA process was conceived in Miami in 1994 and negotiations were launched in Santiago, Chile, in 1998. (ZLEA: Zone de libre-échange des Amériques)

GATS: General Agreement on Trade in Services. The first set of multilaterally agreed and legally enforceable rules and disciplines ever negotiated to cover international trade in services. (AGCS: Accord général sur le commerce des services)

GATT: General Agreement on Tariffs and Trade. From 1947 to 1995, the multilateral institution overseeing the global trading system, as well as the international agreement governing trade in goods (GATT 1947). As an organization, superseded by the WTO in January 1995. GATT 1994 (the agreement), which reflects amendments to the original agreement and incorporates new WTO agreements, continues to govern trade in goods. (*GATT: Accord général sur les tarifs douaniers et le commerce*)

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

INTEGRATED FRAMEWORK: A plan for providing trade-related technical assistance, including human and institutional capacity building, in support of trade and trade-related activities of the least-developed countries. It is led by the WTO and five multilateral organizations. (*Cadre intégré*)

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

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

LIBERALIZATION: Unilateral, bilateral or multilateral actions to reduce tariffs and/or remove other measures that restrict international trade. (**Libéralisation**)

MFN: Most-favoured-nation treatment (Article I of the GATT 1994). Requires countries not to discriminate between goods on the basis of country of origin or destination. (*NPF: Traitement de la nation la plus favorisée*)

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

NON-TARIFF BARRIERS (MEASURES):

Government measures or policies other than tariffs that restrict or distort international trade. Examples include import quotas and discriminatory government procurement practices. Such measures have become relatively more conspicuous impediments to trade as tariffs have been reduced during the period since World War II. (*Barrières non tarifaires - mesures*)

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

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

RULES OF ORIGIN: Laws, regulations and administrative procedures that determine the origin of a good. Rules of origin may be designed to determine the eligibility of a good for preferential access under the terms of a free trade agreement, or they may be designed to determine a good's country of origin for various purposes. 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 and from purpose to purpose. (*Règles d'origine*)

SMART BORDER ACTION PLAN: A 30-point Action Plan signed by Canada and the United States on December 12, 2001. The Plan provides for ongoing collaboration in identifying and addressing security risks while expediting the legitimate flow of people and goods across the border. The Plan has since been expanded to include two additional items for cooperative work: (1) biosecurity and (2) science and technology. (*Le plan d'action sur la frontière intelligente*)

SUBSIDY: An economic benefit granted by a government to producers of goods, often to strengthen their competitive position. The subsidy may be direct (a cash grant) or indirect (e.g. low-interest export credits guaranteed by a government agency). (*Subvention*)

TARIFF: A tax on merchandise imports. Levied either on an ad valorem (percentage of value) or on a specific basis (e.g. \$5 per 100 kilograms). Tariffs give price advantage to similar locally produced goods and raise revenues for government. (*Tarif de douanes*)

TARIFF RATE QUOTA: Two-stage tariff. Imports up to the quota level enter at a lower rate of duty; over-quota imports enter at a higher rate. (*Contingent tarifaire*)

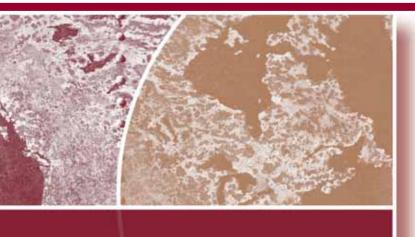
TRANSPARENCY: Visibility and clarity of laws and regulations. (*Transparence*)

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

WTO: World Trade Organization. Established on January 1, 1995, to replace the Secretariat of the General Agreement on Tariffs and Trade, it forms the cornerstone of the world trading system. (*OMC: Organisation mondiale du commerce*)

WTO APPELLATE BODY: An independent seven-person body that, upon request by one or more parties to a dispute, reviews findings in panel reports. (*Organe d'appel de l'OMC*)

ZERO-FOR-ZERO: Refers to a market access agreement wherein all the participating countries eliminate the same barriers on the same products. A zero-for-zero agreement most frequently refers to tariff elimination but could include elimination of non-tariff barriers as well. (*Accords zéro-zéro*)



List of Acronyms

AGP Agreement on Government Procurement **APEC** Asia-Pacific Economic Cooperation forum Association of Southeast Asian Nations **ASEAN BSE** Bovine spongiform encephalopathy **BSL** (Japan's) Building Standards Law CA4 Central America Four: El Salvador, Guatemala, Honduras and Nicaragua **CARICOM** Caribbean Community **CCC** China Compulsory Certification **CCFTA** Canada-Chile Free Trade Agreement **CDIA** Canadian direct investment abroad **CFE** Comisión Federal de Electricidad (Mexico's state electricity firm) **CFIA** Canadian Food Inspection Agency

> Canadian International Development Agency

DFAIT (FA) Department of Foreign Affairs and International Trade (Foreign Affairs) **DFAIT (IT)** Department of Foreign Affairs and International Trade (International Trade) **DSU** Dispute Settlement Understanding (WTO) **EDC** Export Development Canada **EFTA** European Free Trade Association EU European Union **FAST** Free and Secure Trade (U.S. border Initiative) **FDA** Food and Drug Administration (U.S.) **FDI** foreign direct investment **FHWA** Federal Highway Administration (U.S.) **FIPA** foreign investment protection and promotion agreement **FSA** Financial Services Agency (Japan) FTA Free Trade Agreement FTAA Free Trade Area of the Americas **GATS** General Agreement on Trade in Services **GATT** General Agreement on Tariffs and Trade **GDP** gross domestic product GM genetically modified **GMO** genetically modified organism G7/8 Group of seven leading industrialized nations plus the Russian Federation **ICT** information and communications technologies **IEC** Intergovernmental Economic Commission ILO International Labour Organization **IMF** International Monetary Fund ISO International Organization for Standardization **JAS** Japan Agricultural Standards

CIDA

JETRO	Japan External Trade Organization	SPS	sanitary and phytosanitary	
LDC	least-developed country	SPWG	Special Partnership Working Group	
MAFF	Ministry of Agriculture, Forestry and		(Canada–Korea)	
	Fisheries (Japan)	STAR	Secure Trade in the APEC Region	
Mercosur Southern Cone Common Market		TBT	technical barriers to trade	
	(Argentina, Brazil, Paraguay and Uruguay)	TEA-21	Transportation Equity Act for the 21st Century (U.S.)	
MFN	most-favoured nation			
MMPA	Marine Mammal Protection Act (U.S.)	TICA	Trade and Investment Cooperation Arrangement trade-related aspects of intellectual property rights tariff rate quota	
MOU	memorandum of understanding			
MRA	mutual recognition agreement	TRIPs		
NAFTA	North American Free Trade Agreement	TRQ		
NEBS	New Exporters to Border States	VOCs	volatile organic compounds	
OECD	Organisation for Economic Cooperation and Development	WTO	World Trade Organization	
OIE	World Organisation for Animal Health (OIE, formerly known as the Office International des Epizooties)			
PEMEX	Petróleos Mexicanos (Mexico's state oil firm)			
SAGIT	sectoral advisory group on international trade			
SCFAIT	Standing Committee on Foreign Affairs and International Trade			
SME	small and medium-sized enterprise			

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